

## **Address by Mr Loh Chin Hua, CEO of Keppel Corporation**

### **FIRST HALF ENDED 30 JUNE 2023**

#### **One Keppel, One Purpose**

The first six months of 2023 were transformational and productive for Keppel. After concluding the successful divestment of the offshore & marine (O&M) business at the end of February, we unveiled a major restructuring programme to remove our conglomerate structure and reorganise ourselves as one company, with three platforms - the Fund Management, Investment and Operating Platforms.

Keppel today is advancing as a global alternative real asset manager, with deep operating capabilities in Infrastructure, Real Estate and Connectivity. With a sharpened focus and strong growth initiatives, we will create value for Keppel's shareholders, the investors in the private funds and trusts that we manage, as well as other stakeholders.

#### **Delivering on Strategy**

In 1H23, Keppel delivered its highest net profit on record in 55 years. We achieved a net profit of over S\$3.6 billion, compared to S\$498 million in 1H22. About S\$3.3 billion of this was from gains achieved from successfully divesting the O&M business. Annualised Return on Equity was 36.8% in 1H23, compared to 8.4% in 1H22.

Excluding the discontinued O&M operations from both periods, we delivered a robust net profit of S\$445 million in 1H23, higher than the S\$434 million in 1H22. As we continue to execute our strategy and restructuring plans to be an asset manager and operator, we are confident of improving performance as we grow our business, capture synergies and optimise costs.

We remain watchful of risks in the high interest rate environment, keeping borrowing costs stable while maintaining flexibility to respond to opportunities. As at end-June 2023, about 65% of the Group's borrowings were on fixed rates, with an average interest cost of 3.53% and weighted tenor of about three years. As at end-June 2023, our Adjusted Net Debt to EBITDA<sup>1</sup> was 4.7x, comparable with that of other global asset managers.

#### **Superior Returns**

In appreciation of the support and confidence of our shareholders, the Board of Directors has approved an interim cash dividend of 15.0 cents per share for 1H23. The

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<sup>1</sup> Adjusted net debt is defined as net debt less carrying value of non-income producing undeveloped land and properties held for sale (completed and under development). EBITDA is defined as annualised profit before depreciation, amortisation, net interest expense and tax.

interim cash dividend, which will be paid to shareholders on 18 August 2023, is comparable to last year's interim dividend of 15.0 cents, reflecting the Board and management's confidence in Keppel's performance and execution of our transformation strategy.

With the latest interim cash dividend of 15.0 cents for 1H23, coupled with the FY22 final cash dividend of 18.0 cents per share paid in May 2023, shareholders will be receiving a total cash dividend of 33.0 cents in 2023 for every Keppel share held. This translates into a cash dividend yield of 4.7% based on Keppel's closing share price of S\$6.99 last evening.

In addition to the interim cash dividend, we are pleased to announce a proposed special dividend in-specie of Keppel REIT (KREIT) units on the occasion of Keppel's 55<sup>th</sup> anniversary. For every five Keppel Corporation shares held, our shareholders will receive one KREIT unit<sup>2</sup>. Keppel REIT traded at S\$0.915 per unit on its closing last evening.

A key goal of our transformation into global real asset manager and operator is to deliver sustainable growth and high returns to our shareholders. The proposed dividend in-specie of KREIT units is a part of our capital management initiatives, and will allow Keppel shareholders to own a stable investment with steady yield.

Keppel's proposed dividend in-specie will be put up for our shareholders' approval at an Extraordinary General Meeting (EGM) to be held later this year. Further details on the EGM will be announced in due course. Post distribution, Keppel will remain the largest unitholder of KREIT with an interest of about 37.1%. As a global asset manager, we are committed to drive KREIT's growth and have strong alignment with the interests of KREIT unitholders. Our proposed distribution will increase KREIT's public float, allowing it to widen its investor base and enjoy higher liquidity, both of which are beneficial to KREIT unitholders in the longer run.

We set for ourselves and delivered on many ambitious targets under Vision 2030. The acceleration and strong execution of our transformation plans have created superior, tangible value for shareholders. Over the 18-month period from 1 January 2022 to end-June 2023, including the completion of the O&M transactions and the distribution in-specie of Seatrium shares worth S\$2.19<sup>3</sup> per Keppel share, Keppel's TSR reached 118.0%, outperforming STI's 9.62% by more than 12 times.

