

Keppel Corporation Ltd

Building strategic infrastructure assets



StocksBnB.com

SINGAPORE | CONGLOMERATE | 1H23 RESULTS

- 1H23 earnings were in line. Net profit from continuing operations rose marginally by 2.5% YoY, due to strong energy sales and spreads, which offset lower development and fair value gains from real estate, and higher interest expense.
- It booked S\$3.1bn exceptional gain from the disposal of Keppel Offshore & Marine (KOM) and 2-month share of KOM's loss. Distribution-in-specie of SembCorp Marine shares lowered equity by S\$3.8bn (S\$2.19/share).
- Proposed a distribution-in-specie of 1 Keppel REIT (KREIT) unit for every 5 Keppel Corp shares, equivalent to about S\$0.18 per Keppel Corp share. Its stake in KREIT will reduce by 9.4% to 37%.
- Maintain ACCUMULATE and raised our TP to S\$7.70, from S\$7.01 previously. Keppel has garnered several leading-edge renewable energy projects that position it as a first-mover in the transition to new energy technology.

Results at a glance

Y/E 31 Dec (\$\$mn)	1H22	1H23	% YoY	Comments
Infrastructure	139	291	109.4%	Higher net generation and margins from integrated power business
Real Estate	262	186	-29.0%	Higher interest expense and cost incurred for new initiatives
Connectivity	33	37	12.1%	Higher revenue from enterprise ICT and managed services
Corporate activities		(69)	n.m.	
Net profit from continued op	434	445	2.5%	
Discontinued operations	64	3,182	4871.9%	S\$3.3bn gain from disposal of KOM
Total net profit	498	3,627	628.3%	

Source: Company, PSR

The Positives

+ Higher net generation and margins from integrated power business. 1H23 revenue and operating profit from sale of gas, utilities and electricity rose 65.7% YoY and 183% YoY, thanks to a surge in wholesale energy prices in 2Q. We estimate energy sale accounted for 60% and 68% of group revenue and net profit, respectively. More than 99% of their contracts are locked on fixed or indexed electricity price plans, hence the profit is sustainable.

+ Distribution-in-specie of KREIT units. Keppel proposed to distribute 1 KREIT unit for every 5 Keppel Corp shares, equivalent to S\$0.18 per Keppel share, based on KREIT's current share price. This will lower its stake in KREIT by 9.4% to 37%.

The Negatives

- Net profit from Real Estate fell 29%, due to lower development profit, and lower fair value gains on investment properties. Sentiment in the Chinese property market headed south in 2Q after a promising 1Q. Management sees an uncertain market ahead.

- Net gearing has risen to 0.86x (Dec 22: 0.78x). It recorded free cash outflow of S\$732mn (1H22: outflow S\$127mn), of which about S\$470m net outflow was due to the divestment of KOM. As a group, interest expense rose 89.3% with average interest cost at 3.53%.

31 July 2023

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 7.200
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.700
TOTAL RETURN	11.5%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN):	1,762
MARKET CAP (USD mn / SGD mn):	9532 / 12688
52 - WK HI/LO (SGD):	7.2 / 4.25
3M Average Daily T/O (mn):	4.05

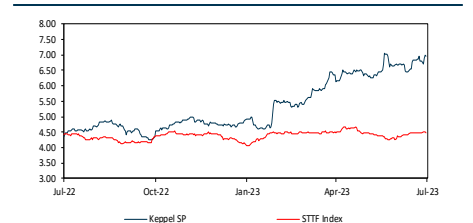
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%
------------------	-------

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	7.9	16.7	71.6
STTF RETURN	4.3	3.7	8.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	6,611	6,620	6,542	6,914
EBIT	1,129	565	615	633
NPAT	1,023	927	3,985	942
Dividend yield	4.6%	4.6%	4.6%	4.6%
P/NAV (x)	1.1	1.1	1.6	1.5
P/E (x)	12.8	13.8	3.2	13.5
ROE (%)	10.6%	6.9%	8.6%	10.5%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

Peggy Mak (+65 6212 1852)
 Research Manager
 peggymak@phillip.com.sg

Outlook

Infrastructure segment is expected to do the heavylifting, backed by long-term contracts signed with customers. Some of the Energy-as-a-Service (EaaS) contracts signed across Singapore, Thailand and Vietnam could begin to contribute in 2H. If the residential property markets in China and Vietnam improves, Keppel could book higher development profits. China and Vietnam account for 43% and 23% of its residential landbank, respectively.

