

COMPANY UPDATE

Keppel (KEP SP)

Steady As She Goes

KEP gave an in-line 1Q24 business update with the highlight being the continued strong growth in its recurring earnings. Asset management fees rose 52% yoy in 1Q24 with strong performance across the infrastructure, connectivity and real estate segments. Upside in the near to medium term could come from the sale of rigs by Asset Co which had accumulated S\$950m in cash as at end-23 and paid out S\$71m in 1Q24. Maintain BUY. Target price: S\$8.89.

WHAT'S NEW

- **Appears to be an in-line quarter.** Keppel (KEP) generated S\$1.5b in revenue from continuing operations in 1Q24 (1Q23: S\$1.6b); within our expectations. As this was a business update, detailed financials were not provided. The company also commented that its 1Q24 net profit was higher on a yoy basis due mainly to strong contributions from its infrastructure and connectivity segments.
- **Seatrium stake.** Management disclosed that its independent financial advisor has sold about 2.04b shares out of its 5% stake in Seatrium at an average price of S\$0.13, leaving it with around 1.37b shares, or a 2% stake, in the company. KEP disclosed that its 1Q24 market-to-market loss for its shareholding in Seatrium was \$54m (1Q23: gain of S\$14m).
- **Recurring earnings continue to grow.** KEP witnessed robust growth in its asset management fees in 1Q24 to S\$88m, up 52% yoy, driven in particular by the infrastructure segment (+208% yoy) and the real estate segment (+11% yoy) – see chart overleaf. KEP's Aermont acquisition will close at end-Apr 24, having only recently received final clearance from the European regulator. With a deal pipeline of more than S\$14b, the asset management segment will look to grow its recurring earnings in the next 3-5 years via its 19 active private funds. In addition, KEP has plans to launch three new funds in 2024 that will focus on data centres, education assets and private credit.
- **Balance sheet looks stretched but manageable in our view.** With net gearing remaining at 0.9x as at end-1Q24 (unchanged from end-23), KEP's gearing numbers are approaching its 1x threshold. However, on the analyst call, management appeared to be sanguine about this and it has been successful in efforts to refinance and/or repay its debt due in 2024. In addition, KEP believes that its changing earnings profile over the next few years should lower its gearing levels. As at end-1Q24, 64% of borrowings were on fixed rates with average cost of funds of 3.81%.

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./act.)	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)	13.2	3.0	12.6	12.1	11.4
P/B (x)	1.1	1.1	1.1	1.1	1.0
EV/EBITDA (x)	27.4	17.0	15.8	14.6	13.4
Dividend yield (%)	4.8	5.0	4.8	5.0	5.3
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	-	-	973	1,069	1,124
UOBKH/Consensus (x)	-	-	1.02	0.98	0.98

Source: Keppel Ltd., Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	S\$6.86
Target Price	S\$8.89
Upside	+29.6%

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):	1,774.7
Market cap (S\$m):	12,617.8
Market cap (US\$m):	9,271.0
3-mth avg daily t'over (US\$m):	19.2

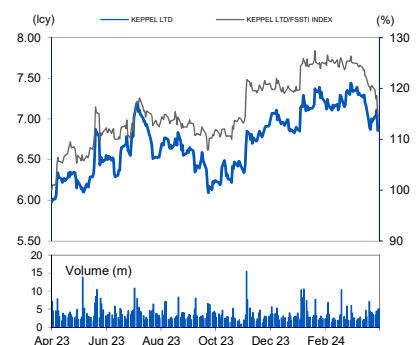
Price Performance (%)

52-week high/low				S\$7.44/S\$5.98
1mth	3mth	6mth	1yr	YTD
(3.3)	3.6	14.1	13.8	0.6

