

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\$8.86.

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 | 6,792 | 7,184 | 7,613 |
| EBITDA | 807 | 1,297 | 1,485 | 1,518 | 1,649 |
| Operating profit | 565 | 1,076 | 1,275 | 1,254 | 1,332 |
| Net profit (rep./act.) | 933 | 4,144 | 905 | 936 | 998 |
| Net profit (adj.) | 933 | 4,144 | 905 | 936 | 998 |
| EPS (S\$ cent) | 51.9 | 229.8 | 49.3 | 51.0 | 54.4 |
| 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) | 27.8 | 17.3 | 15.1 | 14.8 | 13.6 |
| 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 | 37.2 | 8.4 | 8.4 | 8.7 |
| Consensus net profit (S\$m) | - | - | 811 | 1,005 | 1,183 |
| UOBKH/Consensus (x) | - | - | 1.12 | 0.93 | 0.84 |

Source: Keppel, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|---------|
| Share Price | S\$6.47 |
| Target Price | S\$8.86 |
| Upside | +36.9% |

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 |

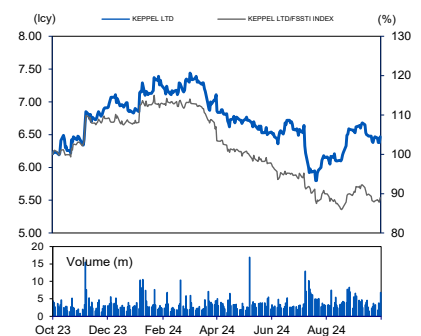
Price Performance (%)

| | | | | | |
|------------------|-----------------|-------------|------------|------------|--|
| 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\$) | 5.98 |
| FY24 Net Debt/Share (S\$) | 5.75 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

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.

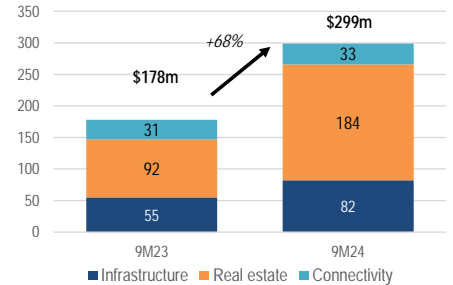
VALUATION/RECOMMENDATION

- We maintain our BUY rating on KEP.** Our SOTP-based target price is unchanged at S\$8.86. 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

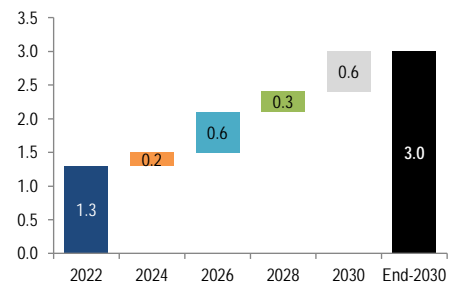
- Divestment of Genting Lane DC and delivery of the floating data centre asset.
- Successful sale of rigs within Asset Co and earlier-than-expected return of credit notes.
- Continued growth in AUM of its asset management business.
- Further divestment and/or capital recycling of its real estate assets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

ASSET MANAGEMENT FEES (\$M)



