

Keppel Corporation Ltd

Good news from new customer

Bloomberg | Reuters | POEMS
KEP SP | KPLM.SI | KEPS.SG
Industry: Conglomerate

Phillip Securities Research Pte Ltd

16 April 2013

Report type: Update

Company Overview

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

- Falcon Energy awarded Keppel a US\$226mn jack-up rig contract
- Premium jack-up rigs prices unaffected by strong competition; market share intact
- YTD order win to S\$2.15bn

What is the news?

Keppel FELS announced yesterday that it won a contract worth US\$226mn (S\$280mn) from Falcon Energy Group to build a KFELS Super B Class jack-up. This follows closely after Keppel's US\$225mn jack-up rig order from Ensco last week.

Keppel has already delivered 6 rigs ahead of schedule, safely and on budget. For the latest delivery of a KFELS B Class jack-up, to Asia Offshore Drilling, they have received a bonus of about US\$2mn for completing the rig 62 days early.

Falcon Energy, a new customer to Keppel FELS, is a leading player in the regional Offshore Marine and Oil & Gas sectors. It entered the offshore oil drilling business when they ordered 2 jack-up rigs from China in 2011.

How do we view this?

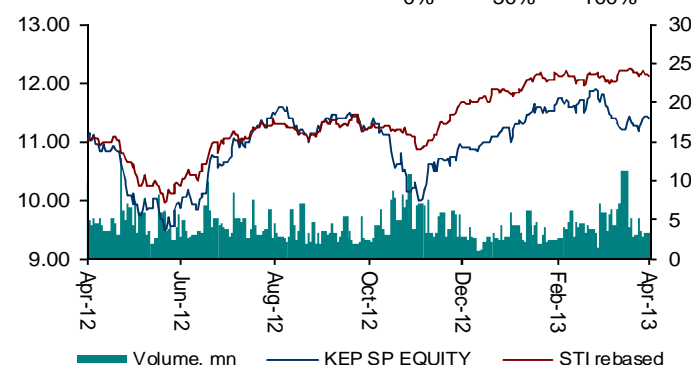
The current order of US\$226mn is 8% higher than the last Super B Class jack-up ordered at Keppel FELS by Japan Drilling valued at US\$210mn in March 2011. This shows that the prices for new premium jack-up rigs are unaffected by strong competition coming from the Chinese yards. Keppel's strong track record of delivering rigs ahead of schedule still remains the go-to yards for premium jack-up rigs.

Investment Actions?

Keppel is currently trading at 12.7x FY13E, with a dividend yield of 4.1%. YTD Keppel has achieved approximately S\$2.15bn worth of orders, or 36% of our S\$5.9bn order win target for 2013. We continue to like Keppel, as we believe that it is well positioned in the O&M sector. We are keeping our earnings estimate, as the order win has been factored into our forecast. We maintain our Accumulate rating and target price of S\$12.38, still based on SOTP valuation.

Keppel Corporation Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	12.38	
- Previous Target Price (SGD)	12.38	
Closing Price (SGD)	11.39	
Expected Capital Gains (%)	8.7%	
Expected Dividend Yield (%)	4.1%	
Expected Total Return (%)	12.8%	
Raw Beta (Past 2yrs weekly data)	1.43	
Market Cap. (USD mn)	16,615	
Enterprise Value (USD mn)	23,727	
3M Average Daily T/O (mn)	4.0	
52 week range (SGD)	9.57 - 11.93	
Closing Price in 52 week 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.	13.7	10.8	12.6	11.9
BVPS (SGD)	4.29	5.11	5.44	5.80
P/B (X)	2.7	2.2	2.1	2.0
DPS (SGD)	0.43	0.72	0.47	0.49
Div. Yield (%)	3.8%	6.4%	4.1%	4.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

