

COMPANY UPDATE

Keppel (KEP SP)

Focusing On Data Centres And Connectivity

DCs were a key focus of KEP's 3Q business update and rightly so, given that unlike its other DC-related competitors in the market, it can extract multiple fee-generation opportunities from this segment due to its position as an asset manager and operator. We also highlight its Bifrost fibre asset which starts operations in 2025 and will be a long-term revenue generator for KEP. Maintain BUY with a higher target price of S\$9.25.

WHAT'S NEW

- **A multi-faceted exposure to the data centre theme.** Last week, Keppel's (KEP) 3Q24 business update shined a spotlight on the company's data centre (DC) business which we believe has been underappreciated by the market, given its varied businesses and the geographies it is exposed to. The key attraction of DCs for KEP is its ability to extract multiple revenue streams from this asset class as both an owner and operator via development fees, asset management fees as well as gains from disposal of the asset. In addition, KEP can leverage its operating track record and client relationships to enter new markets as shown by its new DC assets in Japan and Taiwan that were announced recently.
- **Growing its DC exposure.** Excluding Keppel DC REIT, KEP itself has 10 DC assets valued at S\$1.8b held within the company and its private funds (see table overleaf). Including KDCREIT, the company has 35 DCs across Asia Pacific and Europe with 650MW of gross power capacity. Of this, 70% is operational and the rest is being developed. In the near term, KEP has flagged that it will look to grow this capacity by another 500MW to nearly 1.2GW. The company anticipates that this will be fuelled by funds from its upcoming Data Centre Fund III as well as other co-investments.
- **Float that data centre.** KEP will be pioneering a floating data centre park (FDCP) in 2025. The asset will be modular in nature, allowing for quick scalability depending on customer demand. More importantly, this will increase cooling efficiency by up to 80% as it will use seawater (not potable or industrial water) given its near-shore location. Undoubtedly, this type of location will help free up valuable land for other urban uses in a land-scarce city like Singapore.

KEY FINANCIALS

Year to 31 Dec (\$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	13.2	12.8	11.9
P/B (x)	1.0	1.1	1.1	1.1	1.0
EV/EBITDA (x)	27.9	17.4	15.2	14.8	13.7
Dividend yield (%)	5.1	5.2	5.7	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	-	-	811	1,005	1,183
UOBKH/Consensus (x)	-	-	1.12	0.93	0.84

Source: Keppel Ltd., Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$6.50
Target Price	S\$9.25
Upside	+42.3%
(Previous TP)	S\$8.86)

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):	1,806.1
Market cap (S\$m):	11,739.6
Market cap (US\$m):	8,864.7
3-mth avg daily t'over (US\$m):	20.8

Price Performance (%)

52-week high/low			S\$7.45/S\$5.76	
1mth	3mth	6mth	1yr	YTD
(1.8)	(0.6)	(5.0)	4.2	(8.1)

