

COMPANY RESULTS

Keppel (KEP SP)

2023: Strong Results With A Rosy M&A Outlook Ahead

KEP reported better-than-expected results for 2023 due to a strong operating performance from its infrastructure and connectivity segments. The former saw a particularly strong 135% yoy increase in net profit with management implying that its mid- to high-teens profit margins are sustainable. With a potentially more active M&A market in 2024, asset monetisation and capital recycling will be key share price drivers. Maintain BUY. Target price: S\$8.89.

2023 RESULTS

Year to 31 Dec (\$m)	2022	2023	% yoy	Comments
Revenue	6,620	6,966	5.2%	
Gross profit	1,445	1,968	36.2%	- Bolstered particularly by the infrastructure segment
Pre-tax profit	1,095	1,214	10.9%	
PATMI ¹	933	4,105	340.0%	- Includes disposal gain from offshore marine business
Profit from continuing ops	839	996	18.7%	- All three segments contributed positively

Margins

Gross margins	21.8%	28.3%	+6.4ppt
Pre-tax margins	16.5%	17.4%	+0.9ppt
Net profit margins ²	12.7%	14.3%	+1.6ppt

Note: ¹ including discontinued operations; ² from continuing ops

Source: Keppel, UOB Kay Hian

RESULTS

- **A strong set of results with more to come.** Keppel Ltd (KEP) reported a 19% yoy increase in profit from continuing operations to S\$996m and above our expectations. Including a S\$3.3b disposal gain from the divestment of the offshore & marine business, this would have resulted in a net profit of S\$4.1b, the highest in its history. The company declared a final dividend of S\$0.19; together with its interim dividend of S\$0.15, the full-year dividend of S\$0.34 implies a yield of 4.8% based yesterday's price.
- **Key highlights of the result include:** a) a strong operational performance from the infrastructure division (+135% yoy increase in net profit to S\$699m), b) a meaningful 30% increase in net profit for the connectivity segment, c) a solid 54% yoy growth in recurring income to S\$773m, and d) a 2ppt yoy rise in ROE to 9.3% in 2023.
- **Balance sheet looks slightly stretched but manageable in our view.** With net gearing rising to 0.9x as at end-23 vs 0.78x at end-22, KEP's gearing numbers are approaching its 1x threshold. However management appeared to be sanguine about this and believes its changing earnings profile over the next few years should lower its gearing levels.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	6,620	6,966	7,313	7,732	8,194
EBITDA	807	1,297	1,397	1,516	1,645
Operating profit	565	1,076	1,119	1,181	1,252
Net profit (rep./fact.)	933	4,144	996	1,045	1,104
Net profit (adj.)	933	4,144	996	1,045	1,104
EPS (S\$ cent)	51.9	229.8	54.3	56.9	60.2
PE (x)	13.8	3.1	13.2	12.6	11.9
P/B (x)	1.1	1.2	1.2	1.1	1.1
EV/EBITDA (x)	27.9	17.3	16.1	14.8	13.7
Dividend yield (%)	4.6	4.8	4.6	4.8	5.1
Net margin (%)	14.1	59.5	13.6	13.5	13.5
Net debt/(cash) to equity (%)	78.1	90.9	86.8	86.6	85.6
Interest cover (x)	128.2	7.0	7.6	8.2	8.9
ROE (%)	7.9	37.2	9.1	9.2	9.4
Consensus net profit	-	-	986	1,082	1,055
UOBKH/Consensus (x)	-	-	1.01	0.97	1.05

Source: Keppel, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$7.15
Target Price	S\$8.89
Upside	+24.3%
(Previous TP)	S\$9.09

COMPANY DESCRIPTION

Keppel is an asset manager and operator with four core businesses: energy & environment, urban development, connectivity and asset management.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,762.3
Market cap (S\$m):	12,600.4
Market cap (US\$m):	9,397.0
3-mth avg daily t'over (US\$m):	16.0

Price Performance (%)

