



CHINA
DEVELOPMENT
FINANCIAL

RESULTS UPDATE

Singapore

Keppel Corporation

(KEP SP; KPLM.SI)

Hold - Maintained

Price as of 22 Oct 2015	7.29
12M target price (S\$)	7.16
Previous target price (S\$)	8.44
Upside, incl div (%)	4.4

Trading data

Market Cap (S\$m)	13,203.1
Issued Shares (m)	1,811.1
Ave Daily Traded (3-Month) Vol / Val	6.3m / \$45.3m
52 week lo / hi	\$6.32 / \$9.70
Free Float	78.5%

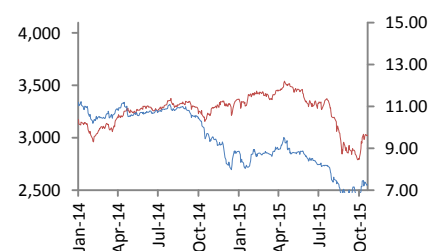
Major Shareholders

Temasek	21.2%
Aberdeen Asset Mgt	7.4%

Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
23-Jul-15	HOLD	8.160	8.440
16-Apr-15	HOLD	9.440	8.510
13-Mar-15	HOLD	8.700	8.180

KEP SP (Blue) vs. FSSTI



Source: Bloomberg

Joel Ng

Joel.ng@kgi.com

+65 6236 2630

Land Ahoy! Moving closer towards land

Results below expectations; reiterate HOLD. Keppel's 3QFY15 results was below our expectations, making up only 57% of our net profit estimates for FY15. 3Q15 PATMI declined 12.4% YoY to \$362.9m, dragged mainly by weak performance in its O&M segment. As a result, we shade down our FY15-17 forecasts by 12-20% and reduce our TP to \$7.16, pegged to 10x FY16F P/E. Given the trough valuations that companies in the Oil & Gas industry are trading at, downside may be limited from here. Keppel remains the best diversified O&M company. Long term investors may wish to accumulate at these levels for its attractive dividend yield (>5%) and upside potential from better performance from its property segment.

Volatility in the seas... Utilization rates for drillships at 70% (vs 82% a year ago), semisub at 62% (vs 73% a year ago) and jackups at 58% (vs 77% a year ago) still point to deteriorating fundamentals in the offshore rig sector. Although the recent rebound in oil prices have lifted sentiments in the industry, upstream companies remain cautious and continue to cut capex budgets for 2016. Furthermore, Sete Brasil has not made payments for the semisubs since November 2014. These semisubs comprises around 46% of Keppel's current net orderbook of S\$10bn, and as such, remains a key overhang on revenue visibility. New contract wins of S\$1.7bn for 2015 YTD is not enough to offset the rapidly declining net orderbook, as industry players await a firmer recovery in oil prices before committing to capex plans for new projects.

...but moving closer to land. Keppel Land is expected to be the bright spot, driven mainly by a rebound in the property market in China, which accounts for >60% of its ~19,000 residential units. According to our Greater China research team, property investment in China is expected to rebound on resumed demand. Recent data also points to a recovery in China's property markets after declining in 2014. China's nationwide sales of new residential developments have increased 19% YoY for the first eight months of 2015, according to the National Bureau of Statistics. Favorable policies rolled out by the government - including reduced down payments, increased mortgages available and the four interest rate cuts by the People's Bank of China in 2015 - are expected to give the property market a positive lift.

Financials & Key Operating Statistics

YE Dec (S\$ m)	2013	2014	2015F	2016F	2017F
Revenue	12380.4	13283.0	10364.3	10249.7	8019.7
Gross Profit	3776.8	4038.4	3212.9	3003.2	2349.8
PATMI	1845.8	1884.8	1548.2	1259.8	1016.5
Core PATMI	1831.8	1872.9	1329.5	1259.8	1016.5
Core EPS	101.5	103.7	73.4	69.6	56.1
Core EPS grth (%)	-18.4	2.2	-29.2	-5.2	-19.3
Core P/E (x)	7.1	7.0	8.5	10.5	13.0
DPS (SG cents)	40.0	48.0	45.0	45.0	45.0
Div Yield (%)	5.5	6.6	6.2	6.2	6.2
Gross Margin (%)	30.5	30.4	31.0	29.3	29.3
Net Margin (%)	14.9	14.2	14.9	12.3	12.7
Gearing (%)	8.0	8.7	33.5	41.0	35.4
Price / Book (x)	1.4	1.3	1.2	1.1	1.1

