

Singapore Company Guide

Keppel Infrastructure Trust

Version 11 | Bloomberg: KIT SP | Reuters: KEPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Jul 2019

BUY

Last Traded Price (15 Jul 2019): S\$0.505 (STI : 3,347.95)

Price Target 12-mth: S\$0.58 (16% upside)

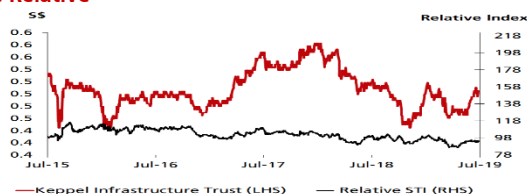
Analyst

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What's New

- 2Q19 DPU of 0.93Scts as expected
- Acquisition of Australian chemical distributor Ixom completed in 1Q19, contributes to cash flows
- Successful equity fund raising exercise followed by perps issue demonstrates healthy investor demand
- Maintain BUY with TP of S\$0.58

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Revenue	632	637	1,674	1,910
EBITDA	244	225	289	352
Pre-tax Profit	14.1	(2.3)	2.91	45.8
Net Profit	47.6	32.0	21.8	55.2
Net Pft (Pre Ex.)	47.6	32.0	21.8	55.2
Net Pft Gth (Pre-ex) (%)	15.6	(32.7)	(31.9)	153.1
EPS (S cts)	1.23	0.83	0.46	1.11
EPS Pre Ex. (S cts)	1.23	0.83	0.46	1.11
EPS Gth Pre Ex (%)	16	(33)	(44)	139
Diluted EPS (S cts)	1.23	0.83	0.46	1.11
Net DPS (S cts)	3.72	3.72	3.72	3.72
BV Per Share (S cts)	29.9	27.3	29.7	25.4
PE (X)	40.9	60.8	109.0	45.7
PE Pre Ex. (X)	40.9	60.8	109.0	45.7
P/Cash Flow (X)	23.7	10.8	14.8	12.2
EV/EBITDA (X)	15.1	16.1	16.0	13.5
Net Div Yield (%)	7.4	7.4	7.4	7.4
P/Book Value (X)	1.7	1.9	1.7	2.0
Net Debt/Equity (X)	1.2	1.3	1.5	1.6
ROAE (%)	4.0	2.9	1.8	4.1
Earnings Rev (%)			(20)	(19)
Consensus EPS (S cts)			1.30	1.70
Other Broker Recs:	B: 3	S: 0	H: 0	

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

Ability to raise capital a plus

Fund raising successful; maintain BUY. Keppel Infrastructure Trust (KIT) maintained its record of steady DPU of 0.93 Scts in 2Q19, as expected, on the back of healthy distributable cash flows for the quarter. KIT has recently completed the acquisition of Australian chemical distributor Ixom, and subsequent rounds of equity fund raising (EFR) exercise of around S\$500m and perpetual securities issue worth S\$300m to fund the acquisition has been well accepted by investors. This is significant in securing long term visibility of distributions for KIT. To recap, many of KIT's assets derive revenue from availability-based payments, independent of actual offtake. Hence, cash flows are predictable and not significantly exposed to economic cycles.

Where we differ. We believe the Trust is sufficiently protected from troubles at Basslink, which is in the midst of arbitration proceedings against its counterparties related to a 6-month outage in 2016. We expect that even in the worst case scenario, KIT should not be liable to pay any damages as any claims against Basslink are ring-fenced at the Basslink level. In any case, KIT does not depend on cash flows from Basslink for current distributions, and project loans are also non-recourse to KIT. We ascribe zero value to Basslink in our valuations for KIT, hence the negative newsflow from Basslink is an irritant at best and does not affect KIT's fundamentals.

Potential catalyst. The fund raising exercises have strengthened KIT's balance sheet and broadened investor base, and a successful integration of Ixom should lead to better investor perception and future yield compression for the stock.

