Keppel Corporation Ltd

New order wins bringing total 2012 to S$9.9b

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Industry: Conglomerate

Phillip Securities Research Pte Ltd

31 December 2012

Report type: Update

Company Overview
Keppel Corporation is a diversified conglomerate with four core business segments: Offshore & Marine, Infrastructure, Property, and Investments.

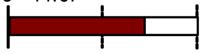
- Awarded three new contracts worth S$420m
- Offshore & marine prospects remain strong
- Maintain Accumulate with SOTP based TP of S$12.38

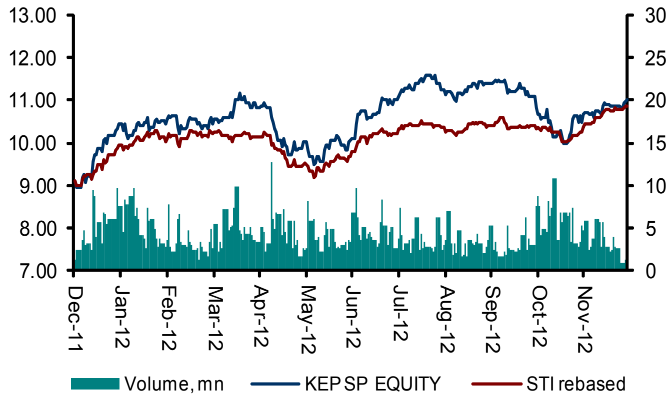
What is the news?
Keppel O&M has recently secured three new contracts worth a total of S$420m. The contracts include the (1) building of a high-specification deepwater pipelay (S-Lay) vessel for Hydro Marine Services, a subsidiary of McDermott International (scheduled to begin in 1Q13 and to complete in 2.5 years), (2) building of a catamaran air dive support vessel for Australia-based Bhagwan Marine, an offshore oil and gas services provider (scheduled for completion in 1Q14) and (3) modifying and upgrading of a floating production storage and offloading (FPSO) facility for EMAS Offshore Construction and Production (scheduled for completion in 2Q13).

How do we view this?
These new contract wins are encouraging and positive. The S$420m contracts would add 4% to order book, bringing the total to S$9.9b for 2012, just S$0.1b less than its 2011 record of S$10b. We set our order target for 2013 at S$5.9b. We believe the long-term O&M prospects remain strong as there are still robust demand for premium jack-ups, ultra-deepwater rigs and other offshore related assets.

Investment Actions?
Trading at FY13E PER of 12.6x with ROE of 18.2% and a dividend yield of 4.0%, Keppel is attractively valued, in our view. Balance sheet is strong. We believe Keppel is well positioned with its commitment to improve productivity and competencies of its regional satellite yards to meet heavier workload requirements. Our SOTP-based target price is S$12.38. Key risks include significant downtrend in oil prices, greater-than-expected US$ depreciation against S$, and execution of contracts (see page 3 for more information).

Keppel Corporation Ltd		
Rating	**2**	**Accumulate**
- Previous Rating	*2*	*Accumulate*
Target Price (SGD)	**12.38**	
- Previous Target Price (SGD)	*11.68*	
Closing Price (SGD)	11.00	
Expected Capital Gains (%)	12.5%	
Expected Dividend Yield (%)	4.0%	
Expected Total Return (%)	**16.5%**	
Raw Beta (Past 2yrs weekly data)	1.42	
Market Cap. (USD mn)	16,165	
Enterprise Value (USD mn)	21,712	
3M Average Daily T/O (mn)	4.2	
52 week range (SGD)	9.3 - 11.67	
Closing Price in 52 week range		





Major Shareholders	**(%)**
1. Temasek Holdings Pte Ltd	21.2
2. Blackrock Fund Advisors	5.0
3. Aberdeen Asset Management	1.5

Key Financial Summary

FYE	**12/10**	**12/11**	**12/12F**	**12/13F**
Revenue (SGD mn)	9,140	10,082	14,056	13,649
Net Profit, adj. (SGD mn)	1,307	1,491	1,955	1,598
EPS, adj. (SGD)	0.74	0.83	1.08	0.88
P/E (X),adj.	14.9	13.3	10.2	12.5
BVPS (SGD)	3.62	4.11	4.66	5.03
P/B (X)	3.0	2.7	2.4	2.2
DPS (SGD)	0.38	0.43	0.44	0.45
Div. Yield (%)	3.5%	3.9%	4.0%	4.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method
SOTP

Analyst
Nicholas Ong
nicholasonghg@phillip.com.sg
+65 6531 5440

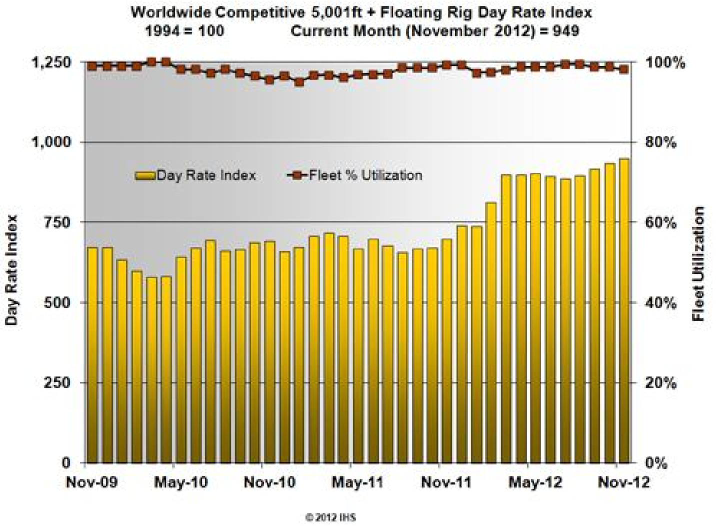
INVESTMENT SUMMARY

We re-initiate coverage on Keppel Corporation Limited with an Accumulate rating and Dec-13 SOTP-based price target of S$12.38. The company is one of Singapore's largest conglomerates, engaging in the offshore and marine (O&M), property, infrastructure, and investment businesses.

Favorable O&M outlook

The offshore and marine (O&M) sector remains robust, driven by the persistently high oil prices with Brent trading above USD$100/bbl. Despite sizeable delivery of premium jack-ups and drillships, we see tightening of rig capacity, particularly for the ultra-deepwater segments. Along with this, day rate index level for ultra-deepwater rigs have reached an all time high of 949 in this year, the highest since records began in 1994, as shown in the figure below.

Fig 1: Worldwide Competitive 5,001+ Floating Rig Day Rate Index

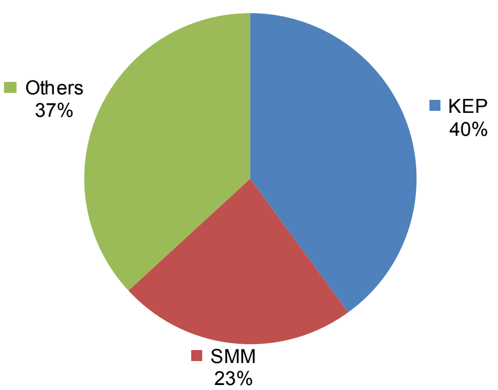


Source: ODS Petrodata; Phillip Securities Research

Substantial market share in jack-ups and semi-subs

Keppel is one of the world's leading builders of jack-ups and semi-subs.

