

# Keppel Corp (KEP SP)

Energy &amp; Petrochemicals - Oil &amp; Gas Services

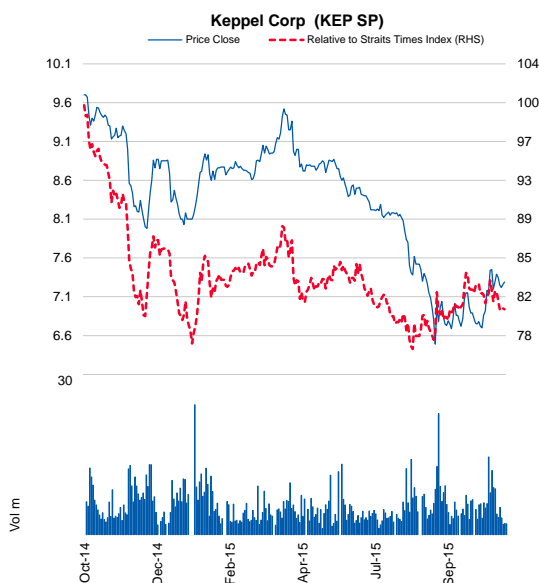
Market Cap: USD9,475m

**Buy** (Maintained)

 Target Price: **SGD10.00**

 Price: **SGD7.29**

## Island Of Calm

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	42.5m/30.4m
Cons. Upside (%)	11.8
Upside (%)	37.2
52-wk Price low/high (SGD)	6.49 - 9.70
Free float (%)	68
Share outstanding (m)	1,811
<b>Shareholders (%)</b>	
Temasek	21.0
Aberdeen	5.7
Blackrock	5.0

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.6)	4.6	(10.5)	(18.7)	(24.9)
Relative	(7.9)	(1.3)	(0.9)	(5.6)	(19.7)

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As we forecasted, Keppel's property division surprised the street on the strength and timing of its earnings. Maintain BUY with an unchanged SOP-based SGD10.00 TP (37% upside). 3Q15 PATMI rose 8% QoQ to SGD363m, after adjusting for 2Q15's one-offs. The key weakness was the order win momentum, as it scored just SGD1.7bn in new contracts YTD. We keep our broad view on Keppel – its property earnings will offset a weaker offshore & marine unit, supporting the dividend.

- ◆ **Earnings bolstered by property income.** Although Keppel's headline profit dropped 9% QoQ, after stripping out the significant one-off profits in the infrastructure division in 2Q15, its core earnings actually rose 8%. The SGD7m lower profits at the offshore & marine (O&M) division were more than offset by the SGD17m higher property earnings, which has surprised the street.
- ◆ **"Hunkering down" for O&M.** Management described the process of "hunkering down in the O&M business, rightsizing operations and resources" against the possibility of a longer-than-expected downturn. This is prudent, given that the company has only won SGD1.7bn of contracts YTD. However, management did clarify that it is not an across-the-board cost-cutting exercise, and Keppel will continue to spend on research and development, productivity improvements and training.
- ◆ **Property outperformance; more launches moved up.** Keppel sold c.1,300 homes in 3Q15 vs c.1,080 in 2Q15. 3,130 homes were sold in 9M15, up 66% YoY, and exceeded the 2,400 for the whole of FY14. The improvement came from China and Vietnam. We further note that while the West Vista project in Indonesia appears to have been slightly delayed, the Elita Horizon project in India has been brought forward in a big way (+458 units for launch in FY16) with a net increase of 518 units ready for launch in FY16 vs 2Q15's projection (see Figures 2 and 3).
- ◆ **BUY for yield and diversified operations.** We have adjusted our property income up and O&M earnings forecasts down, with negligible net changes for FY15-17F. The big picture for Keppel remains the same – its diversified operations keep the group steady in an island of calm whilst competitors flounder. The 6.6% yield is a key attraction. Key risks remain order delivery deferrals and a weak order win momentum.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	12,380	13,283	12,306	12,158	11,512
Reported net profit (SGDm)	1,835	1,885	1,657	1,653	1,477
Recurring net profit (SGDm)	1,432	1,492	1,445	1,438	1,465
Recurring net profit growth (%)	(25.2)	4.2	(3.2)	(0.5)	1.9
Recurring EPS (SGD)	0.79	0.82	0.80	0.80	0.81
DPS (SGD)	0.50	0.48	0.48	0.48	0.48
Recurring P/E (x)	9.20	8.87	9.12	9.17	9.01
P/B (x)	1.36	1.27	1.18	1.10	1.02
P/CF (x)	21	607	6	7	6
Dividend Yield (%)	6.8	6.6	6.6	6.6	6.6
EV/EBITDA (x)	3.17	3.63	4.49	4.62	4.38
Return on average equity (%)	19.4	18.8	15.4	14.3	11.8
Net debt to equity (%)	11.2	11.2	37.3	34.1	28.9
Our vs consensus EPS (adjusted) (%)			(1.2)	(1.1)	4.6

