



CHINA
DEVELOPMENT
FINANCIAL

Keppel Corporation Ltd

(KEP SP/KPLM.SI)

BUY - Maintain

Price as of 22 Dec 2017	7.47
12M target price (S\$)	8.04
Previous target price (S\$)	8.67
Upside, incl div (%)	10.4

Trading data

Mkt Cap (S\$m) / (US\$m)	13,545 / 10,079
Issued Shares (m)	1,813.3
Ave Daily Traded (3-Month) Vol / Val	4.5m / \$32.9m
52 week lo / hi	\$5.73 / \$7.83
Free Float	99.9%

Major Shareholders

Temasek	20.7%
Blackrock	5.9%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
15-Dec-17	BUY	7.59	8.67
24-Jul-17	BUY	6.53	7.61
24-Apr-17	BUY	6.53	7.02
1-Jan-17	HOLD	6.27	6.50
31-Oct-16	BUY	5.29	5.93

KEP SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Resolution of Brazil corruption probe

Event

KEP's offshore & marine unit (KOM) will be paying fines totalling US\$422m (S\$570m) to criminal authorities in the US, Brazil and Singapore. These fines are related to improper payments that were made to Brazilian government officials between 2001 and 2014 for projects with Petrobras and Sete Brasil.

Impact

Fines manageable. The fines are expected to result in a 10% increase in KEP's net gearing ratio to 0.55x from 0.50x as at end of 3Q17, which is still conservative compared to SMM's 1.0x net gearing. Net profit for the full year 2017 may take a 70-75% hit but we expect the group to remain profitable.

Impact on dividends. KEP had indicated in its announcement that it will ring-fence the financial penalties when considering the final dividend for the current year. We thus maintain our original full-year dividend estimates of 18 SG cents (8 interim + 10 final) based on a 40% payout ratio of core-earnings compared to the 20 SG cents it paid out in FY16.

Bigger impact on Sembcorp Marine (SMM). KOM's resolution with authorities may be a precedent for what to expect for SMM. We estimate that given a similar amount of fine to be paid to authorities, the result could potentially increase SMM's net gearing by 20% to ~1.3x.

Valuation & Action

Long-term story still intact; opportunity to accumulate on any short-term weakness. We reiterate our BUY call despite the latest setback as we believe 1) downside may be limited on the back of its 15-year historical low valuations and 2) KEP has a compelling growth story that leverages on synergies between its various businesses. However, we adjust our SOTP valuation to take into account the impact of the fine on KOM's NAV. As a result, our fair value declines 7% from our previous estimates to S\$8.04.

Risks

Longer period of low oil prices and a property market slowdown in China.

Financials & Key Operating Statistics

YE Dec (S\$ m)	2015	2016	2017F	2018F	2019F
Revenue	10296.5	6767.3	6078.9	6182.1	6855.4
PATMI	1524.6	783.9	247.7	885.4	963.3
Core PATMI	1509.7	768.8	817.7	885.4	963.3
Core EPS	83.0	42.3	45.0	48.7	53.0
Core EPS grth (%)	-20.0	-49.1	6.4	8.3	8.8
Core P/E (x)	8.9	17.3	54.8	15.3	14.1
DPS (SG cents)	34.0	20.0	18.0	22.0	22.0
Div Yield (%)	4.6	2.7	2.4	2.9	2.9
Net Margin (%)	14.8	11.6	4.1	14.3	14.1
Gearing (%)	51.5	54.3	66.3	59.8	56.9
Price / Book (x)	1.2	1.2	1.2	1.1	1.1
ROE (%)	12.8	6.4	2.0	6.9	7.1

Source: Company Data, KGI Securities

Our fair value is based on a SOTP valuation: Book value for its property segment (in-line with large-cap developers), 2.0x FY18F P/B for its O&M segment, 19x FY18F P/E for KEP Capital and market prices for its remaining businesses. KEP's valuations for FY18 is expected to be driven by its property segment (60% of total group valuation), with an upside surprise if oil prices can have a sustained recovery >US\$60 in 2018. Keppel's track record of unlocking value via divestments may also provide upside to earnings and dividends.

