

COMPANY UPDATE

Keppel (KEP SP)

Displaying Continued Strong Execution

KEP's 3Q24 business update showed that it continues to execute strongly with the key highlight being a 68% yoy jump in asset management fees to S\$299m for 9M24. Data centres were a key focus during the analyst call, with management pointing to multiple fee-generation opportunities due to its position as an asset manager and operator. In addition, the company noted its growing power footprint in Singapore that could reach nearly 3GW by 2030. Maintain BUY. Target price: S\$8.89.

WHAT'S NEW

- Executing strongly.** Being a business update, revenue and profit numbers were not provided. However, Keppel Ltd (KEP) commented that its 9M24 net profit was comparable on a yoy basis while 9M24 recurring income grew 14% yoy. Importantly, asset management fees of S\$299m for 9M24 was a material 68% yoy increase with real estate being the largest contributor (see chart overleaf).
- Focusing on DCs.** One of the key focus areas during the management presentation was the company's data centre (DC) business, with KEP highlighting its ability to generate multiple revenue streams from this asset class. Its unique business model encompasses recurring and one-off revenue given its position as an asset manager as well operator, which allows it to generate development fees, asset management fees as well as gains from disposal of the asset. As a result, KEP projects 2.1x growth in its funds under management (FUM) for DCs to S\$19b in the near term from S\$9b at present, while its capacity growth is forecast to increase from 650MW at present to 1.2GW in the near term.
- Growing its power footprint.** KEP disclosed that by 2030, the company will have nearly 3GW of power capacity serving Singapore, which is equivalent around one-third of the market. This includes its 600MW Sakra Cogen Plant which will come online in 2026 (currently 77% completed), a combined 500MW in electricity imports, 100MW of zero- or low-carbon power and, importantly, the potential addition of a 600MW combined-cycle plant slated for 2030 (see chart overleaf).
- High percentage of contracted customers.** KEP noted that its Singapore power generation is now 71% contracted, which is higher than the 60% as at end-1H24. The addition has come from both new customers and extension from existing customers at what management has termed as "healthy" spreads to deliver sustainable recurring income. Given industry forecasts for the Singapore power market to grow at between 3-5% p.a. out to 2030, the outlook remains robust, in our view.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	6,620	6,966	7,313	7,732	8,194
EBITDA	807	1,297	1,397	1,516	1,645
Operating profit	565	1,076	1,119	1,181	1,252
Net profit (rep./act.)	933	4,144	996	1,045	1,104
Net profit (adj.)	933	4,144	996	1,045	1,104
EPS (S\$ cent)	51.9	229.8	54.3	56.9	60.2
PE (x)	12.5	2.8	13.1	12.7	11.9
P/B (x)	1.0	1.1	1.1	1.0	1.0
EV/EBITDA (x)	26.1	16.7	15.1	14.3	13.1
Dividend yield (%)	5.1	5.3	5.8	4.8	5.1
Net margin (%)	14.1	59.5	13.3	13.0	13.1
Net debt/(cash) to equity (%)	78.1	90.9	96.2	87.4	83.9
Interest cover (x)	128.2	7.0	6.3	8.6	9.3
ROE (%)	7.9	36.4	7.9	8.0	8.4
Consensus net profit	-	-	973	1,069	1,124
UOBKH/Consensus (x)	-	-	1.02	0.98	0.98

Source: Keppel Ltd., Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$6.47
Target Price	S\$8.89
Upside	+37.4%

COMPANY DESCRIPTION

Keppel is an asset manager and operator with four core businesses: energy & environment, urban development, connectivity and asset management.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,774.7
Market cap (S\$m):	11,665.0
Market cap (US\$m):	8,973.1
3-mth avg daily t'over (US\$m):	19.2

Price Performance (%)

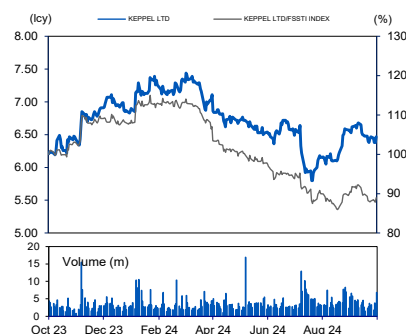
52-week high/low S\$7.45/S\$5.76

1mth	3mth	6mth	1yr	YTD
(1.5)	(1.4)	(9.0)	3.9	(8.5)