Major Shareholders

	%
Temasek Hldgs	21.2
-	-
FY24 NAV/Share (S\$)	6.10
FY24 Net Debt/Share (S\$)	5.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- **Asset Co returning cash to KEP.** Management disclosed that the company received S\$71.3m in cash from Asset Co in 1Q24. Interestingly, management were not able to confirm whether this is sustainable for the remainder of 2024 as such interest payments from the Asset Co may be deferred. KEP highlighted, and as we have stated in prior sector research, that the offshore marine sector has already turned the corner for the better and with all 15 of its rigs on hire, there is a possibility that its S\$4b in credit notes can be redeemed in the next 12-18 months if these rig assets can be sold. Management also stated that the recent cancellations of rig contracts in the Middle East by Saudi Aramco has not affected the company as its assets are on bareboat charters and on fixed contracts. Note that Asset Co had accumulated a cash balance of S\$950m as at end-23.
- **Asset monetisation of S\$169.9m ytd** comprises of: a) S\$4.3m for 50m Dyna-Mac warrants, b) S\$4.0m for a 25% stake in an operations and maintenance company serving the Guangzhou Baiyun International Airport, and c) S\$161.6m divestment of a residential project in Wuxi, China. During the analyst call, management confirmed that it has completely exited the Wuxi project which has delivered significant profits to KEP.
- **Continuing to refocus its real estate segment.** KEP's exit from its Wuxi project (buyer and project name undisclosed at present) underscores the company's continuing strategy of derisking its China property portfolio. Even though China's property market continues to experience various travails, KEP noted that its landbank in its balance sheet is valued at historical cost, so it believes that it has adequate headroom even if prices were to decline further. On the growth side, management highlighted that it is looking at real estate deals in Singapore, Japan and Korea, with a recent example being the Jan 24 acquisition of Wilkie Edge in Singapore by Alpha Asia Separate Account, a S\$360m mandate that Keppel manages for the Dutch pension fund PGGM.

EARNINGS REVISION/RISK

- None.

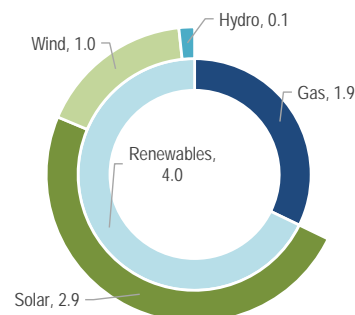
VALUATION/RECOMMENDATION

- **We maintain our BUY rating on KEP.** Our SOTP-based target price is unchanged at S\$8.89. The asset-light, fee-related earnings acquisition of Aermont which will close by end-Apr 24 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. In the near to medium term, earnings from its infrastructure segment will be underpinned by the fact that 60% of its contracted generation capacity in Singapore is locked in for three years or more.
- **Inexpensive valuations.** KEP currently trades at 2024F PE of 12.6x and P/B of 1.1x 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

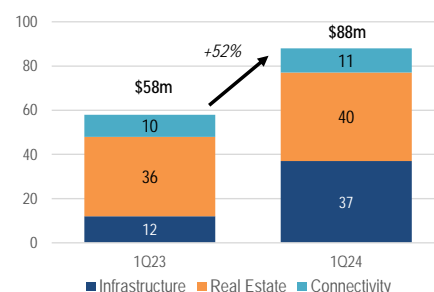
- Successful sale of rigs within Asset Co and earlier-than-expected return of credit notes.
- Continued growth in AUM of its asset management business.
- Earnings-accretive investments and contract wins in its infrastructure segment.

INFRASTRUCTURE: ENERGY PORTFOLIO IN GW



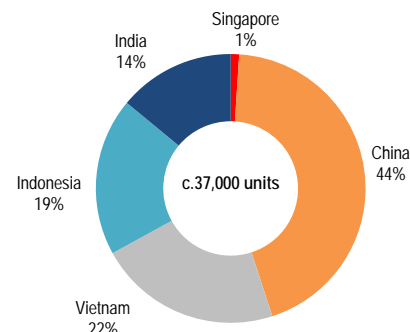
Source: KEP

RECURRING INCOME BY SEGMENTS (\$M)



Source: KEP

RESIDENTIAL LANDBANK AS AT END-1Q24



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	7,313	7,732	8,194
EBITDA	1,297	1,397	1,516	1,645
Deprec. & amort.	221	279	336	393
EBIT	1,076	1,119	1,181	1,252
Total other non-operating income	0	0	0	1
Associate contributions	322	322	322	322
Net interest income/(expense)	(185)	(185)	(185)	(185)
Pre-tax profit	1,214	1,256	1,318	1,390
Tax	(290)	(300)	(315)	(332)
Minorities	38	40	42	44
Preferred dividends	0	0	0	1
Net profit	4,144	996	1,045	1,104
Net profit (adj.)	4,144	996	1,045	1,104

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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