

Keppel Corporation 1H 2021 Results Webcast

Transcript of the Question & Answer Session

29 July 2021, 5.30pm, Keppel Bay Tower

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
CT	Christina Tan, CEO of Keppel Capital
CO	Chris Ong, CEO of Keppel Offshore & Marine
LL	Louis Lim, CEO of Keppel Land
CL	Cindy Lim, CEO of Keppel Infrastructure
TP	Thomas Pang, CEO of Keppel Telecommunications & Transportation
MSM	Manjot Singh Mann, CEO of M1

Question from Anita Gabriel, The Business Times

Keppel’s industry peer Sembcorp Marine had mentioned severe manpower crunch plus risks of project delays among its woes. However, the pain appears to be less acute for Keppel Offshore & Marine (Keppel O&M). Are you able to explain the disparity? Is that partly also because Keppel O&M has done some significant rightsizing?

LCH: Well, I would tell you that the pain is shared by all in the industry. Of course, I have explained earlier the significance of the rightsizing, and how that has helped keep Keppel O&M’s EBITDA positive.

I would also like to ask my colleague, Chris Ong, to elaborate on this particular question.

CO: Thank you CEO. First of all, we cannot comment on our peer as we do not know the details. As for the manpower crunch and project delays due to COVID-19 related reasons, I think that is commonly felt throughout the industry. The way that we have approached it is this. We have always announced that we are streamlining our operations, and our rightsizing operation has started since 2015. Just as CEO had mentioned in the slides, since 2015 till now, we have actually shaved off S\$525 million of overhead costs. With the COVID-19 restrictions, we do have the same manpower restrictions, but we manage it with our clients very closely, to make sure that we prioritise the right work with the right skillsets. Take for example our client Ørsted. We worked with them on the delivery schedule. With the limited manpower, what we did is to subcontract the jacket out to Korea, and it is now completed on time and installed in Taiwan, and we are on schedule to deliver our topside in Singapore. By working together with the client, we are able to mitigate certain manpower restrictions. On top of that, we have also participated in the “bubble wrapping” of some import of foreign workers. (Note: “Bubble-wrapping” refers to a pilot programme to quarantine workers at the source countries and in Singapore before they are allowed to join the workforce after stringent tests.)

Questions from Chang Kwok Wei, Citigroup

Could you please share more details on targeted markets or geographies for Keppel to grow its renewables portfolio and achieve its 2030 7GW target?

LCH: Maybe I can ask Chris, who is the head of Keppel Renewable Energy (KRE), to address this.

CO: The target of 7GW by 2030 is a Group-wide target. We target to grow our renewable energy assets, both organically and inorganically, so that we can grow our portfolio and generate recurring income. KRE, together with the rest of the Group, looks at offshore wind, solar and also some specific run-of-river hydro space in the APAC region. We are focused on markets in Australia, India, Philippines, Korea, Malaysia and Vietnam. We have new solar and wind projects that have been added to the pursuit pipeline, all of which are targeted to achieve commercial operations by the end of 2025.

LCH: Thanks, Chris. Just to supplement that, besides looking at greenfield development, the Group is also looking at acquiring platforms, i.e. inorganic options. Some of these platforms could be in Europe and the US. We are looking at all the options. This is a Group-wide effort, comprising KRE, Keppel Infrastructure (KI), as well as Keppel Capital.

For KI's co-development of a Natural Gas Liquids Extraction Project on Jurong Island, could you share other details, such as project size, timeline and capex?

LCH: These are still early days, but I will ask Cindy, CEO of KI, to answer this question.

CL: We are embarking on a Front End Engineering Design (FEED) study, so it is too premature for us to comment on the details, such as project size, timeline and capex. Suffice to say, there are multiple pathways to decarbonisation. For this particular FEED study, KI and our partners will focus on optimising decarbonisation solutions at the intersection of sustainability, cost competitiveness, as well as energy security.