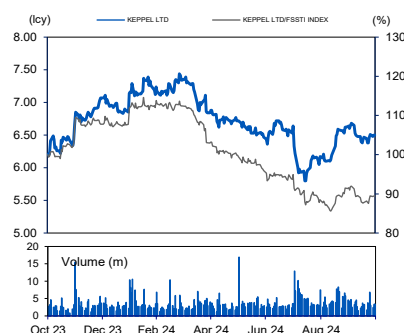
Major Shareholders

Temasek Hldgs	21.2
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FY24 NAV/Share (S\$)	5.98
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FY24 Net Debt/Share (S\$)	5.75
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PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **New power generation options.** KEP has announced a number of JVs and collaborations with companies such as Toll Group, Royal Vopak and Mitsubishi Heavy Industries to explore LNG and/or hydrogen power for the FDCP. Traditional DCs have had issues regarding the usage of expensive land, cooling and energy usage whereas KEP's forward strategic planning for powering its FDCP appears to ameliorate a number of these issues.
- **Bifrost – a new revenue stream in 2025.** In addition to highlighting its DC exposure during its 3Q business update, KEP also touched upon its Bifrost asset which is a 10.4Tbps 20,000km trans-Pacific cable system connecting Singapore to the west coast of the US. The asset is expected to start operations in 1H25 and more importantly, unlike other trans-Pacific cables, Bifrost takes a southern route (see map overleaf) via Indonesia and the Philippines, thus avoiding the more politically sensitive northern route via 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 continues to witness strong demand for its fibre pairs, although it did not disclose how many pairs it owns, but that it has sold two pairs. Since its first sale in 2021, management commented that prices have "more than doubled".
- **Bifrost valuation: Between S\$0.26-0.78/share.** Using KEP's US\$100m sale of one pair of its Bifrost cables to Converge in 2022, a comparable valuation of its remaining five pairs of fibre would equate to S\$0.36/share (see table on RHS). As stated by the management, prices have more than doubled since this sale and thus could be worth S\$0.72/share at the high end. Alternatively, we use a price/sales multiple of 2-3x and assume current industry revenue per Gbps/month to arrive at an EV of between S\$0.26-0.78/share (see table on RHS). Note that the sale of its fibre pair to Converge has not been recognised by KEP yet, with recognition only upon completion and commissioning in 1H25.
- **Recurring income from Bifrost.** The above asset valuations exclude operations and maintenance revenue of S\$200m per fibre pair over 25 years, or S\$16m/year. Assuming an 8% discount rate and a 2% p.a. escalation after year 5, we arrive at an NPV of S\$190m or S\$0.11/share for the two pairs that it has sold.
- **Significant interest in DC-related funds.** At present, KEP has two DC funds in its asset management arm, namely the Alpha Data Centre Fund and the Keppel DC Fund II. Funds under management (FUM) for these two funds total S\$4.8b with KEP in the process of raising a third US\$2b fund called Data Centre Fund III. Management has stated that that there is a high level of interest from investors, and the company expects a first close by end-24.
- **Positive macro backdrop for KEP.** 1H24 saw the company's interest expenses rise 31% yoy to S\$194m for 1H24 (net debt at end-1H24: S\$10.5b). In the past year, the management seemed sanguine about its higher debt levels, stating that with its higher recurring income, it is comfortable at the current 3.7x net debt/EBITDA and is less concerned about its net gearing levels. Thus, the US Fed's 50bp interest rate cut in mid-Sep 24 has two potential positive outcomes for KEP: a) lower interest expenses going forward, and b) M&A markets should "loosen up" and therefore allow a faster pace of capital recycling. In addition, China's wave of stimulus measures in late-Sep 24 should see asset managers such as KEP, with its material key assets in China, witness a reinvigorated capital-recycling landscape, potentially leading to valuation upside over the next 6-12 months.

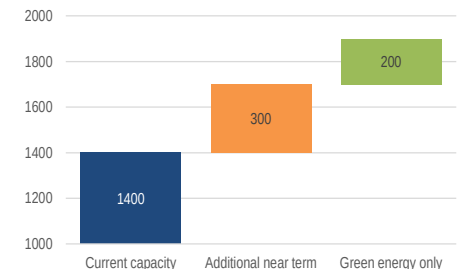
EARNINGS REVISION/RISK

- **Earnings revision: None.**

VALUATION/RECOMMENDATION

- **We maintain our BUY rating on KEP.** We have raised our SOTP-based target price by 4% to S\$9.25/share (previously S\$8.86/share) as we increase our P/B target multiple for the company's connectivity segment from 1.5x to 2.0x. We believe that this S\$0.36/share increase adequately reflects the medium-term valuation upside from KEP's DC and Bifrost assets that we have outlined above. In the near to medium term, earnings from its infrastructure segment will be underpinned by the fact that more than 70% of its contracted

SINGAPORE'S DATA CENTRE ROADMAP (MW)



Source: KEP

BIFROST VALUATION

A) Comparable transactions

Sale price of 1 pair to Converge (US\$m)	100
No. of pairs owned by KEP	5
Implied valuation (US\$m)	500
Implied valuation (S\$m) ¹	650
Implied valuation (S\$/share)	0.36

B) Price/sales valuation

	Min	Max
Revenue per Gbps/month (US\$)	1,000	2,000
Revenue per Gbps/year (US\$)	12,000	24,000
Revenue per 10Gbps/year (US\$m)	120	240
KEP revenue: 5 x fibre pairs (US\$m)	600	1,200
Multiple of revenue (x)	2.0	3.0
Value attributable to KEP (US\$m)	1,200	3,600
Value attributable to KEP (S\$m) ¹	1,560	4,680
Value attributable to KEP (S\$/share)	0.87	2.60
Less: net debt ²	0.61	1.82
Enterprise value (S\$/share)	0.26	0.78