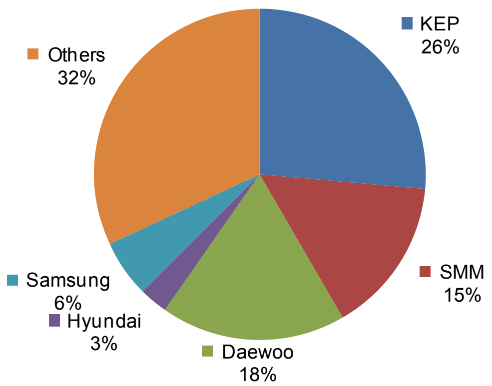
Fig 2: Market share in jack-up orders since 2004



Source: Company, Phillip Securities Research

It has built c.40% of the jack-ups ordered since 2004 and c.26% of the semi-subs ordered during the same period. Despite rising competition from desperate yards looking to fill their depleting shipbuilding orderbooks, we think Keppel should remain the go-to yard for high-spec jack-ups, semi-subs and FPSOs conversion due to its solid execution track record and global yard network.

Fig 3: Market share in semi-sub orders since 2004

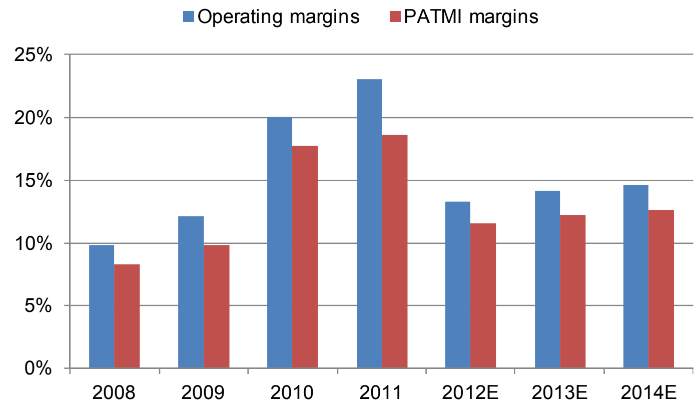


Source: Company, Phillip Securities Research

Strong O&M earnings visibility amidst steady margins

We expect O&M margins to hover around 13%-14% in FY12E-13E, before picking up in FY14E on improving productivity of its satellite yards. Given the strong net orderbook of S$13.1b (as at 30 Sep 2012) with deliveries stretching to 2019, we see strong O&M earnings visibility for the next few years. In particular, we expect stronger O&M earnings for FY13E on the back of steady margins and an increase in revenue.

Fig 4: Keppel O&M margins

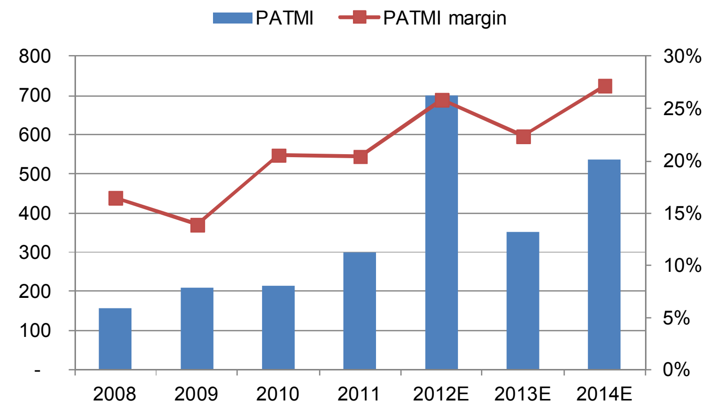


Source: Company, Phillip Securities Research

Lumpy earnings growth from Property segment

Given the change in Singapore's accounting policy in 2011, which recognizes revenue and profit on completion for overseas residential projects as well as Singapore units sold under the deferred payment scheme, we expect earnings to be lumpy going forward. Property earnings in 1H12 saw a big jump, thanks to the completion of the Reflections @ Keppel Bay project. We expect Property earnings to be lower in 2013, due to the lack of significant one-off profits which we saw in 2012.

Fig 5: Keppel Property PATMI & PATMI margin



Source: Company, Phillip Securities Research

RISKS TO OUR THESIS

Strong oil price downtrend

Despite heightened macro concerns, we think that Brent prices will stay resilient and remain above US$100/bbl going into 2013. However, a prolonged global economic downturn and higher alternative energy sources demand are likely to result in a sharp and sustained plunge in the oil price. This, in turn, may affect E&P plans and will lead to lower demand for offshore E&P activities.

Project execution

Given that rig building involves tens of thousands of components, hundreds of vendors, and multiple interfaces with customers, design firms, suppliers, etc., there are high risks of project cost overruns and poor executions may negatively impact the margins of the builder. That said, Keppel has a long track record of building rigs profitably, often delivering projects ahead of schedule.

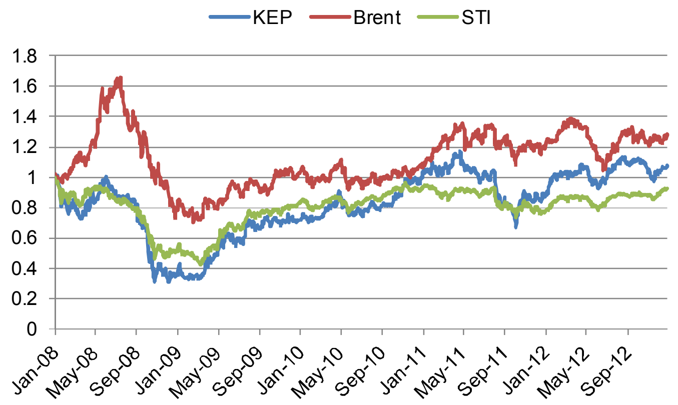
Foreign currency risk

Keppel's operation is exposed to considerable foreign currency risk. For instance, the O&M segment has costs and revenue denominated largely in US$, while the company's reporting currency is in S$. That said, Keppel has indicated that it does not engage in foreign currency trading, and typically hedges most of its net US$ positions, which considerably lowers the foreign currency risks. In its 2011 annual report, the company estimated that a 5% strengthening of S$ against US$ could have a 0.6% erosion on its earnings.

SHARE PRICE PERFORMANCE

Share price performance of Keppel Corporation has been in tandem with oil price movements.

Fig 6: Share price correlation with Brent crude oil (r = 0.89) & STI (r = 0.91)
Rebased to 100



