

Singapore Company Guide

Keppel Infrastructure Trust

Version 6 | Bloomberg: KIT SP | Reuters: KEPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Jan 2018

BUY

Last Traded Price (22 Jan 2018): S\$0.59 (STI : 3,569.43)

Price Target 12-mth: S\$0.60 (3% upside)

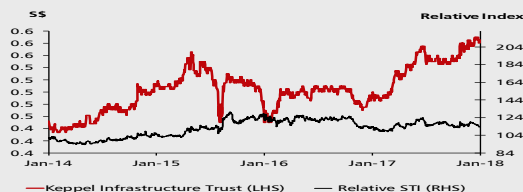
Analyst

Suvro SARKAR +65 6682 3720 suvro@db.s.com
Glenn Ng +65 6682 2657 glennng@db.s.com

What's New

- 4Q17 DPU maintained at 0.93Scts
- Sale of Basslink interconnector could be in the works
- Potential M&A will be the key catalyst to look out for
- Maintain BUY with TP of S\$0.60

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2016A	2017A	2018F	2019F
Revenue	581	632	644	651
EBITDA	237	244	261	262
Pre-tax Profit	6.54	14.1	17.2	18.7
Net Profit	41.2	47.6	52.1	54.6
Net Pft (Pre Ex.)	41.2	47.6	52.1	54.6
Net Pft Gth (Pre-ex) (%)	166.5	15.6	9.5	4.7
EPS (S cts)	1.07	1.23	1.35	1.42
EPS Pre Ex. (S cts)	1.07	1.23	1.35	1.42
EPS Gth Pre Ex (%)	166	16	9	5
Diluted EPS (S cts)	1.07	1.23	1.35	1.42
Net DPS (S cts)	3.72	3.72	3.72	3.72
BV Per Share (S cts)	32.5	29.9	27.5	25.2
PE (X)	54.8	47.4	43.3	41.3
PE Pre Ex. (X)	54.8	47.4	43.3	41.3
P/Cash Flow (X)	26.8	27.4	13.8	13.2
EV/EBITDA (X)	16.9	16.4	15.1	14.8
Net Div Yield (%)	6.4	6.4	6.4	6.4
P/Book Value (X)	1.8	2.0	2.1	2.3
Net Debt/Equity (X)	1.1	1.2	1.3	1.5
ROAE (%)	3.1	4.0	4.7	5.4
Earnings Rev (%):			(2)	N/A
Consensus EPS (S cts):			1.20	2.00
Other Broker Recs:		B: 1	S: 0	H: 1

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

Another steady year

High dividend visibility remains; Maintain BUY. Keppel Infrastructure Trust (KIT) maintained its record of steady DPU of 0.93Scts in 4Q17, as expected. KIT generated distributable cash flow of S\$30.8m in 4Q17, slightly lower than expected due to a time lag between tariff adjustments and costs at City Gas and one-off maintenance costs at the Ulu Pandan plant. Most of KIT's assets derive revenue from availability-based payments, independent of actual offtake. Hence, cash flows are highly predictable and not exposed to economic cycles. Concession agreements are long term in nature, of up to 20 years, and mostly with government entities, thereby minimising risk.

Where we differ. We believe current gearing levels are not very aggressive for a utility asset owner, with net debt-to-equity ratio of around 1.37x, and net leverage of around 40% of assets. Refinancing risks are also limited in the near term. While there is no statutory cap on gearing levels, we estimate that the Trust could look at acquisition targets above S\$500m enterprise value range funded by a 2:1 debt: equity mix. The right of first refusal (ROFR) option provided by Sponsor Keppel Infrastructure to the Trust offers easy targets in the near to medium term.

Potential catalyst. Sale of the underperforming Basslink asset would remove sentiment overhang. We also look forward to the Trust kicking off its M&A ambitions in FY18.

Valuation:

Based on our DDM-based valuation methodology (cost of equity: 5.5%), we derive a valuation of S\$0.60 for KIT. The Trust is currently trading at a yield of 6.4% based on annual distribution forecast of 3.72Scts in FY18. Given the total return potential of about 10% (including dividends) at current price, we maintain our BUY call.

Key Risks to Our View:

Key risks include (i) plants not meeting availability thresholds owing to operating issues, (ii) increasing debt refinancing risks for the asset portfolio as the assets age, and (iii) exposure to increases in inflation and interest rates.