Analyst

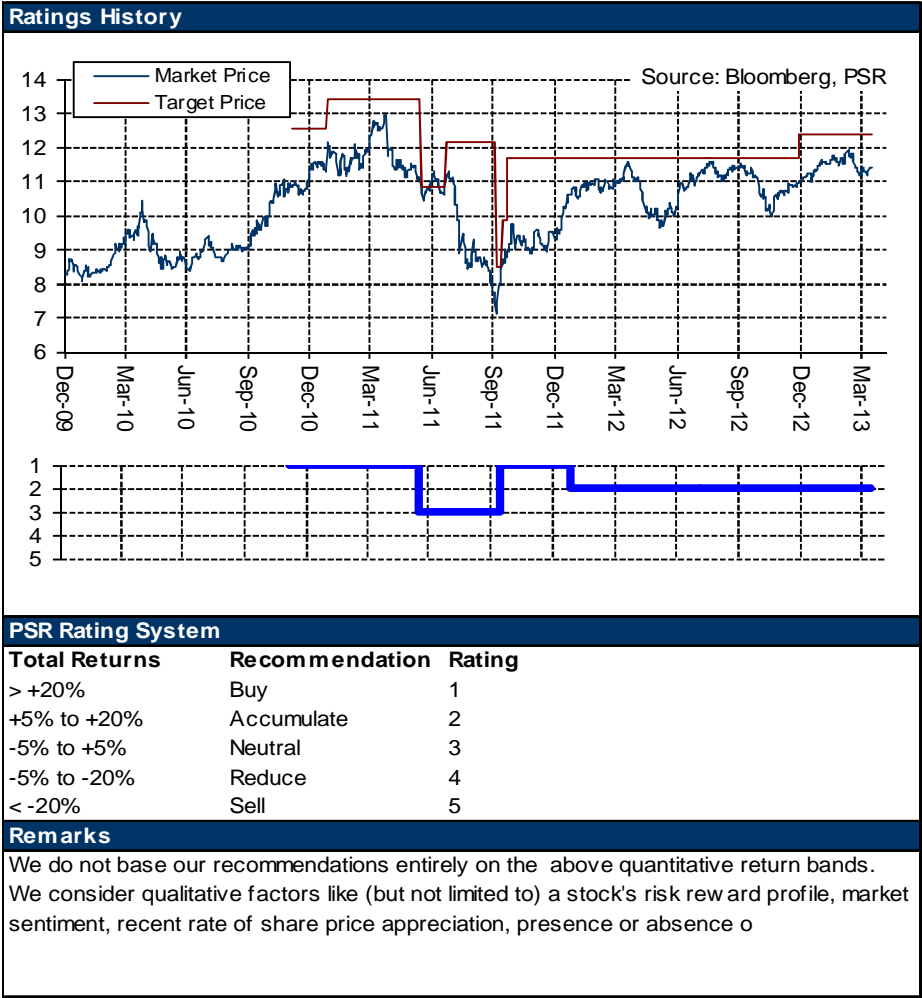
Nicholas Ong
nicholasonghg@phillip.com.sg
+65 6531 5440

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	15.4	13.7	10.8	12.6	11.9
P/B (X)	3.0	2.7	2.2	2.1	2.0
EV/EBITDA (X), adj.	16.8	13.9	11.2	14.1	13.1
Dividend Yield (%)	3.4%	3.8%	6.4%	4.1%	4.3%
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 debt	(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



Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the

preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

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

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee

CEO, Research

Special Opportunities

+65 6531 1231

yebo@phillip.com.sg

Go Choon Koay, Bryan

Investment Analyst

Property

+65 6531 1792

gock@phillip.com.sg

Roy Chen

Macro Analyst

Global Macro, Asset Strategy

+65 6531 1535

roychencz@phillip.com.sg

Joshua Tan

Head of Research

Global Macro, Asset Strategy

+65 6531 1249

joshuatan@phillip.com.sg

Ken Ang

Investment Analyst

Financials, Telecoms

+65 6531 1793

kenangwy@phillip.com.sg

Nicholas Ong

Investment Analyst

Commodities, Offshore & Marine

+65 6531 5440

nicholasonghg@phillip.com.sg

Derrick Heng

Deputy Head of Research

SG Equity Strategist &

Transport

+65 6531 1221

derrickhengch@phillip.com.sg

Ng Weiwen

Macro Analyst

Global Macro, Asset Strategy

+65 6531 1735

ngww@phillip.com.sg

Research Assistant

General Enquiries

+65 6531 1240 (Phone)

research@phillip.com.sg

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

HONG KONG

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

INDONESIA

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

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

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

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

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

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

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

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 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