

Keppel (KEP SP)

Decent Headline Earnings Growth But Slower-than-expected Core Earnings Growth In 3Q26

Highlights

- 3Q26 headline net profit of new Keppel rose 15% yoy; however, 9M26 core earnings growth of over 10% yoy came in behind our 20% full-year growth projection, due to weaker-than-expected integrated power contribution.
- Asset management fees rose 18% yoy in 9M26, driven by expanding FUM, having surpassed S\$100b.
- We lower our core earnings forecast for Keppel by 4-6%, as we fine-tune our estimates for the integrated power business.
- Keppel continues to ride favourable secular trends of rising power demand and AI-driven digital infrastructure investments, while scaling up its fund management business towards its 2030 goals.
- Maintain BUY, with a lower target price of S\$11.90, which values Keppel at 17x 2027F core earnings, adjusted for assets for divestments and net debt.

Analysis

- New Keppel's headline net profit rose 15% yoy.** Keppel reported that the headline net profit of the new Keppel rose 15% yoy in 3Q26 and over 20% yoy in 9M26, driven by strong connectivity earnings and steady infrastructure contributions. Including the divestment portfolio and discontinued operations, Keppel's 3Q26 overall net profit grew 20% yoy in 3Q26, though the 9M26 figure was 40% lower yoy due to the sizeable impairment losses recorded in 1H26 on the non-core portfolio for divestment.
- Core earnings growth weaker than expected.** Excluding one-time items such as revaluation/disposal gains/(losses), recurring net profit of the new Keppel rose over 10% yoy in 9M26, trailing behind our projected 20% yoy growth for 2026. The shortfall was mainly from the integrated power business, whose EBITDA rose only 7% yoy in 9M26, although the Keppel Sakra Cogen Plant (which commenced commercial operations in May 26) has expanded Keppel's generation capacity by 45%. The weaker-than-expected integrated power contribution may be explained by: a) some downtime related to the planned maintenance of a power generating unit at the Keppel Merlimau Cogen Plant, and b) likely yoy weaker overall spark spread across the broader portfolio, by our estimate.

Key Financials

Year to 31 Dec (\$m)	2024	2025	2026F	2027F	2028F
Net turnover	5,784	5,983	7,779	8,246	8,481
EBITDA	1,231	1,293	940	1,161	1,193
Operating profit	1,146	1,123	510	700	718
Net profit (rep./act.)	940	789	544	776	856
Net profit (adj.)	638	790	891	972	1,022
EPS (x)	35.1	43.2	49.0	53.5	56.3
PE (x)	29.2	23.7	20.9	19.1	18.2
P/B (x)	1.7	1.8	1.8	1.8	1.8
EV/EBITDA (x)	22.7	21.7	29.8	24.1	23.5
Dividend yield (%)	3.3	4.4	4.5	4.7	4.7
Net margin (%)	16.3	13.2	7.0	9.4	10.1
Net debt/(cash) to equity (%)	87.6	84.0	87.2	89.9	91.6
ROE (%)	8.6	7.2	5.0	7.2	8.0
Consensus net profit (\$m)	-	-	824	1,066	1,252
UOBKH/Consensus (x)	-	-	1.08	0.91	0.86

Source: Keppel, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	S\$10.24
Target Price	S\$11.90
Upside	+16.2%
Previous TP	S\$13.26

Stock Data

Sector	Industrials
Bloomberg ticker	KEP SP
Shares issued (m)	1,787.9
Market cap (\$m)	18,307.8
Market cap (US\$m)	14,294.0
3-mth avg daily t'over (US\$m)	34.0

Price Performance (%)

52-week high/low				S\$13.13/S\$9.72
1mth	3mth	6mth	1yr	YTD
(10.7)	(14.7)	(5.2)	4.4	(0.2)

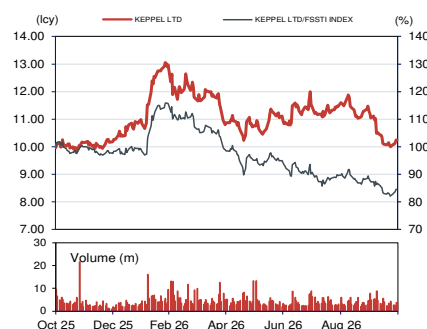
Major Shareholders (%)

Temasek Hldgs	21.0
BlackRock	5.4

Balance Sheet Metrics

FY26 NAV/Share (\$)	5.75
FY26 Net Debt/Share (\$)	5.21

Price Chart



Source: Bloomberg

Company Description

Keppel is an asset manager and operator with four core businesses: Infrastructure, real estate, connectivity and asset management. It divested its offshore & marine arm to Seatrium in 2023.

