Keppel (KEP SP)

Proposed Merger Of M1 And StarHub

Highlights

- Keppel and StarHub have jointly announced an all-share deal to merge M1 (in which Keppel owns an 83.9% stake) and StarHub. Once completed, Keppel will become StarHub's second-largest shareholder.
- The deal is in line with Keppel's asset-light strategy and provides a clear path for Keppel to unlock capital from the non-core M1 investment. However, the payment terms and valuation appear less attractive than our expectations, referencing the previous offer from Simba.
- Maintain BUY, with a slightly lower target price of S$11.70, reflecting the likely disposal loss to be recognised from this transaction.

Analysis

- **An all-share deal; Keppel swapping M1 stake for StarHub shares.** Keppel and StarHub jointly announced on 24 Nov 26 (before the market opening) that the two have entered into definitive agreements to combine StarHub and M1 Limited (M1) in an all-share transaction. Based on the agreement, StarHub will issue approximately 651.7m new shares to M1's current shareholders, including Keppel, which will receive 546.5m Starhub shares from selling its 83.9% stake in M1.
- **Keppel becoming StarHub's second-largest shareholder.** After the transaction is completed, Keppel will own 23.0% of StarHub's enlarged share base, coming in second after the largest shareholder Asia Mobile's 41% stake.
- **Transaction valuation.** Based on StarHub's 15-day volume-weighted average price (VWAP) of S$1.04, and a target net debt of S$380m at the deal completion, the transaction values 100% of M1 at an enterprise value of S$1.06b (from StarHub's disclosure); if we include the synergy value that StarHub targets to achieve from this deal (which Keppel also stands to benefit from as a new shareholder of StarHub), the implied enterprise value of M1 would be S$1.36b.
- **Consolidating the Singapore telco sector.** The StarHub-M1 merger, if approved, will consolidate Singapore's telco industry, reducing the number of major telco operators from the current four to three. The enlarged StarHub would become the second-largest telco operator with a 41% market share by the existing number of mobile subscribers, after the market leader Singtel's 47% market share. Management is hopeful that, with the industry consolidation, telco players may enjoy more favourable valuations.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	5,784	5,983	7,779	8,246	8,481
EBITDA	1,231	1,293	940	1,161	1,193
Operating profit	1,146	1,123	510	700	718
Net profit (rep./act.)	940	789	546	376	761
Net profit (adj.)	638	790	891	972	1,022
EPS (x)	35.1	43.2	49.0	53.5	56.3
PE (x)	24.0	19.5	17.2	15.7	15.0
P/B (x)	1.4	1.4	1.5	1.5	1.5
EV/EBITDA (x)	20.1	19.1	26.3	21.3	20.7
Dividend yield (%)	4.0	5.3	5.5	5.7	5.7
Net margin (%)	16.3	13.2	7.0	4.6	9.0
Net debt/(cash) to equity (%)	84.0	80.5	83.8	93.2	96.8
ROE (%)	16.9	7.2	5.1	3.6	7.4
Consensus net profit (S$m)	-	-	845	1,060	1,252
UOBKH/Consensus (x)	-	-	1.06	0.92	0.87

Source: Keppel, Bloomberg, UOB Kay Hian

Analyst(s)

Roy Chen, CFA
roychen@uobkh.com
+65 6590 6627

BUY (Maintained)

Share Price	S$8.42
Target Price	S$11.70
Upside	39.0%
Previous TP	S$11.90

Stock Data

Sector	Industrials
Bloomberg ticker	KEP SP
Shares issued (m)	1,787.9
Market cap (S$m)	15,053.9
Market cap (US$m)	11,657.0
3-mth avg daily t'over (US$m)	33.1

Price Performance (%)

52-week high/low				S$13.13/S$8.38
1mth	3mth	6mth	1yr	YTD
(15.8)	(25.8)	(22.8)	(16.2)	(17.9)

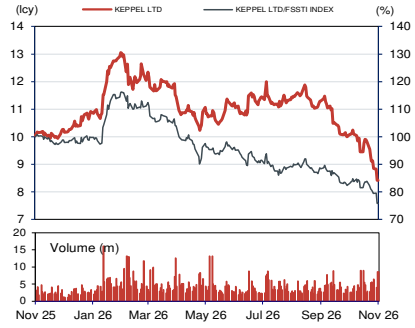
Major Shareholders (%)

Temasek Hldgs	21.0
BlackRock	5.4

Balance Sheet Metrics

FY26 NAV/Share (S$)	5.75
FY26 Net Debt/Share (S$)	5.14

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.

