

COMPANY UPDATE

Keppel Corp (KEP SP)

The Force Is Strong With This One

Keppel's acquisition of top-ranked Aermont Capital, which has a major European real estate presence, arguably puts the company into the league of global asset managers. This acquisition will deliver growth as well as investor and geographic diversification. How the combined entity takes advantage of the macro and real estate issues in Europe over the next five years will be worth watching. Maintain BUY. Target price: S\$9.09.

WHAT'S NEW

- Taking a big step into European real estate.** Keppel Corp (KEP) announced that it will be acquiring an initial 50% stake in Aermont Capital (Aermont) for S\$517m with funding via cash and KEP treasury shares. The acquisition's implied valuation of 13x EV/EBITDA is lower than KEP's 2024F EV/EBITDA of around 19x. Assuming that the acquisition was completed in 2022, EPS would have risen by less than 1% and recurring income by 1.8% with little to no impact to gearing. Completion of the deal is expected to occur in 1H24, with KEP stating that it intends to acquire the other 50% stake by 2028, subject to performance measures over the next five years.
- Who is Aermont Capital?** As an independent asset manager focused on real estate and real estate-related investments in Europe, it is one of the region's top-ranked real estate managers. Importantly, its composite net IRR in the past 16 years is 17% with a 2.8x gross multiple on invested capital. At present, it has four active funds and one single asset vehicle being the Pinewood Studios where the James Bond and Star Wars movies are filmed, and currently has Disney+, Netflix and Amazon on long-term contracts.
- It's about growth...** The first phase of the deal will see KEP's funds under management (FUM) increase from its current S\$53b to over S\$77b. This is a major step for KEP towards its target of increasing its FUM to S\$100b. Importantly, KEP has stated that, along with Aermont, it has the ability to launch new funds in European credit funds, data centre funds and other private investment vehicles to grow Aermont's FUM by 2.5x to S\$60b by 2030.
- ...and investor and geographic diversification.** Apart from launching KEP into the European real estate space, the deal also expands the company's network of blue chip LPs with eight of Aermont's 15 largest LPs being new to KEP. Clearly, given the longevity of Aermont's track record, this deal also adds a number of senior fund managers to the company.

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)	11.7	12.4	12.3	12.0	11.7
P/B (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	13.2	25.2	20.9	19.3	17.9
Dividend yield (%)	5.1	5.1	3.3	3.4	3.5
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	-	-	989	994	1,080
UOBKH/Consensus (x)	-	-	0.97	0.99	0.93

Source: Keppel Corp Ltd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$6.43
Target Price	S\$9.09
Upside	41.4%

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):	1,762.2
Market cap (S\$m):	11,331.2
Market cap (US\$m):	8,506.9
3-mth avg daily t'over (US\$m):	15.7

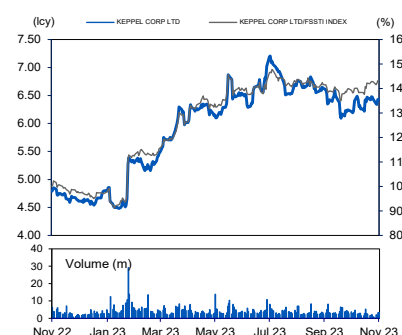
Price Performance (%)

52-week high/low	S\$7.20/S\$4.48				
1mth	3mth	6mth	1yr	YTD	
3.0	(4.0)	4.0	34.4	39.4	