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<sup>2</sup> The final value of the dividend in-specie will be based on the price of Keppel REIT units on the date the Proposed Distribution is completed, which is subject to the approval of Keppel Corporation's shareholders at an EGM to be held in due course.

<sup>3</sup> The figure of S\$2.19 is rounded to the nearest two decimal places; calculated based on a division of (a) the cash equivalent amount of the dividend declared by the Company of S\$3,845,164,646.11, by (b) the Company's issued and paid-up share capital as at the Record Date of 1,751,959,918 KCL Shares (excluding treasury shares).

For shareholders who held on to their distribution in-specie of Seatrium shares, the combined value of the Keppel and Seatrium shares would be S\$9.76, based on the share prices of the two counters at the close of business yesterday.

## **Recurring Income Growth**

Reflecting Keppel's strategy, and our shift away from lumpy EPC and development profits, our recurring income surged 62% year on year to S\$340 million in 1H23, making up over three quarters of our net profit, compared to just under half in 1H22 from continuing operations. The strong year on year improvement was bolstered by higher operating income from our Infrastructure Division, which continues to accelerate its growth in renewables, clean energy and decarbonisation solutions.

## **Scaling Up in Asset Management**

As a global asset manager and operator, we have refined the definition of our Assets Under Management<sup>4</sup> (AUM) to include some S\$12.4 billion of real assets on Keppel's balance sheet. These are assets in the monetisation programme that can be potentially converted into fee-bearing Funds Under Management (FUM) over time.

Our FUM, or what we had previously referred to as AUM, increased to S\$53.2 billion at the end of June 2023 from S\$50 billion at the end of 2022, with the completion of new acquisitions. Of this FUM, we have about S\$10.0 billion in dry powder which we can deploy into new investments.

Our asset management fees, which amounted to S\$116 million<sup>5</sup> in 1H23, translates into an annualised Fee-to-FUM ratio<sup>6</sup> of 50 basis points, putting us on par with leading industry peers. Looking ahead, we will continue to work with laser focus towards achieving our FUM targets of S\$100 billion by 2026, and S\$200 billion by 2030, exploring both organic and inorganic opportunities to drive long term growth.

## **Seizing Opportunities**

Against a volatile market and the prevailing high interest rate environment, we adopted a more cautious approach in our investment activities during this period. Nevertheless, we continued to grow our asset management business in 1H23, with our fund management and investment platforms raising about S\$1.0 billion in equity, completing S\$1.1 billion in acquisitions and divesting S\$0.5 billion of assets.

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<sup>4</sup> Includes carrying values of identified assets on the balance sheet, as well as gross asset values of certain identified underlying assets held in joint ventures, that can be potentially converted into fee-bearing Funds Under Management (FUM). Notes receivables (vendor notes issued by Asset Co) amounting to c.S\$4.3 billion is included.

<sup>5</sup> Includes 100% fees from subsidiary managers, joint ventures and associated entities, as well as share of fees based on shareholding stake in associate with which Keppel has strategic alliance.

<sup>6</sup> 1H23 Fee-to-FUM ratio is on a run-rate basis. The ratio is computed based on average FUM for the year.

We have been prudent in holding back on new investments but believe that 2H23 will present more interesting investment opportunities as the market adjusts to the new pricing paradigm, which better reflects the tighter credit markets, higher interest rates and more subdued economic growth outlook. The anticipated increase in investment activity in the second half will in turn contribute to higher asset management fee income. Our private funds, REITs and business trust are currently pursuing over S\$13 billion of deals across the spectrum of Infrastructure, Real Estate and Connectivity assets. We will continue to invest to achieve the best risk-adjusted returns for our funds and investors.

We have been actively marketing our new flagship funds — the Keppel Sustainable Urban Renewal Fund, the Keppel Core Infrastructure Fund and the Keppel Asia Infrastructure Fund II — and will continue working with our limited partners to provide differentiated products that capitalise on Keppel's strong operating capabilities.

### **Driving Asset Monetisation**

Notwithstanding more cautious sentiments among investors, we announced the monetisation of about S\$420 million of assets in the year to date.

Since the start of our asset monetisation programme in October 2020, we have announced more than S\$4.8 billion of transactions. These monetised assets have released some S\$3.8 billion of cash<sup>7</sup>, which can be used both to seek new opportunities as well as to reward shareholders.

We expect the pace of asset monetisation to increase over time as market sentiments improve and will push ahead with our target to monetise S\$10-12 billion of assets by 2026 and S\$17.5 billion eventually.