Valuation:

Based on our DDM-based valuation methodology (cost of equity: 6.7%), we derive a valuation of S\$0.58 per share. The Trust is currently trading at a healthy yield of 7.4%.

Key Risks to Our View:

Key risks include (i) plants not meeting availability thresholds owing to operational 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)	4,539
Mkt. Cap (S\$m/US\$m)	2,292 / 1,690
Major Shareholders (%)	
Keppel Corp Ltd	18.2
Tembusu Capital Pte L (%)	13.5
Bartley Investments Pte Ltd (%)	8.4
Free Float (%)	59.9
3m Avg. Daily Val (US\$m)	2.6

ICB Industry : Utilities / Gas, Water & Multiutilities



Live more, Bank less

WHAT'S NEW

2Q19: another steady quarter

2Q19 distribution in line. Keppel Infrastructure Trust (KIT) declared DPU of 0.935cts for 2Q19, in line with previous quarters. Group revenue was not comparable as the Ixom acquisition was completed on 19 February 2019, and this was the first full quarter contribution from Ixom, which accounted for S\$249m revenues out of Group revenues of S\$418m for the quarter (up 193% y-o-y and 31% q-o-q due to the acquisition).

Distributable cash flows for 2Q19 slightly lower than expected at S\$45.8m. Excluding Ixom, distributable cash flows would have been S\$35.6m, in line with usual run rate and at par q-o-q. City Gas contributions normalised after a strong 1Q19. City Gas earnings tend to lag the movements in underlying fuel prices but the effect will smoothen out over time though. Cash flows from other key assets including KMC power plant and the water and waste treatment assets remained stable. Ixom generated around S\$10.2m of distributable cash flows, which was slightly lower than our expectation of around S\$13m for the quarter, likely due to timing issues. For the approximate 1-month 10-day period under KIT in 1Q19, Ixom had generated distributable cash flows of S\$5.9m. Earnings and cash flows for Ixom are expected to improve in subsequent quarters as they are seasonally stronger in second half of the year. This will form a strong support for KIT's overall distributions.

Successful perpetual securities issue follows recent equity fund raising (EFR) exercise. To recap, KIT recently completed an EFR exercise – to partially finance the acquisition of Ixom – by raising approximately S\$500.8m via Placement as well as a Preferential Offering. As part of continuing prudent capital management efforts, KIT further established a S\$1 billion multicurrency debt issuance programme on 23 May 2019 to diversify the Trust's funding sources. In June 2019, KIT successfully raised a total of S\$300m 4.75% perpetual securities (callable in 2029) in two tranches. The first tranche of S\$200m was well-received by investors, and enquiries for additional demand led management to issue a second tranche of S\$100m.

Trust on a firm footing for the future. We believe this demonstrates investors' confidence towards KIT's credit profile and long-term cash flow sustainability. With the issue of the perpetual securities, the remaining bridge loan taken

to finance the acquisition of Ixom has now been fully repaid, and a portion of KIT's Trust level borrowings have also been repaid. This improves the Trust's gearing profile as well.

Basslink arbitration continues, timeline still uncertain. Basslink continues to maintain its position that the Basslink Interconnector failure, which led to a six-month outage in 2016, was a Force Majeure Event under the Basslink Operations Agreement and Basslink Service Agreement and strongly denies all allegations made by the State of Tasmania and Hydro Tasmania, who are its counterparties. Basslink is vigorously defending itself in the arbitration, through which it hopes to recover the withheld amounts from Hydro Tasmania. While management believes that proceedings could be completed by end-2019, we believe this could drag on for longer.

