

Keppel Corporation Ltd

Jack-up order from Ensco

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 KEP.SP | KPLM.SI | KEPS.SG
 Industry: Conglomerate

Phillip Securities Research Pte Ltd

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Report type: Update

Company Overview

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

- Premium jack-up rig from Ensco worth about US\$225mn
- Established rig owners still favor SG yards over Chinese yards
- YTD order win raised to SG\$1.87bn

What is the news?

Keppel announced that Ensco has awarded it with a premium jack-up rig based on the KFELS B Class design. Delivery is schedule for 1Q15, and we gathered that payment will be the typical 20% upfront, 80% on delivery.

Keppel has built a long-term partnership with Ensco having delivered 16 newbuild projects to them with another 4 on order, including this latest contract, and this new order will be the 4th KFELS B Class Bigfoot jack-up rig in Ensco's fleet.

How do we view this?

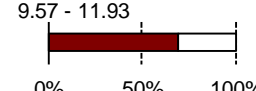
The contract is valued at approximately US\$225mn (SG\$279mn). Albeit it is 15% higher than the US\$196.5mn per rig price that Gulf Drilling International ordered for two KFELS B Class Bigfoot jack-ups in May 2011, we believe the increase in contract price is partly due to inclusion of commissioning, systems integration testing and project management costs.

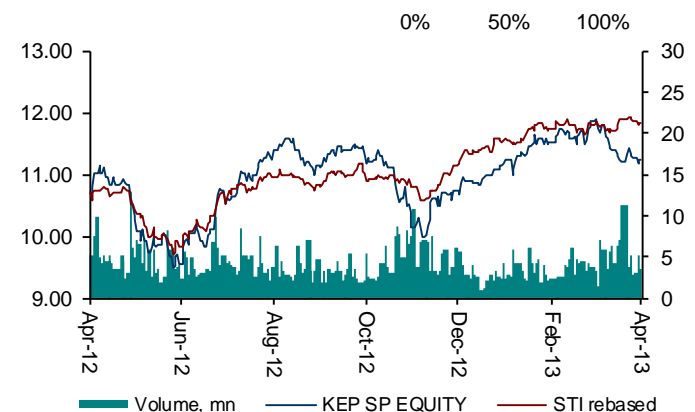
Nonetheless, this contract is indicative of continued demand for premium jack-up rigs, and established rig owners favoring SG yards with strong track records despite Chinese yards offering lower prices with generous payment terms.

Investment Actions?

YTD Keppel has achieved nearly SG\$1.87bn worth of orders, which accounts for over 31% of our 2013E new orders estimate for Keppel. We are keeping our FY13-14E earnings forecasts as we have factored in the new order wins. Keppel is currently trading at 12.4x FY13E, with a dividend yield of 4.2%. We maintain our Accumulate rating with an unchanged target price of S\$12.38.

Keppel Corporation Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	12.38	
- Previous Target Price (SGD)	12.38	
Closing Price (SGD)	11.22	
Expected Capital Gains (%)	10.3%	
Expected Dividend Yield (%)	4.2%	
Expected Total Return (%)	14.5%	
Raw Beta (Past 2yrs w weekly data)	1.43	
Market Cap. (USD mn)	16,349	
Enterprise Value (USD mn)	23,460	
3M Average Daily T/O (mn)	4.0	
52 w eek range (SGD)	9.57 - 11.93	
Closing Price in 52 w eek range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	20.9
2. Aberdeen Asset Management	5.2
3. Blackrock Fund Advisors	5.0

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	10,082	13,965	13,580	13,066
Net Profit, adj. (SGD mn)	1,491	1,914	1,635	1,729
EPS, adj. (SGD)	0.83	1.06	0.90	0.96
P/E (X),adj.	13.5	10.6	12.4	11.7
BVPS (SGD)	4.29	5.11	5.44	5.80
P/B (X)	2.6	2.2	2.1	1.9
DPS (SGD)	0.43	0.72	0.47	0.49
Div. Yield (%)	3.8%	6.5%	4.2%	4.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