At A Glance

Issued Capital (m shrs)	3,857
Mkt. Cap (S\$m/US\$m)	2,257 / 1,711
Major Shareholders (%)	
Keppel Corp (%)	18.2
Temasek (%)	15.9
Free Float (%)	71.9
3m Avg. Daily Val (US\$m)	1.9
ICB Industry : Financials / Nonequity Investment Instrument	

WHAT'S NEW

Steady dividend payout; awaiting further developments on Basslink

4Q17 distribution of 0.93Scts in line. Keppel Infrastructure Trust (KIT) declared DPU of 0.93Scts for 4QFY17, another steady quarter, as expected. Group revenue was up 4% y-o-y and flat q-o-q at S\$158m in 4Q17 but distributable cashflows – the key number for KIT – was down 4% y-o-y and 24% q-o-q to S\$30.8m. This was mainly owing to a time lag in the adjustment of gas tariffs at City Gas, as underlying fuel prices rose during the quarter, but should smoothen out over time. There were also some one-off maintenance costs at the Ulu Pandan plant during the quarter. Cash flows from other key assets remained stable. Basslink continued to generate positive funds from operations, but the Trust does not use these cash flows for distribution purposes, rather for servicing loans. Full year distributable cash flows amounted to S\$144.2m in FY17, compared to distribution payout of S\$143.6m.

Plans to divest Basslink could hit a snag following Hydro Tasmania dispute. In late November 2017, KIT announced that it has received a number of inquiries from third parties interested to acquire KIT's stake in Basslink. While Basslink does not affect KIT's distributions or our valuation, a sale of Basslink at a reasonable price which covers the existing debt of around A\$700m would remove a key sentiment overhang for the stock, as it has been a source of negative newsflow and concerns over the past several quarters. However, in late December 2017, offtaker Hydro Tasmania released the reports

of its own independent investigation into the December 2015 cable failure, which indicates that it was not a *force majeure* event as claimed by Basslink, but rather a fallout of Basslink operating the cable beyond its design limit. This indicates another round of dispute over compensation levels, which could derail the sales process for Basslink.

Lower cost of equity funding should make acquisitions fructify sooner than later. The share price re-rating since 2017 should make it easier for the Trust to raise equity at lower cost of capital as and when required. A lower cost of funding will also enable the Trust to bid more aggressively for M&A targets. Apart from the ROFR pipeline, management continues to evaluate third party options in sectors like energy, telecoms, water and waste management. We look forward to the Trust kicking off its M&A ambitions in the next 6-12 months. This should be a key catalyst for further re-rating.

Maintain BUY with TP of S\$0.60. Based on our DDM-based valuation methodology (cost of Equity: 5.5%), we derive a valuation of S\$0.60 for KIT. The Trust is currently trading at a yield of 6.4% based on annual distribution forecast of 3.72Scts in FY18. Given the total return potential of about 10% (including dividends) at current price, we maintain our BUY call on the stock.

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	152	160	158	3.9	(1.3)
Cost of Goods Sold	(122)	(118)	(123)	1.4	4.0
Gross Profit	30.7	41.8	34.9	13.6	(16.4)
Other Oper. (Exp)/Inc	(2.7)	(2.6)	(2.3)	(14.3)	(12.7)
Operating Profit	28.1	39.2	32.7	16.2	(16.7)
Other Non Opg (Exp)/Inc	0.10	(0.6)	(2.7)	nm	351.2
Associates & JV Inc	0.31	0.83	0.91	198.4	9.6
Net Interest (Exp)/Inc	(31.0)	(31.5)	(31.3)	(0.9)	0.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	(2.5)	7.91	(0.4)	84.0	nm
Tax	2.77	(1.5)	2.77	(0.1)	nm
Minority Interest	7.37	9.12	7.23	(1.9)	(20.7)
Net Profit	7.66	15.5	9.61	25.4	(38.0)
Net profit bef Except.	7.66	15.5	9.61	25.4	(38.0)
EBITDA	56.4	65.5	56.9	0.9	(13.2)
Margins (%)					
Gross Margins	20.2	26.1	22.1		
Opg Profit Margins	18.5	24.4	20.6		
Net Profit Margins	5.0	9.7	6.1		

Source of all data: Company, DBS Bank

Keppel Infrastructure Trust

Balance Sheet:

