

Singapore

Overweight (no change)

Highlighted Companies
Keppel Corporation
ADD, TP S\$8.82, S\$7.10 close

Our TP is based on RNAV. Clarity on digital transformation could be a key catalyst.

Sembcorp Industries
ADD, TP S\$3.49, S\$2.95 close

Our TP is based on SOP valuation. Consistent performance of its India business is a key catalyst. Litigation noise is a key risk.

ST Engineering
ADD, TP S\$3.80, S\$3.53 close

Our TP is based on blended valuations. Acquisition is slated to complete by 1Q19, subject to approvals. Our TP would rise to S\$4.13 upon completion. Successful deal completion is a potential key catalyst.

Summary Valuation Metrics

P/E (x)	Dec-18F	Dec-19F	Dec-20F
Keppel Corporation	10.85	12.61	10.50
Sembcorp Industries	16.92	11.83	10.83
ST Engineering	20.63	18.82	16.95

P/BV (x)	Dec-18F	Dec-19F	Dec-20F
Keppel Corporation	1.07	1.02	0.97
Sembcorp Industries	0.74	0.71	0.68
ST Engineering	4.75	4.52	4.29

Dividend Yield	Dec-18F	Dec-19F	Dec-20F
Keppel Corporation	4.52%	3.65%	4.39%
Sembcorp Industries	2.19%	3.13%	3.42%
ST Engineering	4.12%	4.25%	4.72%

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Conglomerate

3Q18 happenings and results preview

- We expect qoq declines in 3Q18 earnings for Singapore conglomerates/O&M names, except for STE (stronger marine and electronics).
- The lacklustre 2018 order win YTD could be partially made up by slight improvement in margins among the yards. Balance sheet remains a focus.
- Maintain OW on the sector. Stronger-than-expected acquisition-fuelled growth could be a key catalyst. Prefer STE for 3Q18 results.

No sitting duck

Limited organic growth has forced Singapore conglomerates to go beyond their existing turf. Notably, in the past six months, SCI acquired mini-power plants in the UK at c. £286m and STE acquired nacelle manufacturer MRA Systems at US\$630m. Meanwhile, KEP proposed to gain control of M1, which could cost up to S\$1.28bn, to transform the group into a hybrid cloud giant in the longer term.

KEP (results: 18 Oct) – lower divestment gains, more land sale

We estimate KEP's 3Q18 net profit at c.S\$277m (-9% qoq, -5% yoy), mainly due to the absence of one-off gains of S\$60m (dilution of KDC placement and net fair value gain from Nassim Woods redevelopment). We expect gains of S\$114m from the completion of Beijing Aether's divestment. Investment division likely turned around with Tianjin land sale, while O&M likely to still be in a loss in 3Q18F.

SMM (results: 25 Oct) - narrower losses qoq without one-off costs

We expect SMM to report narrower losses of S\$20m-25m for 3Q18F (2Q18: S\$56m loss) with the absence of one-off loss of S\$27m from the completion of West Rigel sale. Net gearing likely remained at around 1.2x as more progressive collection was likely offset by working capital needs for sizeable projects, including FPSOs for Statoil and Technip secured in Dec 17 and Mar 18. Focus will be on Rosebank and Poly-GCL contracts.

SCI (results: 2 Nov) - India profitable, slight loss at SGPL

We expect SCI to report 3Q18 net profit of S\$78m (-5% qoq, -14% yoy) on the back of fewer lumpy land sales in urban development. Utilities India should turn in lower qoq profit of S\$25m (3Q18: S\$39m) with the absence of cost recovery but sustained strong renewables and spot power prices. SGPL could still be in a slight loss of c.S\$5m (2Q18: S\$3m loss) as 3Q18 average spot price stood at c.Rs3.83kw/hour, or 8% lower qoq. Plant utilisation was also lower for SGPL at c.76% (91% in 2Q18) but steady for TPCIL at 87% (88% in 2Q18). Hyflux Tuaspring bid could be in focus.

STE (results: 14 Nov) - could be the star of 3Q18

We estimate STE's 3Q18 net profit at S\$140m (+19% qoq, +9% yoy). Marine was likely the key driver with stronger ship repair as its US yard started to gain traction in rig repair in the US. Conro provision was likely minimal. Aerospace could report 18% qoq decline in profits due to the absence of S\$9m divestment gain from Airbus Helicopter. Focus likely to be MRAS acquisition status and production ramp-up potential.

