

## COMPANY RESULTS

### Keppel Corp (KEP SP)

2022: All Segments Profitable, With China Property In Focus For 2023

**KEP reported slightly weaker-than-expected profit for 2022 largely as a result of its exposure to the China property market as well as losses on investments and lower disposal gains. Its dividend of S\$0.33 was slightly better than expected. With the divestment of KOM around the corner and all other business segments performing well operationally, 2023 will be a transformative year for KEP. Maintain BUY with a slightly lower target price of S\$9.68 (previously S\$10.11).**

#### 2022 RESULTS

Year to 31 Dec (S\$m)	2021	2022	% yoy
Revenue	6,611.3	6,619.7	0.1%
Gross profit	1,529.3	1,445.3	-5.5%
Operating profit	1,129.3	565.2	-50.0%
Pre-tax profit	1,611.2	1,094.9	-32.0%
PATMI*	1,010.0	932.8	-7.6%
- Impacted by fair value loss on investments and associates, and lower disposal gains			
- All business segments were profitable			
<b>Margins</b>			
Gross margins	23.1%	21.8%	-1.3
Pre-tax margins	24.4%	16.5%	-7.8
Net profit margins	15.3%	14.1%	-1.2

Note: including discontinued operations  
Source: Keppel Corp Ltd, UOB Kay Hian

#### 2022 RESULTS

- All business segments were profitable.** Keppel Corp (KEP) reported weaker-than-expected 2022 PATMI of S\$933m, down nearly 8% yoy largely due to weakness in its China property segment. Despite the poorer showing from China properties, all of the company's business segments were profitable – something not seen in KEP's results in the past few years. The company declared a final dividend of S\$0.18 which, together with the interim dividend of S\$0.15, equates to a total of S\$0.33 and slightly higher than our estimate of S\$0.30.
- Balance sheet still healthy.** KEP's net gearing increased to 0.78x as at end-22 vs 0.68x as at end-21 due to higher debt levels stemming from investments, dividend payments as well as its S\$500m share buyback programme which was completed in 2022.
- Operationally a solid year in 2022.** Apart from the difficulties seen in the operating environment in China, we view KEP as having had a solid year overall with Keppel Infrastructure's earnings more than doubling yoy, its asset management business continuing to report higher fee income, while M1 and its data centre businesses also saw better performance on a yoy basis.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	6,611	6,620	7,061	7,465	7,894
EBITDA	1,536	807	972	1,052	1,134
Operating profit	1,129	565	680	711	743
Net profit (rep./act.)	1,010	933	958	982	1,007
Net profit (adj.)	1,010	933	958	982	1,007
EPS (S\$ cent)	55.2	51.9	52.1	53.4	54.8
PE (x)	13.9	14.7	14.7	14.3	14.0
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	14.6	27.8	23.1	21.3	19.8
Dividend yield (%)	4.3	4.3	2.8	2.8	2.9
Net margin (%)	15.3	14.1	13.6	13.2	12.8
Net debt/(cash) to equity (%)	65.0	78.1	71.5	71.1	70.9
Interest cover (x)	n.a.	128.2	154.3	167.0	180.1
ROE (%)	8.9	7.9	8.1	7.9	7.7
Consensus net profit	-	-	912	959	1,081
UOBKH/Consensus (x)	-	-	1.05	1.02	0.93

Source: Keppel Corp Ltd, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$7.65
Target Price	S\$9.68
Upside	26.5%
(Previous TP)	S\$10.11)

#### COMPANY DESCRIPTION

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

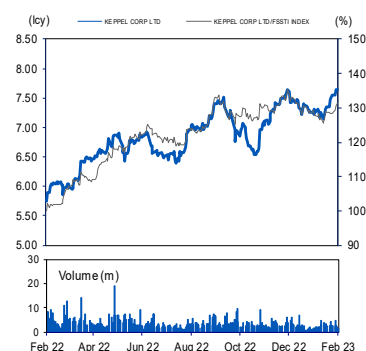
#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,752.0
Market cap (S\$m):	13,402.5
Market cap (US\$m):	10,259.9
3-mth avg daily t'over (US\$m):	16.8