Source: Bloomberg, Phillip Securities Research

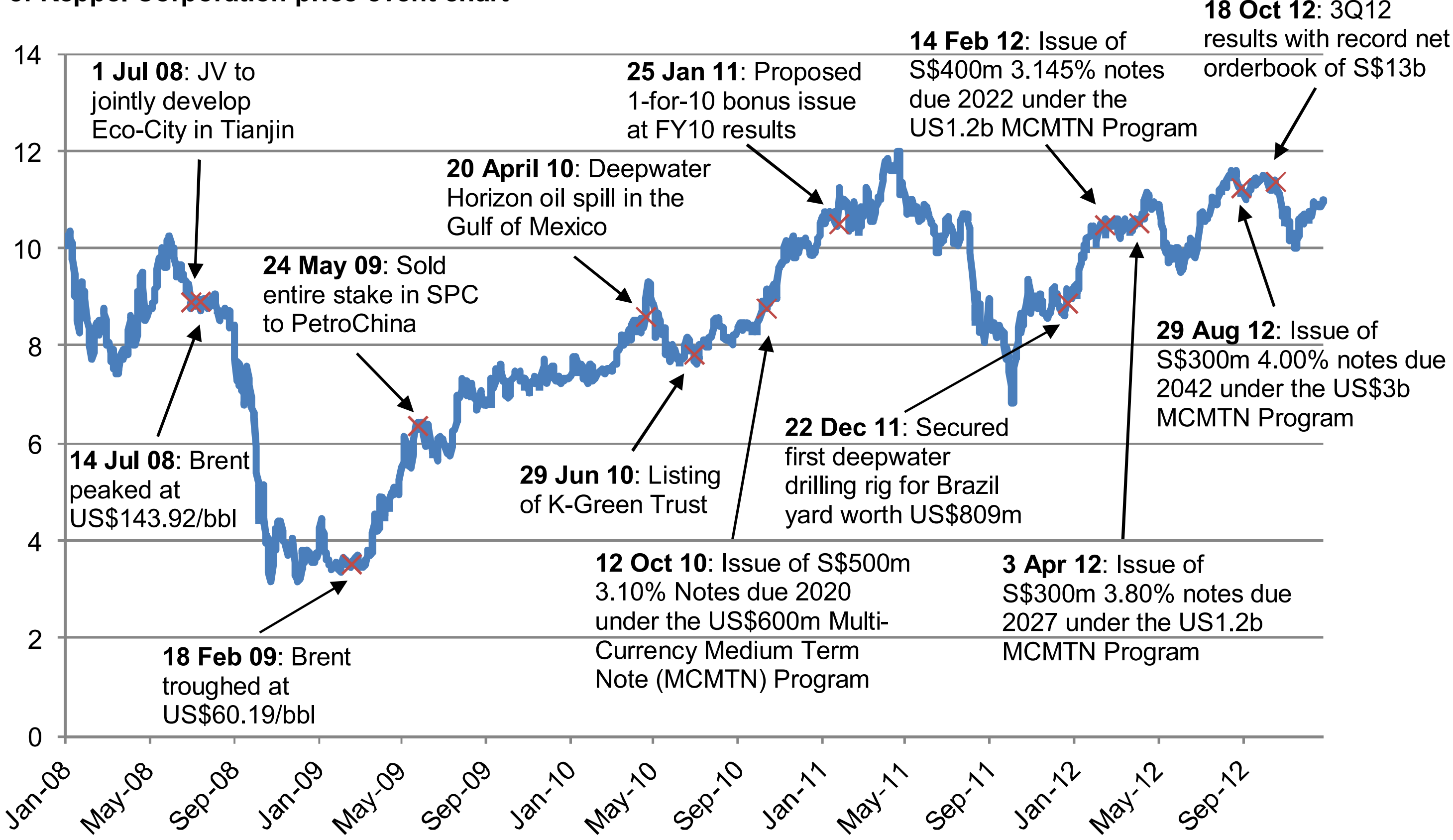
Fig 7: Share price correlation with Brent crude oil

Correlation - r	Brent
Keppel Corp	0.89
Sembcorp Marine	0.90
Samsung	0.77
Daewoo	0.68
Hyundai	0.58
COSCO Corp	0.22
STX Offshore & Shipbuilding	0.20
Average	0.61

Source: Bloomberg, Phillip Securities Research

Among its peers, Keppel's share price movement has the second highest correlation with Brent crude oil prices due its high O&M exposure.

Fig 8: Keppel Corporation price-event chart



Source: Bloomberg, Phillip Securities Research

VALUATION & SENSITIVITY ANALYSIS

Key assumptions

New orders wins
KEP order win for 2012 is S$9.9b.
We assume S$5.9b order wins for FY13E and FY14E.

Property
We assume Property earnings to drop in FY13E as most of the earnings from Reflections @ Keppel Bay have been recognized in FY12E.

Offshore & marine
We assume O&M EBITDA margins stabilizing around 15%-16% in FY12-13E before recovering in FY14E.

Fig 9: Key operating assumptions

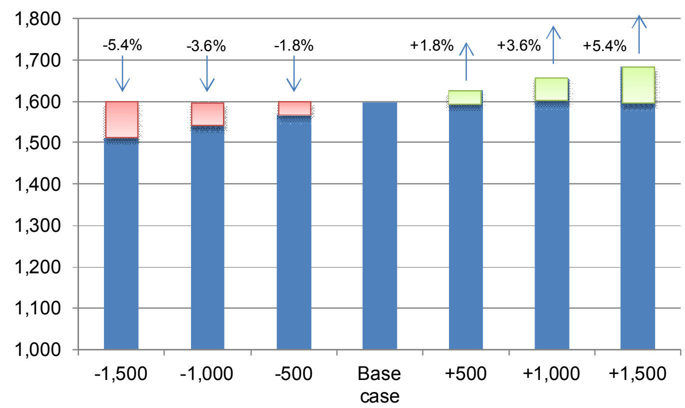
S$ in millions unless otherwise stated	FY09	FY10	FY11	FY12E	FY13E	FY14E
Revenue	**12,247**	**9,140**	**10,082**	**14,056**	**13,649**	**13,039**
Offshore & Marine	8,273	5,577	5,706	8,273	8,979	7,818
Infrastructure	2,427	2,510	2,862	2,917	3,063	3,216
Property	1,508	1,041	1,467	2,715	1,572	1,970
Investments	39	11	47	151	35	35
%Revenue growth	**4%**	**-25%**	**10%**	**39%**	**-3%**	**-4%**
Offshore & Marine	-3%	-33%	2%	45%	9%	-13%
Infrastructure	9%	3%	14%	2%	5%	5%
Property	59%	-31%	41%	85%	-42%	25%
Investments	-28%	-72%	327%	221%	-77%	1%
New orders wins	1,674	3,211	10,011	9,900	5,900	5,900
EBITDA	1,679	1,745	2,106	2,326	2,046	2,188
Offshore & Marine	1,129	1,252	1,459	1,241	1,418	1,297
Infrastructure	161	120	155	184	195	207
Property	385	363	472	847	420	671
Investments	4	10	20	54	13	13
%EBITDA margin	**14%**	**19%**	**21%**	**17%**	**15%**	**17%**
Offshore & Marine	14%	22%	26%	15%	16%	17%
Infrastructure	7%	5%	5%	6%	6%	6%
Property	26%	35%	32%	31%	27%	34%
Investments	10%	88%	42%	36%	36%	37%

Source: Company, Phillip Securities Research

New orders sensitivity analysis

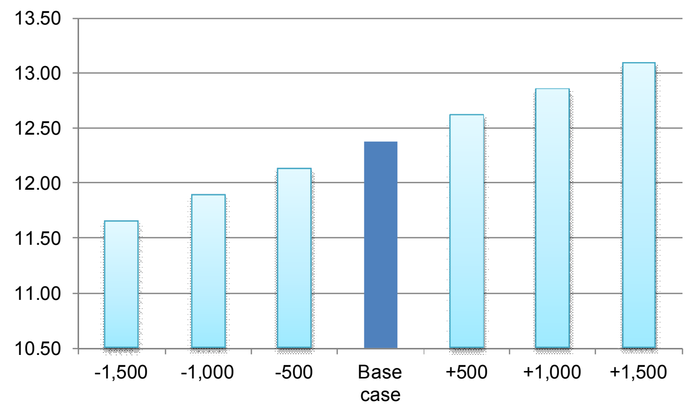
Given that more than 70% of Keppel's overall earnings and valuation are attributed from its O&M business, ensuring a steady new order inflow is extremely important for the overall performance of the company. We analyze the sensitivity of current year order inflow variation to following year's earnings and valuation.

Fig 10: FY13E core net income sensitivity on new orders



Source: Phillip Securities Research

Fig 11: Price target sensitivity on new orders

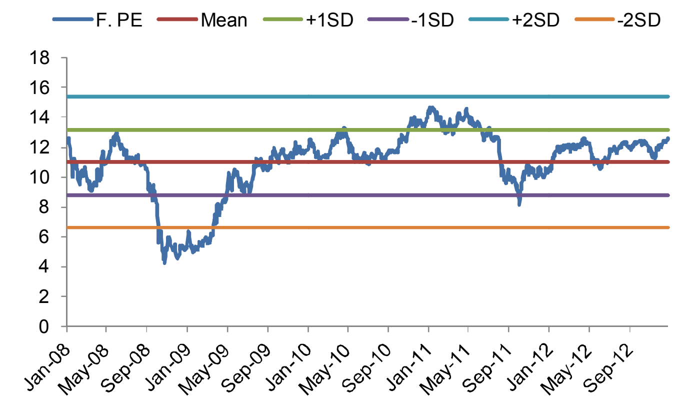


Source: Phillip Securities Research

Historical trading range

Keppel is currently trading at a 12-month rolling forward P/E of 12.6x, which is just above its historical mean forward P/E. We believe Keppel global reputation and strong foothold in the construction of harsh environmental rigs (offshore & marine), should accord it a higher valuation than its peers.