Maintain ACCUMULATE with a revised TP of S\$7.70, previously S\$7.01, to factor in a higher share of recurring energy earnings. Keppel has been at the forefront of garnering leading-edge renewable energy infrastructure assets, which we expect to contribute recurring operating and fee income from FY25e. These assets will position Keppel as first-mover in the transition to new energy technology.

Financials

Income Statement

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	6,574	6,611	6,620	6,542	6,914
Materials and Subcontract costs	(4,591)	(5,082)	(5,174)	(5,103)	(5,393)
Staff costs	(1,120)	(665)	(668)	(654)	(691)
Depreciation and amortisation	(414)	(291)	(207)	(170)	(196)
Other items	(441)	556	(6)	-	-
EBIT	8	1,129	565	615	633
Investment income	29	105	49	36	80
Net finance expenses	(130)	(82)	(55)	(69)	(99)
Share of results of associates	(162)	459	536	580	621
Profit before tax	(255)	1,611	1,095	1,162	1,235
Taxation	(253)	(375)	(245)	(267)	(284)
Minority interests	2	16	5	3	2
Perpetual securities holders	0	-3	-12	-12	-12
Net Profit	(506)	1,249	844	886	942
Discontinued operations		(226)	83	3,099	
Profit attributable to owners	(506)	1,023	927	3,985	942

Per share data (\$)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	5.86	6.41	6.29	4.50	4.86
DPS	0.10	0.33	0.33	0.33	0.33
EPS	(0.28)	0.56	0.52	2.26	0.53

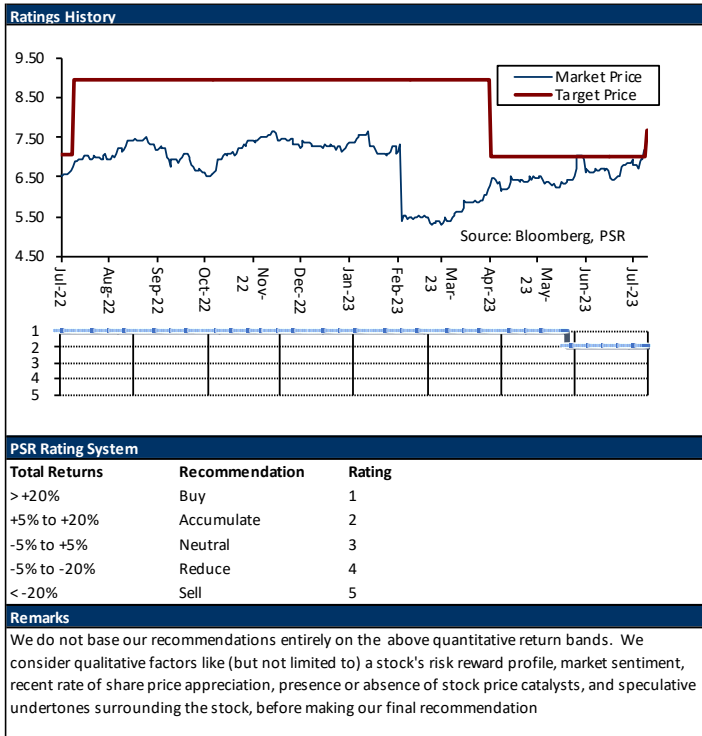
Cash Flow

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Pretax profit	290	1,611	1,095	1,162	1,235
Adjustments	(251)	(1,283)	(773)	(377)	(406)
Working capital changes	595	(263)	426	146	54
Cash generated from ops	633	65	747	931	883
Others	(185)	(106)	(235)	38	54
Cashflow from ops	448	(40)	512	969	937
CFI					
CAPEX, net	(488)	(615)	(696)	(600)	(580)
Others	(32)	2,383	(249)	1,801	-
Cashflow from investments	(519)	1,768	(946)	1,201	(580)
CFF					
Dividend paid	(297)	(357)	(688)	(4,149)	(311)
Proceeds from borrowings, net	1,028	(674)	(308)	1,000	-
Proceeds from equity issuance	-	-	-	-	-
Others	(18)	385	(500)	-	-
Cashflow from financing	713	(646)	(1,496)	(3,149)	(311)
Net change in cash	641	1,082	(1,929)	(980)	47
Cash at the start of the period	2,008	2,408	3,544	1,445	163
Currency translation	(10)	53	(170)	-	-
Others	(232)	-	-	(302)	-
Ending cash	2,408	3,544	1,445	163	210

