

COMPANY UPDATE

Keppel Corp (KEP SP)

Significant Number Of Acquisitions In 2022 Positions KEP For The Future

KEP, together with its subsidiaries, has spent over S\$3.2b on stakes in infrastructure assets globally to position itself for growth after the planned divestment of its offshore marine unit which is expected in 4Q22. Two key acquisitions in 2022 include the European onshore and offshore wind power assets as well as a waste management business in South Korea, with KIT taking key stakes. Maintain BUY. Target price: S\$10.11.

WHAT'S NEW

- **Putting in place the foundations for the next stage of growth.** Thus far in 2022, Keppel (KEP) has announced a slew of initiatives and acquisitions that, in our view, are intended to set the stage for the company's next stage of growth. These are tabled overleaf and we calculate the total growth capex involved at more than S\$3.2b at either the KEP level or at its subsidiary or associate level.
- **Focused growth on the infrastructure segment.** We highlight that all of the growth capex to date has been on the infrastructure segment. In our view, this is understandable given that its offshore & marine segment is in the process of being divested and activity in its key business segment of China real estate has been on enforced hiatus given the country's "zero-COVID" strategy. In our view, the key acquisitions ytd were the onshore and offshore wind power acquisitions in Europe and the waste management business in South Korea, where KEP's 18%-owned subsidiary Keppel Infrastructure Trust (KIT) has taken key positions in.
- **Keppel Infrastructure Trust (KIT SP, Not Rated) – A key growth engine.** With over S\$6.1b in assets under management across 12 businesses and concession assets that are underpinned by strong secular trends, KIT as a business trust appears to have strong DPU growth momentum over the next 2-3 years. Note that KIT's 1H22 results were strong with 2.7% yoy DPU growth and 10% yoy EBITDA increase. One of KIT's key acquisitions this year was S\$900m in wind power acquisitions in Europe; with its cashflow visibility and 28 years of economic life, these assets appear to be very timely given the electricity travails that the region is suffering from as a result of the Russian-Ukraine war.
- **Share price has been well-supported by its share buyback programme.** KEP is near the end of its current S\$500m share buyback mandate, having already spent S\$492m to buy back 74.8m shares (average purchase price of S\$6.58/share) or 4.2% of its outstanding shares.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	6,574	8,625	6,702	7,074	7,469
EBITDA	422	1,304	1,562	1,648	1,732
Operating profit	8	898	1,118	1,165	1,211
Net profit (rep./act.)	(506)	1,023	941	979	1,015
Net profit (adj.)	(506)	1,023	941	979	1,015
EPS (S\$ cent)	(27.7)	55.9	52.2	53.2	55.2
PE (x)	n.m.	13.2	14.2	13.9	13.4
P/B (x)	1.3	1.1	1.1	1.0	1.0
EV/EBITDA (x)	53.8	17.4	14.5	13.8	13.1
Dividend yield (%)	1.4	4.5	4.1	2.9	3.0
Net margin (%)	(7.7)	11.9	14.0	13.8	13.6
Net debt/(cash) to equity (%)	89.1	65.0	75.2	73.0	72.1
Interest cover (x)	4.2	43.9	52.6	55.5	58.3
ROE (%)	n.a.	9.0	7.7	7.7	7.6
Consensus net profit	-	-	899	960	1,020
UOBKH/Consensus (x)	-	-	1.05	1.02	0.99

Source: Keppel Corp, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$7.40
Target Price	S\$10.11
Upside	+36.6%

COMPANY DESCRIPTION

Keppel is a conglomerate with four core businesses: energy & environment, urban development, connectivity and asset management.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,753.0
Market cap (S\$m):	12,972.3
Market cap (US\$m):	9,287.2
3-mth avg daily t'over (US\$m):	17.0

Price Performance (%)

52-week high/low	S\$7.45/S\$5.04			
1mth	3mth	6mth	1yr	YTD
6.2	6.9	22.7	43.7	44.5

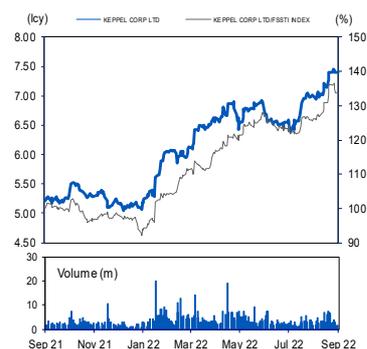
Major Shareholders

Temasek Hldgs	21.0
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FY22 NAV/Share (S\$) 6.97

