

Keppel Corporation Ltd

Conversion work worth S\$190mn

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KEP SP | KPLM.SI | KEPS.SG
Industry: Conglomerate

Phillip Securities Research Pte Ltd

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Report type: Trade Flash

Company Overview

Keppel Corporation is a diversified conglomerate with four core business segments: Offshore & Marine, Infrastructure, Property, and Investments.

- FPSO conversion projects worth a total of S\$190mn
- Positive on production-related conversion orders
- Maintain Accumulate and TP of S\$12.25

What is the news?

Keppel secures two conversion contracts worth a total value of S\$190mn. The contracts include:

- the conversion of an FPSO from SBM Offshore that will host the Stones ultra deepwater development by Shell in the Gulf of Mexico, and
- the conversion of an FPSO for the Bukit Tua Field from M3nergy Offshore (scheduled for completion in 2Q14).

Both contracts are awarded from Keppel's repeated customers. Including the Stones FPSO, Keppel has undertaken 20 major projects for SBM Offshore since 2000.

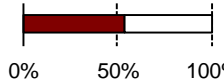
How do we view this?

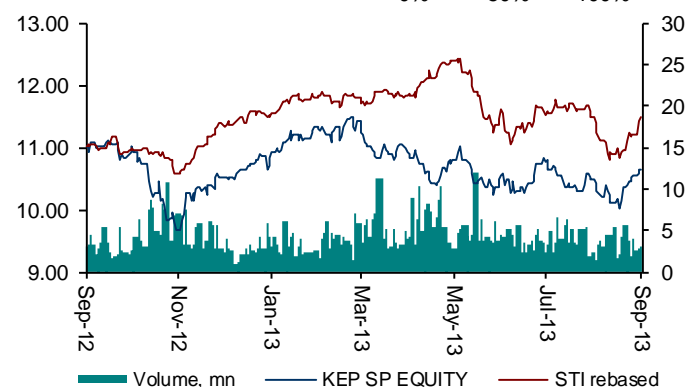
We are positive on the production-related conversion orders. Latest contract wins lifted YTD order wins to S\$4.4bn, against our full-year order estimate of S\$5.9bn for FY13E.

Investment Actions?

We maintain our FY13E-14E earnings estimates and SOTP-based TP of S\$12.25. Keppel Corp currently trades at 10.9x FY14E P/E and 2.0x FY13E P/B. Historically, the stock traded at a long-term 5-year average of 10.7x forward P/E, with a peak of 22.3x during the last rig newbuild upcycle and a low of 4.9x in the GFC. We continue to like Keppel, in view of (i) its global yard network, which is well-placed to benefit from the positive O&M outlook, (ii) resilient O&M margins, and (iii) attractive dividend yield at ~4.4%. Maintain Accumulate.

Keppel Corporation Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	12.25	
- Previous Target Price (SGD)	12.25	
Closing Price (SGD)	10.65	
Expected Capital Gains (%)	15.0%	
Expected Dividend Yield (%)	4.4%	
Expected Total Return (%)	19.4%	
Raw Beta (Past 2yrs weekly data)	1.17	
Market Cap. (USD mn)	15,285	
Enterprise Value (USD mn)	22,780	
3M Average Daily T/O (mn)	3.8	
52 week range (SGD)	9.6215 - 11.513	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	21.0
2. Aberdeen Asset Management	5.8
3. Blackrock Fund Advisors	4.9

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	10,082	13,965	12,559	14,103
Net Profit, adj. (SGD mn)	1,491	1,914	1,540	1,772
EPS, adj. (SGD)	0.83	1.06	0.85	0.98
P/E (X), adj.	12.8	10.1	12.5	10.9
BVPS (SGD)	4.29	5.11	5.39	5.77
P/B (X)	2.5	2.1	2.0	1.8
DPS (SGD)	0.43	0.72	0.47	0.49
Div. Yield (%)	4.0%	6.8%	4.4%	4.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

