Keppel (KEP SP)

1H26: Core Earnings In Line, Rising 16.6% yoy; Expect A Strong 2H26 Underpinned By KSC Contribution

Highlights

- Keppel's 1H26 core earnings of S$401m (+16.6% yoy) were broadly in line with our expectations, at 42% of our full-year forecast.
- We expect stronger 2H26 core earnings for Keppel, at S$545m (+22.2% yoy), driven by the full half-year contribution from the KSC power plant.
- Fundamentals remain positive, as Keppel continues to divest its non-core assets, while scaling its fund management business towards its 2030 goals.
- Maintain BUY; our updated target price of S$13.26 values Keppel at 18.9x 2027F core earnings, adjusted for assets for divestments and net debt.

1H26 Results

Year to 31 Dec (S$m)	1H26	1H25	*yoy chg %*	Remarks
Revenue	3,807	3,057	*+24.6*	
Operating profit	174	617	*-71.8*	
Associate/JV contribution	208	67	*+210.7*	
Headline PATMI	155	378	***-59.0***	Strong New Keppel earnings masked by non-core losses
Core PATMI of new Keppel (a)	401	344	***+16.6***	Strong core performance of New Keppel
By income type:				
- Asset management	72	71	*+1.4*	FUM rose to S$93b as of end-1H26
- Operating	395	343	*+15.2*	Stronger infra and connectivity profits
- Corp activities	-66	-70	*-5.7*	
By segment:				
- Infrastructure	387	349	*+10.9*	Higher FM fee income and integrated power earnings
- Real estate	36	41	*-12.2*	Lower FM fee income and profit from SSTEC
- Connectivity	44	24	*+83.3*	Higher FM fee income, KDC REIT contribution, DC project management and networks O&M income
- Corp activities	-66	-70	*-5.7*	
Valuation & divestment (b)	129	80	*+61.3*	Non-recurring gains/(losses) for new Keppel
PATMI of new Keppel (a)+(b)	530	424	***+25.0***	
Non-core portfolio for divest. (c)	-375	-46	*+715.2*	Incl. rig impairments and operation/valuation losses
Headline PATMI (a)+(b)+(c)	155	378	***-59.0***	

Source: Keppel, UOB Kay Hian

Analysis

- **Core earnings broadly in line, rising 16.6% yoy.** Keppel reported 1H26 net profit of S$155m (1H25: S$378m). Excluding its non-core portfolio for divestment, which were impacted by rig impairments and other operating and valuation losses, net profit of New Keppel rose 25.0% to S$530m in 1H26. Taking out non-recurring gains/(losses) from revaluation/divestments, New Keppel's core earnings rose 16.6% yoy to S$401m (1H25: S$344m).

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	5,784	5,983	8,240	8,751	8,936
EBITDA	1,231	1,293	1,044	1,201	1,117
Operating profit	1,146	1,123	614	710	617
Net profit (rep./act.)	940	789	470	837	900
Net profit (adj.)	638	790	946	1,033	1,066
EPS (S$ cent)	35.1	43.2	52.1	56.8	58.7
PE (x)	32.7	26.6	22.1	20.2	19.6
P/B (x)	1.9	2.0	2.0	2.0	2.0
EV/EBITDA (x)	24.7	23.5	29.1	25.3	27.2
Dividend yield (%)	3.0	3.9	4.2	4.2	4.2
Net margin (%)	16.3	13.2	5.7	9.6	10.1
Net debt/(cash) to equity (%)	84.0	80.5	84.9	87.1	88.4
ROE (%)	3.8	4.3	3.7	4.3	4.0
Consensus net profit (S$m)	8.6	7.2	4.4	7.8	8.4
UOBKH/Consensus (x)	-	-	997	1,117	1,252

Source: Keppel, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	S$11.48
Target Price	S$13.26
Upside	15.5%
Previous TP	S$13.23

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Stock Data

GICS sector	Healthcare
Bloomberg ticker	KEP SP
Shares issued (m)	1,800.6
Market cap (S$m)	20,671.0
Market cap (US$m)	16,026.5
3-mth avg daily t'over (US$m)	34.6

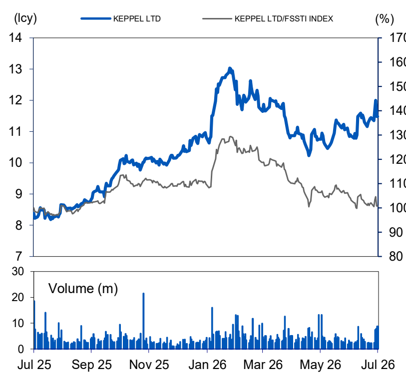
Price Performance (%)

52-week high/low				S$13.11/S$8.00
1mth	3mth	6mth	1yr	YTD
4.9	5.6	6.1	41.8	12.1

Major Shareholders

	%
Temasek Hldgs	21.0
BlackRock	5.4

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.