FY22 Net Debt/Share (S\$) 5.24

PRICE CHART



Source: Bloomberg

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KEPPEL'S M&A AND OTHER ACTIVITIES YTD IN 2022

Name of segments/subsidiaries involved	Interest acquired	Project
Infrastructure		
Keppel Electric Pte Ltd	100%	Two-year power purchase agreement to import 100MW of hydropower from Lao PDR to Singapore via Thailand and Malaysia
Keppel Seghers Pte Ltd	NA	JV with National Environment Agency for a feasibility study on carbon capture at Singapore's waste-to-energy plants
Keppel Infrastructure Trust	0.79%	US\$250m acquisition of a stake in Aramco Gas Pipelines Company, which holds a 20-year lease-and-lease-back agreement over the usage rights of Aramco's pipelines; quarterly tariff payments plus minimum gas volume commitment
Keppel Infrastructure Trust	13.4%	S\$234m for an effective 16% stake in three operating onshore wind farms in Sweden and Norway with gross installed capacity of 258MW and co-investment rights for another 1.3GW of assets
Keppel Corp	2.9%	
Keppel Infrastructure Trust	20.5%	S\$445m acquisition of a stake in the 465MW Borkum Riffgrund 2 offshore wind farm in Germany
Keppel Corp	4.5%	
Keppel Energy Nexus Pte Ltd	100%	Installation of Singapore's first membrane-based nearshore floating PV system; installed capacity of 1.5MWp; onstream by 4Q23
Keppel Infrastructure Trust	52%	Acquisition of 100% of Eco Management Korea Holdings for S\$666m. Assets: 6 x waste-to-energy plants; 5 x sludge-drying facilities; Korea's largest waste oil refiner (154tpd); 404tpd of incineration capacity (3rd largest in Korea); 1.5 million m3 of landfill capacity (4th largest in Korea)
Keppel Asia Infrastructure Fund LP	30%	
Keppel Infrastructure Holdings Pte Ltd	18%	
Keppel Asia Infrastructure Fund LP	48%	Acquisition of 80% interest in 800 Super Holdings for c.\$380m. Assets: 568tpd of integrated waste treatment capacity, 2.88MW biomass cogeneration plant, 400tpd biomass fuel preparation facility
Keppel Infrastructure Holdings Pte Ltd	32%	
Keppel Energy	30%	Development of a S\$750m 600MW "hydrogen-ready" advanced combined cycle gas turbine power plant in the Sakra sector of Jurong Island; completion in 1H26
Keppel Asia Infrastructure Fund LP	70%	
Keppel Corp, Keppel Asia Infrastructure Fund LP	75.5%	US\$265m acquisition of 600MW of solar energy that is operational and under development across SE Asia
Offshore & Marine		
Keppel Offshore & Marine	100%	S\$4b engineering, procurement and construction contract for a 225,000bpd FPSO from Petrobras; delivery in 1H26. Includes option for another FPSO which may be awarded by end-22

Notes: tpd = tonnes per day; bpd = barrels per day
Source: KEP, UOB Kay Hian

OFFSHORE WIND M&A: 2020-22 YTD

Project	Buyer/seller	% sold	Price	Gross capacity (MW)	Price/MW (US\$/MW)
Hornsea 1	Greencoat UK Wind/ Global Infrastructure Partners	12.5%	400	1,200	3.20
Borssele 1 & 2	Norges Bank/Orsted	50.0%	1,375	752	3.84
Borkum Riffgrund 3	Glennmont/Orsted	50.0%	1,200	900	2.80
Borkum Riffgrund 2	Keppel/Gulf International	25.0%	305	465	2.75
East Anglia ONE	Green Investment Group/Scottish Power	40.0%	1,600	714	6.72

Source: KEP, Morningstar, Offshore Wind Biz, Energy Global

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- **We retain our BUY rating on KEP with an SOTP-based target price of S\$10.11** (see table on RHS). The company appears to be at an interesting crossroads in 2022, with the exit of its KOM segment and it moving towards a more asset-light and recurring earnings business model, and towards its 15% ROE target vs 9.1% in 2021 and 1H22 annualised ROE of 8.4%. Of interest will be the pace of its asset monetisation which could bolster earnings again in 2022 and thus lead to another dividend surprise.