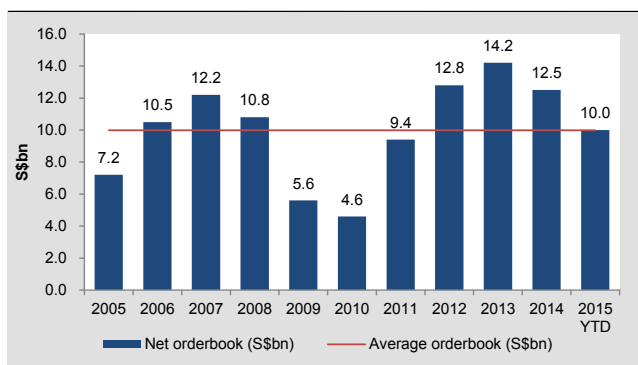
Source: Company Data, KGI Fraser

Figure 1: Results comparison

FYE Dec (SGDm)	3QFY15	3QFY14	yoy % chg	2QFY15	qoq % chg	Prev FY15F	Comments 3Q15
Revenue	2,439.8	3,184.8	(23.4)	2,562.9	(4.8)	12,122.2	Lower than expected. 9M15 makes up 65% of our full year forecast. O&M declined 36% YoY to \$1442m due to lower volume and deferral of projects. Property increased \$123% to \$489m mainly from China properties offset by lower Singapore contribution. Infrastructure lower by 30% YoY to \$536m on general weakness and absence of contribution from Keppel FMO, which was disposed in 4Q14
Operating costs	(2,069.3)	(2,619.6)	(21.0)	(2,367.5)	(12.6)	(10,505.9)	
EBITDA	569.0	600.2	(5.2)	338.6	68.0	2,141.6	
EBITDA margin (%)	0.2	0.2		0.1		0.2	
Depn & amort.	(55.2)	(67.6)	(18.4)	(64.6)	(14.6)	(262.6)	
EBIT	370.4	565.2	(34.5)	195.5	89.5	1,616.3	
Interest expense	(47.0)	(27.1)	73.4	(30.7)	53.3	(110.0)	
Int & Inv income	44.4	42.8	3.8	24.1	84.1	161.0	
Associates' contrib	101.5	61.6	64.7	90.2	12.5	326.2	
Exceptionals	-	-	nm	218.8	(100.0)	218.8	
Pretax profit	469.3	642.5	(27.0)	497.9	(5.7)	2,212.2	
Tax	(97.0)	(105.1)	(7.8)	(88.0)	10.1	(354.1)	
Tax rate (%)	0.2	0.2		0.2		0.2	
NCI	(9.4)	(123.2)	(92.3)	(13.1)	(28.1)	(64.2)	
Net profit	362.9	414.2	(12.4)	396.7	(8.5)	1,793.9	
Core profit	362.9	414.2	(12.4)	177.9	103.9	1,575.2	Below expectations. 9M15 makes up only 57% of our FY15 forecasts
EPS (USDcts)	20.0	22.9	(12.7)	21.9	(8.5)	98.8	
Core EPS (USDcts)	20.0	22.9	(12.7)	9.8	103.9	86.7	

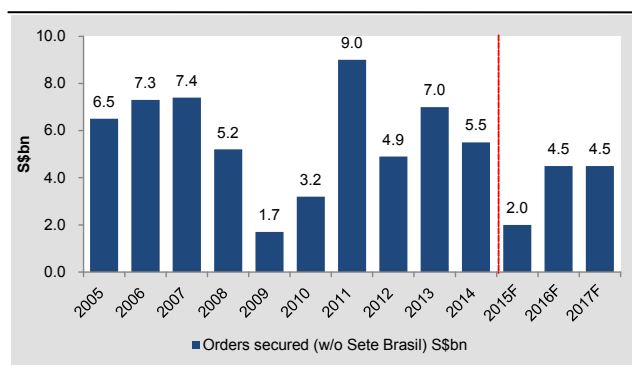
Source: Company data, KGI Fraser

Figure 2: O&M net orderbook (\$Sbn)