Fig 12: 12-month forward P/E



Source: Bloomberg, Phillip Securities Research

Dec-13 sum-of-the-parts (SOTP) price target of S$12.38

Hence, we attempt to look at Keppel's valuation from a sum-of-the-parts perspective based on appropriate earnings multiple, NAV and current market cap applied to each individual business segment. We use a 15x P/E for the offshore & marine business and a 10x P/E for the infrastructure (Keppel Energy & Others) business. For property, we have applied our target price for Keppel Land, while for Keppel Bay and Tianjin Eco City, we have used a NAV approach. For Keppel Reit, Keppel Green Trust, Keppel T&T and k1 Ventures, we have used current market cap. We arrive at a SOTP valuation of S$12.38 which would present a 16.5% upside from the current price levels.

Fig 13: Keppel Corporation sum-of-the-parts valuation

SOTP valuation					
S$m	% stake	Total value	Value of Keppel's stake	% of total SOTP	Methodology
Offshore & Marine	100%	16,518	16,518	72.8%	P/E of 15x for 2013E
Property - K Land	53%	5,065	2,685	11.8%	PSR TP
Property - K Bay	70%	973	681	3.0%	PSR estimate
Property - K REIT	30%	3,407	1,022	4.5%	Market value
Property - TEC	45%	75	34	0.1%	PSR estimate
Infrastructure - Keppel Energy & Others	100%	276	276	1.2%	P/E of 10x for 2013E
Infrastructure - Keppel Green Trust	49%	649	318	1.4%	Market value
Infrastructure - Keppel T&T	80%	761	608	2.7%	Market value
Investments - K1 Ventures	36%	320	115	0.5%	Market value
Total value (S$m)			22,257		
# shares outstanding			1,798		
Fair value per share (S$)			12.38		

Source: Bloomberg, Company, Phillip Securities Research

Risks to price target

Key downside risks to our price target include: (1) a significant downtrend in oil prices; (2) project execution; and (3) foreign exchange risk.

INDUSTRY ANALYSIS

Drilling market remains robust

Oil companies have been committing to multi-billion dollar contracts for ultra-deepwater rigs, based on the sustained high oil prices and operators' aims of meeting higher production targets. We think that yards will benefit from this in the short to medium term because:

1. Depleting availability for ultra-deepwater rigs. This is due to increase demand for ultra-deepwater development drilling relative to supply.

2. Oil companies continue to secure the remaining few ultra-deepwater rigs still available for hire with rig owners, pushing day-rates higher, taking up all available rig time in 2013.

3. On the shallow-water side, there were at least 85 jack-ups to be built by mid-2015. Albeit the pace of jack-up contract wins has toned down considerably, companies such as Rowan and Transocean are expecting demand for premium and standard jack-ups to continue to increase primarily by Southeast Asia, the Middle East and the North Sea markets. In addition, we also see demand coming from Mexico as Pemex may require 60 jack-ups over the next 5 years.

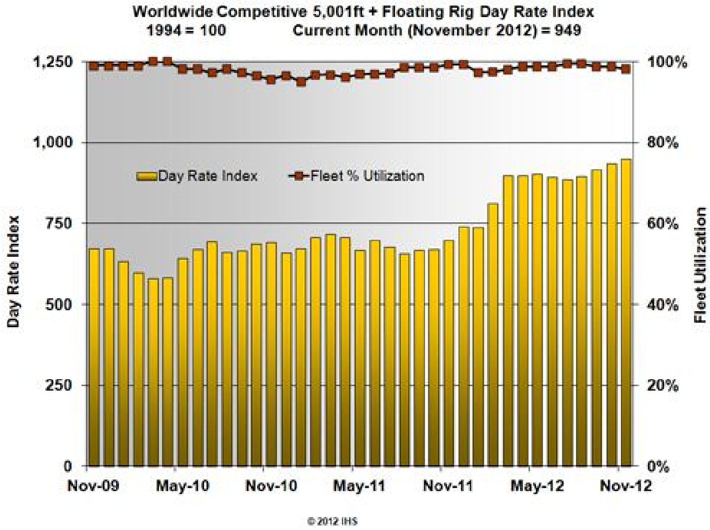
4. About half of the current jack-up fleet industry-wide is 30 years or older, representing aging fleet if the older jack-ups are not replaced. We think they will be stacked or scrapped as they are less favored relative to the newer jack-ups due to the latter's advanced capabilities and safer operations, hence lowering the overall fleet.

5. FPSO demand outlook appears positive. According to International Maritime Associates (IMA), there are 233 FPSO projects being planned this year, up 19% from 2011's figures, with Southeast Asia and Brazil being the areas that account for the bulk of the planned projects. We think there could be a spur in FPSO ordering.

Ultra-deepwater floating rigs are still in demand

According to BP, deepwater resources contribute about 7% to global oil production, a figure that is expected to rise to nearly 10% by 2020. The supply of ultra deepwater rigs (including available existing orders and new deliveries) shows that the probability of demand surpassing supply is high. The buoyant day rates, as shown in figure 14, further confirmed this.

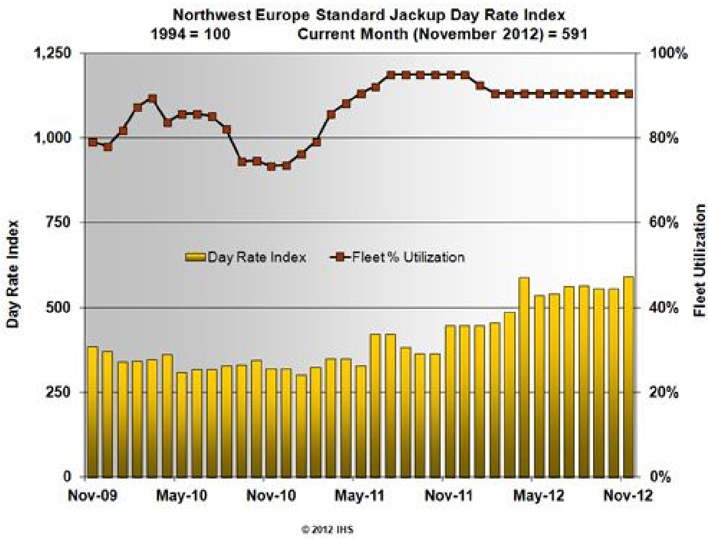
Fig 14: Worldwide Competitive 5,001+ Floating Rig Day Rate Index



Source: ODS Petrodata; Phillip Securities Research

Interestingly, the market over the last eight months in the Northwest Europe region has been significantly stronger, as seen in figure 15. With fleet utilization remaining at an average of 90% for the tenth consecutive month, we could see improving demand for standard jack-ups from this region.

