

Singapore Company Guide

Keppel Corporation

Version 10 | Bloomberg: KEP SP | Reuters: KPLM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jan 2018

BUY

Last Traded Price (5 Jan 2018): S\$7.77 (STI : 3,489.45)
 Price Target 12-mth: S\$9.80 (26% upside) (Prev S\$7.60)

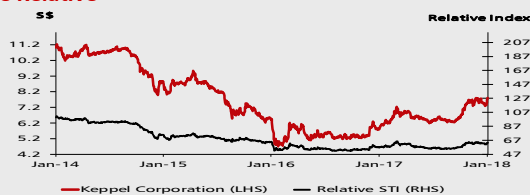
Analyst

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What's New

- Property segment's steep 30% discount to RNAV poised to narrow; Tianjin Eco-City land sale could add 73 Scts to valuation
- O&M activities set to rise as oil price stays above US\$60/bbl
- Brazil bribery seems one-off and should not affect operations
- Reiterate BUY; TP lifted to S\$9.80

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2016A	2017F	2018F	2019F
Revenue	6,767	5,768	6,230	9,423
EBITDA	1,392	1,553	1,632	2,061
Pre-tax Profit	1,055	1,491	1,299	1,654
Net Profit	784	1,125	980	1,248
Net Pft (Pre Ex.)	784	555	980	1,248
Net Pft Gth (Pre-ex) (%)	(46.9)	(29.2)	76.6	27.3
EPS (S cts)	43.1	61.9	53.9	68.7
EPS Pre Ex. (S cts)	43.1	30.5	53.9	68.7
EPS Gth Pre Ex (%)	(47)	(29)	77	27
Diluted EPS (S cts)	43.0	61.7	53.7	68.4
Net DPS (S cts)	20.0	24.8	21.6	27.5
BV Per Share (S cts)	641	683	712	760
PE (X)	18.0	12.6	14.4	11.3
PE Pre Ex. (X)	18.0	25.4	14.4	11.3
P/Cash Flow (X)	42.8	7.0	19.2	11.5
EV/EBITDA (X)	15.4	13.0	12.4	9.6
Net Div Yield (%)	2.6	3.2	2.8	3.5
P/Book Value (X)	1.2	1.1	1.1	1.0
Net Debt/Equity (X)	0.5	0.4	0.4	0.3
ROAE (%)	6.9	9.3	7.7	9.3
Earnings Rev (%)		24	2	-
Consensus EPS (S cts)		47.3	50.2	54.5
Other Broker Recs:		B: 13	S: 1	H: 5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Multi-pronged rerating ahead

Reiterate BUY with higher TP of S\$9.80 on property rerating, after raising valuation peg for property segment from 1.0x to 1.35x P/B, in line with a 10% discount to RNAV that is similar to Capitaland and imputing potential RNAV uplift from Tianjin Eco-city land sale. Keppel's decent dividend yield of 3-4% (based on 40% payout ratio) also lends support to its share price.

Where we differ: Property's steep discount to RNAV poised to narrow. Keppel's property segment remains undervalued at 0.9x P/BV, below Singapore developers' 1.0x, notwithstanding Keppel's huge historical landbank of 6.5m sqm at lower cost. Half of the landbank is currently under development and expected to complete by 2020, with RNAV to be realised over the next 3-5 years. Out of its remaining undeveloped landbank, 40% is development projects in Tianjin Eco-City, which Keppel acquired in 2009 at less than one tenth of the current land price and yet reflected in our RNAV. In addition, the ongoing portfolio rebalancing exercise will unlock values of completed projects. Hence, we believe the current steep 30% RNAV discount should narrow to ~10%, similar to peer Capitaland, pushing share price closer to our highest-on-the-street TP of S\$9.80.

O&M on the cusp of recovery. O&M's contract wins in 2017 bucked the declining trend as the division clinched S\$1.1bn worth of new orders, which doubled over 2016. The momentum should continue into 2018 with S\$2.5bn new orders assumed. New orders are expected to come from gas and FPSO projects which are buoyed by sustained oil prices above US\$60/bbl. The recovery of new orders towards our target could prompt further re-rating of the O&M business from our current target valuation of 1.8x (-1SD) to 2.4x (-0.5SD) P/BV and lift TP by a further S\$0.46.

Valuation:

Our TP of S\$9.80 is based on sum-of-parts valuation: (1) O&M segment is valued at 1.8x P/BV, (2) infrastructure at 15x PE on FY18F earnings, (3) property segment at 1.35x P/BV, (4) investment (Keppel Capital) at 15x FY18F earnings, and (5) market values/estimated fair values are used for listed subsidiaries. Our TP translates to 1.3x FY18 P/BV.

Key Risks to Our View:

O&M segment could fare worse than expected. We forecast annual revenues from Keppel O&M to fall to the ~S\$2.6bn level in FY17 and FY18, from S\$7-8bn during FY12-14. The continued depletion of its orderbook and deferments/cancellations could pose downside risks to our forecast.

At A Glance

Issued Capital (m shrs)	1,813
Mkt. Cap (S\$m/US\$m)	14,087 / 10,616
Major Shareholders (%)	
Temasek Holdings Private Ltd	20.5
Blackrock	5.0
Free Float (%)	74.5
3m Avg. Daily Val (US\$m)	26.6

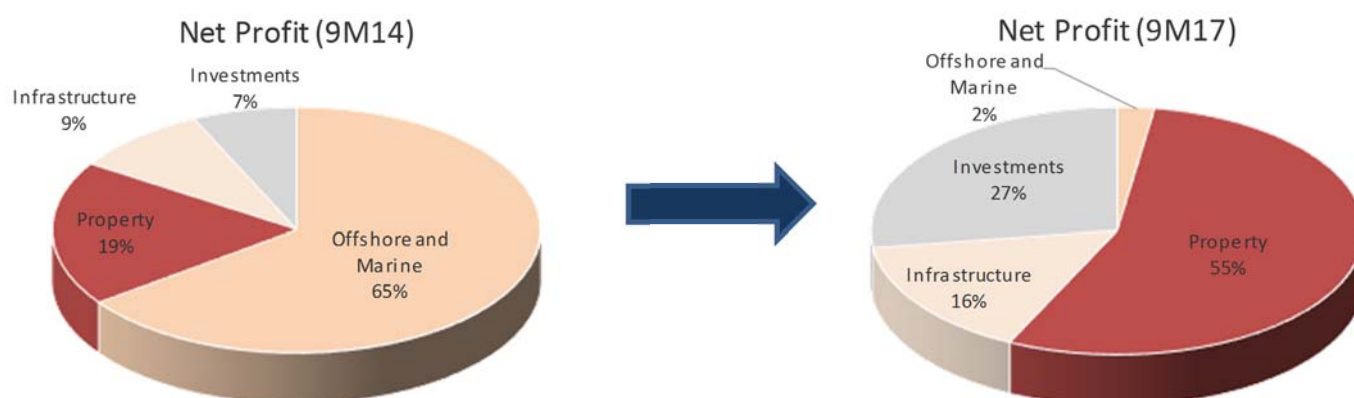
ICB Industry : Oil & Gas / Oil Equipment; Services & Dist

Property – UnderAppreciated and UnderValued

We are raising our valuation for Keppel’s property segment from 1.0x to 1.35x, to better reflect the potential of its lower cost land bank, and picking up in sales volume to realise RNAV. This translates to 10% discount to RNAV, in line with its closest Singapore property peer - Capitaland. The revision adds S\$1.57 to our SOTP-based target price. Every 0.1x increase in P/BV multiple boosts Keppel’s share price by 45 Scts.

A blue-chip property proxy; property accounts for half of Keppel’s profit. Contribution of Property to Keppel’s bottomline has increased drastically from approximately 20% previously to nearly half currently, as O&M, once the star performer that accounted for two-thirds of profits, is merely at breakeven now.