## Additional Notes

Figure 1: Quarterly results in review

FYE 31 Dec (SGDm)	3Q14	2Q15	3Q15	QoQ	YoY	Remarks
<b>Revenue</b>	<b>3,185</b>	<b>2,563</b>	<b>2,440</b>	<b>-5%</b>	<b>-23%</b>	
Offshore & marine	2,199	1,580	1,411	-11%	-36%	Lower O&M revenues due to lower volume of work and deferment of some projects. Management spoke of "hunkering down in the O&M business, rightsizing operations and resources." Secured SGD1.7bn of orders YTD.
Infrastructure	762	431	487	13%	-36%	Decrease mainly due to lower contributions from power generation business, lower Engineering, procurement & construction projects as well as absence of revenue from Keppel FMO Pte Ltd which was disposed of in 4Q14.
Property	219	549	536	-2%	nm	Keppel Land sold c.1,300 homes in 3Q15 vs c.1,080 homes in 2Q15, driven by surging China and Vietnam but offset by weaker Singapore home sales.
Investments	5	3	6	100%	20%	
<b>EBITDA</b>	<b>633</b>	<b>479</b>	<b>426</b>	<b>-11%</b>	<b>-33%</b>	
Offshore & marine	365	228	210	-8%	-43%	
Infrastructure	84	135	46	-66%	-45%	Gain of c.SGD280m from sale of Keppel Merlimau Cogen plant and the combination of Keppel Infrastructure Trust (KIT SP, NR) and CitySpring Infrastructure Trust, partially offset by c.SGD200m provisions for cost overruns at the Doha North Sewage Treatment Plant in 2Q15.
Property	159	129	180	39%	13%	
Investments	24	-18	-22	22%	nm	
Others	0	5	12	nm	nm	
<b>Operating profit</b>	<b>565</b>	<b>414</b>	<b>370</b>	<b>-11%</b>	<b>-34%</b>	
Offshore & marine	329	194	173	-11%	-47%	Operating margins maintained QoQ at 12.3% even on lower segment revenue.
Infrastructure	57	111	36	-68%	-38%	Significant one-offs in 2Q15, see comments on infrastructure revenue.
Property	155	122	172	41%	11%	
Investments	24	-19	-22	17%	nm	
Others	0	5	12	nm	nm	
<b>Profit before tax</b>	<b>643</b>	<b>498</b>	<b>469</b>	<b>-6%</b>	<b>-27%</b>	
Offshore & marine	359	221	206	-7%	-43%	
Infrastructure	54	116	43	-63%	-20%	
Property	198	152	199	31%	1%	
Investments	31	9	21	nm	-33%	
<b>PATMI</b>	<b>414</b>	<b>397</b>	<b>363</b>	<b>-9%</b>	<b>-12%</b>	
Offshore & marine	252	173	166	-4%	-34%	O&M decline in line with expectations.
Infrastructure	38	103	34	-67%	-10%	
Property	92	117	134	14%	45%	Profit contributions from property have exceeded expectations.
Investments	32	4	19	nm	-40%	
Others	0	0	0			
<b>Analysis</b>						
Exceptional gains	21	79	21			
Profit on disposal of subsidiaries	0	274	0			
Writeback from restructuring of ops and others	-2	-195	-3			
Writeback from impairment of associated companies	24	0	24			
Core operating profit (SGDm)	544	335	350	4%	-36%	
Core PBT (SGDm)	621	419	449	7%	-28%	
<b>Core net profit (SGDm)</b>	<b>393</b>	<b>318</b>	<b>342</b>	<b>8%</b>	<b>-13%</b>	<b>Core net profit actually up 8% QoQ after adjusting for 2Q15's one-offs.</b>
<b>O&amp;M operating margins (%)</b>	<b>15.0</b>	<b>12.3</b>	<b>12.3</b>			<b>Stable O&amp;M operating margins QoQ.</b>