### **The Keppel Difference**

With strong capabilities in sustainability and connectivity solutions, Keppel is in the right space at the right time and is well-positioned as an asset manager and operator to seize growth opportunities created by megaforges such as the transition to a low carbon economy, and increasing digitalisation accelerated by generative AI.

Amidst the volatile environment, we are seeing a growing pool of investors, including sovereign wealth funds and pension funds, seeking to allocate capital to alternative assets, which can serve as a hedge against inflation.

This is where Keppel can make a difference with our extensive experience in asset management and operating expertise across diverse asset classes. We are uniquely placed to give investors in our private funds exclusive access to strategic real assets

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<sup>7</sup> Includes S\$0.3 billion which was received from the sale of 1 Borr rig which has gone to Asset Co to form its initial working capital, and from the sale of the 55 Gul Road facility which has been transferred to SCM.

in Keppel's proprietary pipeline, many of which offer critical infrastructure and prime real estate solutions that produce strong inflation-protected cash flows.

Examples of these Keppel projects include:

- The Keppel Sakra Co-Gen Plant, Singapore's most advanced and first hydrogen-ready power plant which broke ground last week;
- The new Keppel Data Centre Campus at Genting Lane, where the first two buildings are fully contracted;
- The Bifrost Cable System, the largest capacity high-speed optical cable across the Pacific Ocean, which will soon commence cable laying operations in 3Q23; as well as
- Landmark Grade A commercial assets in the central business districts of Singapore and Shanghai.

## **Operating Platform**

### Infrastructure

In our Operating Platform, our infrastructure operations and portfolio continued to advance on their growth trajectories. In 1H23, our renewable energy portfolio, which includes co-investments with our private funds and Keppel Infrastructure Trust, grew to 3.0 GW, making up over 60% of our total energy portfolio of 4.9 GW<sup>8</sup>, with projects across the spectrum of solar, wind and hydro power.

Our integrated power operations in Singapore continued to perform strongly, contributing over S\$245 million to our recurring income in 1H23. Almost all of our existing electricity customers are locked in on fixed or indexed electricity price plans, providing a cushion for us against power price fluctuations.

Analysts have asked about the possible impact of Singapore's temporary electricity price cap announced in June, which we believe is quite limited. Based on the Energy Market Authority's estimates, had the temporary price cap been in place from October 2022 to April 2023, it would have resulted in a 3.2% reduction<sup>9</sup> in the average Uniform Singapore Energy Price. The net impact of this power price reduction on Keppel's infrastructure operating income in 1H23 would have been less than 1%, or about S\$3.0 million.

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<sup>8</sup> On a gross basis and includes projects under development; 64% of capacity is operational while 36% under development.

<sup>9</sup> Reduction in average Uniform Singapore Energy Price published by Energy Market Authority over this period.

We continued to actively grow our end-to-end Energy-as-a-Service (EaaS) offerings. As at end-June 2023, our backlog of long-term contracts, comprising EaaS and Operations and Maintenance, reached S\$4.1 billion, and will provide income visibility for the next 10-15 years.

Significantly, out of the S\$2.1 billion in EaaS subscriptions, S\$1.2 billion was secured this year. We have grown our presence beyond Singapore, to Thailand and Vietnam. Our EaaS projects will typically start contributing to the bottom line within 12 -15 months of contract-signing, thus allowing Keppel to quickly scale our base of recurring income.

### Real Estate

In the Real Estate Division, we are expanding our sustainable urban renewal offerings, or SUR for short, across Asia Pacific. The Real Estate Division is actively working with our private funds to incorporate SUR features as part of our arsenal of asset enhancement initiatives. By incorporating smart and sustainable features into retrofitted buildings, we can also help enhance the assets' performance and value.

In China, economic growth slowed after a strong rebound in 1Q23. While sentiments among international investors have turned very cautious with regard to China, we continue to see pockets of opportunities in the cities where we operate, and for the sustainability solutions that Keppel provides. In 1H23, our home sales in China increased 2.5x year on year to 1,200 units. In the Sino-Singapore Tianjin Eco-City, our master developer sold two residential plots in 1H23, underscoring the continuing demand for quality land parcels despite the broader economic slowdown. We have recognised S\$14 million in profit from the first land transaction, while the second will be completed later this year.

In line with our push away from lumpy development profits to more recurring income, our Real Estate Division has monetised over S\$3 billion of assets in China since 2017, and recognised a profit of more than S\$1 billion. Some of the unlocked capital is being reallocated to pursue opportunities in different countries, such as India and Vietnam, as well as different asset classes, leveraging our asset-light model.

