Keppel Corporation 1H 2022 Results Webcast

Transcript of the Question & Answer Session

28 Jul 2022, 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

Questions from Xuan Tan, Goldman Sachs

On Slide 8, for the potential S$200 billion in assets under management (AUM), what is the timeline that Keppel Corporation is hoping to achieve that?

LCH: There is no timeline that we are giving. We are just showing that based on our asset-light model and our monetisation plans, we can potentially grow Keppel Capital to S$200 billion of AUM. The time taken will of course depend on market conditions, but I think this is an achievable and quite a realistic potential AUM for Keppel Capital.

Can you also talk about the asset classes and geographies of the additional potential AUM?

LCH: I will ask Christina to address this.

CT: Thanks, Xuan. With regards to the asset classes and geographies, we will focus on what Keppel is strong at in the areas of energy and environment, providing clean energy, clean water. We will also focus on areas in connectivity, which are our data centres and our subsea cables; of course, not forgetting urban development solutions. In terms of geography and asset classes, Keppel has shown its capabilities and strengths, and our investors like Keppel Group because of our capabilities as a developer, operator and manager. We are very confident that we will be able to continue to grow our AUM with the support of all our sister business units realising the potential for us. Thank you.

Questions from Terence Chua, Phillip Securities Research

Could you provide us more insight into the China real estate projects? How much have the average selling prices (ASPs) and sales fallen for the China projects?

LCH: I will ask Louis to address this.

LL: Thank you for the question, Terence. As CEO mentioned in his speech, we are clearly facing headwinds in China as a result of the deleveraging policies as well as the COVID situation. The impact on sales has been significant. For the largest developers across the market, we have seen a 50% drop in units sold. For Keppel Land in China, we have also seen about a two-third drop from 1,550 units that we sold in the first half of last year to 480 units for the first half of this year.

In terms of the selling prices, because we are in some of the key markets like Shanghai and Wuxi, the secondary market pricing is quite strong. The government sets limits on pricing, so we have not seen a significant drop in prices for those particular cities and micro markets that we are in. We maintain a very positive view on the medium to long-term prospect for the Chinese market. In the meantime, we will continue to see headwinds, but that said, over the last month in June, if you look at the high frequency data, it has improved significantly with an increase in sales of about 61% versus the previous month. For Keppel Land China as well, we saw a very good recovery in our project in Wuxi – Seasons Residences, and the month of June saw Keppel Land having the highest number of units sold for this project year-to-date.

Do you foresee any impairments in 2022?

LCH: For this, I will ask Hon Chew.

CHC: Thanks for the question. As part of the process, in preparation of the results announcement, we have reviewed all the projects under development. The conclusion is that there is no need for any impairments. For the landbank, as we have always said, the cost has low risk of impairments.

LCH: To add to that, our landbank historically has been bought, on average, more than seven years ago, so they were bought at a much lower price than what is considered to be the market value today. The risk of impairment from the landbank is fairly limited.

Questions from Mayuko Tani, Nikkei

Thank you for the presentation. Please give us an update on new and green data centre development plans within Singapore as well as globally.

TP: Thank you very much Mayuko-san for the question. Keppel is indeed interested to participate in the government's call for application for data centre innovation projects in Singapore. We are looking to bring several innovative solutions to the proposal, including a floating data centre module, as well as larger projects that could aggregate demand from various players. We are at the stage of discussing with potential partners to bring in renewable energy as well as green molecules into Singapore in order to satisfy energy security, as well as the energy efficiency that we want to bring to our data centre projects in Singapore. Going forward, this similar concept could be exported to other countries that have similar requirements, as well as constraints in land availability in their locations. These similar concepts could be exported to the regional countries as well.

Anything on the floating data centre project?

TP: We have made a lot of progress on the floating data centre module, and at a stage when we are able to make an announcement, we will make the announcement when approvals have been obtained.

What other technologies are you interested in?

TP: One of the technologies that we use in data centre cooling is in helping to reduce the energy required in cooling, which takes up a lot of electricity in every data centre project. We have invested in a technology company in the US called Nautilus. We participated in the equity of that company. They have launched their first floating data centre module in California, and it uses seawater for cooling of the data centre and has brought the power utilisation efficiency (PUE) down significantly. It is receiving a lot of attention from the market. One of the technologies we will use in the Singapore project will likely be seawater cooling to help with energy efficiency.

<u>Questions from Terence Chua, Phillip Securities Research</u>

Hi management, thanks for the presentation. Can you provide more insights into the proposed offshore & marine (O&M) transactions?