Net profit contribution by segment 9M14 (S\$1,169m) vs 9M17 (S\$684m)



Source: Company, DBS Bank

Keppel’s property business is undervalued at 0.9-1.0x P/BV vs peers’ 1.0-1.1x... Stripping out the fair value of the other three segments, implied valuation for Keppel’s property is undemanding at 1.0x P/BV. Assuming the market has fully priced in the potential of Tianjin Eco-City land sale (land sale rights is not recorded on its book given the “pay as you sell” arrangement), which we value at 73 Scts per Keppel share, the property segment is only valued at 0.9x P/BV. This represents

10-18% discount to Singapore developers’ 1.0x P/BV and Chinese mid-cap developers’ 1.1x P/BV.

... and an unwarranted steeper discount to RNAV. Stripping out the fair value of the other three segments, Keppel’s property segment is valued at 0.7x RNAV (or 0.6x RNAV if we exclude potential value for Tianjin Eco-city land sale), much lower than its Singapore large cap developer peers’ 0.7-1.0x RNAV.

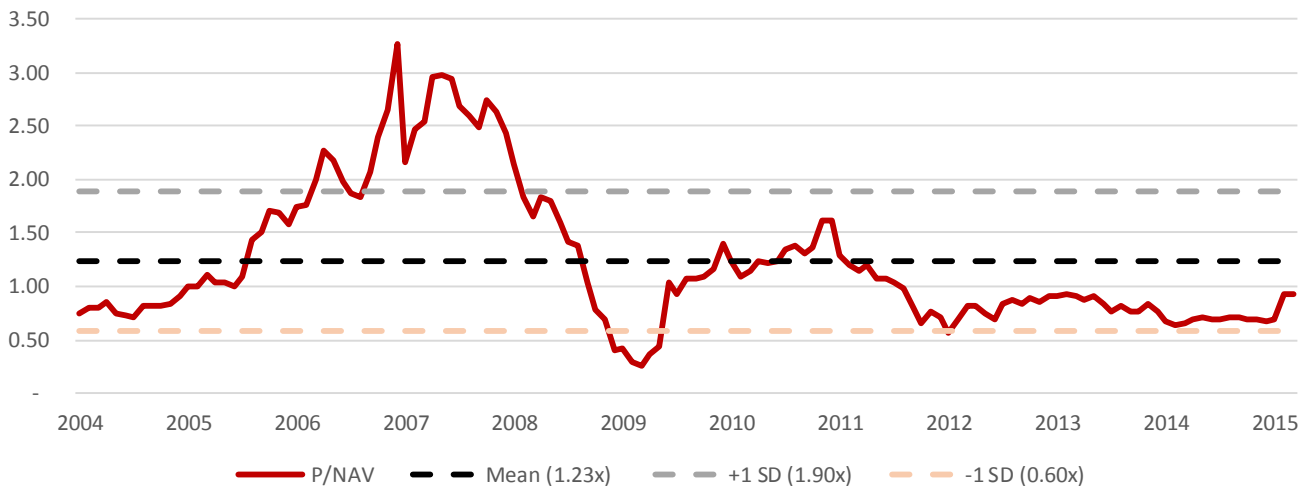
RNAVs of Singapore property developers

Company	FYE	Mkt Price		RNAV (\$)	*Assumed Discount (%)	12-mth		P/RNAV (x)	Latest Qtr P/NBV	Share Price Performance (%)				
		Cap (\$m)	29-Dec-17 (\$)			Target Price (\$)	Upside %			Rcmd	1M	3M	6M	12M
Residential Developers														
Capitaland	Dec	14,992	3.53	4.81	-10%	4.35	23%	BUY	0.73	0.92	4.1	0.0	1.9	11.2
City Dev	Dec	11,357	12.49	12.63	11%	14.03	12%	BUY	0.99	1.35	7.4	1.9	-4.1	5.7
Fraser’s Centrepoint Ltd	Sep	6,045	2.08	2.91	-19%	2.35	13%	BUY	0.71	0.98	3.8	-3.2	-9.9	0.0
UOL	Dec	7,465	8.87	10.90	-7%	10.15	14%	BUY	0.81	1.04	5.3	4.8	-0.2	12.0

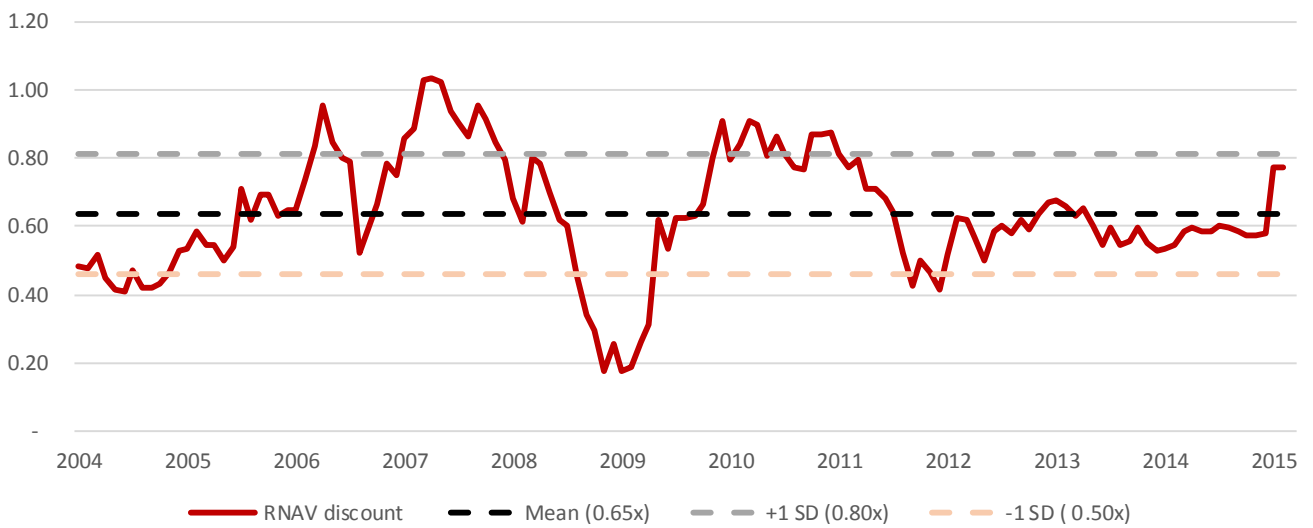
Source: Bloomberg Finance L.P., DBS Bank

Keppel Land's valuation prior to de-listing in 2015

Keppel Land P/NAV (x)