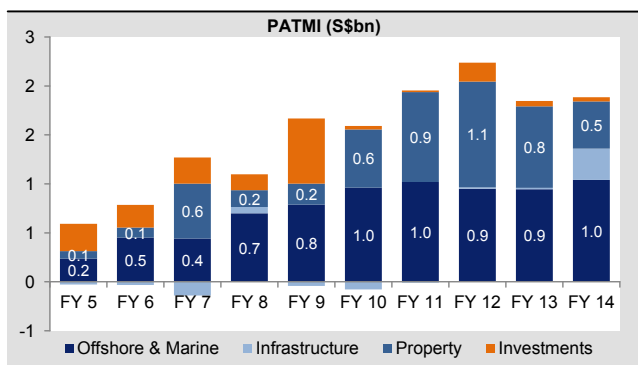
Source: Company data, KGI Fraser

Figure 3: O&M new orders (\$Sbn)



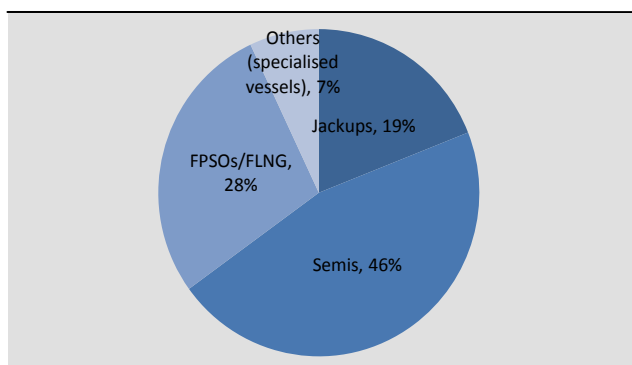
Source: Company data, KGI Fraser

Figure 4: PATMI breakdown between segments (\$Sbn)