Figure 1: SOTP Valuation

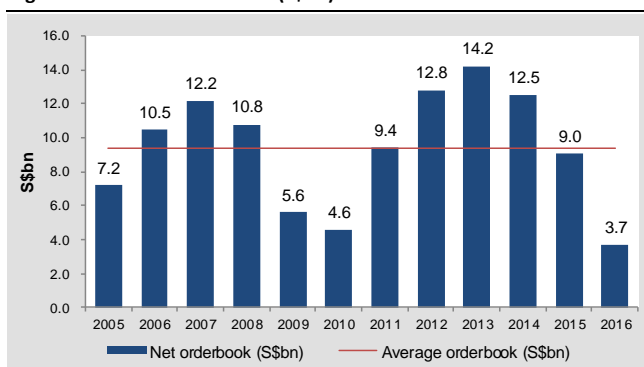
	Stake (%)	Valuation Method	Value (S\$m)	Keppel's Share (S\$m)	Per Share (S\$)	% of total value
Offshore & Marine						
Offshore & Marine	100%	2x FY18 P/B	3,160	3,160	1.73	22%
Property						
Property	100%	1x FY18 P/B	9,050	9,050	4.96	62%
Infrastructure						
Keppel T&T	80%	Market price	882	705	0.39	5%
Keppel Infrastructure Trust	18%	Market price	2,218	404	0.22	3%
Investments						
Keppel Capital	100%	19x FY18F P/E	1,140	1,140	0.63	8%
K1 Ventures	36%	Market price	329	118	0.06	0.8%
KrisEnergy	38%	Market price	139	52	0.03	0.4%
Dyna-Mac	25%	Market price	138	35	0.02	0.2%
Total Value (S\$m)				14,665	8.04	
Shares (m)				1,823		
Value per share (S\$m)				8.04		
Current price				7.47		
Upside/(downside)				7.7%		
Dividend yield (%)				2.68%		
Total returns (%)				10.4%		

Source: KGI Research

Figure 2: Company profile

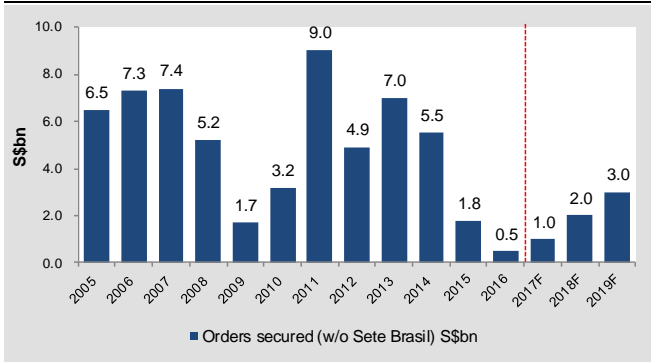
Keppel Corp is a conglomerate with key businesses in the offshore & marine, infrastructure, property and asset management business. It is a leader in offshore rig design and construction, supported by its global network of 20 yards. Its property segment develops residential and commercial properties in Asia. In infrastructure, Keppel Corp develops and operates energy and water related facilities. Keppel Capital manages around S\$26 billion and includes a diversified portfolio of real estate, infrastructure and data centre

Source: KGI Research

Figure 3: O&M net orderbook (S\$b)