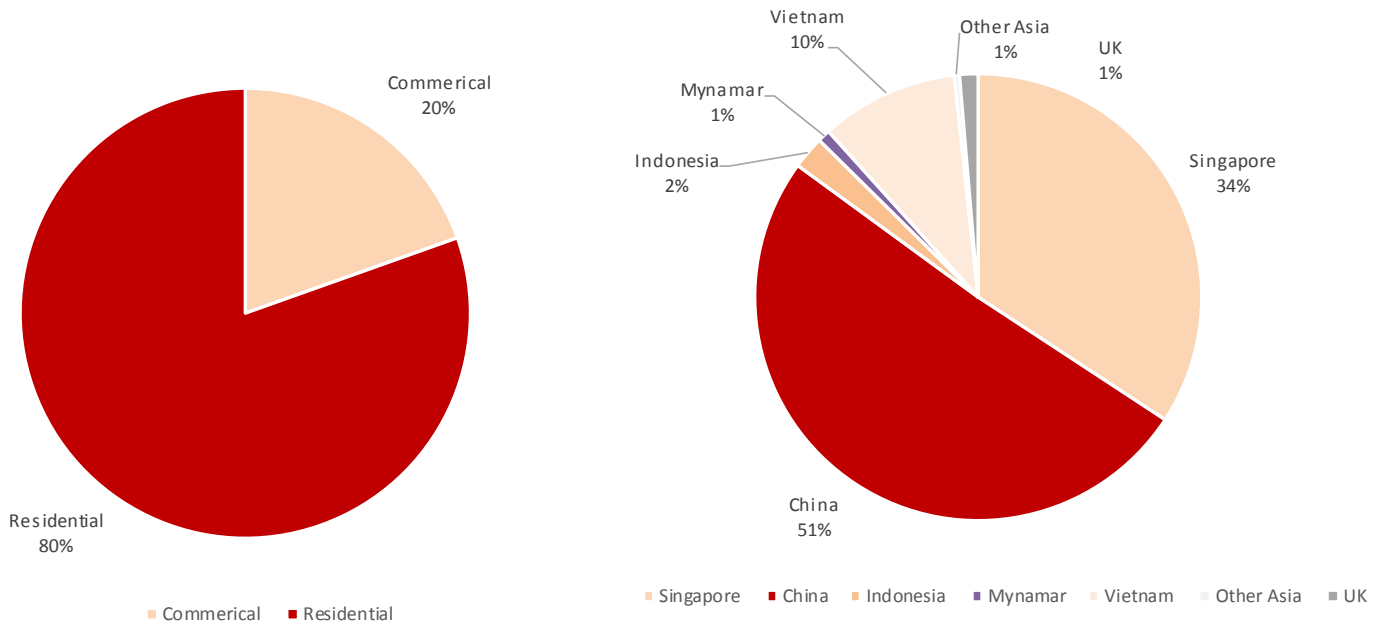


Keppel Land P/RNAV (x)



Source: Company, DBS Bank

Keppel's Gross Development Value breakdown - 80% derived from residential projects; more than 50% from China



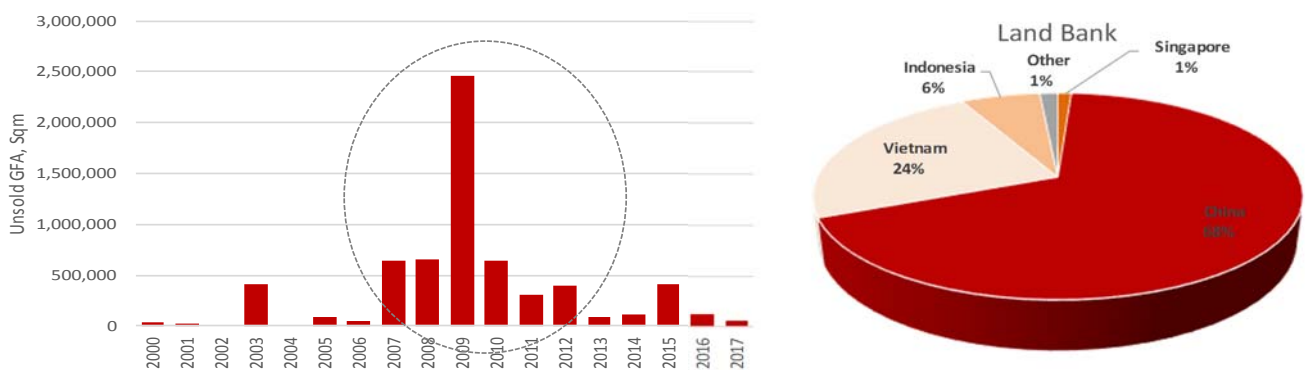
Source: Company, DBS Bank

Keppel has a huge land bank of 6.5m sqm, predominantly for residential projects, of which 68% is in China and 24% in Vietnam. Half of the landbank is currently under development.

Acquired at relatively low land cost especially in Tianjin. Keppel strategically acquired the landbank at much lower cost 5-10 years ago, largely during 2007-2012. Approximately 40% of the undeveloped GFAs are for residential / mixed use /

township developments in Tianjin Eco-City, that was acquired from Keppel's 45% JV Sino-Singapore Tianjin Eco-City Investment and Development Co Ltd (SSTEC) prior to 2009, for an estimate cost of around Rmb1,000 psm. The land sale price in Tianjin Eco-City has since surged ~14x to Rmb13,800 psm as of Jun-2017, implying lucrative returns when the land is developed, which are yet reflected in our RNAV.

Huge legacy land bank (6.5m sqm as of Sept-2017) at relatively low cost; 78% of unsold GFAs are acquired during 2007-2012



Source: Company, DBS Bank

Keppel Corporation

Strategic divestment unlocks value. In line with its strategy to stay focused on four key countries, Singapore, China (five key cities of Shanghai, Beijing, Tianjin, Chengdu and Wuxi), Vietnam and Indonesia, Keppel has proactively embarked on capital recycling exercise and crystallised returns for existing

projects. We observe that such divestments in 2017 yielded 35%-148% gain over book value, which reinforces our view that Keppel's property segment should trade above peers' valuation and book value.

Illustration of Keppel's value-unlocking divestments completed / announced in 2017

Date announced	Project	Consideration (\$m)	Gains attributable to Keppel (\$m)	% return
Jan-17	Surabaya property company	57	32	128%
Jul-17	Keppel DC 4	na	36	na
Aug-17	Keppel Lakefront Nantong	292	75	35%
Oct-16	Wiseland Investment (Myanmar)	55	33	148%
Oct-17	Kepwealth Property Phils	21	11	113%
Nov-17	West Bali site	na	18	na
Oct-17	Keppel Marina Zhongshan	597	290	94%

Source: Company, DBS Bank

Pricing in potential of Tianjin Eco-City

G-to-G project living up to its mission. Tianjin Eco-City has made steady progress in realising its vision of being a model for sustainable development. Today, more than 70,000 people live and work in Tianjin Eco-City. It has also attracted over 4,500 registered companies with over RMB 200bn in registered capital. The eco-city has established five leading

industries - cultural innovation (文化创意), Internet plus high-tech (互联网+高科技), elite packages (精英配套), cold chain logistics (冷链物流) and coastal tourism (滨海旅游). It focus is on cultural innovation and Internet plus high-tech as its two pillar industries.

Tianjin Eco-City aerial view: Then and Now



Source: Company

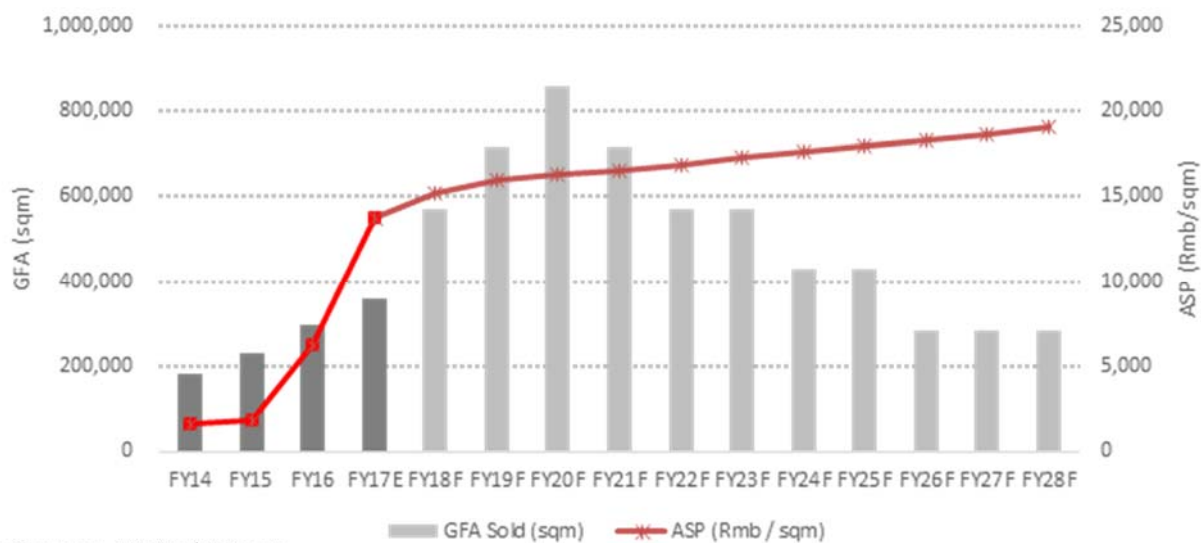
Turned profitable in 2017... We had previously not accounted for the valuation of Tianjin Eco-city project, which was in the red due to high initial investment for infrastructure and slow take-up rates. The project started to breakeven last year and recorded decent profit of over S\$100m (Keppel's share of 45% stake) in 1H17.