Note: ¹USD/SGD forex rate of S\$1.30; ²70% debt/equity

Source: UOB Kay Hian estimates

KEP'S DATA CENTRE PORTFOLIO

	Owned by Keppel DC REIT	Owned by KEP & private funds
Geographical presence	Asia Pacific, Europe	Asia Pacific, Europe
No. of assets	23	10
Attributable lettable area	3.03m sq.ft	1.59m sq.ft
Valuation	S\$3,900m	S\$1,800m
Valuation per sq.ft	S\$1,285.7/sf	S\$1,129.8/sf

Source: KEP

SOTP VALUATION

Segment	S\$m	S\$/share
Infrastructure & others	4,893	2.71
Property	3,432	1.90
Connectivity	2,550	1.41
Asset Management	2,100	1.16
Sino-Singapore Tianjin Eco-City	458	0.25
KREIT	1,522	0.84
Keppel DC REIT	880	0.49
Others	1,271	0.71
Merger & Asset Co	4,979	2.76
Less net debt		-2.99
Total EV		9.25

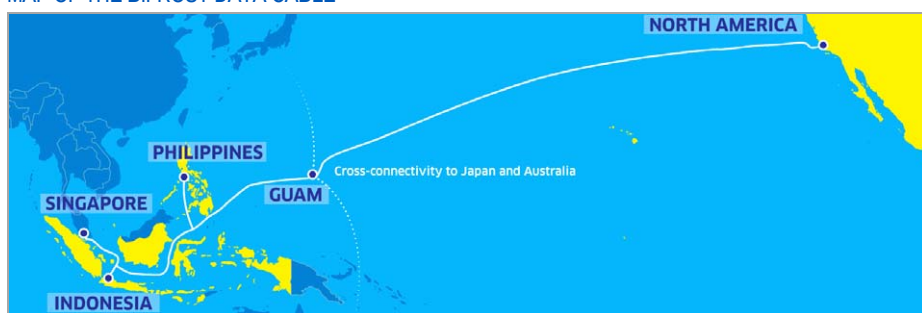
Source: UOB Kay Hian estimates

generation capacity in Singapore is locked in for three years or more. KEP currently trades at 2024F PE of 13.2x 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 and instead replaced with asset management fees as well as operation and maintenance fees from Bifrost for example.

SHARE PRICE CATALYSTS

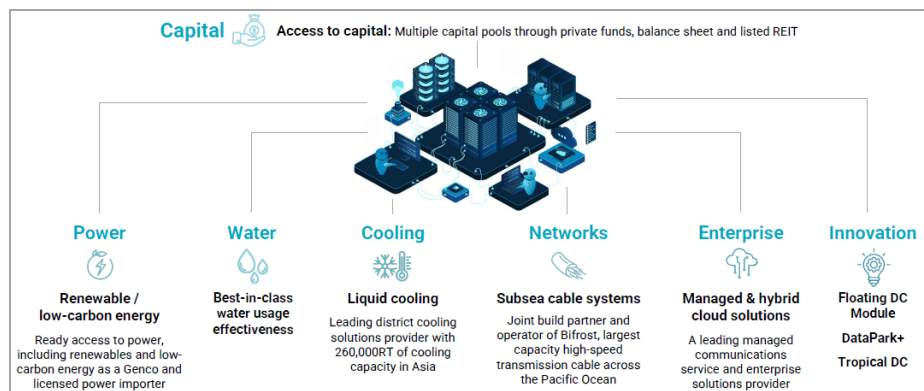
- a) The DC-related catalysts are: a) divestment of Genting Lane DC and delivery of the FDCP; b) successful sale of rigs within Asset Co and earlier-than-expected return of credit notes; c) continued growth in AUM of its asset management business; and d) earnings-accretive investments and contract wins in its infrastructure segment.

