Rating
Hold

Asia
Singapore

Conglomerates

Company
Keppel Corp Ltd Alert

Reuters	Bloomberg	Exchange	Ticker
KPLM.SI	KEP SP	SES	KPLM

ADR Ticker	ISIN
KPELY	US4920513052

Date
22 October 2015

Results

Price at 22 Oct 2015 (SGD)	7.29
Price target - 12mth (SGD)	7.00
52-week range (SGD)	9.70 - 6.49
Straits Times Index	3,026

Kevin Chong
Research Analyst
(+65) 6423 5549
kevin.chong@db.com

Cloudy O&M prospects but decent property sales; 3Q15 gearing rises

3Q15 net income down 12% yoy; 9M15 net income down 3%

KEP's 3Q15 net income was down 12% yoy to S$363m due largely to the O&M division which saw earnings decline 34% yoy. 9M15 net income was down 3% yoy to S$1.1bn – this included one-time gains of S$274m from disposal of its 51% interest in Keppel Merlimau Cogen and from restructuring of operations in 2Q15. O&M was weak with 9M15 net income down 28% yoy to S$542m (3Q15 EBIT margins was 12.3%, 3Q14 was 15% and 2Q15 was 12.3%). 9M15 net income in the Property division was up 51% yoy to S$333m due largely to lower non-controlling interest following the privatisation of Keppel Land. The division sold about 3130 homes during the first nine months of 2015, which was 66% higher than same period last year. The Infrastructure division delivered 9M15 net income of S$160m, up 52% yoy due largely to divestment gains from Keppel Merlimau and the dilution re-measurement gain from the combination of Crystal Trust and CitySpring Infrastructure Trust. KEP's valuations are fair, in our view; maintaining Hold.

Net gearing rises; cloudy O&M prospects

Group net gearing rose to 52% as at Sep-15 (from 11% at Dec-14) due largely to the O&M division. KEP secured new O&M contracts YTD worth S$1.7bn and its net order book totals S$11b (4Q14 was S$12.5b). The O&M industry continues to face severe headwinds and we maintain our view that the outlook for rig builders should get worse before any recovery. Our US oil services team highlights that peak newbuild deliveries are still to come and it believes the market will get worse before it gets better. Nearly all un-contracted newbuild offshore rigs have seen their delivery dates pushed back and it now appears that 2016 could be the peak for supply growth. KEP has seen 3 jackup rigs being pushed out from 2015 to early-2016 (2 from Grupo R and 1 from Parden Holdings). In Brazil, KEP has not been paid by customer Sete Brasil for almost a year (last payment in Nov-14) and there remains uncertainty as to when this can resume in light of ongoing investigations by the authorities. With construction slowed down significantly due to non-payment, we think the market may begin to question whether any potential write-downs need to be taken on these contracts.

KEP better positioned to ride out O&M challenges

We believe KEP is better positioned than others to weather the industry storm. It remains well run, is supported by the banks, has established industry brands, continues to invest in capabilities (e.g. it acquired the LETOURNEAU™ jackup rig designs, rig kit and aftermarket service businesses), and has other businesses that can take up some of the slack seen in O&M.

Stock data

Market cap (SGDm)	13,237
Market cap (USDm)	9,498
Shares outstanding (m)	1,816
Major shareholders	Temasek (21.22%)
Free float (%)	78
Avg daily value traded (USDm)	33.1

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (SGDm)	13,283	10,800	9,558
Net Profit (SGDm)	1,884.8	1,275.5	1,142.4
DB EPS (SGD)	0.79	0.70	0.62
PER (x)	13.1	10.5	11.7
Yield (net)(%)	4.6	4.8	4.3

Source: Deutsche Bank