Source: Company data, RHB

**Figure 2: 3Q15 residential launch readiness – projects overseas**

Project	Location	Units Ready to Launch		
		4Q2015	2016	2017
<b>Indonesia</b>				
West Vista*	West Jakarta	150	1,000	1,000
<b>Vietnam</b>				
Estella Heights, Dist 2*	HCMC	137	258	75
Riviera Point, Dist 7*	HCMC	192	250	269
Dong Nai Waterfront City ^	Dong Nai	-	220	460
Riviera Cove, Dist 9*	HCMC	3	12	3
South Rach Chiec, Dist 2^	HCMC	-	200	300
Villa Development, Saigon South^	HCMC	-	60	55
Casuarina Cove, Dist 9^	HCMC	-	30	40
<b>Thailand</b>				
Villa Arcadia Srinakarin (Ph 1)*	Bangkok	8	-	-
Villa Arcadia Srinakarin (Ph 2)^	Bangkok	45	51	-
Villa Arcadia Watcharapol (Ph 1)*	Bangkok	18	-	-
<b>India</b>				
Elita Horizon^	Bangalore	-	628	276
<b>Total</b>		<b>553</b>	<b>2,709</b>	<b>2,478</b>

\*Balance units ^New launches



Source: Company data

**Figure 3: 2Q15 residential launch readiness – overseas projects**

Project	Location	Units Ready to Launch		
		2H2015	2016	2017
<b>Indonesia</b>				
West Vista^	West Jakarta	803	850	850
<b>Vietnam</b>				
Estella Heights, Dist 2*	HCMC	206	258	75
Riviera Point, Dist 7*	HCMC	269	200	319
Dong Nai Waterfront City ^	Dong Nai	-	220	460
Riviera Cove, Dist 9*	HCMC	4	12	3
South Rach Chiec, Dist 2^	HCMC	-	200	300
Villa Development, Saigon South^	HCMC	-	60	55
Casuarina Cove, Dist 9^	HCMC	-	30	40
<b>Thailand</b>				
Villa Arcadia Srinakarin (Ph 1)*	Bangkok	9	-	-
Villa Arcadia Srinakarin (Ph 2)^	Bangkok	52	51	-
Villa Arcadia Watcharapol (Ph 1)*	Bangkok	18	-	-
<b>India</b>				
Elita Horizon^	Bangalore	-	170	250
<b>Sri Lanka</b>				
The Belvedere^	Colombo	30	140	80
<b>Total</b>		<b>1,391</b>	<b>2,191</b>	<b>2,432</b>

\*Balance units ^New launches



Source: Company data

Figure 4: SOP valuation

Core divisions	Shares (m)	Stake	Per share	Value	Remarks
Offshore & Marine				10,044	12x FY15/16F P/E
Infrastructure				1,064	8x FY15/16F P/E
Keppel Land				6,151	35% discount to RNAV
Tianjin Eco-City				850	Estimated value directly to Keppel Corp
Property: Keppel Bay				605	DCF development profits from Plot 3,4,6
<b>Listed entity</b>					
Keppel T&T	442.9	80%	<b>1.505</b>	667	Market price
Keppel Infrastructure Trust	702.0	18%	<b>0.540</b>	379	Market price
Dyna-Mac	250.0	24%	<b>0.240</b>	60	Market price
K1 Ventures Ltd	780.1	36%	<b>0.200</b>	156	Market price
KrisEnergy	324.9	31%	<b>0.390</b>	127	Market price
<b>Total RNAV</b>				<b>20,102</b>	
<b>SGD/share</b>				<b>11.06</b>	
Shares (m)				1,817.3	
<b>Target price: 10% holding co discount</b>			<b>SGD</b>	<b>10.00</b> /share	