LCH: When we first announced the signing of the definitive agreements, we spoke about how this is a win-win-win proposal. It is good for Keppel O&M, and we believe it is also good for Sembcorp Marine. More importantly, it strengthens us, to create a new global champion focused not just on the traditional O&M business, but increasingly on the energy transition. In the recent months, the oil price increase and improving sentiments in the O&M sector all bode well for the Combined Entity.

How far along have you moved since the announcement?

LCH: As reported in my opening remarks, we are making good progress in terms of applications for anti-trust. We believe we are on track for the completion of the transaction sometime in the fourth quarter. Both sides are also preparing to submit the necessary applications to SGX to requisition the extraordinary general meetings (EGMs) that are required for the respective shareholders on both sides to vote on the proposed transactions. All the work that we have been doing is progressing well. The two teams are also working closely on pre-planning for integration so there is a bit of work there, and I believe there has been good progress on that front. Thank you.

<u>Question from Ho Pei Hwa, DBS</u>

Congratulations on the good results. On the property market in China, could management elaborate a bit more on the near to medium-term outlook and strategy to navigate through the uncertainties?

How should we think about Keppel's ongoing projects and new launches ahead, as well as capital recycling activities in China?

LCH: I believe Louis has already provided a bit of detail on the China property market but maybe I will ask him to see whether he wants to elaborate further based on the questions that Pei Hwa is raising.

LL: Thank you Pei Hwa. As I mentioned, the more recent data gives us some cautious optimism in terms of how the market will go forward, but we do think that in the near to medium-term it will be bumpy. There will be stop-start activities as a result of potential COVID lockdowns, so we need to be nimble. The opportunity for us in this period of time is that the Chinese developers may find some challenges with debt financing, and that is where we may be able to come in to partner with them and selectively invest in some key micro markets. The average selling price for some of the cities that we are in have held out well, but that is not the same across the board, as you would expect. So where we choose to play is going to be quite important. In terms of capital recycling, I think you are aware of our asset monetisation plan for some of our assets in China. Given the current sentiments in the market, we will think about timing – when we can get the best value from any monetisation.

LCH: Thank you, Louis. On this point on asset recycling, we have quite a large pool of assets to monetise, and we have certain plans, we have different waves. When there is some resistance encountered because of market conditions, we have the option of moving forward some of the assets that are scheduled for recycling in later years, moving them to the left. This will hopefully keep our programme on track.

Question from Terence Chua, Phillip Securities Research

Could you provide us with an update on the Bifrost Cable System?

LCH: Thomas, please.

TP: Thanks Terence. The manufacturing of the cable and electronic components of the system started in December 2021. The marine survey for the cable routes have also been completed in April this year. We are currently applying for permits from the various regulatory authorities for the cable lay approval. We expect the cable lay to start in early 2023 and we are aiming for ready for service (RFS) in 2024. The cable is attracting a lot of interest and we already have three cables committed to customers.

Questions from Rahul Bhatia, HSBC

More than 70% of the S$500 million planned buyback is already completed. Does the management intend to carry on beyond the S$500 million given the increased authorisation of 5% buyback given at the annual general meeting (AGM)?

LCH: The 5% increase is very helpful as we embark on this share buyback, but the original intention of this share buyback has a couple of goals. One is when we look at some merger and acquisition (M&A) transactions, particularly involving founders' platforms, we may achieve better alignment with the founders where we pay partly in cash, partly in shares. The share buyback is partly to fund that, and to fund our share plans at Keppel. If and when the shares are used, we will relook at it but at this point in time, we still have a balance so we will complete this share buyback first.

What should we expect in terms of dividend for 2H 2022?

LCH: When the Board met to discuss the interim dividend, we reflected how we as a Group have performed in the first half. We have also looked at what we think we will do in the second half. This is subject to us achieving our forecasts. This is increasingly challenging given the external environment. The final dividend will be decided at the end of the year or early next year, but the interim dividend reflects the confidence that the management and the Board have in our performance.

Could you share if there are new property project launches expected in 2H 2022, especially in Vietnam and China?

LCH: Can I ask Louis to address this?

LL: Yes, thank you for the question, Rahul. There will be new property project launches. In China, we are looking at launching some new units for Phase Five of our Seasons Residences project in Wuxi. In Vietnam, we're looking at three launches for Celesta Avenue, Celesta Gold as well as Empire Sky Residences. We have talked about some approvals that we need to get in the past and we are trying to push for them. I am pleased to announce that we have got the construction permit for Celesta Gold and we also have the project approval for Celesta Avenue secured. Beyond Vietnam and China, we are also looking at Urbania in India for units to be launched, as well as Wisteria in Indonesia.