... following land sale and ASP spikes. Residential land sales are generally patchy. Sales doubled to 361k sqm in 9M17 (largely sold in 1Q17), from 2014. We expect land sales to

accelerate over the next 3 years given the rising acceptance of Tianjin Eco-city and promising property market in Tianjin, and fully sold by 2028 (assuming 5-year extension from original timeline of 2023).

The ASP for residential land has also surged by 170% p.a. over the past two years to Rmb13,800 psm in 1H17. We have assumed moderate price growth of 10% / 5% in 2018/2019 and 2% p.a. thereafter.

Tianjin Eco-city residential land ASP surged by 170% pa in FY15-17



Source: Company, DBS Bank Estimate

Tianjin Eco-city could add 73 Scents to Keppel's RNAV

FY Dec (\$\$ m)	FY17	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F
GFA Sold ('000 sqm)	361	572	715	858	715	572	572	429	429	286	286	286
Yoy chg	21%	58%	25%	20%	-17%	-20%	0%	-25%	0%	-33%	0%	0%
% of 2017 balance		10%	13%	15%	13%	10%	10%	8%	8%	5%	5%	5%
ASP (Rmb / sqm)	1380	1518	1593	1625	1658	1691	1725	1759	1795	1830	1867	1904
Price appreciation	0	0	9	8	3	5	3	8	0	9	5	9
	119%	10%	5%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Profit after tax attributable to Keppel (\$\$ m)		194	256	315	268	219	224	172	176	120	122	125
PV		194	233	260	201	150	139	97	90	56	52	48
WACC		10%										
Sum of PV (\$\$ m)		1326										
Keppel's share (\$\$ per share)		0.73										

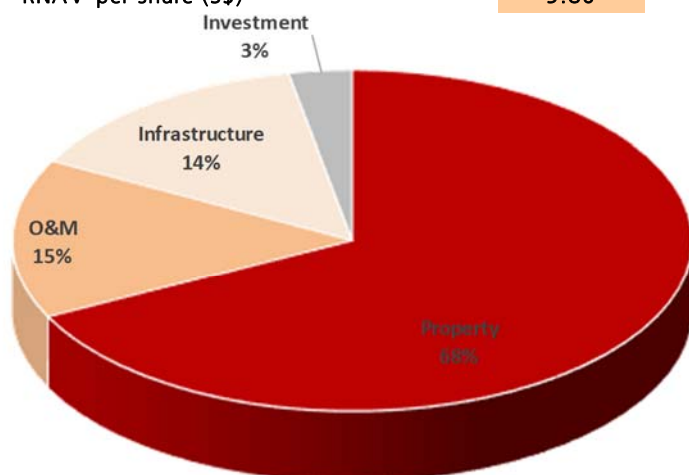
Source: Company, DBS Bank Estimate

RNAV lifted to S\$9.80

Our SOTP-based target price is lifted from S\$7.60 to S\$9.80 after incorporating the increase in property valuation from 1.0x to S\$1.35x PB (+S\$1.57) and factoring in the potential RNAV for Tianjin Eco-City residential land sale (+S\$0.73). The impact of fines (re Brazil corruption) is partially offset by disposal gains.

Keppel's SOTP-based target price

	Value (S\$ m)	Metrics
Market value of listed entities	1,332	
Less: book value	1,105	
Surplus from listed associates (1)	227	
Surplus - Property (2)	2,866	1.35x P/Bv, less book value; Tianjin Eco-city land sale
Surplus - Offshore/Marine (3)	1,271	1.8x P/BV, less book value
Surplus - Infrastructure (4)	(79)	15x FY17 net profit, less book value
Surplus - Investment (5)	346	15x FY17 net profit, less book value
Net Surplus (Listed and unlisted entities) (1+2+3+4+5)	4,631	
Add: Book value (less minorities) as of 3Q17	11,919	
RNAV	16,550	
RNAV per share (S\$)	9.80	



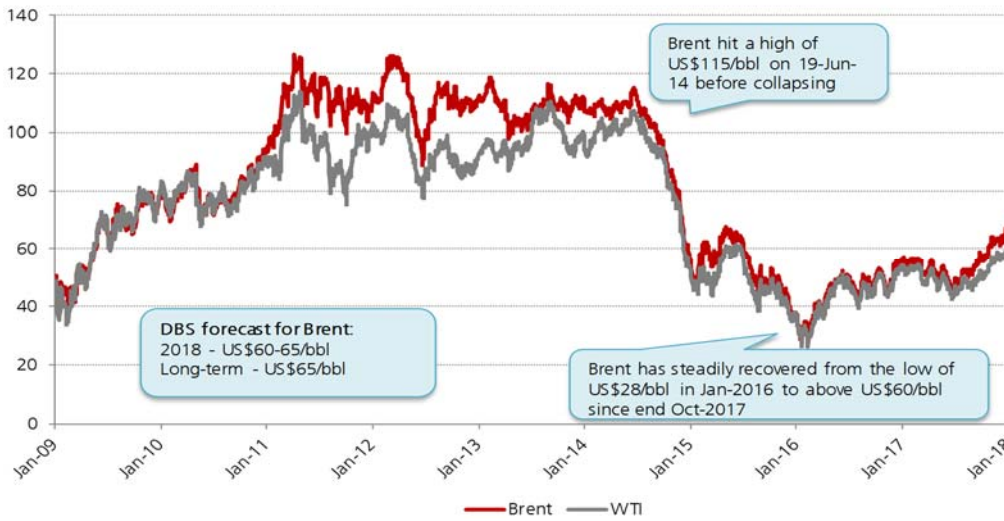
Source: Company, DBS Bank Estimate

O&M recovery provides further uplift

Higher oil price to filter through the value chain. We are optimistic that the recovery of oil prices above US\$60/bbl will incentivise oil majors to increase capex in their upcoming business plan announcements, which are typically announced together with full year results in Jan / Feb. We are already seeing a strong uptick in project sanctioning and tenders for production related facilities in particular FPSOs, which will drive

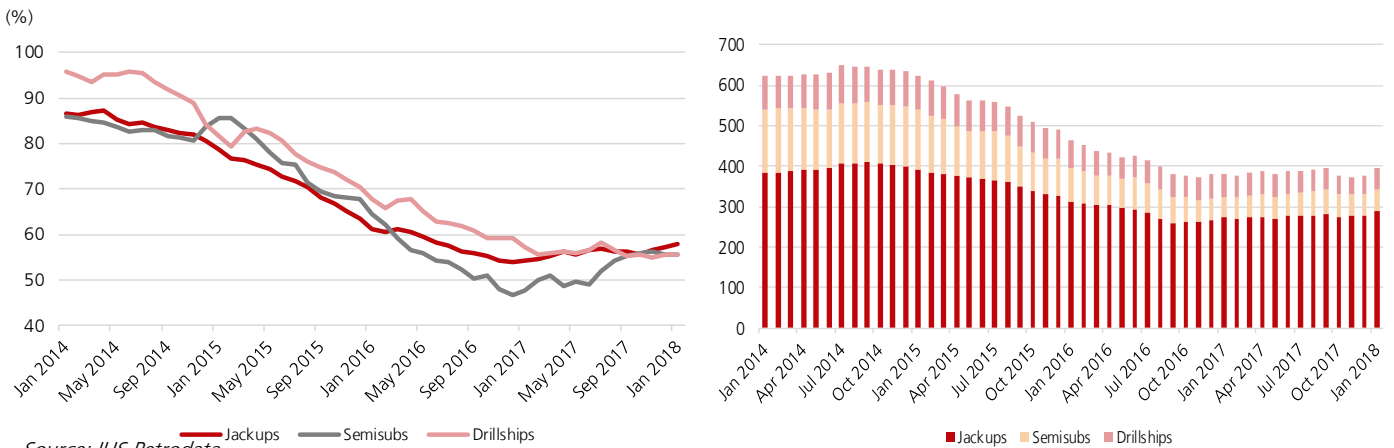
order wins of Singapore rigbuilders. In addition, gas related products such as Floating Liquefied Natural Gas (FLNG) vessel, Floating Storage Regasification Unit (FSRU) are also expected to gather steam. These high value-add products could potentially emerge as the next “KFELs B Class” – Keppel’s most successful jackup rig design that is held in high regard by operators.