Major Shareholders

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

- An interesting mix of real estate exposure.** On the call with analysts, KEP and Aermont management spoke of the various asset classes within the latter's portfolio. Around half of their investments are platforms across sub-sectors such as hotel platforms and serviced apartments. Of interest was Pinewood Studios which Aermont bought in 2016 due to disinterest from private equity and other traditional real estate investors given the operationally heavy nature of the business. With its pivot to cater to streaming platforms, it now has signed with major global streaming players to long-term contracts which all allow for annual indexation. In 2022, Aermont put Pinewood Studios into an open-ended fund called PGV (where KEP will have a 20% stake) and will look at further expansion in UK and Toronto, Canada.
- Outlook for Aermont.** Management outlined a bullish scenario for the firm where it believes that Europe's limited large-scale bank funding, due to interest rate hikes in the past 12-24 months, has created a compelling market opportunity for it. In the next two years, there is €150b of funding maturing, and with higher interest rates and lower real estate valuations, Aermont believes that there is a funding gap of about €50b which is where its €3.8b Fund V can acquire assets. Already, it has seen a first wave of these assets hit the market in Norway and Germany, and this should accelerate over the course of the next 12 months in its view. According to management, it has had several discussions with LPs to raise private credit funds with interest apparently high.

EARNINGS REVISION/RISK

- None.

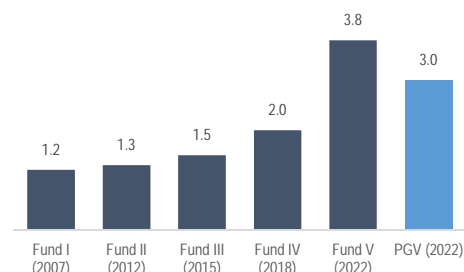
VALUATION/RECOMMENDATION

- We maintain our BUY rating on KEP and our SOTP-based target price of S\$9.09.** The asset-light, fee-related earnings acquisition of Aermont arguably positions KEP as a global asset manager with a real-estate focus. Aermont's growth profile for the next five years to 2028, when the company buys the other half of the asset manager, will be interesting to watch given the macro and real estate environment in Europe. KEP currently trades at 2024F PE of 11.9x and P/B of 0.9x which we view as far from being egregious, especially considering the company's more stable earnings stream given the divestment of its offshore marine business.

SHARE PRICE CATALYSTS

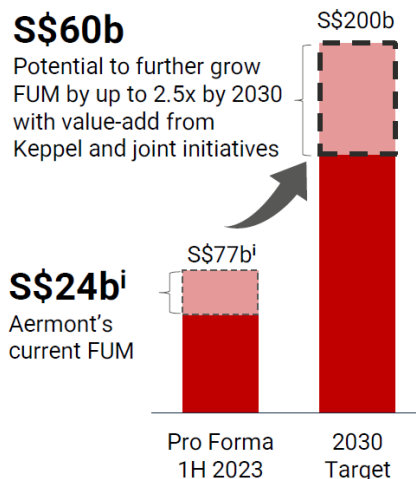
- Successful sale of rigs within the Asset Co and earlier-than-expected return of credit notes; continued growth in AUM of its asset management business; earnings-accretive investments and contract wins in its infrastructure segment.

AERMONT'S FIVE PAN-EUROPEAN OPPORTUNISTIC FUNDS



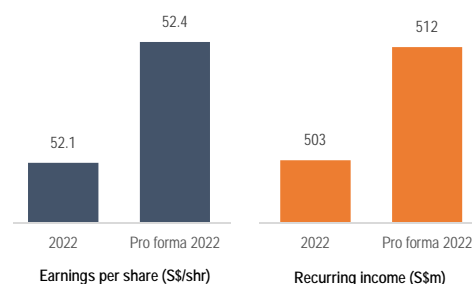
Source: KEP

TARGET FOR KEP'S FUNDS UNDER MANAGEMENT



Source: KEP

PRO FORMA FINANCIAL IMPACT OF THE ACQUISITION*



Note: *Assuming completion in 2022
Source: KEP

SOTP VALUATION

Segment	S\$m	S\$/share
Infrastructure & others	376	0.21
Urban Development	3,911	2.23
Connectivity	1,040	0.59
Asset Management	4,665	2.66
Tianjin Eco-City	471	0.27
KREIT	797	0.46
Keppel DC REIT	587	0.33
Others	860	0.49
Asset Co valuation	4,979	2.84
Less 10% holdco discount		-1.01
Total EV		9.09

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$Sm)	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

CASH FLOW

Year to 31 Dec (\$Sm)	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

BALANCE SHEET

Year to 31 Dec (\$Sm)	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

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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