Major Shareholders

	%
Temasek Hldgs	21.2
-	-
-	-
FY24 NAV/Share (S\$)	6.10
FY24 Net Debt/Share (S\$)	5.29

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Where could its DC growth come from?** At present, KEP has a global DC portfolio of 650MW, of which 70% is operational while the remaining are under construction. Its incremental 500MW of capacity growth to achieve its near-term target of 1.2GW lies in opportunities in the Asia Pacific region, with the company specifically mentioning artificial intelligence campuses in Malaysia, Indonesia and India. Management stated that these DC assets could be injected into Keppel DC REIT (KDCREIT SP/BUY/Target: S\$2.28) in due course, with both of its DC buildings at Genting Lane ready for divestment in the very near term.
- Bifrost – a new source of revenue stream in 2025.** Bifrost is a 10.4Tbps 20,000km trans-Pacific cable system connecting Singapore to the west coast of the US that is expected to start operations in 2025. Unlike other trans-Pacific cables, Bifrost takes a southern route via Indonesia and the Philippines, thus avoiding Hong Kong/China. The Bifrost consortium comprises Meta, PT Telekom and Amazon with KEP being a shareholder, as well as the operations and maintenance provider. Management stated that it is seeing strong demand for its fibre pairs, although it did not disclose how many pairs it owns. As a result, prices have “more than doubled” since the sale of its first pair in 2021. The company commented that each fibre pair can generate S\$200m in operations and maintenance fees over 25 years.
- Three key funds to close by end-24.** Management highlighted that three of its flagship funds have seen strong investor interest and are expected to achieve first close by end-24. These are: a) the US\$2b Data Centre Fund III, b) the US\$1b Education Asset Fund II, and c) the US\$1b Private Credit Fund III. To date, the company has raised S\$0.7b in equity and has a S\$25b deal flow pipeline comprising S\$10b in the infrastructure sector, S\$10b from real estate (including Aermont) and S\$5b in the DC segment.
- The company’s asset monetisation appears to be on track** with S\$733m worth of assets having been divested in 2024 to date, with the latest divestments being in Vietnam with the sale of: a) a 70% stake in Saigon Sports City for S\$391m, and b) a 16% stake in Saigon Centre Phase 3 for S\$62m. Management remains hopeful that with the massive packages of China stimulus measures, a more bullish M&A market in China could see an acceleration of the company’s asset monetisation in that country.

EARNINGS REVISION/RISK

- No earnings changes.

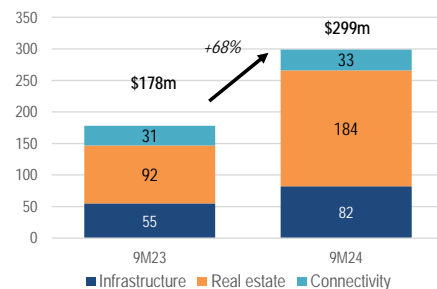
VALUATION/RECOMMENDATION

- We maintain our BUY rating on KEP.** Our SOTP-based target price is unchanged at S\$8.89. In the near to medium term, earnings from its infrastructure segment will be underpinned by the fact that more than 70% of its contracted generation capacity in Singapore is locked in for three years or more. Importantly, its asset-light strategy appears to be gaining momentum given that the assets on its balance sheet have declined in parallel with a significant jump in its FUM (see chart on RHS). KEP currently trades at 2024F PE of 13.1x and P/B of 1.1x which we view as far from being egregious, especially considering the company’s more stable earnings stream given the divestment of its offshore marine business.

SHARE PRICE CATALYSTS

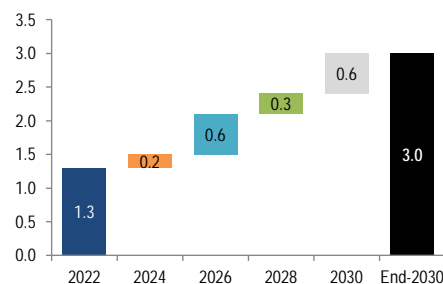
- Divestment of Genting Lane DC and delivery of the floating data centre asset.
- Successful sale of rigs within Asset Co and earlier-than-expected return of credit notes.
- Continued growth in AUM of its asset management business.
- Further divestment and/or capital recycling of its real estate assets in China.