Oil price rebounded strongly; >US\$60/bbl Brent crude price bodes well for oil majors’ CAPEX expansion



Source: Bloomberg Finance L.P., DBS Bank Estimate

Offshore rig count and utilisation picking up



Source: IHS Petrodata

Trump’s proposal to open up US offshore leasing potentially a boon for rig demand

Major opening up of US offshore leasing areas proposed by Trump. In the first week of Jan 2018, the Trump administration declared a proposal to allow offshore oil and gas drilling in 25 out of 26 regions of the Outer Continental Shelf (OCS), with the intention to hold 47 lease sales between 2019-2024. As a recap, over 90% of the OCS territory has been marked as off-limits for energy exploration and production since 1982; only limited areas such as parts of the Gulf of Mexico have been opened for business. Thus, Trump’s proposal signifies a complete about-face in the US offshore energy policy. Interior Secretary Ryan Zinke said the plan will make the US “the strongest energy superpower”.

Not set in stone yet. We understand that various opposition bodies, including environmental groups, business associations and state officials, are exploring legal options to try and block

the proposal. The proposal must also pass environmental reviews, more public hearings as well as secure Congress approval.

Potentially a boon for rig demand. In 2016 the Bureau of Ocean Energy Management estimated that there were 89.8bn barrels of undiscovered technically recoverable crude oil and 327.4tn cubic feet of undiscovered technically recoverable natural gas within the US OCS – a bonanza for oil companies. To put those numbers in perspective, North American offshore oil production is estimated to be 1.33bn barrels in 2017 (based on Clarksons data). If the Trump administration’s proposal is approved, the prospect of this large resource base could accelerate the demand recovery of rigs particularly jackups given the relatively shallow-to-mid depth waters of the US OCS.

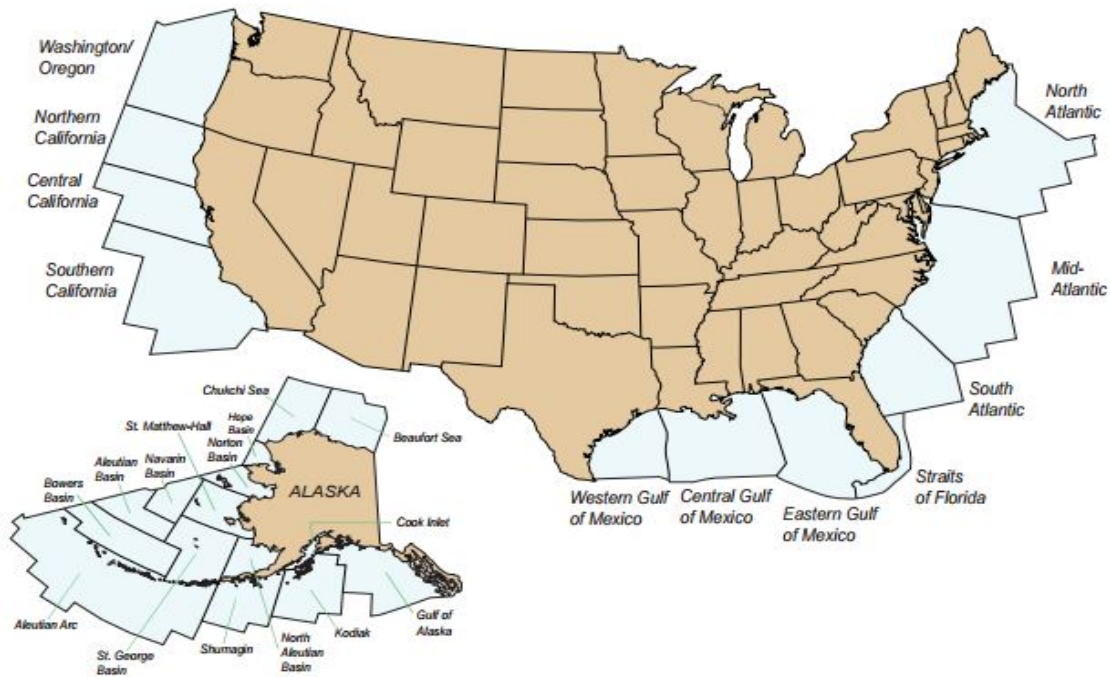


Figure 1. Federal Outer Continental Shelf areas of the United States

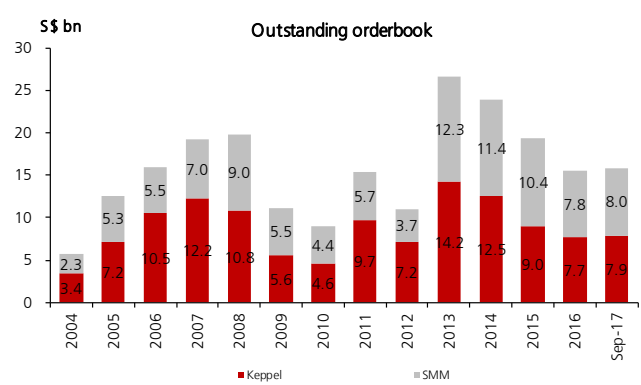
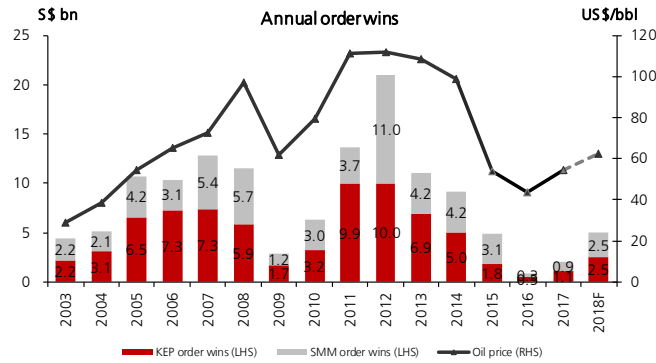
Source: US Bureau of Ocean Energy Management

Keppel Corporation

Order wins bottoming out; expect pace to accelerate into 2018. Annual order wins for Keppel and peer Sembcorp Marine (SMM) have rebounded to S\$1.1bn and S\$900m, from S\$500m and S\$320m respectively. We expect them to secure S\$2.5bn

worth of new orders each in 2018, from FPSOs, FLNG and FSRUs solutions.