Questions from Paul Chew, Phillip Securities Research

Will Keppel be cancelling the shares bought back?

LCH: As I was explaining to Rahul, the shares buyback programme is to fund share plans as well as potential merger and acquisition transactions. The current plan is not to cancel the shares bought back at this present time.

Can you discuss electricity spark spread in Singapore? What is driving the improvement, if any, especially with the usually high reserve margin?

CL: Thank you Paul for the question. The electricity spread is driven by multiple factors such as the availability of gas supply, planned outages of generators, economic activities that are picking up in Singapore, and last but not least, there is also the weather which impacts the efficiency of generation. Suffice to say that for Keppel Electric, we run an integrated energy business where we also control upstream steady fuel supply. We run our own four units of generators and we have a very reliable and proven electricity retail downstream. This is hopefully supplemented in the longer term - we also have supplies of renewable electricity. Thank you.

Questions from Ezien Hoo, OCBC

Keppel is in the midst of making a number of new investments and expansion into new businesses. What are the metrics that Keppel uses to track and monitor the success of these expansions?

LCH: It is a very good question Ezien. I think this is something that is top of mind for us. I would not say that we are expanding into a lot of new businesses. I think a lot of them are quite close adjacencies, but whatever it is, whether it is into an existing area or into a new adjacency, we will be very disciplined in how we approach these investments. We have a very demanding internal underwriting process. All the CEOs and myself, we are part of a group that looks at all the key investment and divestment decisions across the Group supported by a very strong working team, which will obviously look very closely at the return projections and of course also at the risk that we are going to take on. Ultimately, we are driven by what we call “risk-adjusted returns”. And of course, after the transaction has been done, that is not the end of it. We will still keep track of how the various investments are performing. And I am sure there are also lessons that we can draw from this that will then add to our experience and track record, and allow us to be a better investor going forward.

Does Keppel Land view CapitaLand as a competitor in Vietnam and China?

LCH: I think first and foremost, Vietnam and China are very large markets, so there are many players in that market, not just Singapore companies. Each one will play to their strengths and we believe Keppel Land has certain strengths. In these markets, when we compete, we are not only competing with Singapore companies, but also local companies and other international developers.

This is our 30th year of operating in Vietnam and we are also quite close to that mark in China, so we believe that we have done our dues. We have very strong teams on the ground who are very good at executing, and we believe that puts us in good stead.

<u>Questions from Mervin Song, JP Morgan Securities</u>

Some of your alternative asset manager peers have noted that their capital partners are more cautious in deploying capital, given the uncertain macroeconomic backdrop and the risk of cap rate expansion. Is Keppel Capital experiencing similar concerns? And should we expect slower AUM growth ahead?

LCH: I will ask Christina to respond.

CT: Thanks Mervin. Actually, on the contrary, when we talk to investors, we realised that a lot of Chief Investment Officers (CIOs) are reallocating their portfolios. They are downsizing the bond portfolio and increasing the allocation to alternative asset classes. And I think we are able to confidently say our AUM growth will be strong, because Keppel is in the right place, at the right time. And we are doing the right asset classes – we are looking into things like data centres, infrastructure, and real estate. I think what investors are looking for are assets that have long-term cash flows. And I think the sectors that we are looking at actually fit right into this area. Infrastructure, for example, is part of essential services and investors like it for its core nature that is able to generate very stable long-term cash flows for them, and act as an inflation hedge and CPI index as well. So, the sectors that we are in could be different from our competitors'. Because of the strengths of the Keppel Group, we are actually more confident in terms of the environment right now that we will be able to experience higher growth in AUM.

<u>Questions from Low Horng Han, CLSA</u>

Given the change in investment climate in places such as China, would Keppel be reviewing its S$5 billion disposal target?

LCH: It is true that China is facing some short-term headwinds. But as I have shared, we do have quite a large pool of assets from which we can monetise. And we have programmes in place for different streams of assets, different waves of assets that are being monetised. We will then relook at this and see whether there are assets in the later years that we can move to the left in different markets. So, we remain confident that we will not only meet, but we will exceed our S$5 billion target for 2023.

On P-80, will part of the work be outsourced to third parties? For example, the construction of the hulls? If so, what will be the net contract value per FPSO (Floating Production Storage & Offloading vessel)?