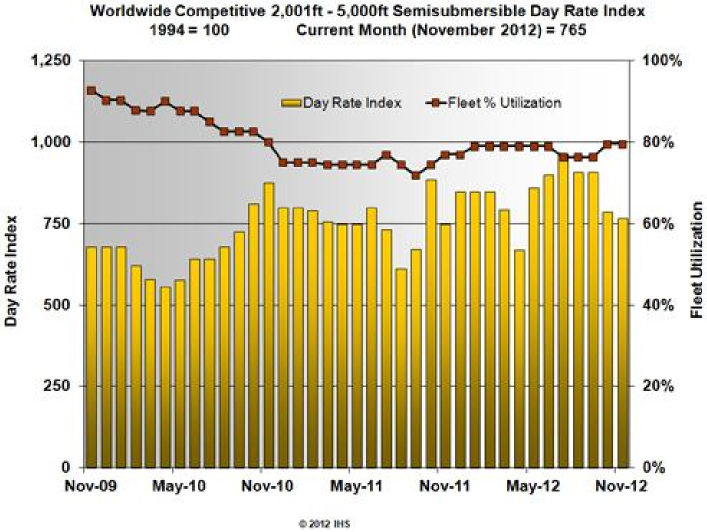
Fig 15: Northwest Europe Standard Jack-up Day Rate Index



Source: ODS Petrodata; Phillip Securities Research

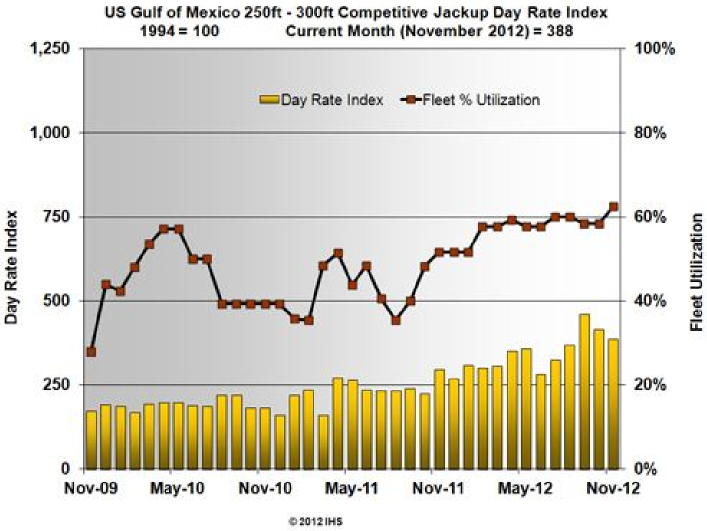
Shallower-water rigs are seeing some weakness, as shown in figure 16 & 17. This is in line with our view that exploration will focus on deeper water.

Fig 16: Worldwide Competitive 2,001-5,000 Semi Day Rate Index



Source: ODS Petrodata; Phillip Securities Research

Fig 17: US GOM 250-300 Jackup Day Rate Index



Source: ODS Petrodata; Phillip Securities Research

Ship repair and conversions (FPSO)

We think the ship repair and conversions segments will continue to contribute with strong and healthy cash flows. Given that these businesses are less cyclical in nature, demand should stay at decent levels. Having said that, we are concerned with the surplus capacity in shipbuilding. More yards could chase after this area as their facilities for building of newbuilds lacks work.

COMPANY BACKGROUND

Profile

Keppel Corporation (Keppel) is one of the largest Singapore-based conglomerates, engaging in four core businesses of Offshore & Marine (O&M), Infrastructure, Property and Investments. Major shareholders are state owned Temasek Holdings, with 21% stake. Albeit Keppel is a conglomerate with several business units, we expect the O&M business to be the key driver for the share price going forward, as it contributes about 70% of both FY11 EBITDA earnings and our SOTP valuation.

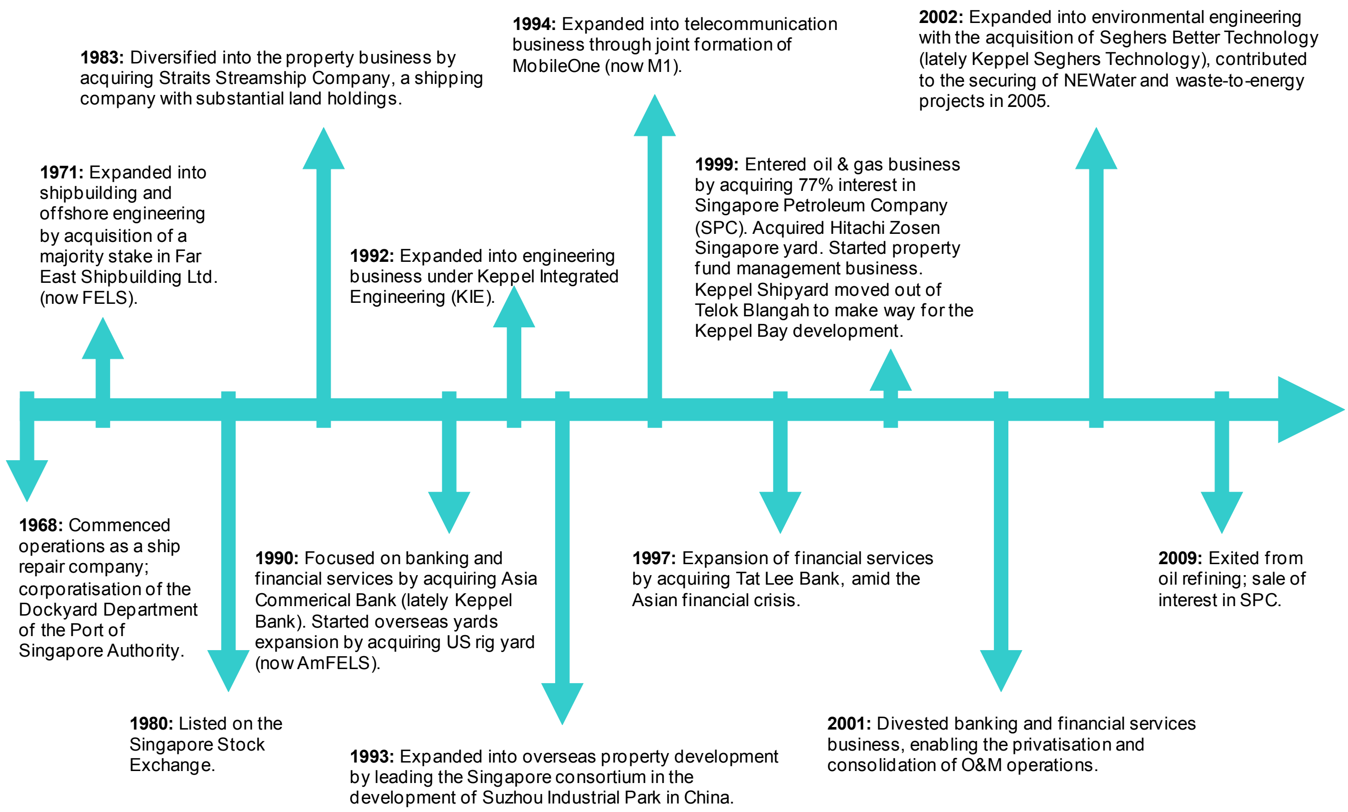
Fig 18: Operations spread across the globe

Source: Company

History

The company started out in 1968 as a ship repair yard, incorporated from the Dockyard Department of the Port of Singapore Authority. Over the years, it gradually acquired businesses in marine, property, financial services, telecom and oil & gas, but divested some of these businesses in the 2000s.

Fig 19: Key milestones



Source: Company, Phillip Securities Research

Key business segments

Offshore and Marine (O&M)

Keppel O&M is a leader in offshore rigs, conversions & repairs, and specialized vessels. Its 'near market, near-customer' strategy is boosted by its network of 20 yards globally in the Asia Pacific, Brazil, the Caspian Sea, Gulf of Mexico, Middle East and the North Sea regions.

In the rig building business, Keppel FELS is the market leader in the construction and design of offshore drilling rigs, specifically the jack-ups and semi-submersibles.

Over at the offshore construction segment, Keppel Shipyard is the global leader in the conversion, repair and upgrading of a wide range of vessels. These include the FPSO and FSO conversions, as well as repairs of LNG and LPG carriers.

In the specialized Offshore vessels business, Keppel Singmarine has the experience in building more than 400 offshore support vessels (OSVs), including anchor handling tugs/supply vessels (AHTSs), platform supply vessels (PSVs) and tug-boats.

Infrastructure

Keppel's infrastructure segment provides services in power & gas, environmental engineering, logistics and data centres.