- **StarHub's synergy projection.** Based on Starhub's post-merger plan, StarHub's management is projecting to realise an opex synergy run-rate of S$110m by 2030 from the StarHub-M1 merger. Key drivers include the convergence of infrastructure networks and IT systems, as well as the rationalisation of retail presence and backend operations. The projected cost synergies have been assigned a net present value of S$1.1b (on a 100% basis for the enlarged StarHub group), and this is considered an integral part of the transaction valuation (about S$300m, or 27.4%, is attributable to M1's existing shareholders).
- **Financial impact on Keppel: Reducing net debt…** The transaction will allow Keppel to deconsolidate M1 on its balance sheet, including an estimated net debt of S$324m at completion, and free up Keppel from all the future capex for M1's telco business. Instead, StarHub will become a 23% associated company of Keppel, which Keppel intends to record on its balance sheet on a fair value through profit or loss basis.
- **…but likely to incur a non-cash disposal loss.** The disposal gains/(losses) to be recognised from this deal will depend on the last traded price of StarHub shares on the first market day immediately following the date of completion. We reckon that the disposal loss is likely to range between S$107m-375m, based on an assumed StarHub share price of S$1.01-1.50 immediately after transaction completion. The upper end is based on the 23 Nov 26 VWAP (ie share price immediately before the transaction announcement), while the lower end reflects StarHub's indicative pro forma value, assuming the market fully agrees with and reflects the estimated S$1.1b synergy value of the deal.
- **Expected transaction timeline.** Completion requires regulatory approvals and shareholder approvals at separate EGMs of Keppel and StarHub. Completion is expected in 1H27.
- **Keppel's plan for StarHub stake: Still a non-core asset for disposal.** Keppel is committed to staying invested in Starhub for at least 12 months to support the integration, and undertakes that any share disposal after 12 months would be undertaken in a measured and orderly manner, subject to market conditions. Management noted that: a) distribution-in-specie to Keppel shareholders, and b) block trade sale to other strategic telco investors are also possible options to exit the StarHub investment
- **Dividend implications.** Upon completion, 10-15% of the approximately S$324m of deconsolidated net debt will be included in the calculation of Keppel's special dividends (translating to additional 1.8-2.7 S cents for 2027). Any future monetisation of Keppel's StarHub stake will also be added to the special-dividend pool.
- **We are neutral on the deal.** The proposed deal is in line with Keppel's asset-light strategy and provides a clear path for Keppel to unlock capital from the non-core M1 investment. However, the payment terms (all-share transaction) and valuation (likely with disposal losses) appear less attractive than our expectations, referencing the previous offer from Simba (all-cash offer, with a S$1.43b enterprise value). The continued investment in StarHub post-merger would expose Keppel to execution risks from the M1-StarHub integration, and uncertainties of StarHub's share price performance at the time of share disposals in the future.

Earnings Revision/Risk

- **No change to our core earnings forecasts**, although the transaction may add some non-core disposal loss to Keppel's 1H27 reported earnings.

Valuation/Recommendation

- **Maintain BUY with a slightly lower target price of S$11.70.** Our target price remains based on 17x 2027F core earnings of new Keppel (in line with global asset managers/operators' peer average), adding a slightly lowered book value of Keppel's non-core portfolio (S$13.3b) to reflect the likely disposal loss from the StarHub-M1 deal, and netting off Keppel's net debt position (S$9.3b). Keppel offers an attractive 5.5-5.7% yield (including special dividend from asset disposals) in 2026-28, by our estimate.

Valuation

	S$m	S$
New Keppel @ 17x adj. core earnings	17,004	9.44
Carrying value of non-core assets	13,341	7.41
Sub-total	**30,345**	**16.84**
Less: net debt	-9,265	-5.14
Equity value	**21,081**	**11.70**

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (S$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	553	203	573
Net interest income/(expense)	(303)	(283)	(283)	(283)
Pre-tax profit	**1,078**	**813**	**652**	**1,041**
Tax	(306)	(288)	(298)	(301)
Minorities	16	22	22	22
Net profit	**789**	**546**	**376**	**761**
Net profit (adj.)	790	891	972	1,022

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	8,549	8,628	8,714	8,801
Other LT assets	10,776	10,831	10,851	10,909
Cash/ST investment	2,309	2,051	1,462	1,193
Other current assets	5,453	5,453	5,453	5,453
Total assets	**27,088**	**26,964**	**26,480**	**26,357**
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	10,762	10,300	10,199
Minority interest	322	300	278	256
Total liabilities & equity	**27,088**	**26,964**	**26,480**	**26,357**

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	**662**	**369**	**580**	**609**
Pre-tax profit	1,317	824	663	1,052
Tax	(306)	(288)	(298)	(301)
Deprec. & amort.	244	430	462	475
Associates	(458)	(553)	(203)	(573)
Working capital changes	282	0	0	0
Non-cash items	0	0	0	0
Other operating cashflows	(419)	(44)	(44)	(44)
Investing	**(286)**	**68**	**(284)**	**34**
Capex	(514)	(474)	(511)	(526)
Investments	(1,058)	0	0	0
Proceeds from sale of assets	874	0	0	0
Others	412	542	227	560
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**	**(259)**	**(589)**	**(268)**
Beginning cash & cash equiv.	**2,291**	**2,317**	**2,058**	**1,469**
Changes due to forex impact	(23)	0	0	0
Ending cash & cash equiv.	**2,317**	**2,058**	**1,469**	**1,201**

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	7.9	12.3
Net margin	13.2	7.0	4.6	9.0
ROA	2.9	2.0	1.4	2.9
ROE	7.2	5.1	3.6	7.4
Growth				
Turnover	3.4	30.0	6.0	2.9
EBITDA	5.0	(27.3)	23.5	2.7
Pre-tax profit	(9.1)	(24.6)	(19.8)	59.7
Net profit	(16.1)	(30.7)	(31.2)	102.7
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	51.9	52.2
Debt to equity	105.3	106.3	111.0	112.1
Net debt/(cash) to equity	80.5	83.8	93.2	96.8

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