

MITA No. 010/06/2008

31 March 2009

# Keppel Land Limited

Maintain

## BUY

Previous Rating: BUY

### \$S\$1.41

### Fair Value: \$S\$1.77

Stock Code:

Reuters: KLAN.SI

ISIN Code K17

Bloomberg: KPLD SP

Event:

Update

#### General Data

Issued Capital (m)	721
Mkt Cap (\$m/US\$m)	1,017/668
Major Shareholder	KepCorp (53.28%)
Free Float (%)	46
NTA per share (\$)	2.34
Daily Vol 3-mth ('000)	6,251
52Wk High (\$)	6.156
52Wk Low (\$)	0.985

### Limited earnings impact on Madison Residences delay

**Construction of Madison Residences deferred.** Earlier in mid-March, Keppel Land announced the deferment of the construction of Madison Residences (MR), a 56-unit residential development along Bukit Timah Road. The project was launched in September 2008 and only 1 unit was sold at ~S\$1,740 psf. In light of the deferment, the Sale & Purchase agreement has since been terminated by mutual agreement. KSH Holdings, which was awarded the construction contract worth S\$53m (~S\$478 psf ppr) for Madison Residences, has also agreed to the deferment of the construction.

**Construction deferment a rational move.** Holding cost for this Bukit Timah land is low as it was acquired in 1999 and the estimated current book value of the Bukit Timah land plot is ~S\$45.3m or ~S\$409 psf ppr (after write-down in 2001). Demand for high-end projects is unlikely to return in the near future and if the construction for MR proceeds, KepLand may have to carry the 55 unsold units on its balance sheet. Taking into consideration the capital outlay for the construction, holding cost for the completed project will be significantly higher upon the completion of the project.

**Limited impact to our earnings forecast.** In light of the deferment of the project, we are now removing the revenue and earnings contributions of MR from our FY09 and FY10 forecasts. As the scale of MR is relatively smaller than the rest of KepLand's ongoing development projects, the impact of the delay on KepLand's earnings is limited. We are cutting our FY09 and FY10 PATMI estimates by 3.6% and 7.7% to S\$241.4m and S\$296.2m, respectively.

**Risk factors priced in; Maintain BUY.** Our FY09 RNAV estimate has been lowered marginally to S\$3.67 (previously S\$3.68) and based on yesterday's closing price of S\$1.41, KepLand is trading at a hefty discount of 61.6% to our RNAV estimate. Risk for KepLand is relatively higher than its peers, given its higher RNAV exposure to the office sector in Singapore and limited scale of diversification in its operations. However, we believe that the bulk of the risk has already been priced in as KepLand is trading at a significant RNAV discount relative to peers' average discount of 35.2%. We maintain our fair value of S\$1.77 on KepLand and despite the strong recovery in share price since hitting a low of S\$0.985 in mid-March, we still see an upside potential of 25.5% for KepLand. We maintain our **BUY** rating on KepLand.

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Year to 31 Dec	Turnover (\$m)	Gross Profit (\$m)	PATMI (\$m)	EPS (cents)	NAV (\$)	Price/NAV (x)	Div Yield (%)
FY 07	1,407.9	429.0	779.7	108.3	3.2	0.4	14.2
FY 08	842.2	322.1	227.7	31.6	3.4	0.4	5.7
FY 09F	843.6	261.6	241.4	33.5	3.7	0.4	5.7
FY 10F	905.0	291.4	296.2	41.1	3.7	0.3	5.7

Please refer to the important disclosures at the back of this document.

## Exhibit 1: FY09 RNAV estimate

	in S\$m
NPV of development profits	
- Singapore	622.4
- Overseas	422.1
	1,044.5
Surplus on office properties	-665.2
Surplus on industrial and retail properties	2.1
	-663.1
Valuation of fund management business	298.8
Stakes in listed entities	363.4
Less:	
- Book value of listed entities	-833.2
Surplus on listed entities	-469.7
Net Asset (end FY08)	2,442.6
RNAV	2,653.0
Fully diluted share base (m)	723.0
RNAV per share	<b>\$3.67</b>
<b>Fair value</b> (Investment and development properties at 60% discount to valuation, no discount on listed investments)	<b>\$1.77</b>