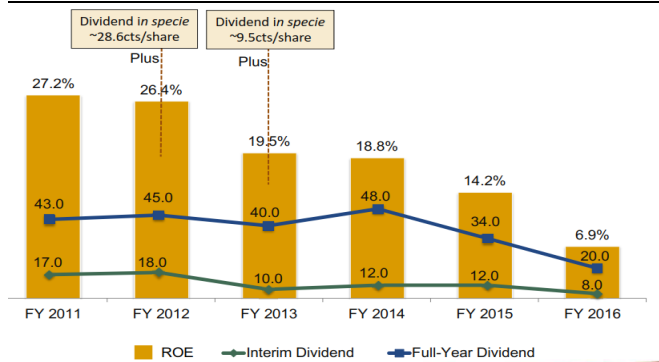
Source: Company data, KGI Research

Figure 4: O&M new orders (\$\$bn) and assumptions



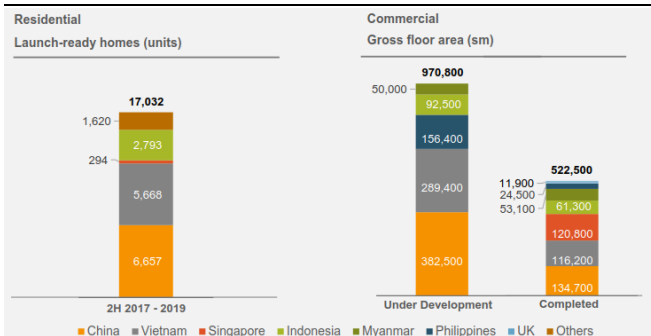
Source: Company data, KGI Research

Figure 5: ROE and dividend trend



Source: Company data, KGI Research

Figure 6: Property pipeline



Source: Company data, KGI Research







Figure 7: Keppel Corp growth strategy

<p>Offshore & Marine</p> <p>Gas value chain</p> <ul style="list-style-type: none"> Liquefaction & regasification Transportation & bunkering <p>Specialised vessels</p> <p>Re-purposing offshore technology</p> <ul style="list-style-type: none"> Floating infrastructure assets 	<p>Property</p> <p>Rising home-ownership aspirations in Asia</p> <ul style="list-style-type: none"> Residential pipeline of >64,000 homes <p>Prime commercial portfolio</p> <ul style="list-style-type: none"> >1 million sm of commercial GA under development
<p>Infrastructure</p> <p>Energy & environmental infrastructure</p> <ul style="list-style-type: none"> Power and gas WTE, desalination & wastewater treatment District cooling and energy efficiency management <p>Connectivity</p> <ul style="list-style-type: none"> Data centre development and management Urban logistics, e-commerce fulfilment 	<p>Investments</p> <p>Integrated asset management</p> <ul style="list-style-type: none"> Assets management solutions for real assets across Property, Infrastructure, and even O&M sectors <p>Master developer of urban developments</p> <ul style="list-style-type: none"> Sino-Singapore Tianjin Eco-City Jinan Smart City

Source: Company data, KGI Research

Keppel Urban Solutions (KUS) to leverage on the group's expertise and experience. Utilising its experience in integrated developments in China, KEP has set up a new unit KUS to look at developing similar projects in Southeast Asia. For a start, KUS will be developing a 64-hectare township in the prime District 2 in Ho Chi Minh City, Vietnam. The Vietnam project will offer a one-stop hub for sports, entertainment and lifestyle activities, and involves teaming up with industry-leading technology companies like Microsoft to help develop smart urban solutions.

Figure 8: KEP's track record of being master developer in several integrated urban developments

<p>China-Singapore Suzhou Industrial Park</p> <p>Large-scale industrial township in China</p>		<p>Jakarta Garden City</p> <p>Well-appointed township in Indonesia</p>	
<p>Sino-Singapore Tianjin Eco-City</p> <p>Eco township and model for sustainable development in China</p>		<p>Palm City</p> <p>Integrated waterfront development in Vietnam</p>	
<p>Sino-Singapore Jinan Smart City</p> <p>Smart eco-friendly development in China</p>		<p>Keppel Bay</p> <p>Premier waterfront development with luxury homes, a marina and offices in Singapore</p>	