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	12,380	13,283	12,306	12,158	11,512
Cost of sales	(10,272)	(10,978)	(10,246)	(10,077)	(9,296)
<b>Gross profit</b>	<b>2,109</b>	<b>2,305</b>	<b>2,060</b>	<b>2,081</b>	<b>2,216</b>
Other operating costs	26	68	(104)	(144)	(181)
<b>Operating profit</b>	<b>2,134</b>	<b>2,373</b>	<b>1,956</b>	<b>1,938</b>	<b>2,035</b>
Operating EBITDA	2,377	2,639	2,160	2,181	2,316
Depreciation of fixed assets	(242)	(265)	(204)	(244)	(281)
<b>Operating EBIT</b>	<b>2,134</b>	<b>2,373</b>	<b>1,956</b>	<b>1,938</b>	<b>2,035</b>
Net income from investments	626	504	250	252	254
Other recurring income	3	12	5	8	25
Interest income	144	133	133	133	133
Interest expense	(125)	(134)	(224)	(224)	(492)
<b>Pre-tax profit</b>	<b>2,783</b>	<b>2,889</b>	<b>2,121</b>	<b>2,108</b>	<b>1,955</b>
Taxation	(397)	(462)	(398)	(393)	(413)
Minority interests	(551)	(541)	(65)	(61)	(65)
<b>Profit after tax &amp; minorities</b>	<b>1,835</b>	<b>1,885</b>	<b>1,657</b>	<b>1,653</b>	<b>1,477</b>
<b>Reported net profit</b>	<b>1,835</b>	<b>1,885</b>	<b>1,657</b>	<b>1,653</b>	<b>1,477</b>
<b>Recurring net profit</b>	<b>1,432</b>	<b>1,492</b>	<b>1,445</b>	<b>1,438</b>	<b>1,465</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>2,134</b>	<b>2,373</b>	<b>1,956</b>	<b>1,938</b>	<b>2,035</b>
<b>Depreciation &amp; amortisation</b>	<b>242</b>	<b>265</b>	<b>204</b>	<b>244</b>	<b>281</b>
<b>Change in working capital</b>	<b>(734)</b>	<b>(1,762)</b>	<b>383</b>	<b>58</b>	<b>253</b>
Other operating cash flow	(458)	(526)	(0)	0	-
<b>Operating cash flow</b>	<b>1,185</b>	<b>350</b>	<b>2,543</b>	<b>2,239</b>	<b>2,569</b>
Interest received	145	130	1	2	3
Interest paid	(120)	(131)	-	-	-
Tax paid	(585)	(328)	(398)	(393)	(413)
<b>Cash flow from operations</b>	<b>625</b>	<b>22</b>	<b>2,146</b>	<b>1,849</b>	<b>2,160</b>
Capex	(936)	(595)	(1,000)	(999)	(998)
Other investing cash flow	394	1,472	100	101	102
<b>Cash flow from investing activities</b>	<b>(542)</b>	<b>877</b>	<b>(900)</b>	<b>(898)</b>	<b>(896)</b>
Dividends paid	(669)	(763)	(976)	(869)	(871)
Shares repurchased	-	(49)	-	-	-
Proceeds from issue of shares	40	34	-	-	-
Increase in debt	2,130	272	3,000	-	-
Other financing cash flow	(109)	(263)	(3,227)	-	-
<b>Cash flow from financing activities</b>	<b>1,392</b>	<b>(769)</b>	<b>(1,203)</b>	<b>(869)</b>	<b>(871)</b>
Cash at beginning of period	4,055	5,565	5,736	5,779	5,861
<b>Total cash generated</b>	<b>1,474</b>	<b>130</b>	<b>43</b>	<b>81</b>	<b>392</b>
Forex effects	35	42	-	-	-
<b>Implied cash at end of period</b>	<b>5,564</b>	<b>5,736</b>	<b>5,779</b>	<b>5,861</b>	<b>6,253</b>

