

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Mar 2018

## Keppel Corporation (KEP SP) : **BUY**

**Mkt. Cap:** US\$10,639m | **3m Avg. Daily Val:** US\$32.4m

**Last Traded Price ( 9 Mar 2018):** S\$7.73

**Price Target 12-mth:** S\$10.20 (32% upside)

### Analyst

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### Awilco contract in the bag

- Inked US\$425m contract with Awilco for a newbuild mid-water harsh environment semisubmersible drilling rig
- Marking first contract win in 2018
- Positive on contract wins ahead
- Reiterate BUY; TP unchanged at S\$10.20

### Forecasts and Valuation

FY Dec (\$m)	2016A	2017A	2018F	2019F
Revenue	6,767	5,964	6,121	9,003
EBITDA	1,392	1,398	1,625	2,040
Pre-tax Profit	1,055	516	1,329	1,647
Net Profit	784	217	1,002	1,242
Net Pft (Pre Ex.)	784	835	1,002	1,242
Net Pft Gth (Pre-ex) (%)	(46.9)	6.6	20.0	23.9
EPS (S cts)	43.1	11.9	55.1	68.3
EPS Pre Ex. (S cts)	43.1	45.9	55.1	68.3
EPS Gth Pre Ex (%)	(47)	7	20	24
Diluted EPS (S cts)	43.0	11.9	55.0	68.1
Net DPS (S cts)	20.0	22.0	22.1	27.3
BV Per Share (S cts)	641	629	662	708
PE (X)	17.9	64.9	14.0	11.3
PE Pre Ex. (X)	17.9	16.8	14.0	11.3
P/Cash Flow (X)	42.6	10.2	222.7	10.9
EV/EBITDA (X)	15.4	14.2	12.7	9.8
Net Div Yield (%)	2.6	2.8	2.9	3.5
P/Book Value (X)	1.2	1.2	1.2	1.1
Net Debt/Equity (X)	0.5	0.4	0.5	0.4
ROAE (%)	6.9	1.9	8.5	10.0

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

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's new

Following the LOI signed at end Feb, Keppel has firmed up the contract with Awilco to construct a mid-water harsh environment semisubmersible (semi) drilling rig, worth about US\$425m (approx S\$560m). The rig is scheduled for completion in 1Q 2021.

The contract comes with independent options to order up to another three similar rigs to be exercised within 12, 24 and 36 months respectively. The prices of the three additional rigs are subject to cost adjustments.

### What's the impact

**Contract value appears to be lower than usual price tag of c.US\$600m** for harsh environment semisubmersible as it will be built to Moss Maritime's CS60 ECO MW design - a compact version specially designed, configured and outfitted for mid-water operations of up to depths of 1,500m. In addition, there could also be some savings from material / equipment cost reductions after the industry downturn. For comparison, Sembcorp Marine's CS60 ultra-deepwater (up to depths of 3,000m) design was priced at US\$568m in 2012. We reckon margins should be lower than previous orders given the market conditions.

**First sizeable contract this year.** Nevertheless, this is positive news for Keppel. Lifting order wins and revenue is much needed during a recovery phase. The contract accounts for 19% of our order win assumption of S\$3bn this year. If Awilco exercises the options over the next 3-year, the total contract value could go up to US\$1.7bn (c. S\$2.3bn). Contract wins from repeat customer Awilco (Keppel has delivered three jackup rigs) is also a testament to Keppel's capabilities in rig solutions.

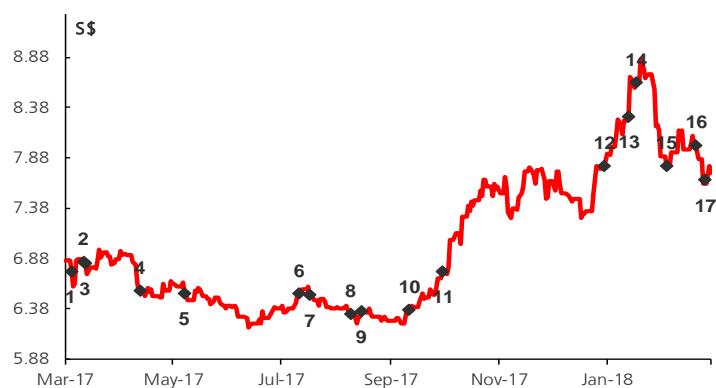
Please click here for our recent report on rigbuilding recovery: [Singapore Rigbuilders: Glimmer of hope for rig market](#)

## Flash Note

### Recommendation

**Reiterate BUY; TP S\$10.20.** Keppel is a safer bet to ride on both O&M recovery and property re-rating, while offering decent dividend yield of 3%.

### 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:	13 Mar 17	6.75	6.00	HOLD
2:	20 Mar 17	6.85	6.00	HOLD
3:	21 Mar 17	6.83	6.00	HOLD
4:	21 Apr 17	6.56	6.00	HOLD
5:	16 May 17	6.54	6.00	HOLD
6:	20 Jul 17	6.53	7.60	BUY
7:	26 Jul 17	6.52	7.60	BUY
8:	18 Aug 17	6.33	7.60	BUY
9:	24 Aug 17	6.36	7.60	BUY
10:	20 Sep 17	6.37	7.60	BUY
11:	09 Oct 17	6.75	7.60	BUY
12:	08 Jan 18	7.80	9.80	BUY
13:	22 Jan 18	8.29	10.30	BUY
14:	26 Jan 18	8.63	10.20	BUY
15:	12 Feb 18	7.80	10.20	BUY
16:	01 Mar 18	8.01	10.20	BUY
17:	06 Mar 18	7.66	10.20	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

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*

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

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