- **Strong Infrastructure and Connectivity segment performance, slightly offset by weaker real estate segment performance:**
  - **Infrastructure:** Core earnings rose 10.9% yoy to S$387m, driven by higher fund management (FM) income, as well as earnings from infrastructure operation platforms. Integrated power business EBITDA grew 9% yoy to S$356m, driven by one-month contribution from Keppel Sakra Cogen Plant (KSC, operations started on 29 May 26), which has more than offset softer spark spreads and costs impacts from the Middle East conflicts. Decarbonisation & Sustainable Solutions (DSS) recorded S$70m EBITDA, marginally higher yoy.
  - **Real estate:** Core earnings dropped 12.2% yoy to S$36m, due to: a) lower fee income from Aermont Fund V as it reaches end of investment period, and b) yoy lower share of profit from Sino-Singapore Tianjin Eco City (SSTEC).
  - **Connectivity:** Core earnings rose 83.3% yoy, driven by: a) higher fee income from KDC REIT and KDC Fund III, b) higher contribution from sponsor stakes in KDCREIT, and c) better operating performance of the technology solutions business and data centre project management and network operation & maintenance (O&M) businesses.
- **Update on M1.** Following the fall-through of the M1 deal, M1's financials have been reconsolidated with Keppel's, but under the non-core portfolio for divestment segment, as management would continue to explore divestment opportunities. In the meantime, management has come up with a three-year plan to structurally reset M1's cost base, targeting a S$70m pa run-rate cost savings by 2028. An interim goal of S$10m cost savings has been set for 2026, with S$4m having been achieved YTD.
- **Monetising up to 10 rigs through KOF.** The rig monetisation programme announced by Keppel on 27 Jul 26 is structurally positive, in our view. Based on the plan, Keppel will divest six operational rigs to Keppel Offshore Fund (KOF), a private fund co-invested by Keppel and Apollo, in 2026, for S$1.2b. On top of that, Keppel will progressively complete and may divest another four rigs to KOF in 2027-28. We see the transaction as a key step in Keppel's value unlocking. It provides a clearer pathway for Keppel to monetise its legacy rigs, validates Keppel's fund-management model, and demonstrates its ability to attract institutional capital. The deal allows Keppel to reduce non-core asset exposure, reduce gearing and earn a fee income from KOF.
- **S$100b interim target achieved, eyeing S$200b FUM by 2030.** The rig monetisation programme, together with other infrastructure, real estate and connectivity fund raised in Jul 26 have allowed Keppel's FUM has reached S$106b by end-Jul 26, exceeding the S$100b target set for end-26. Management remains confident to achieve its S$200b FUM target by end-30, backed by favourable long-term secular trends, Keppel's proven fundraising/investment capabilities and deep operational expertise as an integrated asset manager and operator.

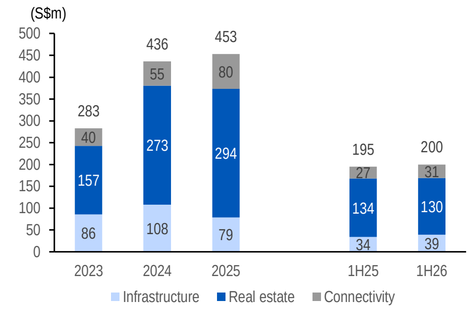
Earnings Revision/Risk

- We keep our 2026 core earnings forecast, while raising 2027-28 core earnings forecast by 4-5%, as we finetune our estimates for KSC's contribution.