Question from Cheryl Lee, UBS

Could management share some of the short-term and medium-term targets set for the team at KI, both financial and non-financial targets? For instance, are they expected to secure a certain amount of contracts per year?

LCH: Cheryl, you know that we will not be disclosing any financial targets. Definitely, there are both financial and non-financial targets that Cindy and the KI team are working towards. But maybe I can ask Cindy to discuss the non-financial objectives that KI is working on.

CL: For KI, we are now organised into three key lines of businesses – Power & Gas, Environment, as well as New Energy. For Power & Gas, the business will focus on building up the resilience of, as well as defending, the market share that we have built up over the years. We will continue to diversify our energy sources, besides clean gas to renewables, as shared by our Group CEO earlier, including clean and low carbon energy importation. For the Environment business, we have a very strong and healthy orderbook. We are witnessing a pretty healthy level of enquiry, so we will focus on scaling up our environmental business, particularly in leveraging our proprietary technology in waste-to-energy, as well as our ability to integrate waste management from upstream to downstream resource management. For our New Energy business, we see very

promising tailwinds, in particular in the demand for energy efficiency in district cooling, as well as distributed energy generation, energy storage, and alternative clean energy like the hydrogen value chain, and potentially carbon capture, utilisation and storage.

Question from Anita Gabriel, The Business Times

Which of Keppel's focus areas could possibly see the earliest M&A activity?

LCH: We have just been discussing about renewable energy. I think that is certainly one of the growth engines that we are looking to get a head start on. Besides normal organic greenfield building, we are also looking at numerous platforms. The different segments that I mentioned, whether it is Connectivity, Urban Development, Asset Management, those would also be areas that we will be looking at.

Questions from Teo, retail investor

How would the combination of Keppel O&M and Sembcorp Marine affect Keppel's value system in the areas of asset management and the various funds? For example, Keppel has expertise in offshore & marine (O&M) vessels that can be seeded into funds to earn fees, example Gimi. Would this be possible if the combination occurs?

LCH: We have announced this as part of the two non-binding MOUs, specifically the MOU concerning the potential combination of Keppel O&M with Sembcorp Marine. We recognise that there is quite a lot of IP and expertise residing in Keppel O&M. As far as the O&M side is concerned, for example, the usual rig design etc., those will go to the Combined Entity when the transaction is done. But there are also some technologies and IP that remain relevant to Keppel in our pursuit of projects, such as what you have mentioned here. They could be gas solutions, nearshore "floating cities" or the hydrogen value chain. For those areas, we will form a strategic joint venture (JV) with the new Combined Entity, so that Keppel can continue to avail itself of the expertise that resides currently in Keppel O&M for those areas that we remain interested in, particularly nearshore infrastructure.

Keppel's rigs are deemed as legacy assets. Has the discussion with Sembcorp Marine so far touched on them letting go of their rigs, as well as having them under the same Asset Co, so that the Combined Entity (if it comes to reality) can charge ahead without any legacy baggage?

LCH: This second MOU is with an entity linked to Temasek, and it has been strictly only on our legacy rigs.

Keppel Capital targets to grow its assets under management (AUM) to S\$50 billion by 2022. Are we on track? Will asset management and more importantly fund management increasingly be a key focus of the company going forward?

LCH: Can I ask Christina Tan, CEO of Keppel Capital, to address this.

CT: We are confident of reaching our S\$50 billion target, in terms of AUM, by 2022. We are definitely on track with more funds raised, as well as more acquisitions, that we have done in the first half of the year.

Is there any coherent theme and strategy adopted by Keppel Capital Alternative Asset, which is a private fund manager that focuses on establishing, offering and managing private funds investing in new alternative assets? Or is it more of an opportunistic in nature? Any ability to scale moving forward?