Singapore rigbuilders' annual wins and orderbook are on the cusp of recovery

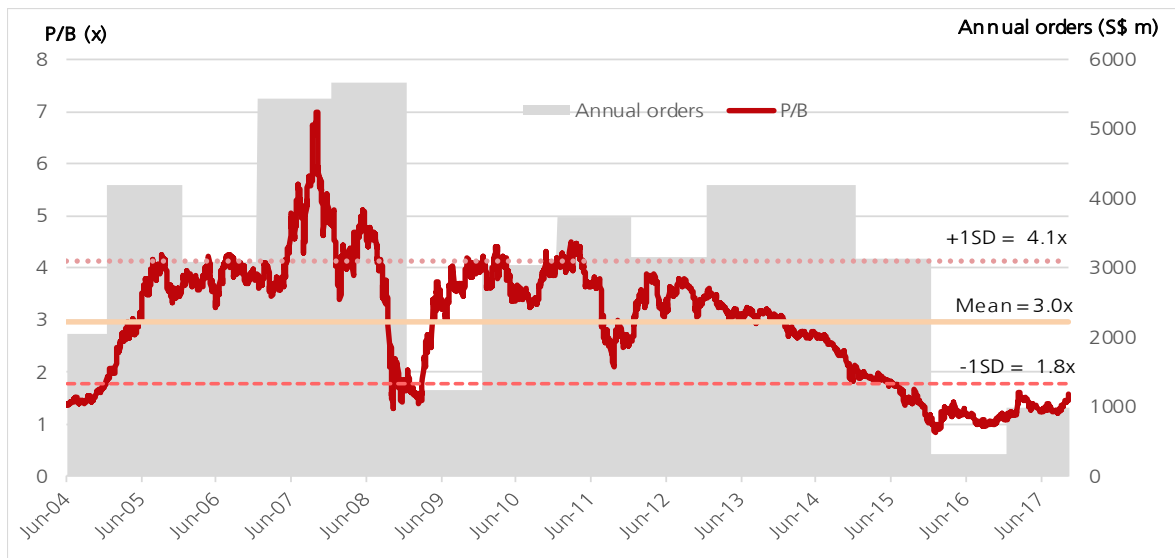


Source: Company, DBS Bank Estimate

We believe strong order wins could drive a re-rating of O&M players from current 1.5x P/BV (taking cue from pure O&M play SMM's valuation) closer to our current valuation peg of 1.8x (1SD below mean) as contract wins hit S\$1.5bn mark (vs S\$1bn

in 2017) and further re-rate to 2.4x (0.5 SD below mean) if it moves towards our target of S\$2.5bn. This could raise our fair value by S\$0.46 Scts or 5% to S\$10.26.

Taking cue from pure O&M play SMM's valuation vs order wins



Source: Company, Bloomberg Finance LP., DBS Bank Estimate

Brazil corruption should be one-off and not affecting Keppel's future contract bidding

While we can't vouch for Keppel, we take solace in Keppel's long track record, proactive actions upon emergence of the incident, tightened internal controls and separation of the executives involved. Furthermore, the incident should not affect Keppel's ability to bid for future contracts. We have factored in the financial loss in our earnings model and valuations.

Reached global resolution in relation to corrupt payments made by its former agent in Brazil. Keppel announced on 23-Dec-2017 that Keppel O&M (KOM) has reached a global resolution with criminal authorities in Brazil, United States and Singapore in relation to corrupt payments made by KOM's former agent in Brazil, Mr Zwi Skornicki to Brazilian government officials between 2001 and 2014 for various projects with Petrobras and Sete Brasil, comprising 7 FPSOs and 6 rigs.

KOM has accepted a conditional warning from the Corrupt Practices Investigation Bureau (CPIB) in Singapore, entered into a Deferred Prosecution Agreement (DPA) with the U.S. Department of Justice (DOJ) which requires KOM to fulfill certain requirements in the next 3 years before dismissal of the charges, and has reached a Leniency Agreement with the Public Prosecutor's Office in Brazil, the Ministério Público Federal (MPF).

Financial penalty amounted to S\$570m or 31 Scts per share. As part of the resolution, KOM will pay fines in an aggregate amount of US\$422m (or approx. S\$570m), to be allocated between the U.S., Brazil, and Singapore. This will reduce Keppel's NAV by 31 Scts per share and increase net gearing by 75 bps. The impact could be partially offset by the divestment in Keppel Marina Zhongshan that is expected to yield a gain of c.S\$290m upon completion by 4Q17/1Q18.

Corporate governance – stricter controls & separation with executives involved. Keppel has proactively conducted internal investigations when bribery allegations first emerged in the Brazilian media in 2015 and voluntarily notified the authorities in the relevant jurisdictions to cooperate in connection with the suspicious transactions as announced in Oct 2016. As a recognition of Keppel's cooperation in the investigations and its extensive remedial measures, the authorities determined that an independent compliance monitor was not necessary, and KOM received a 25% reduction, the maximum cooperation and remediation credit possible, off the bottom of the applicable fine range under the U.S. Sentencing Guidelines.

Management reiterated Keppel's zero tolerance for corruption and moved quickly to put in place stricter controls and embedded best practices across the Keppel Group. Disciplinary action has been taken against individuals involved in the misconduct including separation and financial penalties.

Operations unaffected. The global resolution has brought the case to a close. Keppel will continue its operations in the US and Brazil. This is not expected to affect Keppel's existing contracts or its ability to bid for contracts in the US, Brazil and other countries in the future.

Minimum impact on dividend payout. Keppel will ring-fence the financial penalty when considering the final dividend to propose for the year ended 2017.

CRITICAL DATA POINTS TO WATCH

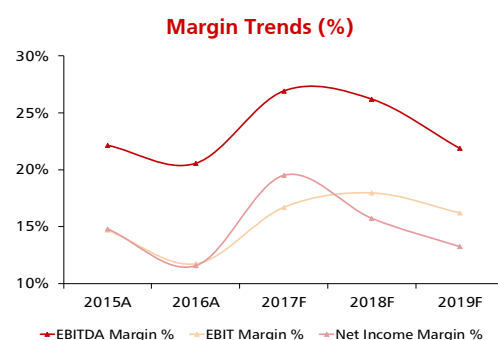
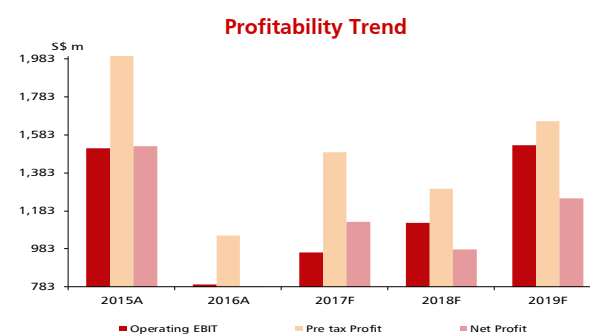
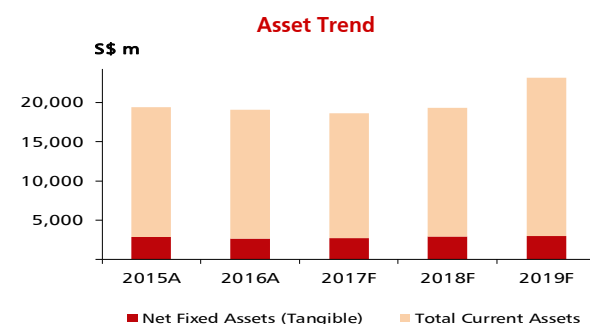
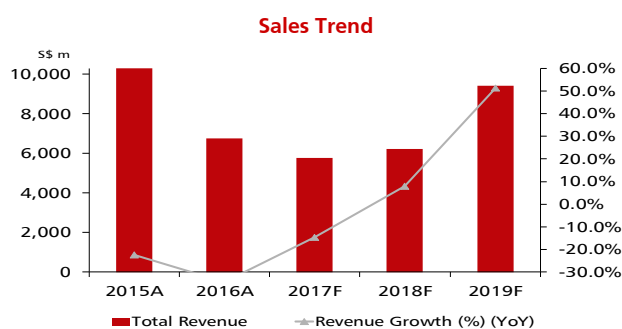
Critical Factors

Orderbook the key driver of Keppel O&M’s earnings; FLNG and production facilities to fill the gap. Keppel O&M is on the cusp of recovery, seeing stronger order flows as it clinched S\$1.1bn new orders in FY17, from S\$500m in FY16. We expect the momentum to accelerate in 2018, with higher order win expectation of S\$2.5bn. We believe the pick-up in demand for O&G production related facilities and FLNG vessels in the next 2-3 years could eventually drive contract wins closer to the norm of S\$4-6bn p.a.. This would buck the declining trend of its current low orderbook of S\$3.9bn (excl S\$4bn of Sete orders). Scrapping of old rigs (>30 years old), estimated to constitute ~15% of the current fleet globally, could help push the market back into balance. An oil price rebound would also improve rig utilisation, spurring capex spend and order wins. In terms of growth potential, Keppel’s first-mover advantage in the FLNG conversion market could provide earnings upside; customer Golar has already awarded Keppel a third FLNG project.