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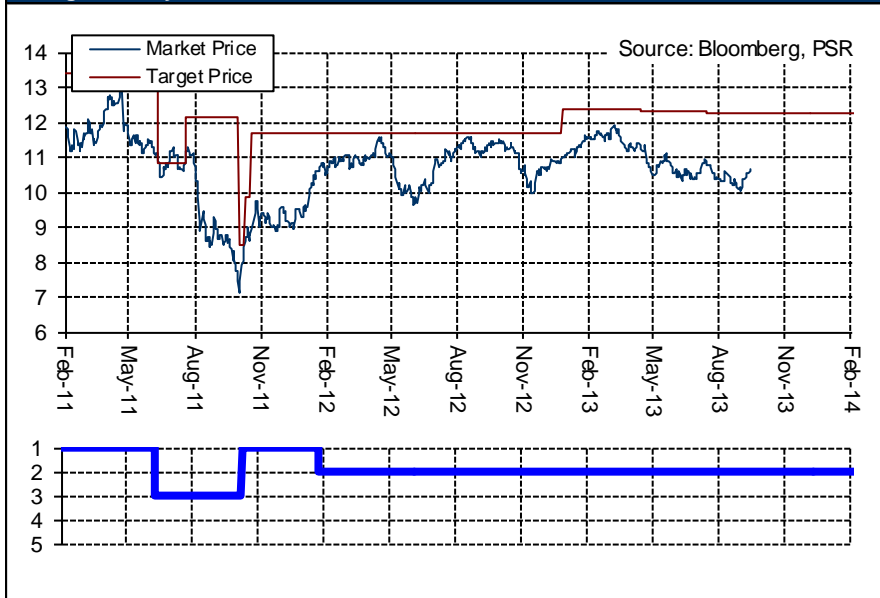
FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	14.4	12.8	10.1	12.5	10.9
P/B (X)	2.8	2.5	2.1	2.0	1.8
EV/EBITDA (X), adj.	16.5	13.7	11.0	12.2	10.6
Dividend Yield (%)	3.6%	4.0%	6.8%	4.4%	4.6%
Per share data (SGD)					
EPS, reported	0.85	1.08	1.24	0.85	0.98
EPS, adj.	0.74	0.83	1.06	0.85	0.98
DPS	0.38	0.43	0.72	0.47	0.49
BVPS	3.74	4.29	5.11	5.39	5.77
Growth & Margins (%)					
Growth					
Revenue	-25.4%	10.3%	38.5%	-10.1%	12.3%
EBITDA	3.9%	20.7%	23.8%	-9.4%	15.0%
EBIT	3.4%	21.9%	26.3%	-10.5%	16.1%
Net Income, adj.	3.4%	14.1%	28.4%	-19.5%	15.0%
Margins					
EBITDA margin	19.1%	20.9%	18.7%	18.8%	19.3%
EBIT margin	17.0%	18.8%	17.2%	17.1%	17.6%
Net Profit Margin	14.3%	14.8%	13.7%	12.3%	12.6%
Key Ratios					
ROE (%)	21.1%	20.8%	22.6%	16.2%	17.5%
ROA (%)	7.8%	8.3%	8.2%	5.3%	5.9%
Net debt	(178)	1,857	3,153	2,334	1,896
Net debt / equity	-1.8%	15.8%	23.2%	16.3%	12.3%
Income Statement (SGD mn)					
Revenue	9,140	10,082	13,965	12,559	14,103
EBITDA	1,745	2,106	2,607	2,361	2,716
Depreciation & Amortisation	(189)	(209)	(211)	(216)	(227)
EBIT	1,556	1,897	2,396	2,145	2,489
Net Finance (Expense)/Income	47	16	26	(24)	8
Other items	8	25	7	7	7
Associates	278	240	266	228	227
Exceptionals	661	1,135	561	0	0
Profit Before Tax	2,550	3,313	3,256	2,356	2,732
Taxation	(560)	(444)	(501)	(556)	(618)
Profit After Tax	1,990	2,869	2,756	1,800	2,114
Non-controlling Interest	479	923	518	260	342
Net Income, reported	1,511	1,946	2,237	1,540	1,772
Net Income, adj.	1,307	1,491	1,914	1,540	1,772

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Balance Sheet (SGD mn)					
PPE	2,243	2,716	3,337	3,630	3,912
Intangibles	108	99	110	110	110
Associates	3,782	4,462	5,267	5,267	5,267
Investment Properties	3,208	4,610	5,423	5,423	5,423
Others	329	578	365	365	365
Total non-current assets	9,669	12,464	14,502	14,794	15,076
Inventories	4,929	6,606	7,443	6,694	7,516
Accounts Receivables	1,959	2,028	2,057	1,850	2,078
Investments	537	577	417	417	417
Cash and cash equivalents	4,246	3,020	4,055	4,874	5,312
Others	305	404	697	587	642
Total current assets	11,976	12,635	14,669	14,421	15,965
Total Assets	21,644	25,099	29,171	29,216	31,041
Short term loans	392	808	1,006	1,006	1,006
Billings on WIP in excess of related costs	1,638	1,864	1,619	1,456	1,636
Accounts Payables	5,332	5,710	5,536	4,979	5,591
Others	720	621	903	903	903
Total current liabilities	8,082	9,003	9,064	8,344	9,135
Long term loans	3,676	4,069	6,202	6,202	6,202
Others	232	267	326	326	326
Total non-current liabilities	3,908	4,335	6,528	6,528	6,528
Non-controlling interest	3,036	4,062	4,332	4,592	4,934
Shareholder Equity	6,619	7,699	9,246	9,751	10,444
Cashflow Statements (SGD mn)					
CFO					
Operating profit	1,556	1,897	2,396	2,145	2,489
Adjustments	233	91	244	216	227
Cash from ops before WC changes	1,789	1,988	2,640	2,361	2,716
WC changes	(1,101)	(1,890)	(1,448)	353	(307)
Cash generated from ops	688	99	1,192	2,714	2,409
Taxes paid, net	(293)	(343)	(225)	(556)	(618)
Interest paid, net	56	21	39	(24)	8
Cashflow from ops	450	(224)	1,007	2,134	1,800
CFI					
CAPEX, net	(873)	(876)	(836)	(509)	(509)
Dividends from associates & investments	245	176	157	228	227
Investments in subs & associates	(15)	(558)	(391)	0	0
Cashflow from investments	(643)	(1,258)	(1,069)	(281)	(282)
CFF					
Share issuance	74	99	82	0	0
Loans, net of repayments	2,300	809	2,331	0	0
Dividends to minority interests	(130)	(158)	(212)	(202)	(211)
Dividends to shareholders & capital distribution	(627)	(724)	(789)	(833)	(869)
Others	(112)	248	(134)	(0)	0
Cashflow from financing	1,504	275	1,277	(1,035)	(1,080)
Net change in cash	1,311	(1,207)	1,215	818	438
CCE, end	4,245	3,020	4,055	4,874	5,312

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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