ASSET MANAGEMENT FEES (\$M)



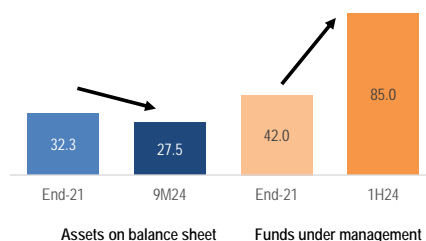
Source: KEP

KEP'S POWER GENERATION CAPACITY: 2022-30



Source: KEP

ASSET-LIGHT STRATEGY GAINING MOMENTUM (\$B)



Source: KEP

KEP'S INTEGRATED DATA CENTRE ECOSYSTEM

Competency	Comment
Capital	Multiple capital pools through private funds, balance sheet and listed REIT
Power	Ready access to power, including renewables and low-carbon energy as a generation company and licensed power importer
Water	Best-in-class water usage effectiveness
Cooling	Leading district cooling solutions provider with 260,000 refrigerated tons of cooling capacity in Asia
Networks	Joint build partner and operator of Bifrost, largest capacity high-speed transmission cable across the Pacific Ocean
Enterprise	A leading managed communications service and enterprise solutions provider
Innovation	Proven ability to come up with innovative solutions, e.g. floating data centre module, Datapark+, Tropical DC

Source: KEP

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	6,966	7,313	7,732	8,194
EBITDA	1,297	1,397	1,516	1,645
Deprec. & amort.	221	279	336	393
EBIT	1,076	1,119	1,181	1,252
Total other non-operating income	0	0	0	1
Associate contributions	322	322	322	322
Net interest income/(expense)	(185)	(185)	(185)	(185)
Pre-tax profit	1,214	1,256	1,318	1,390
Tax	(290)	(300)	(315)	(332)
Minorities	38	40	42	44
Preferred dividends	0	0	0	1
Net profit	4,144	996	1,045	1,104
Net profit (adj.)	4,144	996	1,045	1,104

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	58	1,110	865	973
Pre-tax profit	1,214	1,256	1,318	1,390
Tax	(116)	(287)	(295)	(310)
Deprec. & amort.	221	279	336	393
Associates	0	0	0	1
Working capital changes	(398)	184	(171)	(177)
Non-cash items	0	0	0	1
Other operating cashflows	(863)	(322)	(322)	(325)
Investing	(943)	(780)	(580)	(580)
Capex (growth)	(921)	(800)	(800)	(800)
Capex (maintenance)	0	0	0	1
Investments	86	0	200	200
Proceeds from sale of assets	411	20	20	20
Others	(519)	0	0	(1)
Financing	723	867	838	803
Dividend payments	(609)	(599)	(628)	(662)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,376	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(44)	1,465	1,465	1,465
Net cash inflow (outflow)	(161)	1,197	1,123	1,196
Beginning cash & cash equivalent	2,823	2,662	3,859	4,981
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,662	3,859	4,981	6,177

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	902	1,404	1,848	2,235
Other LT assets	19,570	19,528	19,650	19,774
Cash/ST investment	1,266	1,362	1,019	750
Other current assets	5,100	4,435	4,764	5,114
Total assets	26,838	26,728	27,281	27,873
ST debt	2,459	2,459	2,459	2,459
Other current liabilities	3,680	3,212	3,389	3,584
LT debt	8,538	8,538	8,538	8,538
Other LT liabilities	1,145	1,145	1,145	1,145
Shareholders' equity	10,709	11,106	11,524	11,965
Minority interest	308	268	226	182
Total liabilities & equity	26,838	26,728	27,281	27,874

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.6	19.1	19.6	20.1
Pre-tax margin	17.4	17.2	17.0	17.0
Net margin	59.5	13.6	13.5	13.5
ROA	14.3	3.7	3.9	4.0
ROE	37.2	9.1	9.2	9.4
Growth				
Turnover	5.2	5.0	5.7	6.0
EBITDA	60.7	7.7	8.5	8.5
Pre-tax profit	10.8	3.5	4.9	5.5
Net profit	344.2	(76.0)	4.9	5.6
Net profit (adj.)	344.2	(76.0)	4.9	5.6
EPS	342.5	(76.4)	4.9	5.7
Leverage				
Debt to total capital	50.0	49.2	48.3	47.5
Debt to equity	102.7	99.0	95.4	91.9
Net debt/(cash) to equity	90.9	86.8	86.6	85.6
Interest cover (x)	7.0	7.6	8.2	8.9

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