YZJ (results: 7 Nov) – fewer deliveries in 3Q18

We estimate YZJ's 3Q18 net profit at Rmb700m (-30% qoq, -20% yoy) with less than 10 vessels being delivered and shipbuilding gross margins of 16.5% (2Q18: 21%).

Figure 1: 3Q18F preview

		3Q18F				FY18F	
		CIMB	yoy	qoq	Consensus	CIMB	Consensus
Keppel Corp	S\$m	277	-5%	-9%	341.5	1,189.3	954.3
ST Eng	S\$m	140	9%	19%	131.0	534.4	542.9
Semb Marine	S\$m	(20)	-836%	-64%	-26.2	-47.9	-43.5
Sembcorp Ind	S\$m	78	-14%	-5%	94.9	313.5	332.8
Yangzijiang	Rmb'm	692	-20%	-30%	745.0	3,027.0	2,601.9

SOURCES: CGS-CIMB RESEARCH, COMPANY

No sitting duck

Think outside the box ➤

Limited organic growth has forced Singapore conglomerates to go beyond existing their turf, notably in the past six months.

- 1) SCI acquired mini-power plants in the UK at c. £286m, adding S\$30m-40m to FY19F earnings. It also clinched a 15-year 250W PPA with Bangladesh government, locking in c.19% of SGPL's capacity.
- 2) To expand the aircraft engine value chain, STE acquired nacelle manufacturer MRA Systems at US\$630m, potentially resulting in +15-18% yoy earnings growth in FY19F.
- 3) KEP proposed to gain control of M1 as well take KTT private which could transform the conglomerate into a cloud giant in the longer term. In the near-term, it should be 1-4% earnings accretive. Corporate costs for STE and KEP could spike in 2H18 as a result of the above.

Figure 2: Major developments by Singapore conglomerates in the past 6 months

	Month	What	Value	Comments
SCI	Jun	Acquired mini-power plants in UK	£216m (S\$385m)	To add 7-9% (c.S\$30m-40m) to SCI's group earnings from FY19
SCI	Aug	Secured 15-year 250MW PPA with Bangladesh	-	Locking in c. 19% of SGPL's capacity
STE	Sep	Acquired nacelle manufacturer MRA Systems	US\$630m (S\$868m)	To add c. S\$45m to group's profit in FY19F.
KEP	Sep	Proposed voluntary general offer over M1 & privatization of KTT	S\$360m to S\$1.28bn	1-4% earnings accretion in FY19F profit, depending on final stake in M1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Keppel: more and more conglomerate

Where is O&M in sustainable urbanisation? ➤

Keppel will kick start the reporting season among the conglomerates on 18 Oct. We think key focus could still be around the latest M1 acquisition and long-term strategy as a conglomerate. Increasingly, we are seeing a slight misfit for the O&M division in the group's strategy in sustainable urbanisation, connectivity and new economy (e-commerce, logistics, data centres). We still like the O&M division's aim to move into LNG but the pace is slower-than-expected. High oil price may not lead to the V-shape recovery of newbuild rigs in the next 1-2 years. While SMM continued to pursue sizeable O&M projects and investing in infrastructure, KEP has scaled down its investments. In the longer-term, we believe the group is heading in a direction where it is less reliant on O&M, and a potential merger between KEP O&M and SMM could be a long-term target.

Figure 3: Keppel – 3Q18F preview of net profit

Keppel	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	yoy%	qoq%	FY18F	Comments
Offshore & Marine	0	1	0	(837)	(23)	(17)	(10)	nm	-40%	41	Delivery of FPSO and LNG tug
Infrastructure	32	25	40	25	26	40	26	-34%	-34%	140	Absence of dilution gains fr KDC placement (S\$20m)
Property	103	97	199	287	378	285	232	17%	-19%	890	Aether Beijing: S\$114m
Investments	125	38	53	20	(43)	(3)	29	-45%	-1103%	118	Tianjin land sale profit c. S\$25m
Total	260	160	292	(506)	338	305	277	-5%	-9%	1,189	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

S\$70m contracts in 3Q18, S\$1.4bn YTD; Tianjin to recognise more in 4Q18 ➤

O&M likely to remain in a loss as revenue recognition for Awilco semi-submersibles will start in 4Q18. Only c.S\$70m of contracts were secured in 3Q18. Clarksons reported that Keppel has secured two units of LNG vessels from Avenir (estimate at c.S\$110m) in Oct 18, bringing YTD order wins to S\$1.4bn.