In the power & gas business, Keppel Energy has a track record of developing, owning and operating power plants in China and Nicaragua. In Singapore, it operates an integrated utility business which includes (1) Keppel Merlimau Cogen, a 500MW power plant (currently undergoing an 800MW expansion, expected to be completed by first half of 2013), (2) Keppel Electric, an independent electricity retailer, and (3) Keppel Gas, which imports and distributes natural gas in Singapore.

Keppel Integrated Engineering (KIE) is the wholly-owned subsidiary environmental engineering arm of Keppel, which offers design, construction and operaion of plants and equipments in the environmental industry. KIE's subsidiary, Keppel Seghers, it provides advanced technology solutions for a diverse range of environmental issues such as wastewater treatments, solid waste treatments. Another KIE subsidiary, Keppel FMO, is a reputable facilities management (FM) services company.

Keppel Telecommunications & Transportation (KTT) is the logistics and data centres business of Keppel, with Keppel holding an 80% stake. Through its subsidiary, Keppel Data Centres Holding, it is a leading provider of energy-efficient and resilient data centre co-location services. Keppel Logistics, another KTT's subsidiary, is one of the top third-party logistics companies in the Asia Pacific region, which offers one-stop integrated supply chain solutions.

Property

Keppel holds direct stakes in the key Singapore-listed Keppel Land (KPLD, 53% ownership) and Keppel REIT (KREIT, 30% ownership). It also has a 100% stake in Alpha Investment Partners, and a 70% stake in Keppel Bay, a former shipyard converted into luxury residential housing. Keppel Land's core business are property development and property fund management, with property trading contributing the highest (about 70%) to the group's net profit in FY11.

Investment

Keppel has stakes in two key Singapore-listed companies: (1) K1 Ventures (KONE, 36% ownership), a diversified investment company with holdings in entities across different sectors of automotive retail, education, oil & gas, and transportation leasing, (2) M1 (20% ownership), the second cellular telephone operator in Singapore.

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FINANCIAL ANALYSIS

Offshore & Marine
O&M remains the pivot point in earnings performance.
Revenue increased by 2% to $5.7 bil in FY11 due to higher workload, as revenue recognition commenced on some of the orders secured since the last quarter of 2010.

Infrastructure
Despite lower revenue from Keppel Integrated Engineering, revenue from Infrastructure Division increased by 14% to $2,863 mil in FY11 due to higher revenue generated from cogen power plant in Singapore.

Property
Revenue of $1,467 mil was 41% more than that in FY10 due to higher revenue in FY11 from both overseas operations (completion of several projects/phases in India, China and Vietnam) and Singapore trading projects (Reflections at Keppel Bay, The Lakefront Residences, The Luxurie and Madison Residences).

Offshore & Marine
Margin improvement in FY11 from the completion of jobs secured prior to 2010 with higher margins and greater operating efficiencies.
We expect margins to come down from that level, as the factors driving them (higher productivity, better pricing of legacy orders secured during the peak cycle) reach saturation point, leaving little room for improvement.

Net profit (recurring)
In FY11, Offshore & Marine remained the largest contributor to net profit with 71% followed by Property Division with 20%, Infrastructure Division with 6% and Investments with 3%.

Fig 20: Profit and loss

S$ in millions, year-end December	FY09	FY10	FY11	FY12E	FY13E	FY14E
Revenue	12,247	9,140	10,082	14,056	13,649	13,039
Offshore & Marine	8,273	5,577	5,706	8,273	8,979	7,818
Infrastructure	2,427	2,510	2,862	2,917	3,063	3,216
Property	1,508	1,041	1,467	2,715	1,572	1,970
Investments	39	11	47	151	35	35
% Revenue growth	4%	-25%	10%	39%	-3%	-4%
Offshore & Marine	-3%	-33%	2%	45%	9%	-13%
Infrastructure	9%	3%	14%	2%	5%	5%
Property	59%	-31%	41%	85%	-42%	25%
Investments	-28%	-72%	327%	221%	-77%	1%
EBITDA	1,679	1,745	2,106	2,326	2,046	2,188
Offshore & Marine	1,129	1,252	1,459	1,241	1,418	1,297
Infrastructure	161	120	155	184	195	207
Property	385	363	472	847	420	671
Investments	4	10	20	54	13	13
% EBITDA growth	22%	4%	21%	10%	-12%	7%
Offshore & Marine	21%	11%	17%	-15%	14%	-9%
Infrastructure	96%	-26%	29%	19%	6%	6%
Property	14%	-6%	30%	80%	-50%	60%
Investments	-86%	158%	106%	173%	-77%	2%
% EBITDA margin	14%	19%	21%	17%	15%	17%
Offshore & Marine	14%	22%	26%	15%	16%	17%
Infrastructure	7%	5%	5%	6%	6%	6%
Property	26%	35%	32%	31%	27%	34%
Investments	10%	88%	42%	36%	36%	37%
EBIT	1,505	1,556	1,897	2,104	1,808	1,931
% EBIT growth	22%	3%	22%	11%	-14%	7%
% EBIT margin	12%	17%	19%	15%	13%	15%
Interest income	74	111	114	107	124	147
Interest expense	-50	-65	-98	-148	-148	-148
Profit before tax	2,178	2,550	3,313	2,621	2,145	2,283
Tax	-348	-560	-641	-428	-404	-417
Profit after tax	1,830	1,990	2,672	2,193	1,741	1,867
Minority interest	-205	-479	-832	-238	-143	-192
Net profit	1,625	1,511	1,841	1,955	1,599	1,675
Net profit (recurring)	1,265	1,307	1,491	1,955	1,599	1,675
% Net profit (recurring) growth	15%	3%	14%	31%	-18%	5%
% Net profit (recurring) margin	10%	14%	15%	14%	12%	13%
EPS S cts	0.793657	0.743036	0.838423	1.091082	0.892101	0.934561
DPS S cts	0.554545	0.381818	0.43	0.44	0.45	0.46

Source: Company, Phillip Securities Research

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Inventories
Comprises about 18% of WIP (cost > billings), 5% of stocks (consumable materials and finished goods), and 77% of properties held for sale.
FY11 inventory days = 296.

Accounts receivable
About 60% of debtors are trade-related. Average turnover as of FY11 is 72 days.

Accounts payable
Comprise about 7% of advances from non-controlling shareholders of certain subsidiaries, which are unsecured and are repayable on demand.
Interest is charged at rates ranging from 0.93% to 12.00% per annum on interest-bearing loans.
FY11 payable days = 281.

Long-term loans
Include convertible bonds of S$500 million par and S$300 millon par issued in 2010 and 2006 respectively by Keppel Land Limited.

Fig 21: Balance sheet

S$ in millions, year-end December	FY09	FY10	FY11	FY12E	FY13E	FY14E
Inventory	2,878	3,940	6,219	8,670	8,419	8,042
Amounts due from associates	288	305	404	491	429	429
Accounts receivable	1,727	1,959	2,028	2,827	2,745	2,623
Short term investments	457	537	577	577	577	577
Bank balances, deposits & cash	2,936	4,246	3,020	3,508	4,145	4,864
Current assets	8,285	10,987	12,249	16,074	16,316	16,535
Fixed assets	2,157	2,243	2,716	3,002	3,274	3,526
Investment properties	3,051	3,208	4,610	4,610	4,610	4,610
Associated companies	2,651	3,587	4,232	4,232	4,232	4,232
Investments	152	300	311	311	311	311
Long term assets	548	29	267	267	267	267
Intangibles	90	108	99	99	99	99
Non-current assets	8,649	9,474	12,234	12,521	12,792	13,045
Total assets	**16,934**	**20,461**	**24,483**	**28,595**	**29,108**	**29,580**
Accounts payable	4,052	4,343	5,323	7,421	7,206	6,884
Work-in-progress (billings > cost)	1,683	1,638	1,864	2,598	2,523	2,410
Provisions	69	84	78	78	78	78
Amounts due to associates	168	181	64	64	64	64
Short-term loans	839	392	808	808	808	808
Taxation	429	455	479	479	479	479
Bank overdrafts	2	1	0	0	0	0
Current liabilities	7,242	7,093	8,616	11,448	11,159	10,723
Long-term loans	918	3,676	4,069	4,069	4,069	4,069
Deferred taxation	387	410	607	607	607	607
Non-current liabilities	1,305	4,086	4,675	4,675	4,675	4,675
Total liabilities	8,547	11,179	13,292	16,124	15,834	15,399
Share capital	833	906	1,016	1,016	1,016	1,016
Reserves	4,940	5,509	6,374	7,416	8,077	8,792
Equity	5,773	6,415	7,390	8,432	9,093	9,808
Non-controlling interests	2,614	2,866	3,801	4,038	4,181	4,373
Total shareholder's equity	8,387	9,282	11,191	12,471	13,274	14,181
Total liabilities & S/H equity	**16,934**	**20,461**	**24,483**	**28,595**	**29,108**	**29,580**