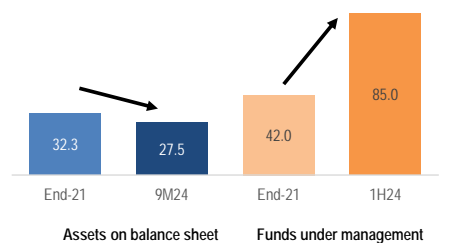
Source: KEP

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 | 6,966.1 | 6,792.2 | 7,183.8 | 7,612.8 |
| EBITDA | 1,297.4 | 1,485.2 | 1,517.9 | 1,648.7 |
| Deprec. & amort. | 221.4 | 210.0 | 263.6 | 317.1 |
| EBIT | 1,075.9 | 1,275.2 | 1,254.4 | 1,331.5 |
| Total other non-operating income | 3,181.2 | 0.0 | 0.0 | 2.0 |
| Associate contributions | 322.4 | 120.0 | 120.0 | 120.0 |
| Net interest income/(expense) | (184.8) | (236.7) | (176.7) | (176.7) |
| Pre-tax profit | 4,394.8 | 1,158.5 | 1,197.6 | 1,276.8 |
| Tax | (289.7) | (289.6) | (299.4) | (318.7) |
| Minorities | 38.4 | 36.1 | 37.4 | 39.8 |
| Net profit | 4,143.5 | 905.0 | 935.6 | 997.9 |
| Net profit (adj.) | 4,143.5 | 905.0 | 935.6 | 997.9 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Fixed assets | 902.1 | 966.8 | 1,433.2 | 1,846.1 |
| Other LT assets | 19,570.0 | 20,243.0 | 19,720.3 | 19,642.3 |
| Cash/ST investment | 1,265.7 | 1,440.2 | 2,068.4 | 2,133.8 |
| Other current assets | 5,100.1 | 5,073.3 | 4,556.1 | 4,727.9 |
| Total assets | 26,837.9 | 27,723.4 | 27,778.0 | 28,350.0 |
| ST debt | 2,459.1 | 2,277.3 | 2,277.3 | 2,277.3 |
| Other current liabilities | 3,679.7 | 3,921.5 | 3,640.2 | 3,852.8 |
| LT debt | 8,538.0 | 9,635.1 | 9,635.1 | 9,635.1 |
| Other LT liabilities | 1,144.6 | 701.3 | 701.3 | 701.3 |
| Shareholders' equity | 10,709.0 | 10,886.5 | 11,259.7 | 11,658.9 |
| Minority interest | 307.6 | 301.8 | 264.4 | 224.6 |
| Total liabilities & equity | 26,837.9 | 27,723.4 | 27,778.0 | 28,351.0 |

CASH FLOW

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|---|----------------|----------------|----------------|----------------|
| Operating | 58.4 | 1,148.3 | 1,277.8 | 1,194.1 |
| Pre-tax profit | 1,213.6 | 1,158.5 | 1,197.6 | 1,275.8 |
| Tax | (116.1) | (387.7) | (289.7) | (299.5) |
| Deprec. & amort. | 221.4 | 210.0 | 263.6 | 317.1 |
| Associates | 0.0 | 0.0 | 0.0 | 1.0 |
| Working capital changes | (397.7) | 287.5 | 226.2 | 21.6 |
| Non-cash items | 0.0 | 0.0 | 0.0 | 1.0 |
| Other operating cashflows | (862.8) | (120.0) | (120.0) | (123.0) |
| Investing | (942.7) | (811.7) | (530.0) | (530.0) |
| Capex (growth) | (921.1) | (750.0) | (750.0) | (750.0) |
| Investment | 85.9 | (100.0) | 200.0 | 200.0 |
| Proceeds from sale of assets | 411.4 | 190.0 | 20.0 | 20.0 |
| Others | (519.0) | (151.7) | 0.0 | 0.0 |
| Financing | 722.9 | 352.4 | 34.5 | (1.9) |
| Dividend payments | (609.1) | (678.8) | (562.3) | (598.7) |
| Proceeds from borrowings | 1,375.7 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (43.7) | 1,031.2 | 596.8 | 596.8 |
| Net cash inflow (outflow) | (161.3) | 689.0 | 782.3 | 662.2 |
| Beginning cash & cash equivalent | 2,823.3 | 2,661.9 | 3,350.9 | 4,133.2 |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 2,661.9 | 3,350.9 | 4,133.2 | 4,795.3 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 18.6 | 21.9 | 21.1 | 21.7 |
| Pre-tax margin | 63.1 | 17.1 | 16.7 | 16.8 |
| Net margin | 59.5 | 13.3 | 13.0 | 13.1 |
| ROA | 14.3 | 3.3 | 3.4 | 3.6 |
| ROE | 37.2 | 8.4 | 8.4 | 8.7 |
| Growth | | | | |
| Turnover | 5.2 | (2.5) | 5.8 | 6.0 |
| EBITDA | 60.7 | 14.5 | 2.2 | 8.6 |
| Pre-tax profit | 278.6 | (73.6) | 3.4 | 6.6 |
| Net profit | 344.2 | (78.2) | 3.4 | 6.7 |
| Net profit (adj.) | 344.2 | (78.2) | 3.4 | 6.7 |
| EPS | 342.5 | (78.6) | 3.4 | 6.8 |
| Leverage | | | | |
| Debt to total capital | 50.0 | 51.6 | 50.8 | 50.1 |
| Debt to equity | 102.7 | 109.4 | 105.8 | 102.2 |
| Net debt/(cash) to equity | 90.9 | 96.2 | 87.4 | 83.9 |
| Interest cover (x) | 7.0 | 6.3 | 8.6 | 9.3 |

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

| | |
|-----------------------------------|---|
| General | This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation. |
| Hong Kong | This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law. |
| Indonesia | This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report. |
| Malaysia | Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia. |
| Singapore | This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law. |
| Thailand | This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand. |
| United Kingdom | This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients. |
| United States of America ('U.S.') | This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly. |

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W