CT: We focus on what Keppel's capabilities are. You have heard from my colleagues earlier that we are quite focused on infrastructure and renewables. Renewables is an asset class under alternative assets. We are looking to grow to, and have set the target of, 7GW (of renewable energy assets). This is something that we can scale in terms of opportunities. We are looking to acquire more in terms of platforms, rather than just building organically. I think in many ways, with Keppel's asset monetisation, re-investments into some of these asset classes will be pretty important for Keppel Capital. That will help us grow our fee income as well as our AUM.

Question from Adrian Loh, UOB Kay Hian

How has the Chinese government's clamping down on property prices to manage affordability affected Keppel Land? And can you share how it will affect Keppel Land going forward?

LCH: I will ask Louis to address this.

LL: Thank you very much Adrian for the question. As Chin Hua shared earlier, our home sales in China for the first half was 1,550. That was a 50% increase from last year. As with any of the markets which we play in and how governments view property prices, it is very much a necessity for us to navigate the real estate landscape. For us at Keppel Land, the way that we look at this is, as in Singapore, China and all the markets that we play in, we have to be nimble and agile to be able to create the value that we can, as well as create the products, services and solutions for our customers. With Keppel Land, the way that we are trying to differentiate ourselves, which we have spoken about, is to focus on sustainability, digitalisation, customer experience, and building platforms that really can absorb a lot of information and data about our customers, so that we can produce the right solutions for them. I believe that this is the way that we will need to play going forward, in spite of the challenges that the regulatory environments may pose.

Questions from Rahul Bhatia, HSBC

Thanks for taking my questions. My first question is: can you share any status updates on Asset Co?

LCH: We are having ongoing discussions – looking at the business plan, cash flows, and how we can turn this non-binding MOU into a definitive agreement. So work is in progress.

On my second question, could you talk about what kind of electric vehicle (EV) opportunities you are looking at?

LCH: I will ask Cindy to address this.

CL: One of the very important aspects of decarbonisation is end-use electrification. KI has been in the electrification business for nearly two decades. We saw good opportunity in the EV evolution, and we seek to participate in building up a meaningful EV business from end-to-end within Singapore, as well as the Asia Pacific. We will provide updates as and when we have new and significant developments. Thank you.

LCH: Just to add to that, the Group has also taken a small investment in an EV battery company a couple of years ago, and we are looking to see whether this can potentially be developed for use for not just EVs, but also potentially for energy storage which is quite relevant to various things that the Group is looking at, including renewables.

Question from Kang Wan Chern, The Straits Times

What are your views on the outlook for the Property and O&M businesses, given the uncertainty related to COVID-19? What are the key risks and opportunities you are looking out for?

LCH: That is a very big question covering quite a lot. I will try to address it and maybe I will start off with Property. Clearly, the pandemic has created quite a lot of challenges in terms of how we live our lives, including how we shop, work from home, and even how we spend our leisure time. So I think that there is certainly an immediate impact. But at the same time, there is a view that while things may not necessarily go back to where it was before, we do expect that with the vaccination drive, that some form of normalcy will return, and we are certainly hoping to see that. And so, there will be, we believe, a return to some normalcy. In the meantime, asset classes like data centres and logistics assets have benefitted. There have been some challenges in retail and offices but even then, I would say that we have also seen quite strong demand for investment properties worldwide, and this has led to cap rates for these properties remaining quite low. So, we have not really seen a huge downward shift in values to date. Hence, as your question is alluding to, there are both risks as well as opportunities. On the O&M business, I guess the big impact is really on supply chain disruption, manpower restrictions, as well as safe distancing efforts, which are very important. These have added costs as well as reduced productivity. Chris, would you like to add anything else to this?

CO: On opportunities, we have always said that we have pivoted towards offshore renewables projects. The pandemic has actually accelerated the growth of that sector. One area that we are looking at closely would be the US market where we have some presence. On the usual production market, we have our presence in Brazil to take full advantage of that. In terms of risks, as what Group CEO has mentioned, these are the new supply chain disruptions and labour supply. We will look at how to use our network of yards in different countries and also external partners to mitigate all the risks and capture opportunities.