LCH: I will ask Chris Ong to address this.

CO: Thanks Horng Han for the question. P-80 – there will be outsourced components like what you mentioned, construction of hulls, but regardless, Keppel O&M is fully responsible for the engineering, procurement and construction (EPC) contract. So, we will be managing the project, and it is no different from when we subcontract the components within our yards. So, the full contract value will flow through the revenue of Keppel O&M.

LCH: I think when we look at margins, we also look at the overall project right?

CO: Yes, that is right. The philosophy of outsourcing is based on the best and most economical model and the margin is considered with the full contract price in play.

<u>Questions from Paul Chew, Phillip Securities Research</u>

Can you provide any updates on Asset Co's progress in monetising the legacy rigs?

LCH: Maybe I will ask Chris to address this first question as well.

CO: So far, we have made good progress in terms of monetising, whether it is through finding bareboat charters and eventually making the rig operational, or discussing with potential clients on asset sale. On the KFELS B Class rigs, as what CEO has mentioned, in the first half of 2022, we have found bareboat charters for four of the rigs, and we are also in discussion with potential buyers for some of the rigs.

Can you remind us of the amount of equity injected by Kyanite and Baluran into Asset Co?

LCH: Maybe I will ask Hon Chew to address this.

CHC: I think when we announced the definitive agreement we did say that the net tangible assets funded by the core equity amounts to about S$624 million and as we have also said, we will be putting up S$120 million of perpetual securities and half a million in core equity. The rest will be funded by Baluran and Kyanite.

<u>Question from Terence Chua, Philip Securities Research</u>

I have a follow-up question on the Keppel O&M and Sembcorp Marine transaction. Can I find out if there are any contingencies that Keppel has made if the deal does not go through?

LCH: Well, I think this is highly speculative Terence, and I would not want to address it. As I mentioned, all the preparation work is on track. Of course, at the end of the day, we still need to clear the anti-trust, as well as clear shareholders on both sides.

What I will say is that I think, as you have seen from our report, for the first half, Keppel O&M has performed well. We are making a profit at Keppel O&M. The Op Co[1] that will travel across, minus the legacy rigs as well as the out-of-scope businesses, in fact, have performed even better than Keppel O&M as a whole. The orderbook is good and we have a prospect of adding quite a significant chunk to the orderbook, assuming that the two FPSO projects get signed up. So, I think Keppel O&M is in pretty good shape and of course, on the legacy rigs we have also reported that the market conditions have improved, and the potential for us to monetise substantially most of these rigs in the next three to five years is very good.

[1] Op Co comprises Keppel O&M excluding the legacy completed and uncompleted rigs and associated receivables and its interests in Floatel and Dyna-Mac.

Questions from Foo Zhiwei, Macquarie

I note that you have a single client in Energy and Environment contributing S$1.1 billion in revenue, can you elaborate?

LCH: Can I ask Cindy to address that?

CL: Thank you Zhiwei. In Energy & Environment, we recorded pretty strong revenue for the first half coming from the Power business as well as the progressive recognition of revenue from our Hong Kong Integrated Waste Management Project. Specific to the single client that has contributed S$1.1 billion in revenue, it is our customer, Energy Market Company, EMC.

The dividend of 15 cents represents a payout slightly above your historical range of 40% to 50%. Can we expect a similar dividend payout ratio in the second half of 2022?

LCH: Maybe Hon Chew, you would like to address that?

CHC: I think Chin Hua also earlier talked about the dividend for the full year. I just want to add that when looking at dividends, we also look at the progress of our asset monetisation – that gives us more confidence in the dividends when we look at it for the full year. So 40% to 50%, or slightly higher in terms of the payout ratio, is something that is achievable.

Questions from Lim Siew Khee, CGS-CIMB Research

I am happy with the 15 cents dividend per share (DPS), though the asset monetisation pace has been impacted by the current environment. Do you think the pace of monetisation will pick up in second half of 2022 or 2023?

LCH: I think we remain very confident that we will exceed our target of S$5 billion by the end of next year, for the various reasons I have said earlier.

What is the S$61 million under "Others" in Energy & Environment mainly due to?

CHC: They are mainly attributable to interest costs, as well as the share of Floatel's results. Given that Floatel is out of scope, it is not under the discontinued operations[2], but it is shown under "Others". So those are the main components.