Investment division could report a turnaround from a loss of S\$46m in 1H18 to a profit of S\$29m in 3Q18F, taking into account the 7.94 ha land sale in Tianjin in Aug 18 for c. S\$25m, offset by the lagged Krisenergy's 2Q18 losses. The second plot sale in Sep 18 (8.77 ha) will be recognised in 4Q18.

Figure 4: KEP O&M secured S\$1.45bn of orders in 2018

Date	Description	Customer	Delivery	Contract (\$m)
27-Apr-17	EPCM for the Repsol Ca Rong Do Tension Leg Wellhead	(PTSC M&C)	est.2H19	56
23-May-17	2x Trailing Suction Hopper Dredgers (TSHDs)	Codralux S.A	2H19/2H20 (tentative)	120
24-May-17	2x LNG Carrier Vessels (option for 3 more)	Stolt-Nielsen Gas B.V	2Q/3Q19	103
28-Jun-17	4x Conversion, Repair and Modification of vessels	Dixstone Holdings, MTC Engineering S/B, Royal Boskalis Westminster, EXMAR Ship Management (Exmar)	3Q18, 3Q17, 3Q17, 1Q18	85
24-Aug-17	2x LNG fuelled containerships	Pasha Hawaii	1Q20-3Q20	540
5-Oct-17	FPSO conversion	SBM	mid 2019	100
11-Dec-17	Hull carry over work for P-69 and fabrication of a Turret Mooring system for a newbuild FLNG	Petrobras, SOFEC	1Q18; 1Q20	
Total contract win for 2017				1,134
11-Mar-18	Mid water harsh environment rig	Awilco	1Q2021	552.5
9-Apr-18	Dual fuel bunker tanker	Mitsui & C	2H19/2H20	100
16-May-18	2x Trailing Suction Hopper Dredgers (TSHDs)	Van Oord	4Q20/2Q21	212
16-May-18	2x jack-up rigs (speculative built)	Bordd Drilling		298
5-Jun-18	LNG bunkering vessel	FueLNG	3Q20	50
22-Jul-18	FPSO topside module fabrication & integration	Modec	4Q18	70
Oct	2x LNG Carrier Vessels **	Avenir	2020	110
YTD win for 2018				1,393

** contract value based on CIMB estimates

SOURCE: CIMB RESEARCH, COMPANY

Sembcorp Marine: oil price vs. zero orders in 3Q18

We think SMM's recent share price performance is largely correlated to oil price movement, despite seeing zero orders in 3Q18. The award of Rosebank FPSO contract is made complicated by the 40% stake sale by Chevron to Equinor (Statoil). The positive is, Statoil is SMM's current customer, as it awarded S\$662m worth of contracts for the yard in Dec 17 for the construction of FPSO hull and integrated living quarters. We still keep our S\$2bn order expectations for 2018 vs. YTD orders of S\$776m. Narrower-than-expected losses could be a near-term catalyst. Key risk is oil price retreat.

Figure 5: Zero orders in 3Q18 for SMM

Date	Description	Customer	Delivery	Contract \$m
2017	Variation order			75
11-Sep-17	Hull carry over works - Tupi P 68	Petrobras	2019	196
6-Dec-17	Construction of the hull and integrated living quarters for FPSO	Statoil	1Q2020	662
Total contract win for 2017				932
28-Mar-18	EPC of of Hull and Living Quarters for a newbuild FPSO	TechnipFMC	4Q2020	476
20-May-18	Construct, integrate the hull, topsides and living quarters of the Vito semi-sub	Shell Offshore Inc	2020/2021	300
YTD win for 2018				776

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Sembcorp Industries: clarity required for Hyflux

We believe focus for SCI in 3Q18 could be the bid price for Hyflux Tuaspring plant. Business Times reported that SCI was the only bidder for the plant and that it bid below book value. The Tuaspring project comprises a desalination plant (318,500 cum/day) and a gas turbine power plant (411MW). The desalination plant has a 25-year concession.

We estimate the book value for Tuaspring to be c.S\$900m (S\$1.47bn assets and S\$567m liabilities) and potential bid price to be slightly above S\$600m, assuming SCI takes over the debt. We think market may not appreciate the acquisition as we are still in a power supply glut market. We estimate losses of S\$3m-5m per quarter for the utilities power segment in Singapore. Tuaspring acquisition is likely to widen the losses.