Residential property sales in China and Vietnam are the main drivers of Keppel Land’s revenue and earnings. In China, further relaxation of cooling measures, urbanisation and low mortgage rates resulting from monetary easing, seem to be encouraging for residential property sales. Vietnam is another emerging market for Keppel, accounting for 27% of its home sales in 9M17. Our property analyst believes that Singapore property market is at the start of a multi-year upturn with strong rebound in transaction volumes in 2018.

Infrastructure division’s earnings buoyed by handover of problematic assets. The bad apple situation with Keppel Infrastructure’s EPC projects has improved with the handover of the two Greater Manchester EfW (energy-from-waste) plants and Doha North in 2015. Thus, lower EPC provisions going forward should boost earnings in the short term.

Value unlocking divestments can provide earnings upside. Divestments can free up cash to be invested in more profitable areas or to pay down debt. M1 is a possible candidate for sale; its fundamentals are uninspiring and our telecom analyst has downgraded M1 to FULLY VALUED after removing the 25% M&A premium from its DCF valuation, following the announcement that M1’s major shareholders (with a combined stake of 61%) are not going ahead with a strategic review to dispose of their stake. We estimate Keppel’s stake in M1 to be worth ~S\$320m. Injection of infrastructure assets such as Woodlands Wafer Fab Park into Keppel Infrastructure Trust (KIT), to whom Keppel Infrastructure acts as sponsor, could be another alternative.



Source: Company, DBS Bank

Balance Sheet:

Following the privatisation of Keppel Land in 1Q15, Keppel Corp's net gearing rose from 0.11x as of end-2014 to 0.42x as of end-2Q15 and 0.662x as of end-2Q16. The increase in gearing stemmed from lower shareholders' equity and cash balance as the privatisation was largely funded by cash. The gearing level had since declined to 0.5x as of end-3Q17, aided by capital recycling.

Share Price Drivers:

Recovery in oil prices would support the share price. We think Keppel O&M would benefit as oil prices stay above US\$60/bbl, which should trigger more offshore oil & gas capex spend.

Announcement of new order wins. Strong order win announcements could push up the share price, as investors reward greater visibility on revenues and earnings.

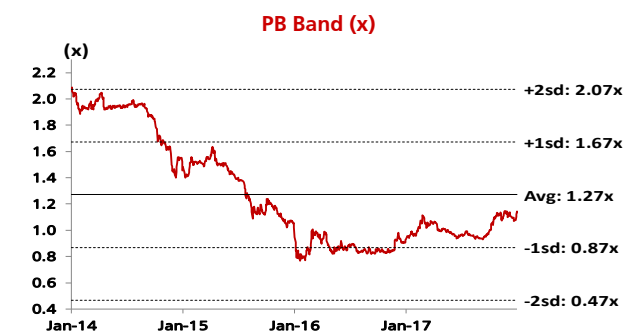
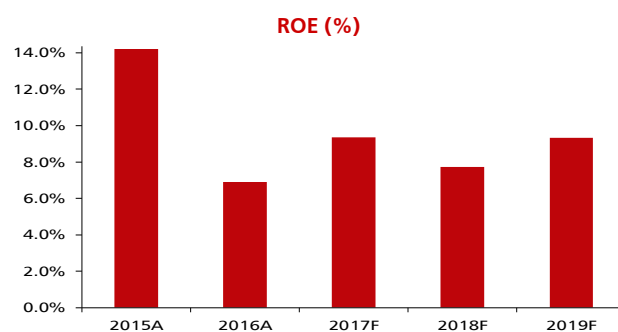
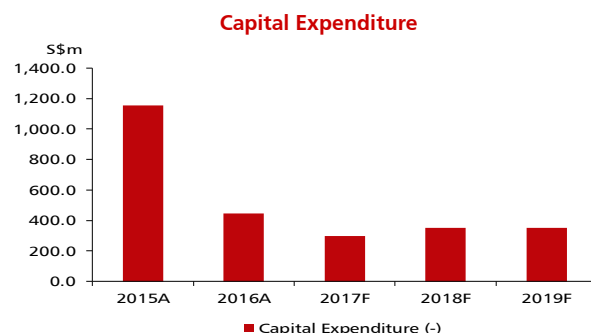
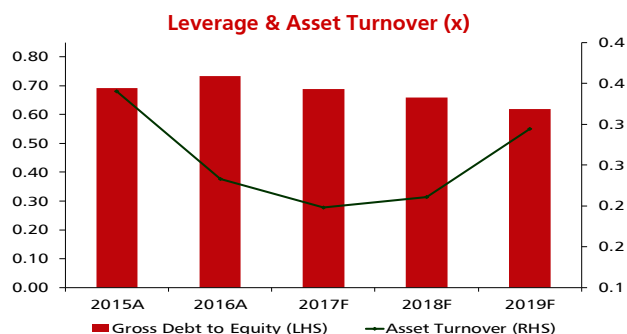
Key Risks:

Competition from foreign yards. Keener competition from Chinese yards – which are usually aggressive in their pricing and lax with payment terms – as well as Korean peers may affect order wins and profitability, especially if Keppel starts to offer concessions to protect market share.

Further deferrals possible if oil prices remain subdued. Since the oil price started declining in mid-2014, we have seen oil majors and asset owners slash capex spending substantially, which has hit yards hard. Meanwhile, deliveries of newbuilds and conversions already under construction are being delayed – a situation which could worsen if oil prices remain low.

Company Background

Keppel is a diversified conglomerate with its core businesses in offshore marine (O&M), property investments and development, and infrastructure-based activities in Singapore and the region. O&M is the largest segment, typically contributing about two-thirds of group revenue. It possesses strong market leadership positions in rigbuilding, particularly for jackups and semi-submersibles, FPSO conversion, FLNG conversion, as well as repair and construction of high-end specialised vessels.



Source: Company, DBS Bank

Keppel Corporation

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
O&M order wins (\$\$ m)	1,773	500	1,500	2,500	0.0

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
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Revenues (\$\$m)

Offshore and Marine	6,241	2,854	2,115	2,177	4,498
Property	1,926	2,035	1,533	1,814	2,591
Infrastructure	2,058	1,744	1,957	2,059	2,144
Investments	71.1	134	164	181	190

Total	10,296	6,767	5,768	6,230	9,423
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EBIT (\$\$m)

Offshore and Marine	597	135	271	284	495
Property	636	505	414	472	648
Infrastructure	221	93.8	98.0	113	118
Investments	45.6	48.4	181	251	268
Others	14.1	13.3	0.0	0.0	0.0

Total	1,514	795	964	1,120	1,529
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EBIT Margins (%)

Offshore and Marine	9.6	4.7	12.8	13.1	11.0
Property	33.0	24.8	27.0	26.0	25.0
Infrastructure	10.7	5.4	5.0	5.5	5.5
Investments	64.2	36.1	110.5	138.9	141.3
Others	N/A	N/A	N/A	N/A	N/A