Questions from Mervin Song, JP Morgan Securities

Prior to the privatisation of M1, for 4Q 2017 to 4Q 2018, quarterly profit after tax was S$25 to S$36 million. 1H 2022 net profit now stands at S$34 million. Adjusting for differences in capital structure, how far away is M1 from achieving pre-COVID profitability? With the resumption of travel, how does 2Q 2022 roaming revenues compare to 2019 levels?

LCH: That means pre-COVID. Can I ask Manjot to address this?

[2] Discontinued operations comprise the results of Keppel O&M, excluding certain out-of-scope assets, and other group adjustments.

MSM: Let me answer your second question. At this point in time, for 2Q 2022, we are at about half of our pre-COVID roaming revenues. And that is primarily because China has yet to open up, which contributes quite significantly to the roaming revenues in Singapore.

So as the roaming opens up and with our increased consumer base, along with our increasing enterprise revenue, I think we will be on course to achieving our pre-COVID profitability as roaming improves more in 2023. So actually, all our business indicators are travelling in the right direction and therefore profitability is a matter of time.

LCH: Thank you Mann. I think also as part of the transformation that we are undertaking at M1 - the share of the profit from the different segments may be different from before we privatised M1. You have more from the enterprise business etc.

MSM: That is correct. And 5G of course will also contribute.

<u>Question from Jame Osman, Citi Research</u>

Could you share what the contribution of renewables-related business earnings was to the Energy and Environment segment in 1H 2022, and what do you expect the contribution could grow to in the coming years with the recent investments made in the space?

LCH: The amount, I believe is still quite small in the first half, because this is still a nascent segment that we are going into. There are two types of investments that we have made, in broad terms, in this space. For those investments, like what Keppel Renewable Energy is doing in Australia, where we are building greenfield, it will take a few years before they become cashflow generating and profitable. So that will take a bit longer to build. But at the same time, you will note that we have also recently done transactions like Cleantech Renewable Assets, the platform in the commercial and industrial (C&I) space for roof tops. That is an existing operation so we would expect to see some contributions. And then, of course more recently, our investment together with Keppel Infrastructure Trust (KIT) into some wind assets in the European Nordics. Those are operating assets, so you will start to see some income coming through, but I just wanted to be sure to say that the investments are there. We believe that this is a very big growth segment and aligned with what we are trying to do for Vision 2030. And this is something that we will continue to build on, not just using our balance sheet, but working alongside investors under Keppel Capital.

<u>Questions from Lim Siew Khee, CGS-CIMB Research</u>

What is the S$8 million loss in logistics related to in Connectivity? How come the profit from M1 jumped 62% year-on-year though revenue was only up by 6% year-on-year?

LCH: Hon Chew?

CHC: On the first question on logistics, the S$8 million loss is basically the operational loss of the logistics business including the loss of Keppel Logistics before the sale. That is partly offset by the gains from the sale of Keppel Logistics[3] and also Indo-Trans Keppel Logistics Vietnam.

As for your second question, the profit of M1 jumped 62% year-on-year, though revenue grew by 6%. It is partly due to revenue growth and improvement in M1's operations. But also, the other

[3] Includes Keppel Logistics' businesses in Singapore, Malaysia and Australia, as well as UrbanFox.

reason is, this is the first half year after the monetisation of the network assets by M1 to Keppel DC REIT. So as a result, because now M1 is more asset-light, the depreciation is no longer with M1. The depreciation has reduced, and at the same time, interest expense is also reduced. In place of that, we pay a network service fee which is lower than the savings in depreciation and interest expense. As a result, M1's profit has gone up by 62%.

<u>Question from Terence Chua, Philip Securities Research</u>

Can you give us more details on some of the O&M projects that were completed in 1H 2022?

LCH: Chris?

CO: For 1H 2022, Keppel O&M delivered six projects which comprise conversion projects, repair projects, and also new build projects. We have delivered one newbuild dredger, one wind turbine installation vessel leg structure, one wind turbine installation vessel upgrade, one FSRU conversion, one dredger jumboisation and one LNG carrier upgrade.

<u>Questions from Teo, Retail Investor</u>

Are there any further updates or developments on Keppel's previous bid for SPH?

LCH: There is no update. You know what has happened. So, as far as we are concerned, we are disappointed that we did not win, but life goes on. I think we have quite a lot of things on our plate and we are focused on them.

Will there be any fees payable to Keppel since the deal did not materialise?

LCH: There is an arbitration process that is ongoing. I cannot say much more than that. Thank you.

I believe we come to the end of the Q&A session. Thank you all for joining us and have a great evening. Thank you very much.

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