We believe KIT is sufficiently ring-fenced from troubles at Basslink. We believe the Trust is sufficiently protected from ongoing issues at Basslink. Basslink has around A\$694m outstanding borrowings, which mature in November 2019. Basslink is currently negotiating a Long Term Financing Plan with its banking syndicate, but there is no agreement yet. There is no contractual recourse though to KIT under the project financing arrangements. As far as arbitration proceedings go, even in the worst case scenario, KIT should not be liable to pay any damages as any claims against Basslink are ring-fenced at the Basslink level. In any case, KIT does not depend on cash flows from Basslink for current distributions, and project loans are also non-recourse to KIT. We ascribe zero value to Basslink in our valuations for KIT, hence any negative newsflow from Basslink is an irritant at best and does not affect KIT's fundamentals.

Maintain BUY with unchanged TP of S\$0.58. We believe the Ixom acquisition is a step in the right direction by KIT's management as it diversifies the asset base, stabilises NAV decline, lengthens the effective life of the Trust, and creates organic growth potential which was largely missing till now. With an enhanced asset base and stronger balance sheet, we look forward to further acquisition trajectory. Dividend yield has compressed to around 7.4% currently, but we believe there is room for further yield compression, especially amid dovish interest rate scenario currently.

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	143	318	418	192.5	31.3
Cost of Goods Sold	(123)	(286)	(363)	195.0	26.9
Gross Profit	19.8	32.4	55.0	177.5	69.6
Other Oper. (Exp)/Inc	(2.3)	(13.3)	(3.0)	33.1	(77.4)
Operating Profit	17.6	19.1	52.0	196.1	171.6
Other Non Opg (Exp)/Inc	(0.1)	(6.2)	(2.9)	(2,479.6)	(52.9)
Associates & JV Inc	0.96	1.02	1.01	5.1	(0.6)
Net Interest (Exp)/Inc	(31.2)	(34.1)	(39.5)	(26.9)	(16.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	(12.7)	(20.1)	10.5	nm	nm
Tax	(1.0)	(4.7)	(3.0)	198.2	(35.9)
Minority Interest	9.70	8.55	8.41	(13.4)	(1.7)
Net Profit	(4.0)	(16.2)	16.0	nm	nm
Net profit bef Except.	(4.0)	(16.2)	16.0	nm	nm
EBITDA	44.3	44.8	86.3	94.9	92.5
Margins (%)					
Gross Margins	13.9	10.2	13.2		
Opg Profit Margins	12.3	6.0	12.4		
Net Profit Margins	(2.8)	(5.1)	3.8		

source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Positioned as the premier Singapore infrastructure-focused Business Trust. Keppel Infrastructure Trust (KIT) has an asset base of more than S\$4bn. Recently acquired Australian chemical distributor Ixom, the Keppel Merlimau Cogen (KMC) power plant and CityGas represent some of the larger assets in the Trust's portfolio. The portfolio is quite diversified across gas, electricity, water and waste management assets.

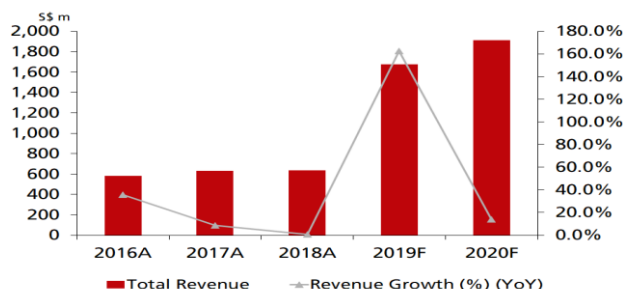
Availability-based payments lend stability to EBITDA and distributions. Many of the assets derive revenue from availability-based payments, independent of actual demand. Hence, revenue should be largely stable over the next two years. The key cost components for the Trust will be energy expenses, staff costs, operation & maintenance costs and other professional fees. Apart from City Gas, most of the volatile costs – energy expenses – are passed through. Ixom's margins are also very stable due to cost pass through distribution contracts. Thus, margins should be fairly predictable. Cash flow available for distributions to unitholders is calculated as adjusted EBITDA less cash tax, cash interest expenses, maintenance capex and payout to minorities. Ixom is expected to add around S\$140m in additional EBITDA by FY20 and distributions to unitholders are expected to be maintained at around 3.72Scts per year.

Development opportunities exist as well. The Trust's management is also willing to consider development opportunities if risks are controlled, and returns to shareholders can be enhanced within a reasonably short time frame. Co-investment opportunities with Sponsor Keppel Infrastructure (KI) tie in nicely with such a strategy, as the Trust can acquire a portion of mature assets from KI, like the KMC deal.

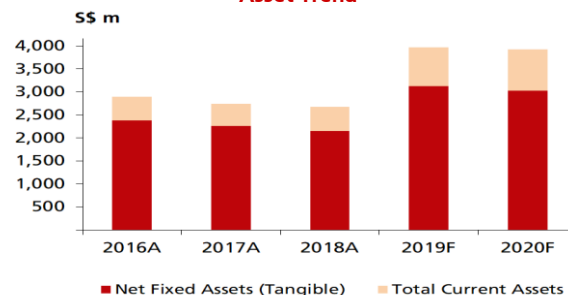
Scale creates acquisition opportunities. Following the recent equity fund raising exercise, the Trust has more means to consider inorganic growth. The ROFR option provided by KI to the Trust presents the easy targets in the near to medium term. But management could well go beyond the ROFR pipeline and evaluate third-party options in sectors like energy, telecoms, water and waste management. KIT recently acquired the Australian chemical distribution company Ixom, and similar opportunities will be evaluated in future as well.

Upside from possibility of asset life extensions. The Trust has some assets with contract extension options in place. Some of the other assets, despite not having such options in place, are relatively young and in our view, stand a good chance for contract renewal when the time comes. This has not been factored into our valuations as yet.

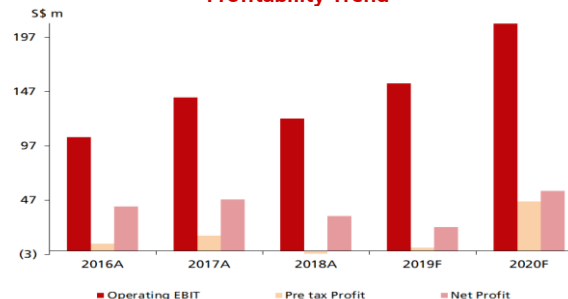
Sales Trend



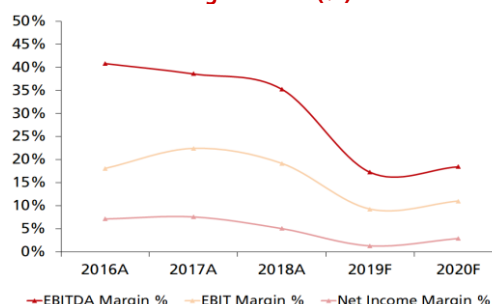
Asset Trend



Profitability Trend



Margin Trends (%)



Source: Company, DBS Bank

Keppel Infrastructure Trust

Balance Sheet:

Balance sheet leaves some headroom for growth. Current gearing levels are not overly aggressive for a utility asset owner, in our view. After the Ixom acquisition, EFR exercise and perps issue, net leverage (net debt/asset) can reach around 0.43-0.44x and net debt/adjusted EBITDA will improve to around 5.5x by end-FY20, based on our estimates. Hence, the enhanced scale post Ixom acquisition should leave more headroom in future for the Trust to look at M&A opportunities. Note that we consider the perpetual securities as debt and not equity in our estimates.

Share Price Drivers:

Acquisitions essential from time to time. The premise for combining two existing listed Trusts was to give management more ammunition to pursue accretive acquisitions. Given that organic growth potential was low in the concession assets, investors will continue to look closely at management's ability to ensure acquisitions deliver as expected as well as execute on further M&A promise.

Key Risks:

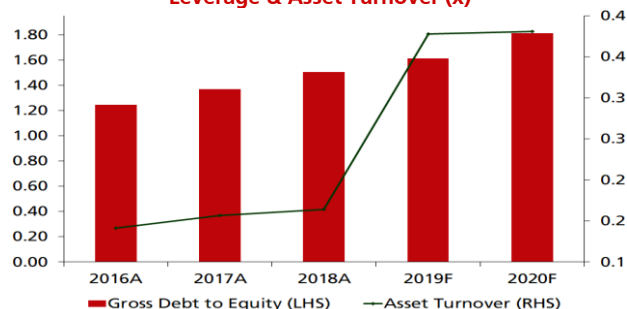
Key investment risks. We see four key risks: (i) inability to secure financing at reasonable costs of funding for M&A activities, (ii) plants not meeting availability thresholds owing to operating issues, (iii) increasing debt refinancing risks for the asset portfolio as the assets age, and (iv) exposure to increases in inflation and interest rates over time.

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 20 December 2015 and 13 June 2016. Basslink believes this is a force majeure event, but offtaker Hydro Tasmania disagrees. The State of Tasmania is also demanding indemnification for losses to the tune of A\$100m. Thus, Basslink has now referred the dispute for arbitration and will need to also 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 do so in the near future either.

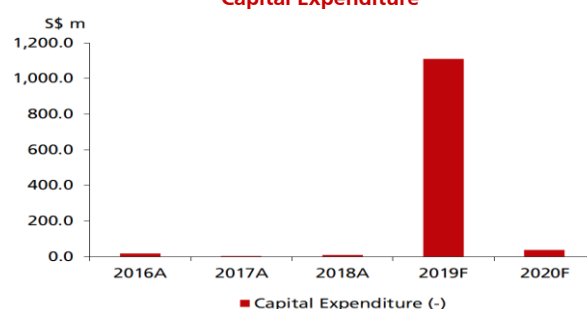
Company Background

Keppel Infrastructure Trust (KIT) is the largest infrastructure-focused Singapore business trust, deriving long-term predictable cash flows from a diversified portfolio of assets in key strategic areas – energy, distribution & network, and water and waste related infrastructure – in Singapore and Australia.

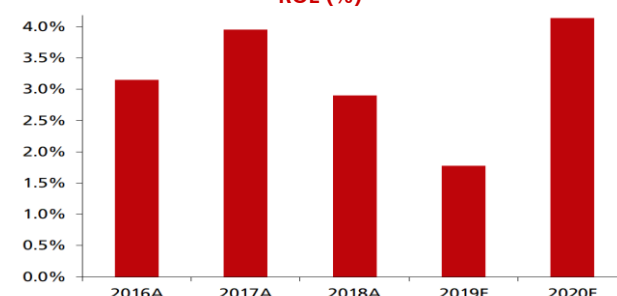
Leverage & Asset Turnover (x)



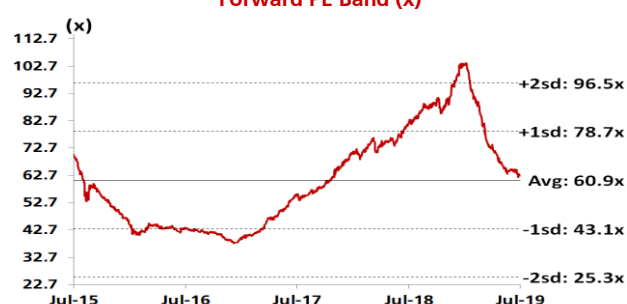
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	581	632	637	1,674	1,910
Cost of Goods Sold	(466)	(481)	(506)	(1,486)	(1,676)
Gross Profit	115	151	132	188	235
Other Opng (Exp)/Inc	(9.9)	(9.8)	(9.7)	(33.9)	(25.4)
Operating Profit	105	142	122	154	209
Other Non Opg (Exp)/Inc	18.0	(5.3)	(4.5)	0.0	0.0
Associates & JV Inc	0.71	2.72	3.84	4.50	4.50
Net Interest (Exp)/Inc	(117)	(125)	(124)	(156)	(168)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.54	14.1	(2.3)	2.91	45.8
Tax	(0.4)	(0.3)	0.0	(14.5)	(23.8)
Minority Interest	35.1	33.8	34.4	33.4	33.1
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	41.2	47.6	32.0	21.8	55.2
Net Profit before Except.	41.2	47.6	32.0	21.8	55.2
EBITDA	237	244	225	289	352
Growth					
Revenue Gth (%)	35.8	8.8	0.8	162.7	14.1
EBITDA Gth (%)	60.6	2.9	(7.9)	28.6	21.9
Opg Profit Gth (%)	40.4	35.1	(13.9)	26.4	35.7
Net Profit Gth (Pre-ex) (%)	166.5	15.6	(32.7)	(31.9)	153.1
Margins & Ratio					
Gross Margins (%)	19.7	23.9	20.7	11.2	12.3
Opg Profit Margin (%)	18.0	22.4	19.1	9.2	11.0
Net Profit Margin (%)	7.1	7.5	5.0	1.3	2.9
ROAE (%)	3.1	4.0	2.9	1.8	4.1
ROA (%)	1.0	1.2	0.8	0.5	1.1
ROCE (%)	2.5	3.6	3.3	(15.1)	2.3
Div Payout Ratio (%)	348.4	301.4	448.0	803.2	336.5
Net Interest Cover (x)	0.9	1.1	1.0	1.0	1.2

Source: Company, DBS Bank

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

FY Dec	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	143	162	172	318	418
Cost of Goods Sold	(123)	(130)	(132)	(286)	(363)
Gross Profit	19.8	31.6	40.7	32.4	55.0
Other Oper. (Exp)/Inc	(2.3)	(2.6)	(2.2)	(13.3)	(3.0)
Operating Profit	17.6	29.0	38.5	19.1	52.0
Other Non Opg (Exp)/Inc	(0.1)	1.27	0.98	(6.2)	(2.9)
Associates & JV Inc	0.96	0.99	1.03	1.02	1.01
Net Interest (Exp)/Inc	(31.2)	(31.2)	(30.0)	(34.1)	(39.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(12.7)	0.03	10.5	(20.1)	10.5
Tax	(1.0)	(0.4)	2.37	(4.7)	(3.0)
Minority Interest	9.70	8.57	7.54	8.55	8.41
Net Profit	(4.0)	8.15	20.4	(16.2)	16.0
Net profit bef Except.	(4.0)	8.15	20.4	(16.2)	16.0
EBITDA	44.3	57.1	66.2	44.8	86.3

Growth

Revenue Gth (%)	(10.8)	13.4	6.3	85.0	31.3
EBITDA Gth (%)	(22.7)	29.0	16.0	(32.3)	92.5
Opg Profit Gth (%)	(52.5)	65.2	32.6	(50.2)	171.6
Net Profit Gth (Pre-ex) (%)	(153.9)	(301.8)	150.3	(179.4)	(198.5)

Margins

Gross Margins (%)	13.9	19.5	23.6	10.2	13.2
Opg Profit Margins (%)	12.3	17.9	22.3	6.0	12.4
Net Profit Margins (%)	(2.8)	5.0	11.9	(5.1)	3.8

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	2,380	2,256	2,152	3,132	3,029
Invts in Associates & JVs	23.4	20.8	20.0	24.5	29.0
Other LT Assets	1,199	1,192	1,111	1,065	1,019
Cash & ST Invts	267	214	232	239	223
Inventory	54.5	54.2	59.2	186	212
Debtors	119	143	152	335	382
Other Current Assets	76.5	76.8	79.0	79.0	79.0
Total Assets	4,119	3,956	3,805	5,061	4,974
ST Debt	752	722	1,035	1,035	1,035
Creditor	160	175	178	478	546
Other Current Liab	25.0	21.8	21.1	31.3	40.5
LT Debt	1,059	1,072	740	1,372	1,372
Other LT Liabilities	669	654	653	653	653
Shareholder's Equity	1,255	1,153	1,052	1,399	1,269
Minority Interests	199	159	126	92.4	59.3
Total Cap. & Liab.	4,119	3,956	3,805	5,061	4,974
Non-Cash Wkg. Capital	64.6	77.6	91.0	90.2	87.0
Net Cash/(Debt)	(1,544)	(1,580)	(1,543)	(2,168)	(2,184)
Debtors Turn (avg days)	65.7	75.6	84.5	53.0	68.5
Creditors Turn (avg days)	157.5	162.6	160.1	88.3	121.6
Inventory Turn (avg days)	57.1	52.7	51.5	33.0	47.3
Asset Turnover (x)	0.1	0.2	0.2	0.4	0.4
Current Ratio (x)	0.6	0.5	0.4	0.5	0.6
Quick Ratio (x)	0.4	0.4	0.3	0.4	0.4
Net Debt/Equity (X)	1.1	1.2	1.3	1.5	1.6
Net Debt/Equity ex MI (X)	1.2	1.4	1.5	1.5	1.7
Capex to Debt (%)	1.0	0.1	0.5	46.1	1.5
Z-Score (X)	0.2	0.5	0.6	0.6	0.6

NAV will decline generally as distributions exceed accounting profits; can only be arrested by acquisitions, as we will see in FY19F post Ixom acquisition

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	6.54	14.1	(2.3)	2.91	45.8
Dep. & Amort.	114	105	103	130	139
Tax Paid	(8.6)	(5.4)	(3.2)	(4.4)	(14.5)
Assoc. & JV Inc/(loss)	(0.7)	(2.7)	(3.8)	(4.5)	(4.5)
Chg in Wkg.Cap.	(42.6)	(55.9)	59.4	(9.4)	(6.0)
Other Operating CF	15.8	27.2	27.0	45.5	46.5
Net Operating CF	84.2	82.2	180	161	206
Capital Exp.(net)	(18.4)	(1.7)	(8.5)	(1,110)	(36.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(1.7)	2.14	0.0	0.0	0.0
Div from Assoc & JV	0.0	2.18	3.72	0.0	0.0
Other Investing CF	0.71	0.62	1.69	0.0	0.0
Net Investing CF	(19.4)	3.27	(3.1)	(1,110)	(36.0)
Div Paid	(143)	(143)	(144)	(175)	(186)
Chg in Gross Debt	105	7.66	(14.1)	632	0.0
Capital Issues	0.0	0.0	0.0	500	0.0
Other Financing CF	(2.8)	(2.5)	(2.2)	0.0	0.0
Net Financing CF	(41.5)	(138)	(160)	957	(186)
Currency Adjustments	(0.1)	(0.1)	0.08	0.0	0.0
Chg in Cash	23.2	(52.9)	17.6	7.43	(15.8)
Opg CFPS (\$ cts)	3.29	3.58	3.14	3.61	4.24
Free CFPS (\$ cts)	1.70	2.09	4.46	(20.2)	3.40

Healthy operating cash flows inspire confidence in sustainability of dividends

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jul 18	0.52	0.58	BUY
2:	17 Oct 18	0.48	0.58	BUY
3:	16 Nov 18	0.46	0.58	BUY
4:	23 Jan 19	0.51	0.57	BUY
5:	16 Apr 19	0.48	0.58	BUY

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

Source: DBS Bank

Analyst: Suvro Sarkar

DBS Bank recommendations are based on an 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 16 Jul 2019 08:32:34 (SGT)

Dissemination Date: 16 Jul 2019 08:48:48 (SGT)

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