#### Price Performance (%)

52-week high/low				S\$7.64/S\$5.75
1mth	3mth	6mth	1yr	YTD
5.4	7.9	9.9	35.4	5.4
<b>Major Shareholders</b>				<b>%</b>
Temasek Hldgs				21.0
FY23 NAV/Share (S\$)				6.68
FY23 Net Debt/Share (S\$)				4.77

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Energy & environment business on a growth path despite divestment of Keppel Offshore Marine (KOM).** KEP and Keppel Infrastructure Trust had a busy 2022 with a number of high impact acquisitions, and as a result should easily build on this segment's 2022 net profit of S\$241m that was generated on the back of higher electricity and gas sales. It was notable that KEP partially wrote back S\$293m of impairments which had been made in 2020 for various legacy rig assets as the offshore rig market has materially improved. We do not foresee any issues for KEP to sell its rig assets over the next 12 months.
- **Urban development segment expected to turn around in 2023.** With the total elimination of COVID-19 restrictions in China, we expect the country's overall economy to improve and underpin growth for KEP's urban development segment. It was notable that China did not experience a post-Lunar New Year spike in COVID-19 cases and thus KEP's management sounded cautiously optimistic about this segment's prospects.
- **Asset management continues to deliver.** For 2022, this segment was the largest contributor to KEP's net profit, completing >S\$7.7b in acquisitions and divestments across its REITs, trusts and private funds. Importantly, its asset management fees grew 15% yoy to S\$267m and had assets under management of S\$50b at end-22 with a long-term target of S\$200b.
- **Imminent completion of the sale of KOM to Sembcorp Marine (SMM).** KEP highlighted that had the transaction been completed at the end of 2022, it would have booked a pro forma disposal gain of about S\$3.4b or S\$1.94/share from the SMM shares received. The distribution of the SMM shares to KEP shareholders will occur roughly one week after the ex-dividend date for KEP, and the company will announce this ex-dividend date in due course.

### EARNINGS REVISION/RISK

- **Changes to earnings forecasts.** We have made mild changes to our earnings forecasts for 2023 and 2024 as shown in the table on the RHS. We highlight that we have pencilled in a conservative 4% yoy revenue growth for the urban development segment for 2023.

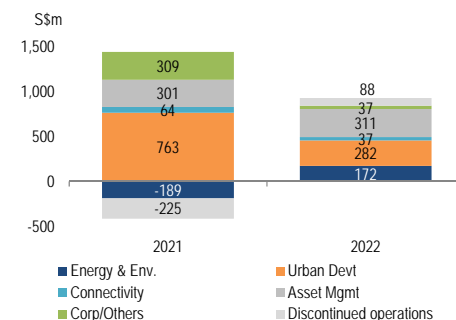
### VALUATION/RECOMMENDATION

- **We retain our BUY rating on KEP with a slightly lower SOTP-based target price of S\$9.68.** The lower target price is the result of lower book values for both the urban development and connectivity segments reported by KEP as at end-22. The company appears to be at interesting crossroads in 2023, with the pending exit of its KOM segment as well as it moving towards a more asset-light and recurring earnings business model and towards its 15% ROE target vs 8.1% in 2022. Of interest will be whether KEP upgrades its asset monetisation target given that it is on track to exceed its S\$5.0b target by end-23. If so, we believe that this could bolster earnings in 2023 and into 2024.

### SHARE PRICE CATALYST

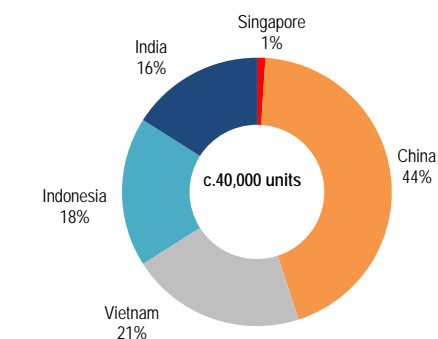
- Continued growth in AUM for its asset management business.
- Property market recovery in China.
- Earnings-accretive investments in its infrastructure segment.