Balance sheet leaves headroom for growth. Current gearing levels are not aggressive for a utility asset owner, in our view. As of end-4Q17, net debt-to-equity ratio is around 1.37x, net leverage is around 40% of assets and net debt/adjusted EBITDA is around 5.7x by our estimates. There are limited near-term refinancing risks as almost all of the total outstanding debt of around S\$1.8bn is due only in 2019 and beyond. While there is no statutory cap on gearing levels, we estimate that the Trust could borrow about S\$360m for acquisitions before it hits the 45% leverage, which is the new limit for REITs in Singapore, and acts as a rough benchmark. This would provide the Trust with enough firepower to look at acquisition targets above S\$500m enterprise value range funded by a 2:1 debt: equity mix, in our opinion.

Share Price Drivers:

Management needs to deliver on acquisitions. The premise for combining two existing listed Trusts was to give management more ammunition to pursue accretive acquisitions. Given that organic growth potential is low, investors will look closely at management's ability to execute on the M&A promise.

Key Risks:

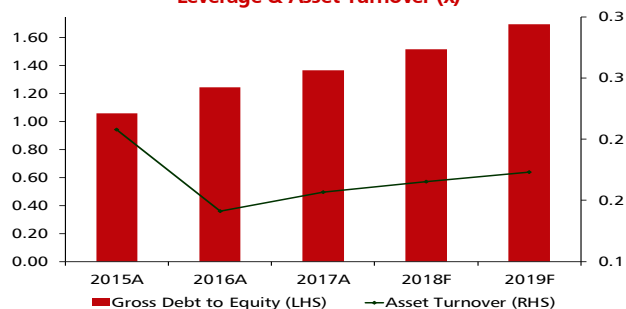
Key investment risks. We see four key risks: (i) plants not meeting availability thresholds owing to operating issues, (ii) increasing debt refinancing risks for the asset portfolio as the assets age, (iii) volatility in energy prices at certain assets which do not have a full pass-through mechanism, and (iv) exposure to increases in inflation and interest rates.

Basslink outage issues remain, but no immediate impact on DPU. The Basslink interconnector suffered an undersea cable fault owing to which availability was affected between 20th December 2015 and 13th June 2016. Basslink believes this is a *force majeure* event, and the insurer has already made advance payments of A\$46m, but offtaker Hydro Tasmania disagrees. Unfortunately, Basslink will now need to iron out payment issues with offtaker Hydro Tasmania and renegotiate its long term project debt with its banking syndicate. This event however has no impact on KIT's distributions as Basslink has not been contributing to distributable cash flows for a while and is not expected to in the near future either.

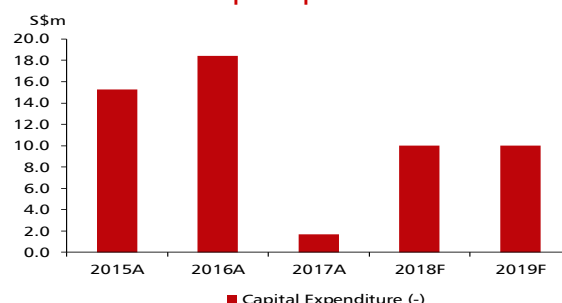
Company Background

In its new form, the enlarged Keppel Infrastructure Trust (KIT) is an amalgamation of two previous listed business trusts – CitySpring Infrastructure Trust (CIT) and the former Keppel Infrastructure Trust (KIT) – plus the acquisition of a 51% stake in Keppel Merlimau Cogen power plant (KMC). The existing Trust's assets derive cash flows from town gas, water management, waste and wastewater management and electricity transmission assets in Singapore and Australia. The new addition KMC is a state-of-the-art 1,300-MW gas-fired power plant in Singapore.