Source: Company data, KGI Fraser

Figure 5: Net orderbook breakdown



Source: Company data, KGI Fraser

Summary of Financials

YE 31 Dec

INCOME STATEMENT (\$m)	2013	2014	2015F	2016F	2017F
Revenue	12,380.4	13,283.0	10,364.3	10,249.7	8,019.7
Cost of sales	(8,603.7)	(9,244.6)	(7,151.4)	(7,246.6)	(5,669.9)
Gross Profit	3,776.8	4,038.4	3,212.9	3,003.2	2,349.8
Other operating income/(expenses)	25.8	68.0	(262.6)	(272.5)	(282.1)
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	(1,668.2)	(1,733.0)	(1,606.5)	(1,537.5)	(1,203.0)
Profit from Operations	2,134.4	2,373.4	1,343.9	1,193.2	864.7
Finance income/(expenses)	19.5	(0.9)	22.7	10.1	39.9
Share of JV results	625.9	504.2	326.2	367.8	367.8
Exceptionals/Investment income	14.0	11.9	218.8	0.0	0.0
Profit before Tax	2,793.7	2,888.6	1,911.5	1,571.1	1,272.4
Income tax	(397.4)	(462.4)	(306.0)	(251.5)	(203.7)
Non-controlling interests	(550.6)	(541.5)	(57.3)	(59.8)	(52.3)
PATMI	1,845.8	1,884.8	1,548.2	1,259.8	1,016.5
PATMI Normalized	1,831.8	1,872.9	1,329.5	1,259.8	1,016.5
BALANCE SHEET (\$m)	2013	2014	2015F	2016F	2017F
Cash and cash equivalents	6,009.7	6,107.5	3,558.7	2,372.5	1,345.1
Trade and other receivables	2,953.0	3,140.1	3,109.3	3,587.4	2,806.9
Inventory	8,994.7	10,681.1	9,296.8	9,420.5	7,370.9
Other current assets	0.0	1,258.6	285.5	285.5	285.5
Current Assets	17,957.4	21,187.4	16,250.3	15,665.9	11,808.4
Property, plant and equipment	3,798.3	2,673.0	2,945.8	3,155.2	3,306.9
Other non-current assets	8,299.9	7,694.5	8,860.1	9,550.4	10,246.5
Non-current Assets	12,098.2	10,367.5	11,805.9	12,705.6	13,553.4
Total assets	30,055.6	31,554.8	28,056.2	28,371.5	25,361.7
Trade and other payables	8,124.2	7,978.8	7,151.4	7,246.6	5,669.9
Borrowings (current)	516.7	1,795.6	1,399.2	1,383.7	1,082.7
Other current liabilities	701.2	1,199.4	922.1	721.8	674.0
Current Liabilities	9,342.0	10,973.9	9,472.6	9,352.1	7,426.6
Borrowings (non-current)	6,582.9	5,586.9	6,218.6	6,149.8	4,811.8
Other non-current liabilities	441.9	266.4	266.4	266.4	266.4
Non-current liabilities	7,024.8	5,853.3	6,485.0	6,416.3	5,078.2
Shareholders equity	9,701.2	10,380.8	11,114.0	11,558.8	11,760.3
Non-controlling interests	3,987.7	4,346.9	984.6	1,044.4	1,096.7
Total Equity	13,688.9	14,727.6	12,098.6	12,603.2	12,856.9
Total Liabilities and Equity	30,055.6	31,554.8	28,056.2	28,371.5	25,361.7
CASH FLOW STATEMENT (\$m)	2013	2014	2015F	2016F	2017F
Net income before tax	2,793.7	2,888.6	1,911.5	1,571.1	1,272.4
Depreciation & non cash adjustments	(1,016.8)	129.9	(2,762.7)	29.9	3.9
Change in Working Capital	(447.3)	(2,537.8)	748.7	(359.8)	1,400.4
Income Tax Paid	(584.9)	(328.0)	(583.3)	(451.8)	(251.5)
Interest Paid	(120.1)	(130.8)	(138.3)	(136.8)	(107.0)
CF from operating activities	624.7	21.8	(824.2)	652.7	2,318.2
Purchase/Disposal of PPE	(936.1)	(594.9)	(535.4)	(481.9)	(433.7)
Other CFI	258.2	1,471.5	(600.0)	(500.0)	(500.0)
CF from investing activities	(677.9)	876.6	(1,135.4)	(981.9)	(933.7)
Dividends Paid	(668.5)	(762.9)	(866.5)	(815.0)	(815.0)
Debt Raised / (Repaid)	2,130.1	271.5	235.2	(84.2)	(1,639.1)
Equity Raised / (Bought Back)	39.7	34.3	0.0	0.0	0.0
Other Cash from Financing	26.2	(311.7)	0.0	0.0	0.0
CF from financing activities	1,527.6	(768.8)	(631.3)	(899.2)	(2,454.1)
Net increase in cash & cash equiv.	1,509.0	171.8	(2,548.7)	(1,186.2)	(1,027.4)
FX effects	34.6	42.2	42.2	42.2	42.2
Beginning Cash	4,055.2	5,564.2	5,736.0	3,187.3	2,001.1
Ending Cash	6,009.7	6,107.5	3,558.7	2,372.5	1,345.1

KGI's Ratings

Rating	Definition
	KGI Fraser Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

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. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or re-distributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Fraser. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Fraser may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Fraser 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 KGI Fraser to be reliable. However, KGI Fraser makes no representation as to the accuracy or completeness of such sources or the Information and KGI Fraser accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Fraser and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Fraser and its connected persons are subject to change without notice. KGI Fraser reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Fraser, 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) KGI Fraser, 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; and (3) the officers, employees and representatives of KGI Fraser 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".)

However, as of the date of this report, neither KGI Fraser nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Fraser does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Fraser 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 KGI Fraser 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 KGI Fraser's total revenues, a portion of which are generated from KGI Fraser's business of dealing in securities.

Copyright 2015. KGI Fraser Securities Pte. Ltd. All rights reserved.