Source: Company presentation slides

YE 31 Dec

INCOME STATEMENT (S\$m)	2015	2016	2017F	2018F	2019F
Revenue	10,296.5	6,767.3	6,078.9	6,182.1	6,855.4
Cost of sales	(7,023.3)	(4,204.1)	(3,829.7)	(3,956.6)	(4,387.4)
Gross Profit	3,273.1	2,563.2	2,249.2	2,225.6	2,467.9
Other operating income/(expenses)	(159.5)	(612.6)	(316.8)	(285.6)	(292.1)
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(1,600.0)	(1,155.4)	(1,063.8)	(989.1)	(1,096.9)
Profit from Operations	1,513.6	795.2	868.6	950.8	1,079.0
Finance income/(expenses)	(35.5)	(100.5)	(90.2)	(84.9)	(110.2)
Share of JV results	504.3	345.0	331.6	331.6	331.6
Exceptionals/Investment income	15.0	15.2	(570.0)	0.0	0.0
Profit before Tax	1,997.4	1,054.9	540.0	1,197.4	1,300.4
Income tax	(404.4)	(233.1)	(245.3)	(264.6)	(287.4)
Non-controlling interests	(68.3)	(37.8)	(47.0)	(47.4)	(49.6)
PATMI	1,524.6	783.9	247.7	885.4	963.3
PATMI Normalized	1,509.7	768.8	817.7	885.4	963.3
BALANCE SHEET (S\$m)	2015	2016	2017F	2018F	2019F
Cash and cash equivalents	2,118.0	2,361.0	1,302.0	1,577.3	2,617.8
Trade and other receivables	3,808.2	3,980.8	3,343.4	3,400.2	3,770.5
Inventory	10,650.5	10,025.8	8,425.4	7,834.0	7,818.4
Other current assets	0.0	99.0	99.0	99.0	99.0
Current Assets	16,576.7	16,466.6	13,169.8	12,910.5	14,305.7
Property, plant and equipment	2,845.5	2,645.5	2,912.1	2,865.5	2,792.3
Other non-current assets	9,509.8	10,122.1	10,902.1	11,688.2	12,480.7
Non-current Assets	12,355.4	12,767.6	13,814.2	14,553.7	15,272.9
Total assets	28,932.1	29,234.2	26,984.0	27,464.2	29,578.6
Trade and other payables	7,640.4	6,423.0	4,166.2	4,304.2	4,772.9
Borrowings (current)	1,656.7	1,835.3	1,823.7	1,854.6	2,056.6
Other current liabilities	609.0	912.2	487.3	506.6	529.4
Current Liabilities	9,906.1	9,170.5	6,477.1	6,665.4	7,358.9
Borrowings (non-current)	6,601.9	7,217.7	7,659.5	7,418.6	8,226.5
Other non-current liabilities	498.1	512.3	512.3	512.3	512.3
Non-current liabilities	7,100.1	7,730.0	8,171.7	7,930.8	8,738.7
Shareholders equity	11,095.7	11,658.9	11,613.4	12,098.9	12,662.3
Non-controlling interests	830.2	674.7	721.7	769.1	818.7
Total Equity	11,925.9	12,333.6	12,335.1	12,867.9	13,481.0
Total Liabilities and Equity	28,932.1	29,234.2	26,984.0	27,464.2	29,578.6
CASH FLOW STATEMENT (S\$m)	2015	2016	2017F	2018F	2019F
Net income before tax	1,997.4	1,054.9	540.0	1,197.4	1,300.4
Depreciation & non cash adjustments	(328.0)	234.6	59.8	181.3	265.9
Change in Working Capital	(1,922.8)	(641.1)	127.9	819.5	260.9
Income Tax Paid	(302.4)	(708.3)	(670.3)	(245.3)	(264.6)
Interest Paid	(149.1)	(224.5)	(237.1)	(231.8)	(257.1)
CF from operating activities	(705.0)	330.0	(179.7)	1,721.1	1,305.5
Purchase/Disposal of PPE	(1,147.0)	(466.2)	(373.0)	(335.7)	(302.1)
Other CFI	1,273.1	156.3	(580.0)	(580.0)	(580.0)
CF from investing activities	126.1	(310.0)	(953.0)	(915.7)	(882.1)
Dividends Paid	(872.5)	(544.7)	(363.6)	(327.2)	(399.9)
Debt Raised / (Repaid)	923.6	817.4	430.1	(209.9)	1,009.9
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(3,353.6)	(140.2)	0.0	0.0	0.0
CF from financing activities	(3,302.4)	132.5	66.5	(537.2)	609.9
Net increase in cash & cash equiv.	(3,853.2)	159.6	(1,059.0)	275.4	1,040.5
FX effects	28.1	7.1	7.1	7.1	7.1
Beginning Cash	5,712.4	1,859.1	2,018.7	959.7	1,235.1
Ending Cash	2,118.0	2,361.0	1,302.0	1,577.3	2,617.8
KEY RATIOS	2015	2016	2017F	2018F	2019F
Core					
Core EPS	83.0	42.3	45.0	48.7	53.0
Core EPS Growth (%)	(20.0)	(49.1)	6.4	8.3	8.8
DPS (SGD Cents)	34.0	20.0	18.0	22.0	22.0
Dividend Yield (%)	4.6	2.7	2.4	2.9	2.9
Profitability					
Gross margin	31.8%	37.9%	37.0%	36.0%	36.0%
EBITDA margin	17.1%	15.2%	18.3%	19.4%	19.5%
Net margin	14.8%	11.6%	4.1%	14.3%	14.1%
ROE	12.8%	6.4%	2.0%	6.9%	7.1%
ROA	5.3%	2.7%	0.9%	3.2%	3.3%
Growth (% Y-o-Y)					
Revenue	-22.5%	-34.3%	-10.2%	1.7%	10.9%
EBITDA	-33.3%	-41.5%	7.8%	8.0%	11.2%
Net income (core)	-19.1%	-48.6%	-68.4%	257.5%	8.8%
Diluted EPS (core)	-19.4%	-49.1%	6.4%	8.3%	8.8%
Financial Structure (x)					
Interest coverage	9.8	3.5	3.7	4.1	4.2
Total Debt/Equity	0.7	0.7	0.8	0.7	0.8
Net Gearing	0.5	0.5	0.7	0.6	0.6

Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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