### NET PROFIT BY SEGMENT



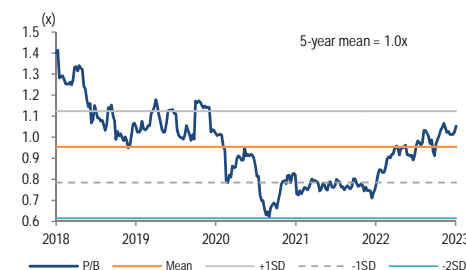
Source: KEP

### RESIDENTIAL LANDBANK AS AT END-22



Source: KEP

### FIVE-YEAR P/B



Source: Bloomberg, UOB Kay Hian

### SOTP VALUATION

Segment	S\$m	S\$/share
Infrastructure & others	376	0.21
Urban Development	4,190	2.29
Connectivity	1,040	0.57
Asset Management	4,665	2.55
Tianjin Eco-City	538	0.29
KREIT	797	0.44
Keppel DC REIT	587	0.32
Others	860	0.47
Merger/Asset Co valuation	6,596	3.61
Less 10% holdco discount		-1.08
<b>Total EV</b>		<b>9.68</b>

Source: UOB Kay Hian

### FORECAST EARNINGS CHANGES

Y/e 31 Dec, S\$m	2023F	2024F
Net profit - was	979	1,015
Net profit - is	972	1,052
Change	-0.7%	3.7%

Source: UOB Kay Hian

## PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	6,620	7,061	7,465	7,894
EBITDA	807	972	1,052	1,134
Deprec. & amort.	242	292	341	391
EBIT	565	680	711	743
Total other non-operating income	0	0	0	0
Associate contributions	536	536	536	536
Net interest income/(expense)	(6)	(6)	(6)	(6)
Pre-tax profit	1,095	1,210	1,240	1,273
Tax	(245)	(271)	(278)	(285)
Minorities	17	19	19	20
Preferred dividends	0	0	0	0
Net profit	933	958	982	1,007
Net profit (adj.)	933	958	982	1,007

## BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	977	1,361	1,696	1,981
Other LT assets	15,078	18,396	18,432	18,668
Cash/ST investment	1,142	1,491	1,122	715
Other current assets	13,738	5,752	6,499	7,159
Total assets	30,935	27,000	27,749	28,524
ST debt	3,578	3,578	3,578	3,578
Other current liabilities	7,783	3,293	3,472	3,663
LT debt	6,603	6,603	6,603	6,603
Other LT liabilities	1,058	1,058	1,058	1,058
Shareholders' equity	11,580	12,153	12,742	13,346
Minority interest	334	315	295	276
Total liabilities & equity	30,935	27,000	27,749	28,524

## CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	181	4,191	200	374
Pre-tax profit	1,095	1,210	1,240	1,273
Tax	(388)	(244)	(270)	(277)
Deprec. & amort.	242	292	341	391
Associates	0	0	0	0
Working capital changes	426	3,469	(575)	(477)
Non-cash items	0	0	0	0
Other operating cashflows	(1,194)	(536)	(536)	(536)
Investing	(589)	(876)	(876)	(876)
Capex (growth)	(696)	(696)	(696)	(696)
Capex (maintenance)	0	0	0	0
Investments	(544)	(200)	(200)	(200)
Proceeds from sale of assets	83	20	20	20
Others	568	0	0	0
Financing	(1,522)	1,407	1,398	1,387
Dividend payments	(688)	(384)	(393)	(404)
Issue of shares	(500)	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(336)	0	0	0
Others/interest paid	3	1,791	1,791	1,791
Net cash inflow (outflow)	(1,929)	4,722	722	885
Beginning cash & cash equivalent	4,753	2,823	7,546	8,268
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,823	7,546	8,268	9,152

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	12.2	13.8	14.1	14.4
Pre-tax margin	16.5	17.1	16.6	16.1
Net margin	14.1	13.6	13.2	12.8
ROA	2.9	3.3	3.6	3.6
ROE	7.9	8.1	7.9	7.7
Growth				
Turnover	0.1	6.7	5.7	5.7
EBITDA	(47.4)	20.4	8.3	7.8
Pre-tax profit	(32.0)	10.5	2.5	2.6
Net profit	(7.6)	2.7	2.5	2.6
Net profit (adj.)	(7.6)	2.7	2.5	2.6
EPS	(5.8)	0.3	2.5	2.6
Leverage				
Debt to total capital	46.1	45.0	43.8	42.8
Debt to equity	87.9	83.8	79.9	76.3
Net debt/(cash) to equity	78.1	71.5	71.1	70.9
Interest cover (x)	128.2	154.3	167.0	180.1

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