Source: Company, PSR estimates

Balance Sheet

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	6,973	6,830	5,501	5,931	6,315
Others	10,745	10,647	10,554	13,924	14,205
Total non-current assets	17,717	17,477	16,055	19,855	20,520
Cash and cash equivalents	2,480	3,617	1,142	163	209
Stocks	4,959	4,604	2,301	2,111	2,151
Contract assets	2,657	3,170	256	256	256
Others	4,292	2,399	1,620	1,973	2,040
Total current assets	14,389	14,318	5,319	4,503	4,656
Assets - held for sale	1,009	528	9,561		
Total Assets	33,115	32,323	30,935	24,358	25,176
LIABILITIES					
Trade and other payables	4,604	4,957	2,786	2,679	2,839
ST borrowings	4,433	4,659	3,578	4,578	4,578
Others	3,050	2,219	772	781	798
Total current liabilities	12,086	11,835	7,136	8,037	8,214
LT borrowings	7,607	6,796	6,603	6,603	6,603
Others	1,026	1,174	1,058	1,058	1,058
Total non-current liabilities	8,748	8,008	7,662	7,662	7,662
Liabilities - held for sale	115	38	4,224	-	-
Total liabilities	20,950	19,882	19,022	15,699	15,876
EQUITY					
Share Capital	1,306	1,306	1,306	1,306	1,306
Treasury shares	-14	-5	-456	-456	-456
Retained profits	9,436	10,354	10,329	7,077	7,720
Others	427	786	735	732	730
Total equity	11,156	12,441	11,913	8,659	9,300
Total equity and liabilities	32,106	32,323	30,935	24,358	25,176
Valuation Ratios					
P/E (x)	-26.0	12.8	13.8	3.2	13.5
P/B (x)	1.2	1.1	1.1	1.6	1.5
EV/EBITDA (x)	nm	17.4	34.7	31.9	31.0
Dividend yield (%)	1.4%	4.6%	4.6%	4.6%	4.6%
Growth & Margins (%)					
Growth					
Revenue	-13.3%	0.6%	0.1%	-1.2%	5.7%
EBITDA	-66.3%	236.9%	-45.7%	1.7%	5.7%
EBIT	-99.1%	nm	-50.0%	8.9%	2.9%
PBT	-126.7%	nm	-32.0%	6.1%	6.3%
Margins					
EBITDA margin	6.4%	21.5%	11.7%	12.0%	12.0%
EBIT margin	0.1%	17.1%	8.5%	9.4%	9.2%
Net profit margin	-7.7%	18.9%	12.7%	13.5%	13.6%
Key Ratios					
ROE	-4.4%	10.6%	6.9%	8.6%	10.5%
ROA	-1.6%	3.8%	2.7%	3.2%	3.8%
Net Gearing (%)	85.7%	63.0%	75.9%	127.2%	118.0%



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumic@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggyamak@phillip.com.sg
US Technology Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@phillip.com.sg
US Technology Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
US Technology Analyst (Software/Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631

 Website: www.poems.com.sg
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090

 Website: www.phillip.co.jp
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921

 Website: www.phillip.co.th
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005

 Website: www.phillipusa.com
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969

 Website: www.phillipcapital.in
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099

 Website: www.poems.com.my
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809

 Website: www.phillip.co.id
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017

 Website: www.kingandshaxson.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899

 Website: www.phillipcapiatal.com.au
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Haki Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29

 Website: www.phillipcapital.com.tr
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307

 Websites: www.phillip.com.hk
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940

 Website: www.phillip.com.cn
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757

 Website: www.kingandshaxson.com
CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia

Tel: 855 (0) 7796 6151/855 (0) 1620 0769

 Website: www.phillipbank.com.kh
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGCC)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE

Tel: +971-4-3325052 / Fax: +971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.