Question from Mervin Song, JP Morgan Securities

What would be the medium-term AUM mix between Keppel Capital's private funds and listed REITs?

LCH: Can I ask Christina to answer this question?

CT: We do not really plan in terms of the asset mix between private funds and listed REITs because it all depends on where investors' interests lie. We are actually in a fortunate position in that both investors in the private funds as well as listed REITs have been very supportive of Keppel Capital's business and new products. Ultimately, we like the evergreen fees that we are getting from the listed REITs, but in terms of private funds, we like the carried interest that we earn as well. So maybe it's more of a 50-50 kind of mix between the two things. We will also grow our AUM.

Question from Yong, retail investor

Any updates on the milestones for the floating data centre project? When does Keppel expect to commercialise it?

LCH: Can I ask Thomas Pang, CEO of Keppel Telecommunications & Transportation, to address this please.

TP: The floating data centre is one of our many projects that we look at to help reduce energy consumption and decarbonise the data centre business. We have spent a lot of time on technology and on-site selection, and we are aiming to have the first project target for final investment decision (FID) sometime towards the end of this year. In addition to that, one of our investment companies in the US, Nautilus Data Technologies, has already launched its first project in California, and is now welcoming its first clients onto its floating data barge. Thank you.

Questions from Ho Pei Hwa, DBS Securities

Thanks for the presentation. My first question: may I clarify on Keppel O&M's profits? Excluding the share of Floatel's restructuring gain, would it have been a loss of S\$160 million? Are there other items that should be excluded to get a better sense of yard operating performance?

LCH: I will ask Hon Chew to address this.

CHC: Keppel O&M's net loss after excluding all the revaluations, impairments and divestments (RIDs), meaning excluding impairments and the share of Floatel restructuring gain, is S\$85 million.

On my second question, could you also provide us an update on the proposed yard combination with Sembcorp Marine, and more colour on the divestment of the logistics business, such as the timeline?

LCH: On the potential divestment of the logistics business, I have shared in the opening remarks that we have received bids which we are currently evaluating. On the combination, this is still ongoing. After the signing of the non-binding MOU, both teams have met and they are now in the process of setting up the due diligence that needs to take place, looking at synergies and cash flow etc. So, work is ongoing. It will take a few months before we reach a definitive agreement.

Questions from Lim Siew Khee, CGS-CIMB Research

With more asset recycling ahead, can 1H 2021's dividend per share (DPS) be used as a benchmark for 2H 2021 or is it a one-off generosity?

LCH: Well first of all, I am glad that you find the interim dividend attractive. Of course, we will have to look at the full year results. As you know, we do not have a dividend policy, but we have typically been paying around 40 to 50/60% of net profits. Of course, with the monetisation programme, we can afford to be a little bit more open-minded in terms of returning capital to shareholders to reward them for their patience and for investing in Keppel Corporation.

How is the margin trend like for property sales in China and Vietnam given that there's a positive trend in the average selling price (ASP)?

LCH: Louis, would you like to address that?

LL: I think if price is the only variable here, and I am able to keep costs constant, that would be great. Unfortunately, in the business, there are many factors that come into this – your time of entry, acquisition price, construction costs and how they might escalate. So although you are right in that the ASP has had a positive trend, this does not necessarily translate to margin and we have a lot of other factors that we look at that will impact our profitability in China and Vietnam. Thank you.

Were there any one-off gains at Keppel Capital in 1H 2021? Is this profit level sustainable?

CT: There are no one-off gains. It was actually from mark-to-market as well as fair value gains from the investments made by Keppel Capital. We hope that this will be a recurring theme that we will see in the profit levels of Keppel Capital going forward.

Question from Mayuko Tani, Nikkei

How much would you spend in M&A in the coming years for the Group? How will the breakdown by business units be like?