Total	14.7	11.8	16.7	18.0	16.2
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Income Statement (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
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Revenue	10,296	6,767	5,768	6,230	9,423
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Cost of Goods Sold	(7,023)	(4,204)	(3,507)	(3,777)	(6,104)
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Gross Profit	3,273	2,563	2,262	2,453	3,319
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Other Opng (Exp)/Inc	(1,760)	(1,768)	(1,298)	(1,333)	(1,790)
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Operating Profit	1,514	795	964	1,120	1,529
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Other Non Opg (Exp)/Inc	15.0	15.2	11.5	12.5	18.9
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Associates & JV Inc	504	345	375	300	250
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Net Interest (Exp)/Inc	(35.5)	(100)	(149)	(133)	(143)
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Exceptional Gain/(Loss)	0.0	0.0	290	0.0	0.0
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Pre-tax Profit	1,997	1,055	1,491	1,299	1,654
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Tax	(404)	(233)	(313)	(273)	(347)
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Minority Interest	(68.3)	(37.9)	(53.0)	(46.2)	(58.8)
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Preference Dividend	0.0	0.0	0.0	0.0	0.0
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Net Profit	1,525	784	1,125	980	1,248
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Net Profit before Except.	1,476	784	555	980	1,248
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EBITDA	2,280	1,392	1,553	1,632	2,061
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Growth

Revenue Gth (%)	(22.5)	(34.3)	(14.8)	8.0	51.2
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EBITDA Gth (%)	(27.7)	(39.0)	11.5	5.1	26.3
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Opg Profit Gth (%)	(36.2)	(47.5)	21.2	16.2	36.5
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Net Profit Gth (Pre-ex) (%)	2.2	(46.9)	(29.2)	76.6	27.3
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Margins & Ratio

Gross Margins (%)	31.8	37.9	39.2	39.4	35.2
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Opg Profit Margin (%)	14.7	11.8	16.7	18.0	16.2
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Net Profit Margin (%)	14.8	11.6	19.5	15.7	13.2
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ROAE (%)	14.2	6.9	9.3	7.7	9.3
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ROA (%)	5.0	2.7	3.9	3.3	3.9
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ROCE (%)	5.6	2.9	3.4	3.8	5.1
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Div Payout Ratio (%)	40.4	46.3	40.0	40.0	40.0
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Net Interest Cover (x)	42.6	7.9	6.5	8.4	10.7
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Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	1,459	1,940	1,248	1,554	1,617
Cost of Goods Sold	(917)	(1,214)	(824)	(1,042)	(1,035)
Gross Profit	542	726	425	512	582
Other Oper. (Exp)/Inc	(357)	(628)	(237)	(374)	(258)
Operating Profit	186	98.0	187	139	324
Other Non Opg (Exp)/Inc	2.31	4.90	2.77	1.72	11.2
Associates & JV Inc	122	143	170	96.6	45.4
Net Interest (Exp)/Inc	(23.9)	(40.5)	(13.5)	(19.6)	(17.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	286	206	347	217	363
Tax	(60.8)	(54.7)	(76.4)	(62.7)	(71.7)
Minority Interest	(1.1)	(8.2)	(10.0)	5.59	0.28
Net Profit	225	143	260	160	292
Net profit bef Except.	225	143	112	173	292
EBITDA	363	316	416	294	431

Growth

Revenue Gth (%)	(10.3)	33.0	(35.7)	24.5	4.0
EBITDA Gth (%)	0.8	(13.0)	31.8	(29.3)	46.6
Opg Profit Gth (%)	(20.5)	(47.2)	91.1	(26.0)	133.8
Net Profit Gth (Pre-ex) (%)	(53.7)	(36.3)	(21.5)	54.2	68.6

Margins

Gross Margins (%)	37.2	37.4	34.0	33.0	36.0
Opg Profit Margins (%)	12.7	5.1	15.0	8.9	20.0
Net Profit Margins (%)	15.4	7.4	20.9	10.3	18.0

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	2,846	2,645	2,744	2,894	2,980
Invt in Associates & JVs	5,410	5,315	5,640	5,890	6,089
Other LT Assets	4,081	4,807	4,807	4,807	4,807
Cash & ST Invt	2,118	2,361	3,768	3,752	4,290
Inventory	10,763	10,026	8,546	8,900	10,470
Debtors	3,141	3,450	2,941	3,176	4,804
Other Current Assets	563	630	630	630	630
Total Assets	28,921	29,234	29,075	30,050	34,069
ST Debt	857	1,835	1,835	1,835	1,835
Creditor	4,972	4,753	4,052	4,376	6,619
Other Current Liab	2,954	2,582	2,309	2,383	3,245
LT Debt	7,402	7,218	7,218	7,218	7,218
Other LT Liabilities	811	512	512	512	512
Shareholder's Equity	11,096	11,659	12,421	12,951	13,807
Minority Interests	830	675	728	774	833
Total Cap. & Liab.	28,921	29,234	29,075	30,050	34,069
Non-Cash Wkg. Capital	6,541	6,770	5,755	5,947	6,039
Net Cash/(Debt)	(6,141)	(6,692)	(5,285)	(5,301)	(4,764)
Debtors Turn (avg days)	100.2	177.7	202.2	179.2	154.6
Creditors Turn (avg days)	284.2	447.3	486.3	429.9	343.6
Inventory Turn (avg days)	577.5	956.2	1,025.6	890.0	605.3
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.3
Current Ratio (x)	1.9	1.8	1.9	1.9	1.7
Quick Ratio (x)	0.6	0.6	0.8	0.8	0.8
Net Debt/Equity (X)	0.5	0.5	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	0.6	0.6	0.4	0.4	0.3
Capex to Debt (%)	14.0	4.9	3.3	3.9	3.9
Z-Score (X)	1.9	1.7	1.7	1.7	1.3

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,997	1,055	1,491	1,299	1,654
Dep. & Amort.	247	236	202	199	264
Tax Paid	(302)	(223)	(339)	(313)	(273)
Assoc. & JV Inc/(loss)	(504)	(345)	(375)	(300)	(250)
Chg in Wkg.Cap.	(1,801)	(643)	1,041	(151)	(167)
Other Operating CF	(422)	250	0.0	0.0	0.0
Net Operating CF	(786)	330	2,020	734	1,228
Capital Exp.(net)	(1,153)	(447)	(300)	(350)	(350)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(330)	(151)	(150)	(150)	(149)
Div from Assoc & JV	351	404	200	200	200
Other Investing CF	1,339	(115)	0.0	0.0	0.0
Net Investing CF	207	(310)	(250)	(300)	(299)
Div Paid	(956)	(622)	(363)	(450)	(392)
Chg in Gross Debt	924	817	0.0	0.0	0.0
Capital Issues	8.89	1.13	0.0	0.0	0.0
Other Financing CF	(3,269)	(29.5)	0.0	0.0	0.0
Net Financing CF	(3,292)	167	(363)	(450)	(392)
Currency Adjustments	28.1	7.10	0.0	0.0	0.0
Chg in Cash	(3,843)	194	1,407	(15.9)	537
Opg CFPS (\$ cts)	55.9	53.5	53.9	48.7	76.8
Free CFPS (\$ cts)	(107)	(6.4)	94.6	21.1	48.3

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jan 17	6.27	6.00	HOLD
2:	20 Feb 17	6.64	6.00	HOLD
3:	27 Feb 17	6.93	6.00	HOLD
4:	13 Mar 17	6.75	6.00	HOLD
5:	20 Mar 17	6.85	6.00	HOLD
6:	21 Mar 17	6.83	6.00	HOLD
7:	21 Apr 17	6.56	6.00	HOLD
8:	16 May 17	6.54	6.00	HOLD
9:	20 Jul 17	6.53	7.60	BUY
10:	26 Jul 17	6.52	7.60	BUY
11:	18 Aug 17	6.33	7.60	BUY
12:	24 Aug 17	6.36	7.60	BUY
13:	20 Sep 17	6.37	7.60	BUY
14:	09 Oct 17	6.75	7.60	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 8 Jan 2018 09:27:17 (SGT)

Dissemination Date: 8 Jan 2018 10:24:21 (SGT)

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