Source: Company, Phillip Securities Research

Operating cash flow
Strong operating cash flow position from stringent credit risk and working capital management.

Capex
Projected capex of about S$509 million annually (growth S$309 million + maintenance S$200 million).

Dividend payout
We assume a payout of 45-50% (vs. the historical 40-60%), pre-empting the need for capital for expansion plans.

Fig 22: Cash flow statement

S$ in millions, year-end December	FY09	FY10	FY11	FY12E	FY13E	FY14E
Operating profit	1,505	1,556	1,897	2,104	1,808	1,931
Depreciation & amortization	174	189	209	222	238	256
Other non-cash items	29	44	24	0	0	0
Changes in working capital	-910	-1,101	-2,050	-493	118	78
Interest received	70	113	119	107	124	147
Interest paid	-52	-57	-98	-148	-148	-148
Tax paid	-146	-293	-343	-428	-404	-417
Cash from operations	**670**	**450**	**-242**	**1,364**	**1,736**	**1,848**
Capex	-476	-873	-876	-509	-509	-509
Disposal	49	58	74	0	0	0
Net change in Assoc/JVs	1,253	-41	-423	0	0	0
Dividends received	130	245	176	546	348	339
Other investing activities	-529	-33	-208	0	0	0
Cash from investing activities	**427**	**-643**	**-1,258**	**37**	**-161**	**-170**
Share issues	8	74	99	0	0	0
Net change in gross debt	-235	2,300	809	0	0	0
Dividend paid	-574	-627	-724	-784	-805	-823
Other financing activities	419	-242	90	-130	-133	-136
Cash from financing activities	**-380**	**1,504**	**275**	**-913**	**-938**	**-959**
Net change in cash	717	1,311	-1,225	488	637	719
Beginning cash	2,217	2,934	4,245	3,020	3,508	4,145
Ending cash	2,934	4,245	3,020	3,508	4,145	4,864

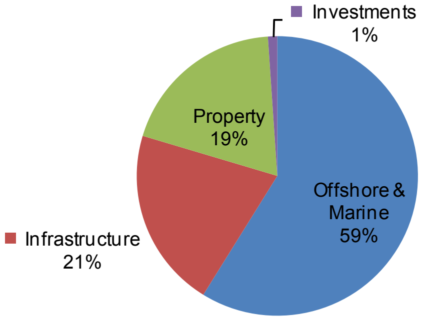
Source: Company, Phillip Securities Research

Fig 23: Key operating & financial ratios

S$ in millions, year-end December	FY09	FY10	FY11	FY12E	FY13E	FY14E
Growth analysis						
Sales growth	4%	-25%	10%	39%	-3%	-4%
EBITDA growth	22%	4%	21%	10%	-12%	7%
EBIT growth	22%	3%	22%	11%	-14%	7%
Net income (recurring) growth	15%	3%	14%	31%	-18%	5%
Margin analysis						
EBITDA margin	14%	19%	21%	17%	15%	17%
EBIT margin	12%	17%	19%	15%	13%	15%
Net income (recurring) margin	10%	14%	15%	14%	12%	13%
Profitability analysis						
ROA	10%	8%	8%	7%	6%	6%
ROCE	18%	14%	13%	12%	9%	9%
ROE	24%	21%	22%	25%	18%	18%
Average capital employed	8,899	11,132	14,109	15,900	16,941	17,796
Leverage ratio						
Total debt / equity	21%	44%	44%	39%	37%	34%
Net debt / equity	-14%	-2%	17%	11%	6%	0%
EBITDA / interest expense (x)	33.8	27.0	21.4	15.7	13.8	14.8
Net debt / EBITDA (x)	-0.7	-0.1	0.9	0.6	0.4	0.0
Total debt / EBITDA (x)	1.0	2.3	2.3	2.1	2.4	2.2
Turnover ratios						
Asset turnover ratio (x)	0.8	0.5	0.5	0.6	0.5	0.5
Fixed asset turnover ratio (x)	6.0	4.2	4.1	4.9	4.3	3.8
Per share ratios						
# shares (diluted)	1,597	1,771	1,796	1,809	1,809	1,809
EPS (S$)	0.79	0.74	0.83	1.08	0.88	0.93
DPS (S$)	0.61	0.42	0.43	0.44	0.45	0.46
BVPS (S$)	3.62	3.62	4.11	4.66	5.03	5.42
Total cash per share (S$)	1.84	2.40	1.68	1.94	2.29	2.69
Net debt per share (S$)	-0.74	-0.10	1.03	0.76	0.40	0.01
ROE decomposition						
Asset turnover	0.8	0.5	0.5	0.6	0.5	0.5
Net margin	10%	14%	15%	14%	12%	13%
Asset / Equity	3.2	3.1	3.3	3.4	3.3	3.1
ROE	24%	21%	22%	25%	18%	18%

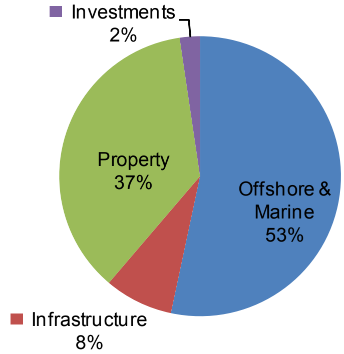
Source: Company, Phillip Securities Research

Fig 24: Revenue breakdown by segment (FY12E)



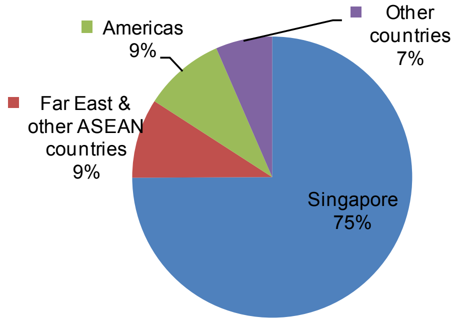
Source: Philliip Securities Research

Fig 25: EBITDA breakdown by segment (FY12E)



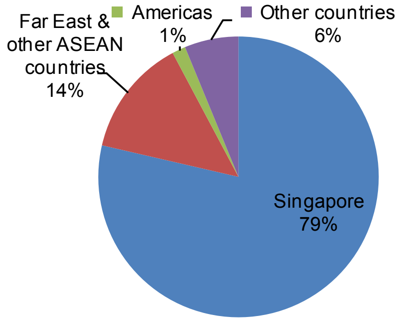
Source: Philliip Securities Research

Fig 26: Revenue breakdown by geography (FY11)



Source: Company

Fig 27: Segment assets by geography (FY11)