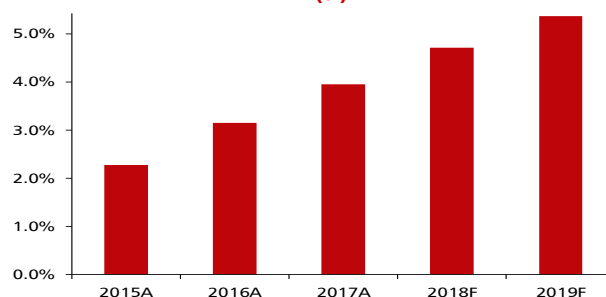
Leverage & Asset Turnover (x)



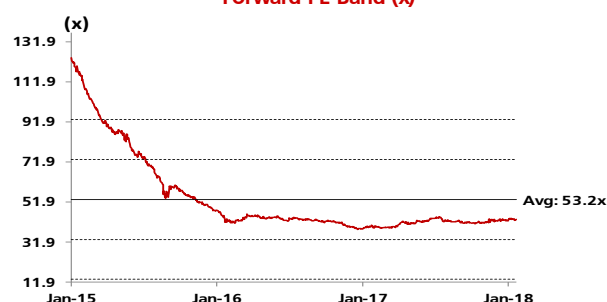
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	428	581	632	644	651
Cost of Goods Sold	(346)	(466)	(481)	(489)	(495)
Gross Profit	81.9	115	151	155	156
Other Opng (Exp)/Inc	(7.3)	(9.9)	(9.8)	(9.5)	(9.5)
Operating Profit	74.7	105	142	145	147
Other Non Opg (Exp)/Inc	5.52	18.0	(5.3)	0.0	0.0
Associates & JV Inc	(0.2)	0.71	2.72	3.30	3.30
Net Interest (Exp)/Inc	(78.8)	(117)	(125)	(131)	(131)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1.16	6.54	14.1	17.2	18.7
Tax	(2.8)	(0.4)	(0.3)	(2.1)	(2.1)
Minority Interest	17.1	35.1	33.8	37.0	38.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	15.5	41.2	47.6	52.1	54.6
Net Profit before Except.	15.5	41.2	47.6	52.1	54.6
EBITDA	148	237	244	261	262
Growth					
Revenue Gth (%)	N/A	35.8	8.8	1.8	1.1
EBITDA Gth (%)	nm	60.6	2.9	6.9	0.6
Opg Profit Gth (%)	nm	40.4	35.1	2.6	1.0
Net Profit Gth (Pre-ex) (%)	nm	166.5	15.6	9.5	4.7
Margins & Ratio					
Gross Margins (%)	19.1	19.7	23.9	24.0	24.0
Opg Profit Margin (%)	17.4	18.0	22.4	22.6	22.5
Net Profit Margin (%)	3.6	7.1	7.5	8.1	8.4
ROAE (%)	2.3	3.1	4.0	4.7	5.4
ROA (%)	0.8	1.0	1.2	1.3	1.4
ROCE (%)	(5.2)	2.5	3.6	3.5	3.7
Div Payout Ratio (%)	928.4	348.4	301.4	275.3	262.8
Net Interest Cover (x)	0.9	0.9	1.1	1.1	1.1

Includes Qualified Project Debt Securities (QPDS) interest payments

Minority interest reflects losses from KMC Plant owing to structuring of QPDS debt

Source: Company, DBS Bank

Keppel Infrastructure Trust

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	152	155	159	160	158
Cost of Goods Sold	(122)	(122)	(117)	(118)	(123)
Gross Profit	30.7	33.3	41.4	41.8	34.9
Other Oper. (Exp)/Inc	(2.7)	(2.6)	(2.3)	(2.6)	(2.3)
Operating Profit	28.1	30.7	39.1	39.2	32.7
Other Non Opg (Exp)/Inc	0.10	(1.2)	(0.7)	(0.6)	(2.7)
Associates & JV Inc	0.31	0.23	0.75	0.83	0.91
Net Interest (Exp)/Inc	(31.0)	(31.1)	(31.1)	(31.5)	(31.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(2.5)	(1.4)	8.00	7.91	(0.4)
Tax	2.77	(0.5)	(1.1)	(1.5)	2.77
Minority Interest	7.37	8.67	8.82	9.12	7.23
Net Profit	7.66	6.76	15.8	15.5	9.61
Net profit bef Except.	7.66	6.76	15.8	15.5	9.61
EBITDA	56.4	56.6	65.1	65.5	56.9

Growth

Revenue Gth (%)	(5.0)	2.0	2.3	0.9	(1.3)
EBITDA Gth (%)	(18.8)	0.4	15.0	0.6	(13.2)
Opg Profit Gth (%)	(26.4)	9.3	27.2	0.3	(16.7)
Net Profit Gth (Pre-ex) (%)	(54.8)	(11.8)	133.1	(1.6)	(38.0)