Friday, 30 October 2026

- **Strong asset management fee growth.** Asset management fees grew 18% yoy to S\$354m in 9M26, driven by: a) strong fund under management (FUM) growth (Keppel's total FUM surpassed 2026 year-end target of S\$100b ahead of schedule, with S\$19.5b of new FUM added in 9M26), and b) a boost from the acquisition advisory fees related to the set-up of the Keppel Offshore Fund (recognised in the infrastructure division). With a S\$23b deal flow pipeline, we expect Keppel to sustain a good growth momentum in asset management fees in the medium term, as Keppel scales its fund management business towards its 2030 goals of S\$200b FUM.
- **S\$3.7b of asset monetisation transactions announced in 9M26**, already exceeding its S\$2b-3b full-year target. Key transactions include the proposed disposal of a 51% stake in Keppel South Central to Keppel REIT and the transfer of six operational legacy rigs from RigCo to the Keppel Offshore Fund, with Apollo as co-investor. Around S\$940m has been completed and realised ytd, with a further S\$600m targeted for completion by end-26. Management expects to sustain an annual asset-monetisation pace of S\$2b-3b in the next few years through 2030, supporting capital recycling, debt reduction and shareholder returns.
- **The Indonesian gas supply cut has no direct operational impact on Keppel...** Indonesia announced a reduction in pipeline gas exports to Singapore from 24 Oct 26, comprising lower supplies from the Natuna and Sumatra fields. Singapore authorities have indicated that the disruption is relatively modest, with sufficient replacement LNG available to meet demand. Keppel's diversified gas portfolio comprises LNG and piped natural gas, with its piped gas sourced from Malaysia; hence, we see no direct impact on its gas supply or power-generation operations.
- **...but may provide further support to spark spreads.** We believe the disruption could provide support to spark spreads, which management noted had already rebounded over the past two quarters. Keppel also has a meaningful contract-renewal opportunity, with 8% of generation capacity due for renewal within one year and a further 49% within 1-3 years. The current tighter supply-demand environment could allow Keppel to lock in more favourable spreads as these contracts roll over, placing it in a relatively favourable position vs peers and reinforcing its role as a cornerstone of Singapore's energy security.
- **No update on the M1 deal.** Management noted that discussions with StarHub are ongoing, but there is no assurance that a definitive agreement will materialise. Any transaction could be complex and require both shareholder and regulatory approvals. Keppel is monitoring the evolving market situation but did not provide a timeline for completion.

Earnings Revision/Risk

- **Cut 2026-28 core earnings by 4-6%** as we fine-tune our estimates for the integrated power business.
- **Key risks:** a) industry-wide power-generation capacity growth outpacing demand growth, leading to downward pressure on spark spreads; and b) slower-than-expected monetisation of non-core assets.

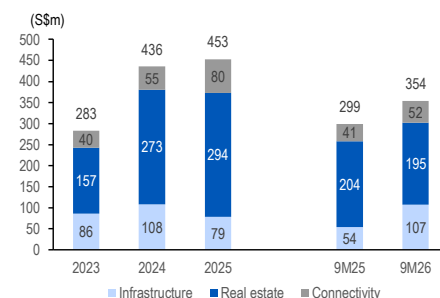
Valuation/Recommendation

- **Maintain BUY with a lower target price of S\$11.90.** Our updated target price is based on 17x 2027F core earnings of new Keppel (in line with global asset managers/operators' peer average), adding the book value of its non-core portfolio for divestment (S\$13.7b), and netting off Keppel's net debt position (S\$9.2b). Keppel offers a 4.5-4.7% yield in 2026-28, by our estimate.

Share Price Catalyst

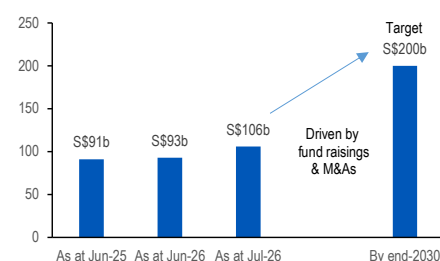
- **Key catalysts** include: a) strong organic growth of Keppel' infrastructure and connectivity divisions, b) fast-growing fee income driven by expanding fund under management, and c) monetisation of non-core assets.