SHARE PRICE CATALYST

- a) Continued growth in AUM of its asset management business, b) property market recovery in China, and c) earnings accretive investments in its infrastructure segment.

SOTP FOR KEP

Segment	Valuation	
	S\$m	S\$/share
Infrastructure & others	376	0.21
Urban Development	5,250	2.87
Connectivity	1,082	0.59
Asset Management	4,515	2.47
Tianjin Eco-City	538	0.29
KREIT	1,036	0.57
Keppel DC REIT	587	0.32
Others	285	0.47
Merger/Asset Co valuation	6,282	3.44
Less 10% holdco discount		-1.12
Total EV		10.11

Source: UOB Kay Hian

LOCATION OF KIT'S WIND ACQUISITIONS IN EU



Source: KIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	8,625	6,702	7,074	7,469
EBITDA	1,304	1,562	1,648	1,732
Deprec. & amort.	406	445	483	522
EBIT	898	1,118	1,165	1,211
Total other non-operating income	0	0	0	0
Associate contributions	467	100	100	100
Net interest income/(expense)	(30)	(30)	(30)	(30)
Pre-tax profit	1,335	1,188	1,235	1,281
Tax	(325)	(261)	(272)	(282)
Minorities	16	15	15	16
Preferred dividends	0	0	0	0
Net profit	1,023	941	979	1,015
Net profit (adj.)	1,023	941	979	1,015

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	(276)	(1,003)	954	809
Pre-tax profit	1,335	1,188	1,235	1,281
Tax	(260)	(360)	(256)	(266)
Deprec. & amort.	406	445	483	522
Associates	0	0	0	0
Working capital changes	(187)	(2,175)	(409)	(627)
Non-cash items	0	0	0	0
Other operating cashflows	(1,570)	(100)	(100)	(100)
Investing	2,025	(718)	(718)	(718)
Capex (growth)	(538)	(538)	(538)	(538)
Capex (maintenance)	0	0	0	0
Investments	1,660	(200)	(200)	(200)
Proceeds from sale of assets	593	20	20	20
Others	311	0	0	0
Financing	(668)	855	1,008	993
Dividend payments	(370)	(546)	(393)	(408)
Issue of shares	398	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(599)	0	0	0
Others/interest paid	(97)	1,401	1,401	1,401
Net cash inflow (outflow)	1,082	(867)	1,243	1,084
Beginning cash & cash equivalent	3,671	4,753	3,886	5,129
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,753	3,886	5,129	6,214

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,044	2,118	2,153	2,150
Other LT assets	15,433	14,991	15,291	15,591
Cash/ST investment	3,617	2,091	1,934	1,617
Other current assets	11,229	10,582	11,205	12,063
Total assets	32,323	29,782	30,583	31,420
ST debt	4,659	4,659	4,659	4,659
Other current liabilities	7,299	4,378	4,608	4,854
LT debt	6,796	6,796	6,796	6,796
Other LT liabilities	1,127	1,127	1,127	1,127
Shareholders' equity	12,057	12,452	13,037	13,645
Minority interest	385	370	355	339
Total liabilities & equity	32,323	29,782	30,583	31,420

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	15.1	23.3	23.3	23.2
Pre-tax margin	15.5	17.7	17.5	17.2
Net margin	11.9	14.0	13.8	13.6
ROA	3.2	3.0	3.2	3.3
ROE	9.0	7.7	7.7	7.6
Growth				
Turnover	31.2	(22.3)	5.6	5.6
EBITDA	209.1	19.8	5.5	5.1
Pre-tax profit	n.a.	(11.0)	4.0	3.7
Net profit	n.a.	(8.0)	4.0	3.7
Net profit (adj.)	n.a.	(8.0)	4.0	3.7
EPS	n.a.	(6.6)	2.0	3.7
Leverage				
Debt to total capital	47.9	47.2	46.1	45.0
Debt to equity	95.0	92.0	87.9	84.0
Net debt/(cash) to equity	65.0	75.2	73.0	72.1
Interest cover (x)	43.9	52.6	55.5	58.3

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