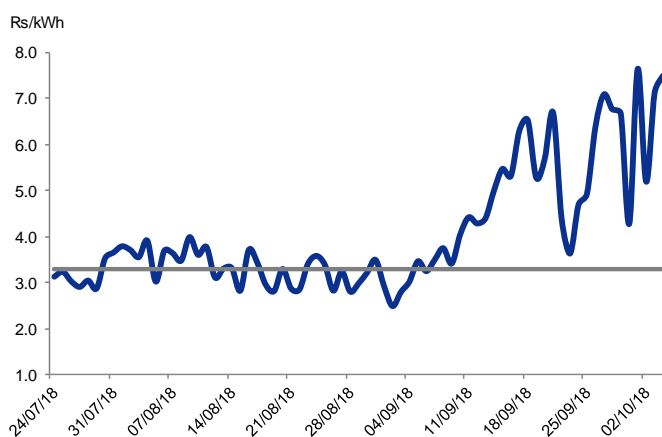
Figure 6: SCI – 3Q18F preview of net profit by sector

SCI utilities	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	yoy%	qoq%	FY18F	Comments
SG	34	42	51	36	35	43	39	-23%	-9%	152	Expect lower qoq without S\$4m fuel sale in 2Q18
China	22	9	10	37	33	15	19	93%	26%	86	Expect higher qoq without S\$4m provision of debt in 2Q18
India	(17)	(3)	(3)	(35)	(16)	39	25	nm	-36%	18	Expect lower qoq without cost recovery of S\$11m but strong renewables and spot prices
Rest of Asia	9	16	12	10	6	5	5	-58%	0%	39	
Middle East & Africa	10	19	16	10	13	14	14	-13%	0%	57	
UK & The Americas	10	2	2	13	12	(4)	(4)	-270%	0%	18	3Q18 will see small loss for UK as Wilton will have 4 week shutdown
Corporate / Others	(7)	(7)	(6)	(31)	(13)	(28)	(13)	135%	-53%	(69)	
Total	61	77	84	40	70	85	86	2%	1%	301	

SCI group	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	yoy%	qoq%	FY18F	Comments
Utilities	55	43	84	14	70	85	86	2%	1%	301	
Marine Engg	24	3	1	(21)	2	(34)	(13)	-2270%	-61%	(30)	
Parks	37	9	8	29	10	35	10	17%	-73%	71	Expect lower lumpy land sale
Other business/ corp	7	7	7	5	(1)	0	0	-96%	0%	(5)	
Corporate	(5)	(6)	(10)	(4)	(4)	(5)	(5)	-47%	0%	(23)	
Total	119	56	90	23	77	82	78	-14%	-5%	313	

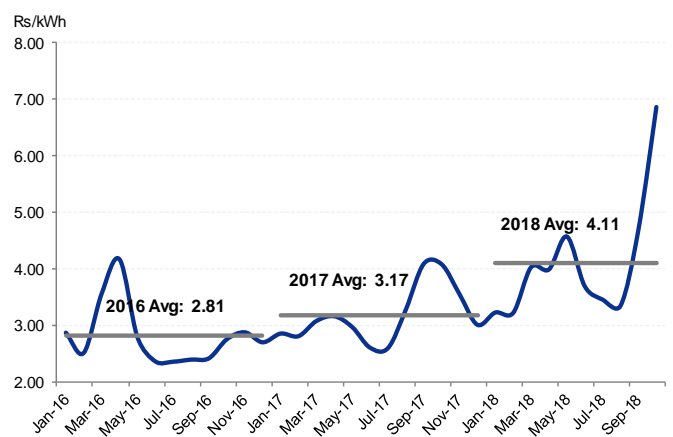
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 7: IEX power prices for S1 (Andhra Pradesh and Telangana) (Daily)

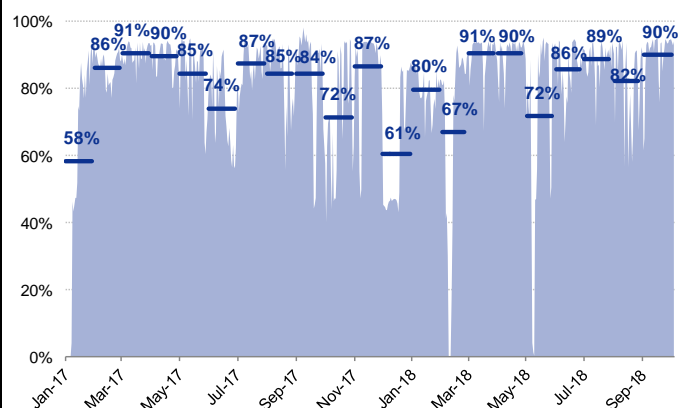


SOURCES: CGS-CIMB RESEARCH, IEX

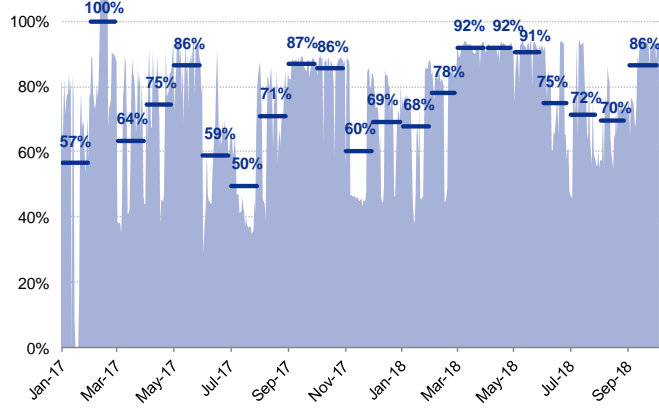
Figure 8: IEX power prices for S1 (Andhra Pradesh and Telangana) (Monthly)



SOURCES: CGS-CIMB RESEARCH, IEX

Figure 9: TPCIL utilisation at 87% in 3Q18


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: SGPL utilisation at 76% in 3Q18


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ST Engineering: MRAS production ramp-up not fully in the price

STE's share price is up 7% since the announcement of MRAS acquisition in Sep 18. We believe this has reflected the S\$66m annualised profit contribution from MRAS in FY19 (based on annualised 1H18 net profit of S\$33m). However, we believe potential upside could come from production ramp-up by MRAS up to 40%, which is not in the price. Our bull-case scenario could add S\$92m in FY20F or 12% on top of our existing forecasts.

Figure 11: STE – 3Q18F preview of net profit by sector

STE	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	yoy%	qoq%	FY18F	Comments
Aerospace	56	53	49	87	59	67	55	12%	-18%	266	Expect lower qoq without S\$9m of gain fr Airbus Helicopter sale and summer famine
Electronics	33	38	44	64	40	47	50	15%	8%	189	Expect strong satellite sales and stronger 2H18 seasonally
Land Systems	12	21	12	43	16	20	22	77%	5%	76	
Marine	8	(1)	20	1	9	8	13	-32%	75%	36	Stronger ship repair with rig repair work, minimal provision in shipbuilding
Others	(9)	1	4	(22)	(6)	(24)	-	-100%	-100%	(33)	Exclude bond-redemption costs in 2Q18 and better Miltope
Total	100	112	128	172	118	117	140	9%	19%	534	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Yangzijiang: weaker orders and fewer vessel deliveries in 3Q18

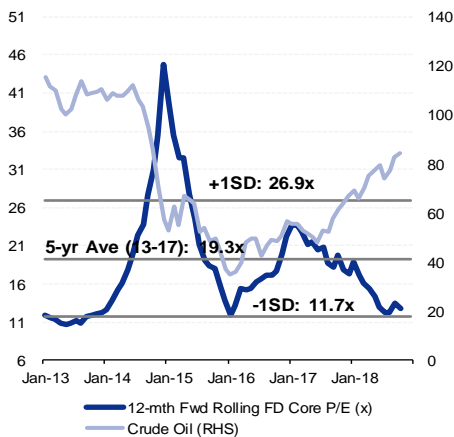
Clarksons reported that YZJ delivered six vessels in 3Q18 but we think the list may not be exhaustive. However, we are also not expecting as many deliveries as 2Q18 (20 units), as guided by the management previously. Hot weather during summer could also slow production progress. Order win momentum also slowed in 3Q18. Clarksons reported two 1,800 TEU containerships secured by YZJ in Sep 18. We estimate a maximum of c.US\$100m of order wins for YZJ in 3Q18.

Figure 12: YZJ 3Q18F preview

Yangzijiang	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18F	yoy%	qoq%	FY18F
Net Profit (Rmb'm)	668	720	866	678	595	995	692	-20%	-30%	3,027
Core shipbuilding gross margin	23%	20%	15%	13%	17%	21%	16%			
Vessel delivery	14	4	9	6	9	20	9			
Order win (US\$m)	318	132	1,135	523	268	578	100			

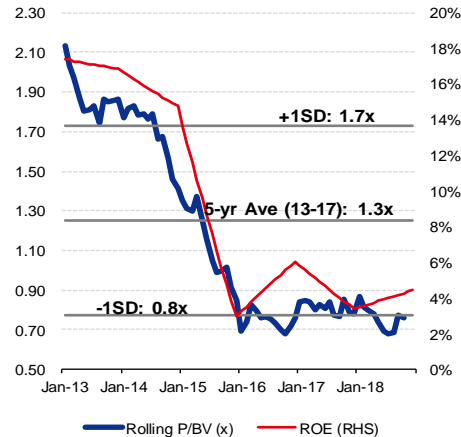
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 13: Sembcorp Industries 12-mth Fwd Rolling FD Core P/E (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 14: Sembcorp Industries P/BV (x)



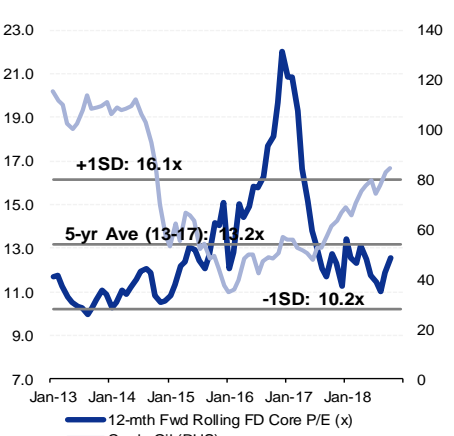
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 15: Implied Utilities P/BV (excl. SMM) (2010 - current Average)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 16: Keppel Corporation 12-mth Fwd Rolling FD Core P/E (x)



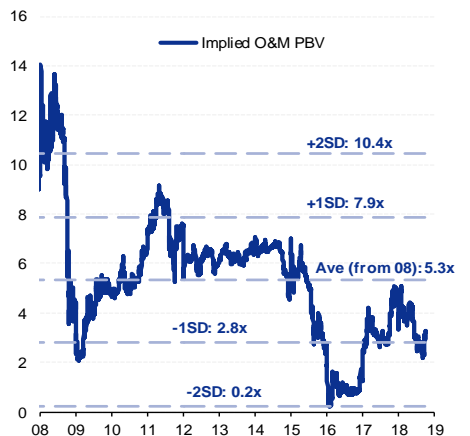
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 17: Keppel Corporation P/BV (x)



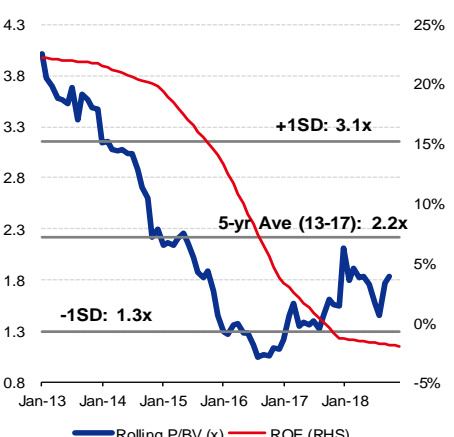
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 18: Implied KEP O&M forward P/BV (excl. KPTT, SPC, K1, KPLD, KGT)



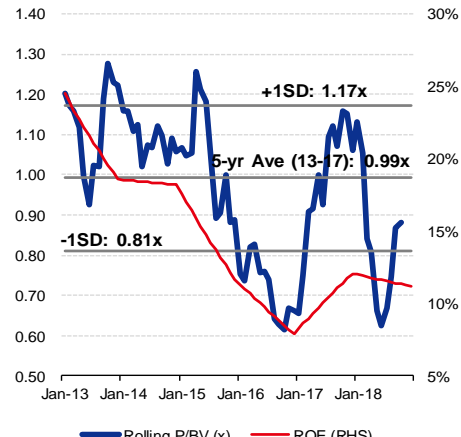
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 19: Sembcorp Marine P/BV (x)



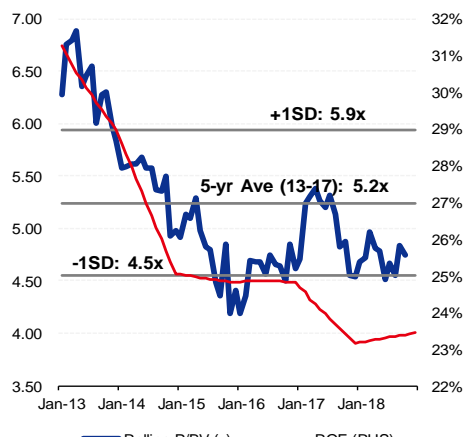
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: Yangzijiang P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 21: ST Engineering P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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