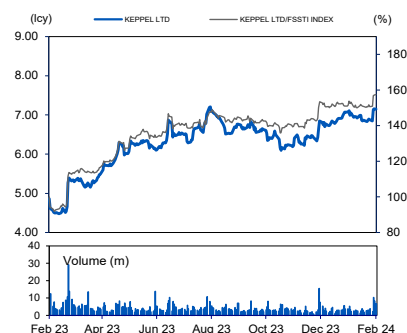
52-week high/low S\$7.20/S\$4.48

1mth	3mth	6mth	1yr	YTD
1.1	15.5	(0.8)	47.3	1.1

Major Shareholders

Temasek Hldgs	21.0
FY24 NAV/Share (S\$)	6.10
FY24 Net Debt/Share (S\$)	5.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Solid performance from the infrastructure segment.** 2H23 was a particularly strong period for the infrastructure segment as it realised an 18% net margin which KEP attributed to the reliability of its assets as well as its strong operations and maintenance works. The company also pointed out that it has the benefit of not relying on one single source of gas (and is thus able to pivot to lower-cost gas relatively easily) and thus implied that this margin may be sustainable in the medium term. KEP's renewables portfolio grew by an impressive 54% yoy to 4GW as it continues to work on strategic partnerships to broaden its green businesses such as carbon capture for waste-to-energy plants and hydrogen and ammonia solutions.
- Real estate potentially troughing in 2024.** While the acquisition of Aermont has made KEP a global real estate player, the company pointed out that it remains committed to Asia. Management reiterated its belief that China remains a growth market, but it will move away from residential offerings and instead look at the real estate segments that are supported by Chinese policymakers, eg sustainable urban renewal and integrated senior living solutions.
- AssetCo - an early redemption this year?** During the analyst briefing, the company highlighted that its AssetCo has accumulated a cash balance of S\$950m as at end-23 and continues to perform well as dayrates and utilisation rates have improved significantly on a yoy basis. Management disclosed that it is getting "good enquiries" for its rig assets and thus is hopeful that its S\$4b in credit notes can be redeemed this year.
- Asset management continues to grow impressively.** As at end-23, KEP had S\$79b in funds under management (FUM) which includes S\$24b from the Aermont acquisition. During the results briefing, management reiterated its target of attaining S\$200b in FUM and pointed to a successful 2023 where it raised S\$2.3b in equity and currently has a pipeline of more than S\$14b of asset and M&A deals which it should be able to cater to from its S\$9b in dry powder. While 2023 was a relatively quiet year for M&As globally, KEP believes that this year should see more fundraising and dealmaking taking place, particularly in the later part of the year.

EARNINGS REVISION/RISK

- Slight upgrades to 2024 and 2025 numbers.** We have raised our net profit estimates for KEP by 1.4% and 3.8% for 2024 and 2025 respectively on the back of slight earnings and revenue growth from the infrastructure and connectivity segments, offset by lower yoy earnings from real estate due to continued weakness in some of KEP's key markets.

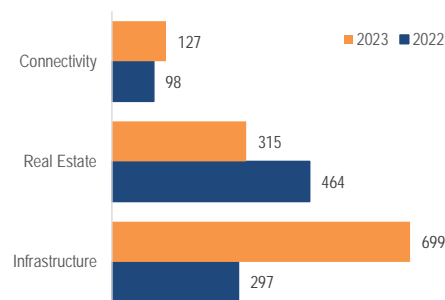
VALUATION/RECOMMENDATION

- We maintain our BUY rating on KEP.** Our SOTP-based target price has been lowered to S\$8.89 (-2% from S\$9.09) because of a mildly higher share count and slightly lower valuation of its property segment. 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 13.2x and P/B of 1.2x, 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

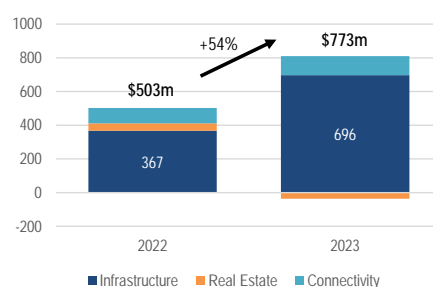
- a) Successful sale of rigs within AssetCo and earlier-than-expected return of credit notes; b) continued growth in AUM of its asset management business; and c) earnings-accretive investments and contract wins in its infrastructure segment.