Source: Company

FYE Dec	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratios					
P/E (X), adj.	13.9	14.9	13.3	10.2	12.5
P/B (X)	3.0	3.0	2.7	2.4	2.2
EV/EBITDA (X), adj.	15.8	15.2	12.6	11.4	13.0
Dividend Yield (%)	5.0%	3.5%	3.9%	4.0%	4.1%
Per share data (SGD)					
EPS, reported	1.02	0.85	1.02	1.08	0.88
EPS, adj.	0.79	0.74	0.83	1.08	0.88
DPS	0.55	0.38	0.43	0.44	0.45
BVPS	3.62	3.62	4.11	4.66	5.03
Growth & Margins (%)					
Growth					
Revenue	3.7%	-25.4%	10.3%	39.4%	-2.9%
EBITDA	21.9%	3.9%	20.7%	10.5%	-12.1%
EBIT	21.5%	3.4%	21.9%	10.9%	-14.1%
Net Income, adj.	15.3%	3.4%	14.1%	31.1%	-18.3%
Margins					
EBITDA margin	13.7%	19.1%	20.9%	16.5%	15.0%
EBIT margin	12.3%	17.0%	18.8%	15.0%	13.2%
Net Profit Margin	10.3%	14.3%	14.8%	13.9%	11.7%
Key Ratios					
ROE (%)	24.4%	21.4%	21.6%	24.7%	18.2%
ROA (%)	9.7%	8.1%	8.2%	7.4%	5.5%
Net cash	1,178	178	(1,857)	(1,369)	(734)
Net debt / equity	-14.0%	-1.9%	16.6%	11.0%	5.5%
Income Statement (SGD mn)					
Revenue	**12,247**	**9,140**	**10,082**	**14,056**	**13,649**
EBITDA	**1,679**	**1,745**	**2,106**	**2,326**	**2,045**
Depreciation & Amortisation	(174)	(189)	(209)	(222)	(238)
EBIT	**1,505**	**1,556**	**1,897**	**2,104**	**1,807**
Net Finance (Expense)/Income	24	47	16	(41)	(23)
Other items	5	8	25	12	13
Associates	322	278	240	546	348
Exceptionals	322	661	1,135	0	0
Profit Before Tax	**2,178**	**2,550**	**3,313**	**2,621**	**2,144**
Taxation	(348)	(560)	(641)	(428)	(404)
Profit After Tax	**1,830**	**1,990**	**2,672**	**2,193**	**1,740**
Non-controlling Interest	205	479	832	238	143
Net Income, reported	**1,625**	**1,511**	**1,841**	**1,955**	**1,598**
Net Income, adj.	**1,265**	**1,307**	**1,491**	**1,955**	**1,598**

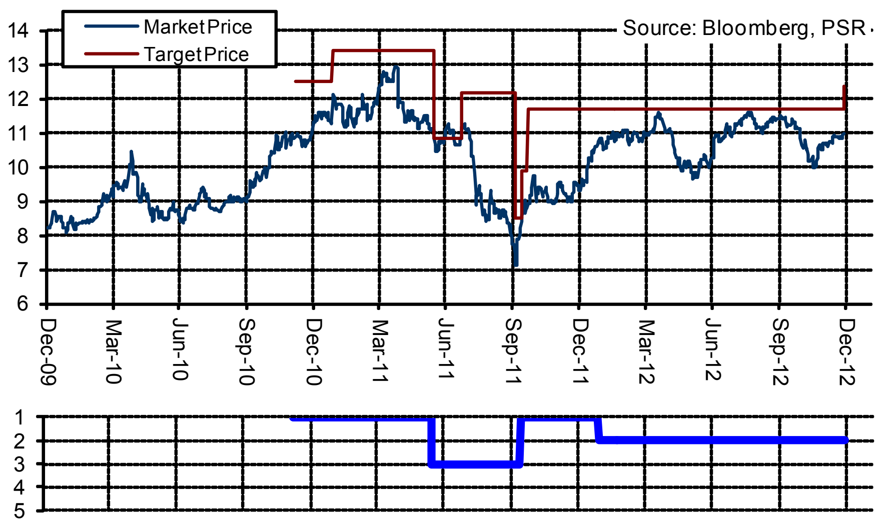
Source: PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (SGD mn)					
PPE	2,157	2,243	2,716	3,002	3,274
Intangibles	90	108	99	99	99
Associates	2,651	3,587	4,232	4,232	4,232
Investment Properties	3,051	3,208	4,610	4,610	4,610
Others	700	329	578	578	578
Total non-current assets	**8,649**	**9,474**	**12,234**	**12,521**	**12,792**
Inventories	2,878	3,940	6,219	8,670	8,419
Accounts Receivables	1,727	1,959	2,028	2,827	2,745
Investments	457	537	577	577	577
Cash and cash equivalents	2,936	4,246	3,020	3,508	4,144
Others	288	305	404	491	429
Total current assets	**8,285**	**10,987**	**12,249**	**16,074**	**16,315**
Total Assets	**16,934**	**20,461**	**24,483**	**28,595**	**29,107**
Short term loans	839	392	808	808	808
Billings on WIP in excess of related costs	1,683	1,638	1,864	2,598	2,523
Accounts Payables	4,052	4,343	5,323	7,421	7,206
Others	667	720	621	621	621
Total current liabilities	**7,242**	**7,093**	**8,616**	**11,448**	**11,159**
Long term loans	918	3,676	4,069	4,069	4,069
Others	387	410	607	607	607
Total non-current liabilities	**1,305**	**4,086**	**4,675**	**4,675**	**4,675**
Non-controlling interest	2,614	2,866	3,801	4,038	4,181
Shareholder Equity	**5,773**	**6,415**	**7,390**	**8,432**	**9,092**

Cashflow Statements (SGD mn)					
CFO					
Operating profit	1,505	1,556	1,897	2,104	1,807
Adjustments	204	233	233	222	238
Cash from ops before WC changes	1,709	1,789	2,130	2,326	2,045
WC changes	(910)	(1,101)	(2,050)	(493)	118
Cash generated from ops	798	688	80	1,833	2,162
Taxes paid, net	(146)	(293)	(343)	(428)	(404)
Interest paid, net	18	56	21	(41)	(23)
Cashflow from ops	**670**	**450**	**(242)**	**1,364**	**1,735**
CFI					
CAPEX, net	(476)	(873)	(876)	(509)	(509)
Dividends from associates & investments	130	245	176	546	348
Investments in subs & associates	773	(15)	(558)	0	0
Cashflow from investments	**427**	**(643)**	**(1,258)**	**37**	**(161)**
CFF					
Share issuance	8	74	99	0	0
Loans, net of repayments	(235)	2,300	809	0	0
Dividends to minority interests	(87)	(130)	(158)	(130)	(133)
Dividends to shareholders & capital distribution	(574)	(627)	(724)	(784)	(805)
Others	506	(112)	248	(0)	0
Cashflow from financing	**(380)**	**1,504**	**275**	**(913)**	**(938)**
Net change in cash	**717**	**1,311**	**(1,225)**	**488**	**635**
CCE, end	**2,934**	**4,245**	**3,020**	**3,508**	**4,144**

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
>-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence o

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Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Joshua Tan
Head of Research
Global Macro, Asset Strategy
+65 6531 1249
joshuatan@phillip.com.sg

Derrick Heng
Deputy Head of Research
SG Equity Strategist & Transport
+65 6531 1221
derrickhengch@phillip.com.sg

Magdalene Choong, CFA
Investment Analyst
Regional Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Travis Seah
Investment Analyst
REITs
+65 6531 1229
travisseahhk@phillip.com.sg

Ken Ang
Investment Analyst
Financials, Telecoms
+65 6531 1793
kenangwy@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Roy Chen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1535
roychencz@phillip.com.sg

Nicholas Ong
Investment Analyst
Commodities, Offshore & Marine
+65 6531 5440
nicholasonghg@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

AUSTRALIA
Octa Phillip Securities Ltd
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.octaphillip.com