Asset Management Fees



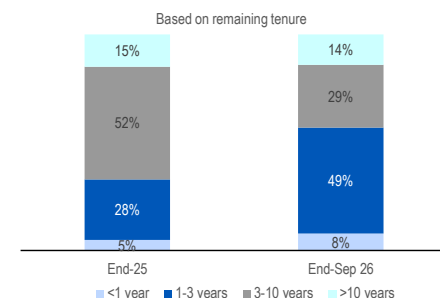
Source: Keppel

Fund Under Management



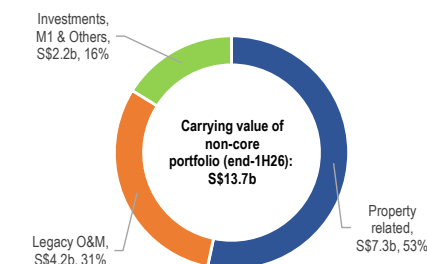
Source: Keppel

Power Capacity Contracting Profile



Source: Keppel

Non-core Portfolio For Divestment



Source: Keppel

Valuation

	S\$m	S\$
New Keppel @ 17x adj. core earnings	17,004	9.44
Carrying value of non-core assets	13,700	7.60
Sub-total	30,704	17.04
Less: net debt	-9,267	-5.14
Equity value	21,437	11.90

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (\$m)	2025	2026F	2027F	2028F
Net turnover	5,983	7,779	8,246	8,481
EBITDA	1,293	940	1,161	1,193
Deprec. & amort.	170	430	462	475
EBIT	1,123	510	700	718
Total other non-operating income	(199)	32	32	32
Associate contributions	458	551	603	668
Net interest income/(expense)	(303)	(283)	(283)	(283)
Pre-tax profit	1,078	811	1,052	1,136
Tax	(306)	(288)	(298)	(301)
Minorities	16	22	22	22
Net profit	789	544	776	856
Net profit (adj.)	790	891	972	1,022

Cash Flow

Year to 31 Dec (\$m)	2025	2026F	2027F	2028F
Operating	662	369	580	609
Pre-tax profit	1,317	822	1,064	1,147
Tax	(306)	(288)	(298)	(301)
Deprec. & amort.	244	430	462	475
Associates	(458)	(551)	(603)	(668)
Working capital changes	282	0	0	0
Non-cash items	0	0	0	0
Other operating cashflows	(419)	(44)	(44)	(44)
Investing	(286)	66	76	119
Capex	(514)	(474)	(511)	(526)
Investments	(1,058)	0	0	0
Proceeds from sale of assets	874	0	0	0
Others	412	540	587	645
Financing	(326)	(695)	(885)	(911)
Dividend payments	(617)	(649)	(838)	(863)
Proceeds from borrowings	302	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(11)	(47)	(47)	(48)
Net cash inflow (outflow)	49	(261)	(229)	(183)
Beginning cash & cash equiv.	2,291	2,317	2,056	1,827
Changes due to forex impact	(23)	0	0	0
Ending cash & cash equiv.	2,317	2,056	1,827	1,645

Balance Sheet

Year to 31 Dec (\$m)	2025	2026F	2027F	2028F
Fixed assets	8,549	8,628	8,714	8,801
Other LT assets	10,776	10,831	10,891	10,958
Cash/ST investment	2,309	2,049	1,820	1,637
Other current assets	5,453	5,453	5,453	5,453
Total assets	27,088	26,961	26,878	26,850
ST debt	1,919	1,919	1,919	1,919
Other current liabilities	3,860	3,860	3,860	3,860
LT debt	9,517	9,517	9,517	9,517
Other LT liabilities	606	606	606	606
Shareholders' equity	10,864	10,760	10,698	10,692
Minority interest	322	300	278	256
Total liabilities & equity	27,088	26,961	26,878	26,850

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	21.6	12.1	14.1	14.1
Pre-tax margin	18.0	10.4	12.8	13.4
Net margin	13.2	7.0	9.4	10.1
ROA	2.9	2.0	2.9	3.2
ROE	7.2	5.0	7.2	8.0
Growth				
Turnover	3.4	30.0	6.0	2.9
EBITDA	5.0	(27.3)	23.5	2.7
Pre-tax profit	(9.1)	(24.8)	29.8	7.9
Net profit	(16.1)	(31.0)	42.6	10.3
Net profit (adj.)	23.8	12.8	9.1	5.2
EPS	23.0	13.5	9.1	5.2
Leverage				
Debt to total capital	50.6	50.8	51.0	51.1
Debt to equity	105.3	106.3	106.9	107.0
Net debt/(cash) to equity	84.0	87.2	89.9	91.6

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