NET PROFIT BY BUSINESS SEGMENT



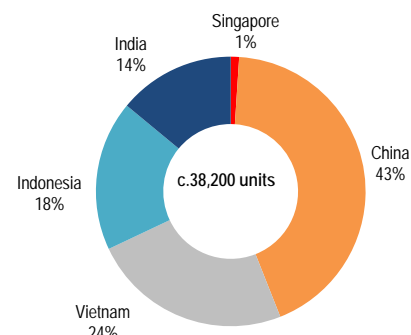
Source: KEP

RECURRING INCOME BY SEGMENTS (\$M)



Source: KEP

RESIDENTIAL LANDBANK AS AT END-23



Source: KEP

SOTP VALUATION

Segment	S\$m	S\$/share
Infrastructure & others	4,893	2.71
Property	3,432	1.90
Connectivity	1,912	1.06
Asset Management	1,335	0.74
Sino-Singapore Tianjin Eco-City	371	0.21
KREIT	1,764	0.98
Keppel DC REIT	732	0.41
Others	903	0.50
Merger & Asset Co	4,979	2.76
Less net debt		-2.38
Total EV		8.89

Source: UOB Kay Hian estimates

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	6,966.1	7,312.9	7,732.0	8,193.7
EBITDA	1,297.4	1,397.3	1,516.3	1,644.7
Deprec. & amort.	221.4	278.6	335.7	392.9
EBIT	1,075.9	1,118.7	1,180.5	1,251.8
Total other non-operating income	0.0	0.0	0.0	1.0
Associate contributions	322.4	322.4	322.4	322.4
Net interest income/(expense)	(184.8)	(184.8)	(184.8)	(184.8)
Pre-tax profit	1,213.6	1,256.3	1,318.2	1,390.5
Tax	(289.7)	(299.9)	(314.7)	(331.7)
Minorities	38.4	39.8	41.7	44.0
Preferred dividends	0.0	0.0	0.0	1.0
Net profit	4,143.5	996.2	1,045.2	1,103.8
Net profit (adj.)	4,143.5	996.2	1,045.2	1,103.8

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	58	1,110	865	973
Pre-tax profit	1,214	1,256	1,318	1,390
Tax	(116)	(287)	(295)	(310)
Deprec. & amort.	221	279	336	393
Associates	0	0	0	1
Working capital changes	(398)	184	(171)	(177)
Non-cash items	0	0	0	1
Other operating cashflows	(863)	(322)	(322)	(325)
Investing	(943)	(780)	(580)	(580)
Capex (growth)	(921)	(800)	(800)	(800)
Capex (maintenance)	0	0	0	1
Investments	86	0	200	200
Proceeds from sale of assets	411	20	20	20
Others	(519)	0	0	(1)
Financing	723	867	838	803
Dividend payments	(609)	(599)	(628)	(662)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,376	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(44)	1,465	1,465	1,465
Net cash inflow (outflow)	(161)	1,197	1,123	1,196
Beginning cash & cash equivalent	2,823	2,662	3,859	4,981
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,662	3,859	4,981	6,177

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	902	1,404	1,848	2,235
Other LT assets	19,570	19,528	19,650	19,774
Cash/ST investment	1,266	1,362	1,019	750
Other current assets	5,100	4,435	4,764	5,114
Total assets	26,838	26,728	27,281	27,873
ST debt	2,459	2,459	2,459	2,459
Other current liabilities	3,680	3,212	3,389	3,584
LT debt	8,538	8,538	8,538	8,538
Other LT liabilities	1,145	1,145	1,145	1,145
Shareholders' equity	10,709	11,106	11,524	11,965
Minority interest	308	268	226	182
Total liabilities & equity	26,838	26,728	27,281	27,874

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.6	19.1	19.6	20.1
Pre-tax margin	17.4	17.2	17.0	17.0
Net margin	59.5	13.6	13.5	13.5
ROA	14.3	3.7	3.9	4.0
ROE	37.2	9.1	9.2	9.4
Growth				
Turnover	5.2	5.0	5.7	6.0
EBITDA	60.7	7.7	8.5	8.5
Pre-tax profit	10.8	3.5	4.9	5.5
Net profit	344.2	(76.0)	4.9	5.6
Net profit (adj.)	344.2	(76.0)	4.9	5.6
EPS	342.5	(76.4)	4.9	5.7
Leverage				
Debt to total capital	50.0	49.2	48.3	47.5
Debt to equity	102.7	99.0	95.4	91.9
Net debt/(cash) to equity	90.9	86.8	86.6	85.6
Interest cover (x)	7.0	7.6	8.2	8.9

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