Valuation/Recommendation

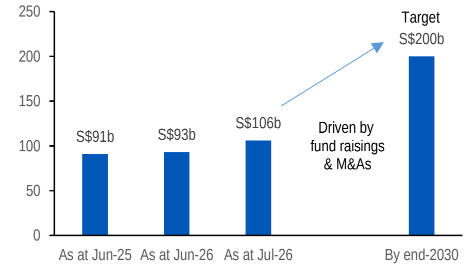
- **Maintain BUY with a slightly higher target price of S$13.26.** Our updated target price is based on 18.9x 2027F core earnings of New Keppel (10% discount to global asset managers/operators' average of 21.0x), adding the book value of its non-core portfolio for divestment (S$13.7b), and netting off Keppel's net debt position (S$9.3b). Keppel offers a 4.2% yield in 2026-28, by our estimate.

Asset Management Fees



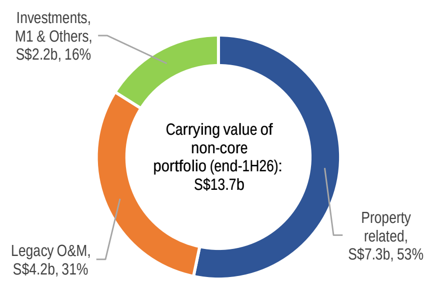
Source: Keppel

Fund Under Management



Source: Keppel

Non-Core Portfolio For Divestment As At End-1H26



Source: Bloomberg

Keppel Valuation

	S$m	S$
New Keppel @ 18.9x core earnings	19,523	10.84
Carrying value of non-core assets	13,700	7.60
Sub-total	33,223	18.44
Less: net debt	-9,325	-5.18
Equity value	23,898	13.26

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	5,983	8,240	8,751	8,936
EBITDA	1,293	1,044	1,201	1,117
Deprec. & amort.	170	430	490	500
EBIT	1,123	614	710	617
Total other non-operating income	(199)	32	32	32
Associate contributions	458	390	654	796
Net interest income/(expense)	(303)	(282)	(282)	(282)
Pre-tax profit	1,078	754	1,115	1,163
Tax	(306)	(306)	(300)	(284)
Minorities	16	22	22	22
Net profit	789	470	837	900
Net profit (adj.)	790	946	1,033	1,066

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	8,549	8,628	8,719	8,812
Other LT assets	10,776	10,815	10,880	10,960
Cash/ST investment	2,309	1,991	1,787	1,631
Other current assets	5,453	5,453	5,453	5,453
Total assets	27,088	26,887	26,840	26,856
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	10,686	10,660	10,698
Minority interest	322	300	278	256
Total liabilities & equity	27,088	26,887	26,840	26,856

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	662	456	618	551
Pre-tax profit	1,317	766	1,127	1,174
Tax	(306)	(306)	(300)	(284)
Deprec. & amort.	244	430	490	500
Associates	(458)	(390)	(654)	(796)
Working capital changes	282	0	0	0
Non-cash items	0	0	0	0
Other operating cashflows	(419)	(44)	(44)	(44)
Investing	(286)	(79)	88	204
Capex	(514)	(474)	(545)	(556)
Investments	(1,058)	0	0	0
Proceeds from sale of assets	874	0	0	0
Others	412	395	633	760
Financing	(326)	(695)	(910)	(911)
Dividend payments	(617)	(649)	(863)	(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	(319)	(204)	(156)
Beginning cash & cash equivalent	2,291	2,317	1,998	1,794
Changes due to forex impact	(23)	0	0	0
Ending cash & cash equivalent	2,317	1,998	1,794	1,638

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	21.6	12.7	13.7	12.5
Pre-tax margin	18.0	9.2	12.7	13.0
Net margin	13.2	5.7	9.6	10.1
ROA	2.9	1.7	3.1	3.4
ROE	7.2	4.4	7.8	8.4
Growth				
Turnover	3.4	37.7	6.2	2.1
EBITDA	5.0	(19.3)	15.0	(6.9)
Pre-tax profit	(9.1)	(30.0)	47.9	4.3
Net profit	(16.1)	(40.4)	78.1	7.6
Net profit (adj.)	23.8	19.8	9.2	3.2
EPS	23.0	20.5	9.2	3.2
Leverage				
Debt to total capital	50.6	51.0	51.1	51.1
Debt to equity	105.3	107.0	107.3	106.9
Net debt/(cash) to equity	80.5	84.9	87.1	88.4