Source: Company data, RHB

## Financial Exhibits

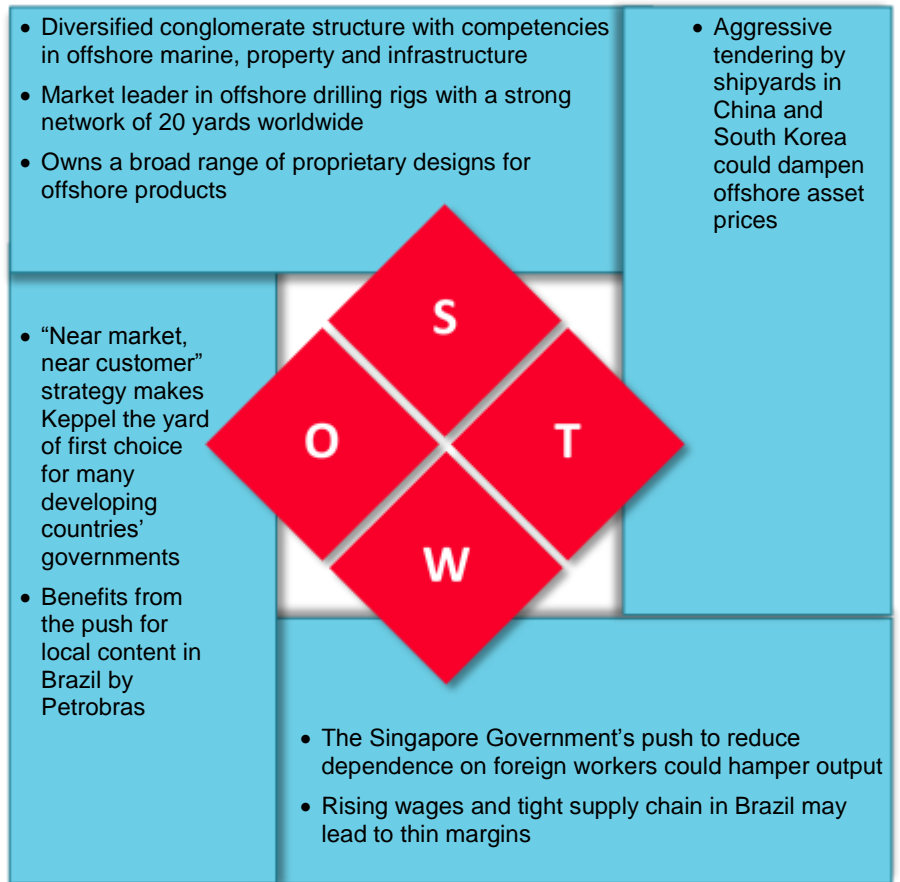
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	5,565	5,736	5,779	5,861	6,253
Inventories	8,995	10,681	9,895	9,777	9,257
Accounts receivable	1,916	2,510	2,325	2,297	2,175
Other current assets	1,482	2,261	2,261	2,261	2,261
<b>Total current assets</b>	<b>17,957</b>	<b>21,187</b>	<b>20,260</b>	<b>20,195</b>	<b>19,945</b>
Total investments	8,214	7,593	7,843	8,095	8,350
Tangible fixed assets	3,798	2,673	3,369	4,023	4,638
Intangible assets	86	102	102	102	102
Total non-current assets	12,098	10,367	11,314	12,220	13,089
<b>Total assets</b>	<b>30,056</b>	<b>31,555</b>	<b>31,574</b>	<b>32,415</b>	<b>33,035</b>
Short-term debt	517	1,796	2,077	2,077	2,077
Accounts payable	5,409	5,581	5,171	5,109	4,837
Other current liabilities	3,416	3,597	3,420	3,394	3,277
<b>Total current liabilities</b>	<b>9,342</b>	<b>10,974</b>	<b>10,668</b>	<b>10,579</b>	<b>10,191</b>
Total long-term debt	6,583	5,587	8,306	8,306	8,306
Other liabilities	442	266	266	266	266
<b>Total non-current liabilities</b>	<b>7,025</b>	<b>5,853</b>	<b>8,572</b>	<b>8,572</b>	<b>8,572</b>
<b>Total liabilities</b>	<b>16,367</b>	<b>16,827</b>	<b>19,240</b>	<b>19,151</b>	<b>18,763</b>
Share capital	1,206	1,288	1,288	1,288	1,288
Retained earnings reserve	8,495	9,093	9,861	10,729	11,673
<b>Shareholders' equity</b>	<b>9,701</b>	<b>10,381</b>	<b>11,149</b>	<b>12,017</b>	<b>12,960</b>
Minority interests	3,988	4,347	1,185	1,246	1,311
<b>Total equity</b>	<b>13,689</b>	<b>14,728</b>	<b>12,334</b>	<b>13,263</b>	<b>14,271</b>
<b>Total liabilities &amp; equity</b>	<b>30,056</b>	<b>31,555</b>	<b>31,574</b>	<b>32,415</b>	<b>33,035</b>