MAP OF THE BIFROST DATA CABLE



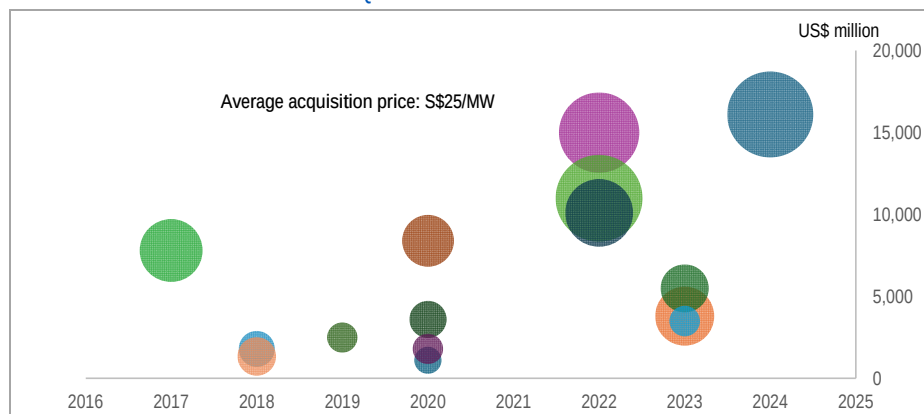
Source: Alcatel Submarine Networks

KEPPEL'S INTEGRATED DATA CENTRE ECOSYSTEM



Source: Keppel 3Q24 Business Update

SIZE OF DATA CENTRE MERGER & ACQUISITIONS: 2017-2024



Note: Size of bubble represents power capacity of asset acquired in MW

Source: Companies, UOB Kay Hian

MAJOR DATA CENTRE DEALS: 2017-2024

Buyer(s)	Asset/Seller	Size (MW)	US\$m
Blackstone, CPPIB	Airtrunk	800	16,100
Brookfield	Data4	380	3,800
Brookfield	Compass DC	250	5,500
Digital Realty	Teraco	100	3,500
KKR, GIP	CyrusOne	700	15,000
DigitalBridge, IFM	Switch Inc	815	11,000
American Tower	Coresite	500	10,100
Digital Realty	Interxion	290	8,400
Equinix	Verizon DC	150	3,600
Brookfield	AT&T DC portfolio	80	1,100
Digital Realty	Ascenty	100	1,800
EQT	EdgeConneX	100	2,500
Digital Realty	Ascenty	140	1,800
Iron Mountain	IO Data Centers	162	1,340
Digital Realty	DuPont Fabros	430	7,800

Note: Not an exhaustive list, only M&A deals with detailed information has been included

Source: Companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	6,966	6,792	7,184	7,613
EBITDA	1,297	1,485	1,518	1,649
Deprec. & amort.	221	210	264	317
EBIT	1,076	1,275	1,254	1,332
Total other non-operating income	3,181	0	0	2
Associate contributions	322	120	120	120
Net interest income/(expense)	(185)	(237)	(177)	(177)
Pre-tax profit	4,395	1,159	1,198	1,277
Tax	(290)	(290)	(299)	(319)
Minorities	38	36	37	40
Net profit	4,144	905	936	998
Net profit (adj.)	4,144	905	936	998

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	902	967	1,433	1,846
Other LT assets	19,570	20,243	19,720	19,642
Cash/ST investment	1,266	1,440	2,068	2,134
Other current assets	5,100	5,073	4,556	4,728
Total assets	26,838	27,723	27,778	28,350
ST debt	2,459	2,277	2,277	2,277
Other current liabilities	3,680	3,921	3,640	3,853
LT debt	8,538	9,635	9,635	9,635
Other LT liabilities	1,145	701	701	701
Shareholders' equity	10,709	10,886	11,260	11,659
Minority interest	308	302	264	225
Total liabilities & equity	26,838	27,723	27,778	28,351

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	58	1,148	1,278	1,194
Pre-tax profit	1,214	1,159	1,198	1,276
Tax	(116)	(388)	(290)	(299)
Deprec. & amort.	221	210	264	317
Associates	0	0	0	1
Working capital changes	(398)	287	226	22
Non-cash items	0	0	0	1
Other operating cashflows	(863)	(120)	(120)	(123)
Investing	(943)	(812)	(530)	(530)
Capex (growth)	(921)	(750)	(750)	(750)
Investment	86	(100)	200	200
Proceeds from sale of assets	411	190	20	20
Others	(519)	(152)	0	0
Financing	723	352	35	(2)
Dividend payments	(609)	(679)	(562)	(599)
Proceeds from borrowings	1,376	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(44)	1,031	597	597
Net cash inflow (outflow)	(161)	689	782	662
Beginning cash & cash equivalent	2,823	2,662	3,351	4,133
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,662	3,351	4,133	4,795

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

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