LCH: We know that we want to grow, and we want to pivot into some of the growth engines, so M&A will become quite important to the Group, but we do not really have a budget. I think it is a bit risky to have budgets because it might encourage our business units to be less disciplined. It is more important that we have an idea that M&A is one possibility, alongside our organic growth. It is quite opportunistic.

Question from Foo Zhi Wei, Macquarie Securities

Could you elaborate on your progress on further monetising the North Island Site in Tianjin? Should we expect more stake divestments this year? How is the demand for property projects there? Will you be accelerating development of the site within the next three years?

LL: Tianjin North Island is a very important project for us at Keppel Land, and we continue to see opportunities there either by doing developments on our own, entering into JVs as we have done with Sino Ocean, or selling our land plots to third parties. We do not disclose what future divestments we might have. But again, we continue to remain very optimistic about the value that we can create. I would say that in Tianjin, unlike some of the other cities like Chengdu or Shanghai where there is stronger demand, there are some challenges at some points in time, but I think we will continue to see a long-term opportunity here in terms of how we can create value. Thank you.

LCH: Maybe I can also add that North Island is adjacent to, and really part of, Tianjin Eco-City. The Eco-City has won a lot of praise since its development. It is a very nice development, very green, and I think that would also be a differentiating factor for us.

Question from Mervin Song, JP Morgan Securities

Which property segment and country does Keppel Land see the best risk-reward when deploying its capital going forward? Would it be in the Singapore, Vietnam or China residential market? Or are commercial developments more lucrative?

LL: It is a big question. I think the answer is that there is no one silver bullet. At Keppel Land, as you pointed out, our key markets are in Singapore, Vietnam and China; but we are also very much looking forward to scale our businesses in India and Indonesia going forward. The market situation is very different market-by-market. For example, if we talk about China and Vietnam, we continue to see opportunities across residential, commercial, as well as in spaces like retail. However, if you look at a market like Indonesia on the other hand, then high-rise residential and commercial markets are more challenging, and so we are more focused on landed residential projects in those markets. So, we do not have a one-size-fits-all answer to how we approach the markets. We really look at each market. At that point in time, what would be attractive for us to enter into? And we take a longer term view of when the right time would be to enter which specific segments of that market. Thank you.

LCH: Also, on the question that was raised, I think is quite appropriate in the sense that we do look at risk-reward and risk-adjusted return – this is how we measure and look at opportunities across different markets and different segments, and this is how we compare them.

Would you be able to disclose the 1H 2021 postpaid and prepaid average revenue per unit (ARPU)? How does this compare to last year? Can you also please talk about the strategies to further improve M1's profitability?

MSM: Clearly, because of roaming revenues being much lower than last year, there has been an impact on ARPUs. However, without roaming, our ARPUs are quite stable this year over last year. In fact, for the prepaid business, our ARPUs have actually become better than last year because of the kinds of products that we have been launching in the market. So, our ARPUs are quite stable. To improve profitability, one of the areas that we are working very strongly towards is the digitalisation of our operations, which is primarily to reduce our costs to serve over a period of time, and therefore improve our customer lifetime value, which is driven through lower cost to serve and higher profitability in time to come. So, the whole transformation programme is to deliver higher profitability over a period of time. Thank you.

Question from Cheryl Lee, UBS

Following on from Siew Khee's question on Keppel Land – after taking into consideration changes to costs, have property development margins in Vietnam and China improved or worsened versus previous periods? What do you expect in coming years in terms of margins?

LCH: Louis addressed that question, but maybe I can try to answer your question more directly. If it was a project on land that we already own, if the ASP goes up, you would expect the margins to improve. Of course, construction costs may go up, but generally speaking, for these markets, construction costs are not a huge percentage of the total development costs, particularly in China. So, if the ASP goes up over time, then margins for the historical land that we own should be better.

These are all the questions we have. Thank you very much and have a pleasant evening ahead.

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