

COMPANY RESULTS

Keppel Corp (KEP SP)

1H22: Solid Contribution From All Businesses Despite Some Headwinds

KEP reported net profit from continuing operations of S\$434m, up 26% yoy and better than expectations due to strong contributions from the infrastructure and asset management businesses. We remain cautiously optimistic that its China property business would turn around in the medium term. KEP declared an interim dividend of S\$0.15 which was higher than expected. Maintain BUY. Target price: S\$10.11.

1H22 RESULTS

6M to 30 Jun (S\$m)	1H21	1H22	% chg yoy	Remarks
Revenue	2,888	3,356	16.2%	- Energy & Environment segment contributed
Gross profit	785	712	-9.3%	63% of total revenue
Operating profit	207	355	71.5%	
Net profit	344	434	26.2%	- All business segments were profitable
DPS (S\$/share)	0.12	0.15	25.0%	- Payout ratio of 62%
+/- ppt chg				
Gross profit margin	27.2%	21.2%	-6.0	
Net profit margin	11.9%	12.9%	1.0	

Note: Financials exclude discontinued operations due to the proposed combination of Keppel O&M (KOM) and Sembcorp Marine (SMM)

Source: Keppel Corp, UOB Kay Hian

RESULTS

• **Solid contributions from all businesses.** Keppel Corp (KEP) reported 1H22 revenue from continuing operations of S\$3.4b (+16.2% yoy), which resulted in a 26% yoy increase in net profit from continuing operations of S\$434m. Note that these results exclude Keppel Offshore Marine (KOM) due to its proposed combination with Sembcorp Marine (SMM), targeted for completion in 4Q22. Including KOM, KEP's net profit would have exceeded our estimates. The company declared a better-than-expected dividend of S\$0.15/share which represents a payout ratio of 62%, and higher than its historical payout ratio of 39-59% in the past 10 years.

• **AM platform continues to grow.** From a reasonably small business unit a few years ago, Keppel Capital is now a meaningful contributor to KEP's bottom line, generating S\$155m (+32% yoy) or 36% of the company's net profit from continuing operations in 1H22. The asset management (AM) business saw higher fee income from successful acquisitions by its REITs and trusts and also benefited from higher fair value gains on investment properties and data centres. On the analyst call, management commented that it expects further growth in funds under management given that investors have increasingly sold bonds in favour of exposure to alternative assets.

KEY FINANCIALS

Year to 31 Dec (Rpb)	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 (Rp)	(27.7)	55.9	52.2	53.2	55.2
PE (x)	n.m.	12.1	13.0	12.7	12.3
P/B (x)	1.1	1.0	1.0	0.9	0.9
EV/EBITDA (x)	51.5	16.7	13.9	13.2	12.5
Dividend yield (%)	1.5	4.9	4.4	3.2	3.3
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	-	-	866	932	1,021
UOBKH/Consensus (x)	-	-	1.09	1.05	0.99

Source: Keppel Corp, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$6.77
Target Price	S\$10.11
Upside	+49.3%

COMPANY DESCRIPTION

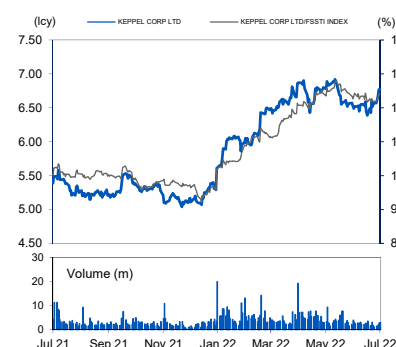
As a conglomerate, Keppel has four core businesses comprising: offshore & marine, property investment and development, infrastructure and investments.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,770.9
Market cap (S\$m):	11,989.2
Market cap (US\$m):	8,672.1
3-mth avg daily t'over (US\$m):	18.8
Price Performance (%)	
52-week high/low	S\$6.92/S\$5.04

1mth	3mth	6mth	1yr	YTD
3.0	(1.3)	20.7	28.2	32.2
Major Shareholders				
				%
Temasek Hldgs				21.0
-				-
-				-
FY22 NAV/Share (S\$)				6.97
FY22 Net Debt/Share (S\$)				5.24

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- **A resurgent offshore marine business.** As at end-1H22, KOM had S\$4.4b in net orderbook with a further S\$8b worth of potential contracts in advanced discussions. Importantly, the company managed to garner S\$255m worth of bareboat charters for four of its legacy rig assets (which are not going into the SMM merger). Management appeared confident that it would be able to sell its other rigs sooner rather than later given the more bullish offshore marine environment.
- **Still tough in the China property market.** The lowlight for 1H22 was KEP's urban development business with its China segment facing major headwinds as a result of the country's property developers facing a major deleveraging process coupled with the "zero-COVID" strategy which has wreaked havoc on the economy. As a result, the country's big developers have experienced >50% yoy decline in units sold while KEP saw a 69% yoy decline in 1H22 (see bar chart on RHS). This has been somewhat offset by prices which have held up well given government policy support. However, we note that more recent data in June appears to show a nascent recovery, especially in areas where KEP has interests. KEP management revealed that as part of its financial reporting process, it had reviewed its projects under development and concluded that there is currently no need for any impairments across. We remain cautiously confident that China and its property market will turn around in the next 6-9 months.
- **Asset monetisation plans on track.** Since KEP announced its asset monetisation plans in Oct 20, it has completed S\$3.6b worth of deals. In the past few months, the pace appears to have slowed down, although the management remains confident that it is on track to exceed its S\$5b target by end-23.
- **Nearly 75% of its current buyback programme has been completed.** KEP has spent S\$364m (or 73%) of its current S\$500m buyback programme which was launched in Jan 22. It disclosed that it will use these shares either as partial payment for future acquisitions or as performance rewards for its staff.

EARNINGS REVISION/RISK

- Our earnings changes reflect the elimination of KOM from our forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with SOTP-based target price of S\$10.11** (see RHS table). Given the relatively more complex nature of the transaction with SMM, it may take time for the value of the merger to be realised. In addition, we note that KEP estimates that the monetisation timetable for Asset Co will be between 3-5 years. The company appears to be at an interesting cross-roads 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 monetization, which could bolster earnings again in 2022 and thus lead to another dividend surprise.

SHARE PRICE CATALYST

- Continued growth in AUM of its asset management business.
- Recovery of the property market in China.

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

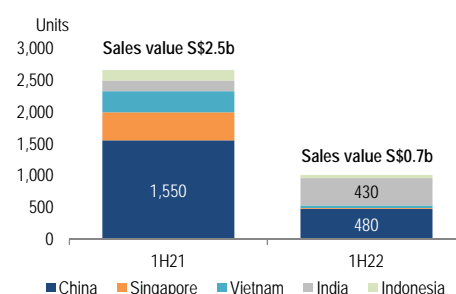
FIVE-YEAR PE (EXCLUDING 2020)



FIVE-YEAR P/B



HOME SALES BY KEPPEL LAND



NET PROFIT BY SEGMENT (1H22)

S\$m	1H21	1H22	% yoy
Energy & Env.	-135	45	NM
Urban Devt	279	168	-40%
Connectivity	27	10	-63%
Asset Mgmt	117	155	32%
Corp/Others	56	56	0%
Total net profit	344	434	26%

Source: KEP

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

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

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

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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