Source: OIR estimates

## Keppel Land's Key Financial Data

## EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Sales	1,407.9	842.2	843.6	905.0
Cost of sales	-978.9	-520.0	-582.0	-613.7
Gross profit	429.0	322.1	261.6	291.4
Distribution costs	-7.6	-7.1	-5.1	-4.5
Admin and other expenses	-109.1	-97.8	-92.8	-99.6
Other income	0.0	14.5	0.0	0.0
Operating profit	312.3	231.7	163.7	187.3
Finance costs	-79.2	-51.4	-49.5	-44.8
Share of results of associated companies	93.9	68.1	159.3	202.2
Others	204.8	61.1	47.9	50.2
Profit before taxation	531.7	309.6	321.4	394.9
Taxation	-83.0	-44.7	-48.2	-59.2
After-tax profit before revaluation	448.7	264.9	273.2	335.7
Net appreciation on revaluation of investment properties	388.2	4.5	0.0	0.0
Profit after taxation	836.9	269.4	273.2	335.7
Attributable to:				
Shareholders	779.7	227.7	241.4	296.2
Minority interests	57.2	41.7	31.8	39.5

<b>BALANCE SHEET</b>				
<b>As at 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
<b>Current assets</b>				
Properties held for sale	1,421.7	1,474.6	1,518.8	1,534.0
Stocks	3.6	3.6	3.8	4.0
Debtors	196.3	253.8	301.3	258.6
Amounts owing by holding and related parties	884.7	148.9	151.9	154.9
Fixed deposits, bank balances and cash	1,187.3	626.4	605.0	544.8
<b>Total current assets</b>	<b>3,693.5</b>	<b>2,507.3</b>	<b>2,580.8</b>	<b>2,496.3</b>
<b>Non-current assets</b>				
Fixed assets	148.4	173.9	182.6	191.7
Investment properties	1,378.3	1,433.0	1,518.9	1,594.9
Properties held for development	172.7	174.8	178.3	181.8
Long-term receivable	0.0	812.8	894.1	983.5
Investments				
- Associated companies	665.4	959.4	1,007.4	1,057.8
- Long-term investments	56.9	60.9	64.0	67.2
<b>Total non-current assets</b>	<b>2,421.8</b>	<b>3,614.8</b>	<b>3,845.3</b>	<b>4,076.9</b>
<b>Total assets</b>	<b>6,115.3</b>	<b>6,122.1</b>	<b>6,426.1</b>	<b>6,573.2</b>
<b>Current liabilities</b>				
Creditors	862.7	798.6	727.5	767.1
Net tax provision	121.6	106.2	111.5	117.1
Short-term borrowings	318.9	184.1	321.3	328.7
Amounts owing to holding and related parties	81.8	72.1	64.9	58.4
<b>Total current liabilities</b>	<b>1,385.0</b>	<b>1,160.9</b>	<b>1,225.2</b>	<b>1,271.2</b>
<b>Non-current liabilities</b>				
Long term borrowings	1,955.9	1,937.8	1,927.8	1,709.0
Deferred taxation	130.7	126.5	126.5	126.5
<b>Total non-current liabilities</b>	<b>2,086.6</b>	<b>2,064.2</b>	<b>2,054.3</b>	<b>1,835.5</b>
Share capital	1,185.3	1,188.5	1,190.9	1,193.2
Reserves	1,105.9	1,254.1	1,469.6	1,747.6
<b>Share capital and reserves</b>	<b>2,291.2</b>	<b>2,442.6</b>	<b>2,660.4</b>	<b>2,940.8</b>
Minority interests	352.5	454.4	486.2	525.7
<b>Total equity</b>	<b>2,643.7</b>	<b>2,896.9</b>	<b>3,146.6</b>	<b>3,466.5</b>
<b>Total liabilities and equity</b>	<b>6,115.3</b>	<b>6,122.1</b>	<b>6,426.1</b>	<b>6,573.2</b>

<b>CASH FLOW</b>				
<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
<b>Operating activities</b>				
Operating profit	312.3	231.7	163.7	187.3
Adjustments	-93.9	-19.1	-11.4	-12.9
Working capital changes	267.3	-48.0	-162.8	67.1
Others	-48.1	-60.8	-49.8	-53.8
Net cashflows from operating activities	437.5	103.8	-60.3	187.6
Net cashflows used in investing activities	418.6	-357.9	-164.3	-159.5
Net cashflows from financing activities	-244.9	-330.4	166.1	-167.8
Net change in cash	611.2	-584.4	-58.4	-139.8
Adjustments	-4.9	23.5	37.1	79.5
Cash at beginning of period	581.0	1,187.3	626.4	605.0
Cash at end of period	1,187.3	626.4	605.0	544.8
<b>Key Ratios</b>				
PER (x)	1.3	4.5	4.2	3.4
P/NAV (x)	0.4	0.4	0.4	0.3
Gross profit margin (%)	30.5	38.3	31.0	32.2
Net profit margin (%)	59.4	32.0	32.4	37.1
Net gearing (x)	0.4	0.5	0.5	0.4
Dividend yield (%)	14.2	5.7	5.7	5.7
ROE (%)	31.7	9.3	8.7	9.7
ROA (%)	13.7	4.4	4.3	5.1

*Source: Company data, OIR estimates*

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