Margins

Gross Margins (%)	20.2	21.4	26.1	26.1	22.1
Opg Profit Margins (%)	18.5	19.8	24.6	24.4	20.6
Net Profit Margins (%)	5.0	4.4	9.9	9.7	6.1

Balance Sheet (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2,456	2,380	2,256	2,154	2,051
Invt in Associates & JVs	21.4	23.4	20.8	24.1	27.4
Other LT Assets	1,159	1,199	1,192	1,147	1,102
Cash & ST Invt	244	267	214	224	242
Inventory	56.0	54.5	54.2	60.4	61.0
Debtors	90.5	119	143	143	145
Other Current Assets	89.2	76.5	76.8	76.8	76.8
Total Assets	4,115	4,119	3,956	3,829	3,705
ST Debt	29.7	752	722	722	722
Creditor	144	160	175	178	180
Other Current Liab	29.5	25.0	21.8	20.5	20.5
LT Debt	1,665	1,059	1,072	1,072	1,072
Other LT Liabilities	647	669	654	654	654
Shareholder's Equity	1,360	1,255	1,153	1,062	973
Minority Interests	241	199	159	122	84.0
Total Cap. & Liab.	4,115	4,119	3,956	3,829	3,705
Non-Cash Wkg. Capital	61.9	64.7	77.6	82.2	82.5
Net Cash/(Debt)	(1,451)	(1,544)	(1,580)	(1,570)	(1,553)
Debtors Turn (avg days)	38.6	65.7	75.6	81.2	80.7
Creditors Turn (avg days)	94.6	157.5	162.6	170.6	170.3
Inventory Turn (avg days)	36.7	57.1	52.7	55.4	57.9
Asset Turnover (x)	0.2	0.1	0.2	0.2	0.2
Current Ratio (x)	2.4	0.6	0.5	0.5	0.6
Quick Ratio (x)	1.6	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.9	1.1	1.2	1.3	1.5
Net Debt/Equity ex MI (X)	1.1	1.2	1.4	1.5	1.6
Capex to Debt (%)	0.9	1.0	0.1	0.6	0.6
Z-Score (X)	0.6	0.4	0.4	0.4	0.4

NAV will continue to decline as distributions exceed accounting profits

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	1.16	6.54	14.1	17.2	18.7
Dep. & Amort.	67.7	114	105	112	112
Tax Paid	(8.4)	(8.6)	(5.4)	(3.4)	(2.1)
Assoc. & JV Inc/(loss)	0.17	(0.7)	(2.7)	(3.3)	(3.3)
Chg in Wkg.Cap.	(16.1)	(42.6)	(55.9)	(3.3)	(0.3)
Other Operating CF	3.73	15.8	27.2	44.5	45.5
Net Operating CF	48.3	84.2	82.2	164	171
Capital Exp.(net)	(15.3)	(18.4)	(1.7)	(10.0)	(10.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(5.3)	(1.7)	2.14	0.0	0.0
Div from Assoc & JV	0.0	0.0	2.18	0.0	0.0
Other Investing CF	0.02	0.71	0.62	0.0	0.0
Net Investing CF	(20.5)	(19.4)	3.27	(10.0)	(10.0)
Div Paid	(127)	(143)	(143)	(144)	(144)
Chg in Gross Debt	(414)	105	7.66	0.0	0.0
Capital Issues	521	0.0	0.0	0.0	0.0
Other Financing CF	38.6	(2.8)	(2.5)	0.0	0.0
Net Financing CF	18.4	(41.5)	(138)	(144)	(144)
Currency Adjustments	(0.5)	(0.1)	(0.1)	0.0	0.0
Chg in Cash	45.8	23.2	(52.9)	10.4	17.3
Opg CFPS (S cts)	1.67	3.29	3.58	4.34	4.43
Free CFPS (S cts)	0.86	1.70	2.09	3.99	4.17

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jan 17	0.50	0.56	BUY
2:	18 Apr 17	0.53	0.56	BUY
3:	19 Jul 17	0.57	0.60	BUY
4:	17 Oct 17	0.56	0.60	BUY

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

Source: DBS Bank

Analyst: Suvro SARKAR
Glenn Ng

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

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: 23 Jan 2018 09:38:56 (SGT)

Dissemination Date: 23 Jan 2018 09:57:43 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand