

Report type: Trade Flash

Company Overview

Keppel Corporation is a diversified conglomerate with four core business segments: Offshore & Marine, Infrastructure, Property, and Investments.

- 2 repeat jack-up orders from Clearwater worth US\$440mn (~S\$550mn)
- Positive impact – more orders flowing in
- Maintain Accumulate and TP of S\$12.25

What is the news?

Keppel announced that it has secured new repeat orders from Clearwater Capital Partners (Clearwater) for 2 jack-ups worth US\$440mn (~S\$550mn).

Delivery is scheduled for 4Q15 and 1Q16 and will be based on the premium KFELS B Class design. When completed, these rigs will be able to operate in water depths of up to 400 feet, drill to 30,000 feet deep and equipped with offline standbuilding capability.

How do we view this?

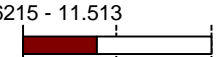
The new order priced at US\$220mn per rig, is ~5% higher than the average price of US\$209mn per rig for KFELS B Class newbuild jack-ups ordered in 2013 (including these 2 new orders).

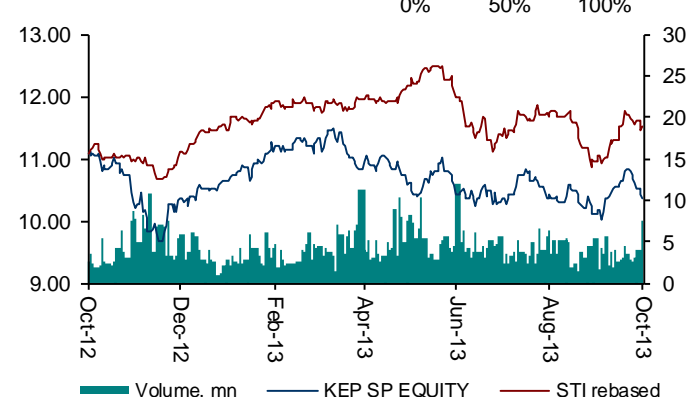
Clearwater's order lifted YTD order wins to S\$4.9bn, against our full-year order forecast of S\$5.9bn for FY13E. We believe order momentum remains strong as oil companies like Pemex continue to expand its rig fleet, which in turn could benefit Keppel Corp.

Investment Actions?

Keppel is currently trading at 12.2x/10.6x FY13E/14E P/E, against its historical P/E band of 4.9x-22.3x. Its dividend yield of 4.5% and ROE of 16.2% are attractive, in our view. Our SOTP-based fair value of S\$12.25 presents an 18.1% upside to the stock. Maintain Accumulate.

Keppel Corporation Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	12.25	
- Previous Target Price (SGD)	12.25	
Closing Price (SGD)	10.37	
Expected Capital Gains (%)	18.1%	
Expected Dividend Yield (%)	4.5%	
Expected Total Return (%)	22.7%	
Raw Beta (Past 2yrs weekly data)	1.16	
Market Cap. (USD mn)	14,976	
Enterprise Value (USD mn)	22,471	
3M Average Daily T/O (mn)	3.6	
52 week range (SGD)	9.6215 - 11.513	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	21.0
2. Aberdeen Asset Management	5.8
3. Blackrock Fund Advisors	4.9

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	10,082	13,965	12,559	14,103
Net Profit, adj. (SGD mn)	1,491	1,914	1,540	1,772
EPS, adj. (SGD)	0.83	1.06	0.85	0.98
P/E (X),adj.	12.5	9.8	12.2	10.6
BVPS (SGD)	4.29	5.11	5.39	5.77
P/B (X)	2.4	2.0	1.9	1.8
DPS (SGD)	0.43	0.72	0.47	0.49
Div. Yield (%)	4.1%	7.0%	4.5%	4.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

Analyst

Nicholas Ong

nicholasonghg@phillip.com.sg

+65 6531 5440

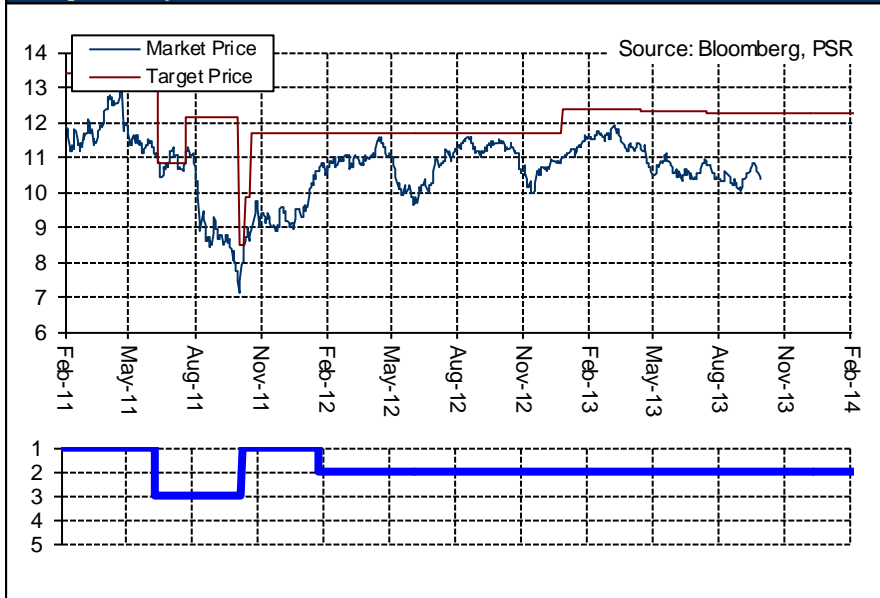
FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	14.1	12.5	9.8	12.2	10.6
P/B (X)	2.8	2.4	2.0	1.9	1.8
EV/EBITDA (X), adj.	16.2	13.4	10.8	12.0	10.4
Dividend Yield (%)	3.7%	4.1%	7.0%	4.5%	4.7%
Per share data (SGD)					
EPS, reported	0.85	1.08	1.24	0.85	0.98
EPS, adj.	0.74	0.83	1.06	0.85	0.98
DPS	0.38	0.43	0.72	0.47	0.49
BVPS	3.74	4.29	5.11	5.39	5.77
Growth & Margins (%)					
Growth					
Revenue	-25.4%	10.3%	38.5%	-10.1%	12.3%
EBITDA	3.9%	20.7%	23.8%	-9.4%	15.0%
EBIT	3.4%	21.9%	26.3%	-10.5%	16.1%
Net Income, adj.	3.4%	14.1%	28.4%	-19.5%	15.0%
Margins					
EBITDA margin	19.1%	20.9%	18.7%	18.8%	19.3%
EBIT margin	17.0%	18.8%	17.2%	17.1%	17.6%
Net Profit Margin	14.3%	14.8%	13.7%	12.3%	12.6%
Key Ratios					
ROE (%)	21.1%	20.8%	22.6%	16.2%	17.5%
ROA (%)	7.8%	8.3%	8.2%	5.3%	5.9%
Net debt	(178)	1,857	3,153	2,334	1,896
Net debt / equity	-1.8%	15.8%	23.2%	16.3%	12.3%
Income Statement (SGD mn)					
Revenue	9,140	10,082	13,965	12,559	14,103
EBITDA	1,745	2,106	2,607	2,361	2,716
Depreciation & Amortisation	(189)	(209)	(211)	(216)	(227)
EBIT	1,556	1,897	2,396	2,145	2,489
Net Finance (Expense)/Income	47	16	26	(24)	8
Other items	8	25	7	7	7
Associates	278	240	266	228	227
Exceptionals	661	1,135	561	0	0
Profit Before Tax	2,550	3,313	3,256	2,356	2,732
Taxation	(560)	(444)	(501)	(556)	(618)
Profit After Tax	1,990	2,869	2,756	1,800	2,114
Non-controlling Interest	479	923	518	260	342
Net Income, reported	1,511	1,946	2,237	1,540	1,772
Net Income, adj.	1,307	1,491	1,914	1,540	1,772

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Balance Sheet (SGD mn)					
PPE	2,243	2,716	3,337	3,630	3,912
Intangibles	108	99	110	110	110
Associates	3,782	4,462	5,267	5,267	5,267
Investment Properties	3,208	4,610	5,423	5,423	5,423
Others	329	578	365	365	365
Total non-current assets	9,669	12,464	14,502	14,794	15,076
Inventories	4,929	6,606	7,443	6,694	7,516
Accounts Receivables	1,959	2,028	2,057	1,850	2,078
Investments	537	577	417	417	417
Cash and cash equivalents	4,246	3,020	4,055	4,874	5,312
Others	305	404	697	587	642
Total current assets	11,976	12,635	14,669	14,421	15,965
Total Assets	21,644	25,099	29,171	29,216	31,041
Short term loans	392	808	1,006	1,006	1,006
Billings on WIP in excess of related costs	1,638	1,864	1,619	1,456	1,636
Accounts Payables	5,332	5,710	5,536	4,979	5,591
Others	720	621	903	903	903
Total current liabilities	8,082	9,003	9,064	8,344	9,135
Long term loans	3,676	4,069	6,202	6,202	6,202
Others	232	267	326	326	326
Total non-current liabilities	3,908	4,335	6,528	6,528	6,528
Non-controlling interest	3,036	4,062	4,332	4,592	4,934
Shareholder Equity	6,619	7,699	9,246	9,751	10,444
Cashflow Statements (SGD mn)					
CFO					
Operating profit	1,556	1,897	2,396	2,145	2,489
Adjustments	233	91	244	216	227
Cash from ops before WC changes	1,789	1,988	2,640	2,361	2,716
WC changes	(1,101)	(1,890)	(1,448)	353	(307)
Cash generated from ops	688	99	1,192	2,714	2,409
Taxes paid, net	(293)	(343)	(225)	(556)	(618)
Interest paid, net	56	21	39	(24)	8
Cashflow from ops	450	(224)	1,007	2,134	1,800
CFI					
CAPEX, net	(873)	(876)	(836)	(509)	(509)
Dividends from associates & investments	245	176	157	228	227
Investments in subs & associates	(15)	(558)	(391)	0	0
Cashflow from investments	(643)	(1,258)	(1,069)	(281)	(282)
CFF					
Share issuance	74	99	82	0	0
Loans, net of repayments	2,300	809	2,331	0	0
Dividends to minority interests	(130)	(158)	(212)	(202)	(211)
Dividends to shareholders & capital distribution	(627)	(724)	(789)	(833)	(869)
Others	(112)	248	(134)	(0)	0
Cashflow from financing	1,504	275	1,277	(1,035)	(1,080)
Net change in cash	1,311	(1,207)	1,215	818	438
CCE, end	4,245	3,020	4,055	4,874	5,312

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information (Singapore Research Team)

Management

Chan Wai Chee
(CEO, Research - Special Opportunities) +65 6531 1231

Joshua Tan
(Head, Research - Equities & Asset Allocation) +65 6531 1249

General Enquiries

Research Assistant +65 6531 1240

Global Macro, Asset Strategy

Joshua Tan +65 6531 1249

Financials

Ken Ang +65 6531 1793

US Equities

Wong Yong Kai +65 6531 1685

Telecoms

Colin Tan +65 6531 1221

Commodities, Offshore & Marine

Nicholas Ong +65 6531 5440

Real Estate

Lucas Tan +65 6531 1229

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
JI Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

AUSTRALIA

PhillipCapital
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited
No 10, Prince Alfred Tower,
Alfred House Gardens,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
Website: www.ashaphillip.net/home.htm

INDIA

PhillipCapital (India) Private Limited
No. 1, C- Block, 2nd Floor, Modern Center ,
Jacob Circle, K. K. Marg, Mahalaxmi
Mumbai 400011
Tel: (9122) 2300 2999
Fax: (9122) 6667 9955
Website: www.phillipcapital.in