Source: Company data, RHB

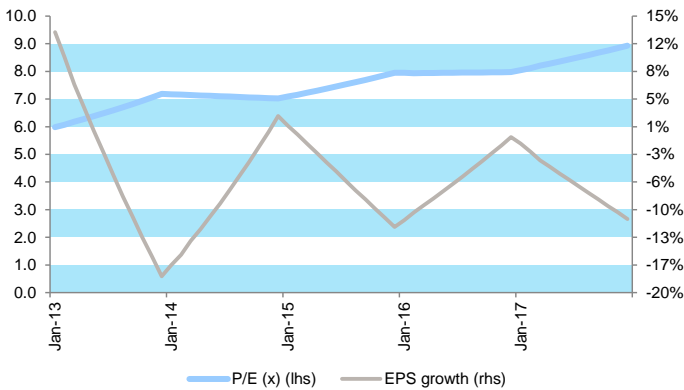
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	(11.3)	7.3	(7.4)	(1.2)	(5.3)
Operating profit growth (%)	(18.6)	11.2	(17.6)	(0.9)	5.0
Net profit growth (%)	(17.9)	2.7	(12.1)	(0.3)	(10.6)
EPS growth (%)	(17.9)	2.3	(11.7)	(0.3)	(10.7)
BVPS growth (%)	4.9	7.1	7.4	7.8	7.8
Operating margin (%)	17.2	17.9	15.9	15.9	17.7
Net profit margin (%)	14.8	14.2	13.5	13.6	12.8
Return on average assets (%)	6.2	6.1	5.3	5.2	4.5
Return on average equity (%)	19.4	18.8	15.4	14.3	11.8
Net debt to equity (%)	11.2	11.2	37.3	34.1	28.9
DPS	0.50	0.48	0.48	0.48	0.48
Recurrent cash flow per share	0.35	0.01	1.19	1.02	1.19

Source: Company data, RHB

## SWOT Analysis

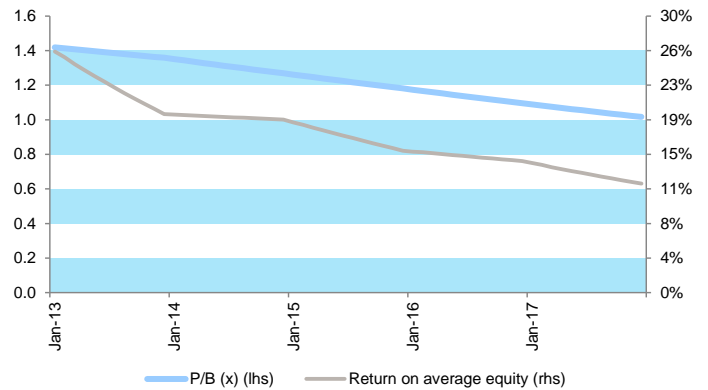


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

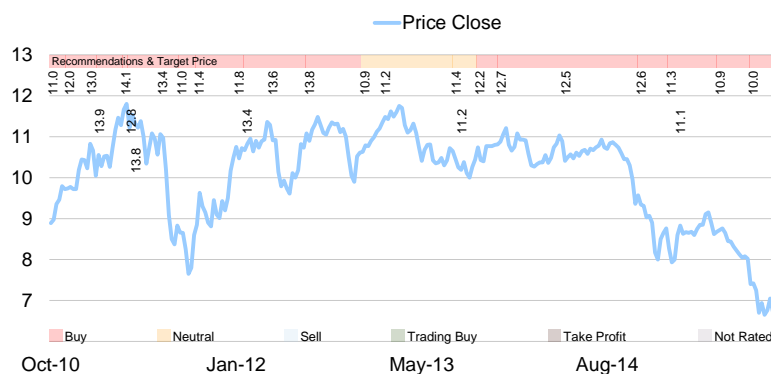


Source: Company data, RHB

## Company Profile

Keppel Corp is a conglomerate with diversified business interests in offshore & marine, property and infrastructure.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-26	Buy	10.0	8.1
2015-05-05	Buy	10.9	8.8
2015-01-27	Buy	11.1	8.3
2015-01-04	Buy	11.3	8.9
2014-10-21	Buy	12.6	9.7
2014-04-17	Buy	12.5	11.0
2014-02-14	Buy	12.7	10.4
2013-12-12	Buy	12.7	10.9
2013-11-08	Buy	12.7	10.9
2013-10-18	Buy	12.2	10.9

Source : RHB, Bloomberg



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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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