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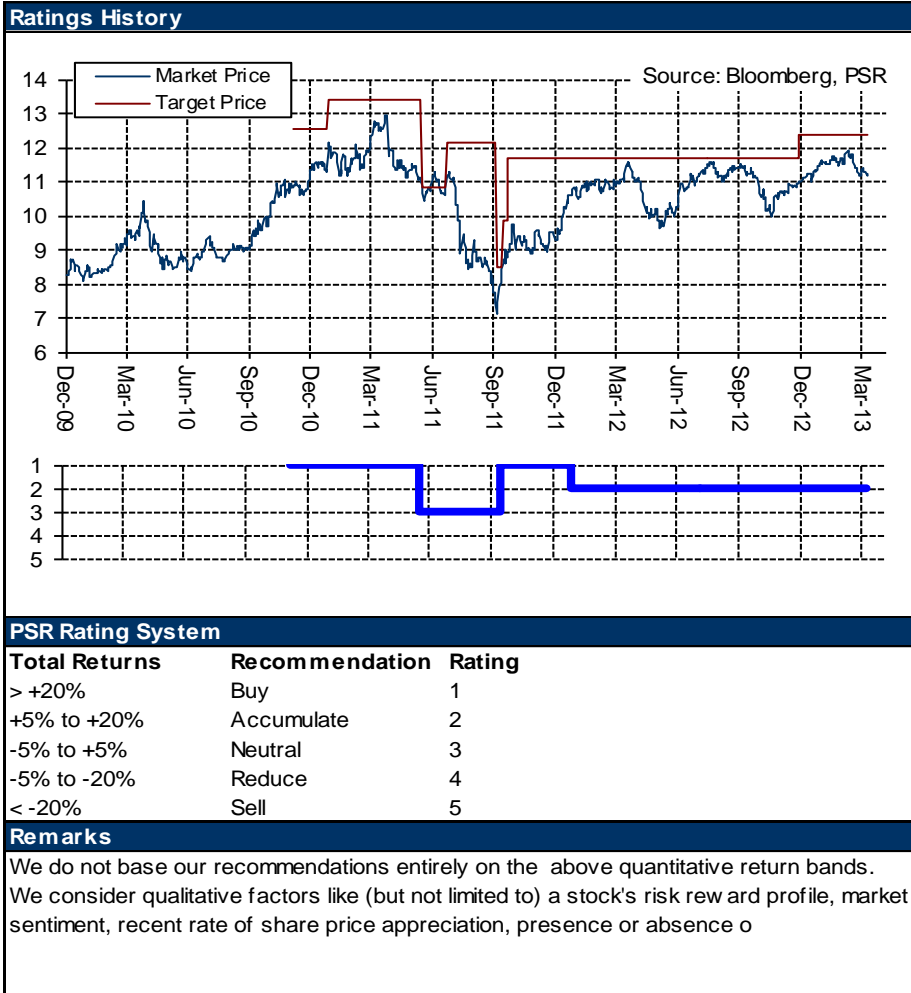
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FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	15.2	13.5	10.6	12.4	11.7
P/B (X)	3.0	2.6	2.2	2.1	1.9
EV/EBITDA (X), adj.	16.6	13.7	11.1	14.0	12.9
Dividend Yield (%)	3.4%	3.8%	6.5%	4.2%	4.4%
Per share data (SGD)					
EPS, reported	0.85	1.02	1.24	0.90	0.96
EPS, adj.	0.74	0.83	1.06	0.90	0.96
DPS	0.38	0.43	0.72	0.47	0.49
BVPS	3.74	4.29	5.11	5.44	5.80
Growth & Margins (%)					
Growth					
Revenue	-25.4%	10.3%	38.5%	-2.8%	-3.8%
EBITDA	3.9%	20.7%	23.8%	-20.6%	8.1%
EBIT	3.4%	21.9%	26.3%	-22.8%	8.5%
Net Income, adj.	3.4%	14.1%	28.4%	-14.6%	5.8%
Margins					
EBITDA margin	19.1%	20.9%	18.7%	15.2%	17.1%
EBIT margin	17.0%	18.8%	17.2%	13.6%	15.4%
Net Profit Margin	14.3%	14.8%	13.7%	12.0%	13.2%
Key Ratios					
ROE (%)	21.1%	20.8%	22.6%	17.1%	17.0%
ROA (%)	7.8%	7.9%	8.2%	5.7%	6.0%
Net cash	178	(1,857)	(3,153)	(3,703)	(3,133)
Net debt / equity	-1.8%	15.8%	23.2%	25.9%	20.7%
Income Statement (SGD mn)					
Revenue	9,140	10,082	13,965	13,580	13,066
EBITDA	1,745	2,106	2,607	2,069	2,236
Depreciation & Amortisation	(189)	(209)	(211)	(219)	(230)
EBIT	1,556	1,897	2,396	1,850	2,006
Net Finance (Expense)/Income	47	16	26	(24)	(46)
Other items	8	25	7	7	7
Associates	278	240	266	269	297
Exceptionals	661	1,135	561	0	0
Profit Before Tax	2,550	3,313	3,256	2,102	2,264
Taxation	(560)	(444)	(501)	(348)	(365)
Profit After Tax	1,990	2,869	2,756	1,754	1,899
Non-controlling Interest	479	1,029	518	119	170
Net Income, reported	1,511	1,841	2,237	1,635	1,729
Net Income, adj.	1,307	1,491	1,914	1,635	1,729

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Balance Sheet (SGD mn)					
PPE	2,243	2,716	3,337	3,627	3,906
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	427	427	427
Total non-current assets	9,669	12,464	14,564	14,854	15,132
Inventories	4,929	6,606	7,443	7,238	6,963
Accounts Receivables	1,959	2,028	1,995	1,940	1,866
Investments	537	577	417	417	417
Cash and cash equivalents	4,246	3,020	4,055	3,505	4,075
Others	305	404	697	587	642
Total current assets	11,976	12,635	14,607	13,686	13,964
Total Assets	21,644	25,099	29,171	28,540	29,096
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	1,575	1,515
Accounts Payables	5,332	5,710	5,536	5,383	5,179
Others	720	621	903	903	903
Total current liabilities	8,082	9,003	9,064	8,867	8,603
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	4,451	4,621
Shareholder Equity	6,619	7,699	9,246	9,846	10,496
Cashflow Statements (SGD mn)					
CFO					
Operating profit	1,556	1,897	2,396	1,850	2,006
Adjustments	233	(836)	19	219	230
Cash from ops before WC changes	1,789	1,061	2,415	2,069	2,236
WC changes	(1,101)	(1,890)	(1,448)	180	36
Cash generated from ops	688	(828)	967	2,249	2,273
Taxes paid, net	(293)	(343)	(225)	(348)	(365)
Interest paid, net	56	21	39	(24)	(46)
Cashflow from ops	450	(1,151)	781	1,876	1,862
CFI					
CAPEX, net	(873)	(876)	(836)	(509)	(509)
Dividends from associates & investments	245	176	157	269	297
Investments in subs & associates	(15)	(558)	(391)	0	0
Cashflow from investments	(643)	(1,258)	(1,069)	(240)	(212)
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	(2,134)	989	602	570
CCE, end	4,245	2,093	2,903	3,505	4,075

Source: PSR



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