### Connectivity

In our Data Centres and Networks Division, we achieved financial close for the Bifrost subsea cable project, with Keppel's co-investors holding a 60% stake in Keppel's share of the fibre pairs. Importantly, we will earn operating and maintenance fees over 25 years once the system is completed in 2024. We have already secured over S\$400 million in long-term operating and maintenance fees for the first two committed fibre pairs.

Meanwhile, M1 continued to expand its solutions and services to both business and consumers. Revenue from the enterprise business grew 50% yoy to S\$222 million in

1H23, making up about 37% of M1's revenue for this period. M1's customer base grew 12.5% yoy, widening its lead as Singapore second largest mobile operator.

## **Conclusion**

To sum up, whilst 2023 is turning out to be a challenging year, Keppel has had a fruitful first half. We have our work cut out for us for the rest of the year, but we also see good opportunities as we continue our transformation and accelerate our growth as a global asset manager and operator.

Our CFO will now take you through the Group's financial performance, based on our new horizontal reporting structure.

**ADDRESS BY MR CHAN HON CHEW, CHIEF FINANCIAL OFFICER,  
KEPPEL CORPORATION**

**FIRST HALF ENDED 30 JUNE 2023**

**Group Performance (Slide 19)**

1. Thank you, Chin Hua, and a very good evening to all.
2. For the first half of 2023, the Group recorded a net profit of \$3.6 billion, significantly higher year-on-year due to the recognition of disposal gain of approximately \$3.3 billion from the successful divestment of Keppel Offshore & Marine (KOM).
3. Excluding discontinued O&M operations, net profit from continuing operations improved by 3% to \$445 million from \$434 million in 1H 2022.
4. Annualised ROE was significantly higher at 36.8% due to the disposal gain. Annualised ROE for continuing operations was 8.0%, as compared to 7.3% for the same period last year.
5. All segments were profitable with improved year-on-year performance from Infrastructure and Connectivity.
6. Infrastructure segment was the top performer for the first half of the year, delivering net profits of \$291 million which represented almost two-thirds of the Group's total earnings from continuing operations. Despite headwinds in some markets, the Real Estate segment remained a key contributor with \$186 million in net earnings. Connectivity segment's net profit grew year-on-year, contributing 8% to net profit from continuing operations.
7. I will further elaborate on the performance of each segment later on.
8. Despite the substantial distribution in-specie of shares in Sembcorp Marine, now Seatrium, and payment of FY2022 final dividend, net gearing only increased slightly from 0.78x as at end December 2022 to 0.86x as at end of June 2023, due to the significant disposal gain.
9. Free cash outflow was \$732 million<sup>1</sup> as compared to \$127 million in the same period last year. This was largely due to short term increase in working capital requirements from the Infrastructure segment and the divestment of KOM. As KOM had a net cash balance of \$968 million, the completion of the divestment resulted in a net cash outflow, partially offset by the receipt of \$500 million in cash consideration.



## Horizontal Reporting (Slide 20)

10. Excluding the results of discontinued operations of \$3.2 billion, net profit from continuing operations was \$445 million, with positive contributions from all income streams.
11. Underpinned by robust earnings from the Infrastructure segment's integrated power business, recurring income, which comprises asset management income and operating income, grew 62% to \$340 million from \$210 million a year ago. This represents about 76% of 1H 2023's continuing operations net profit, up from 48% last year.
12. Earnings from EPC & development projects accounted for 29% of the Group's net profit, at the same level as last year, with contributions mainly from Singapore trading projects and from Sino-Singapore Tianjin Eco-City.
13. Net loss from Corporate Activities was \$69 million, as compared to breakeven in the same period last year. In the prior year, there were significant fair value gains from the Group's investments in new technology and start-ups, in particular, Envision AESC Global Investment L.P.. In the current half year, fair value gains from investments were lower, while net interest expense was higher.
14. Discontinued operations recorded a net profit of around \$3.2 billion, comprising 2 months performance from KOM, excluding certain out-of-scope assets, for the period 1 January to 28 February 2023, as well as the gain from the completion of the divestment of KOM at the end of February this year.

## Infrastructure (Slide 21)

15. Moving on to the segmental performance.
16. The Infrastructure segment achieved a net profit of \$291 million in the first half of 2023, more than double the net profit recorded in 1H 2022 of \$139 million.
17. This was led by robust earnings from the integrated power business on the back of higher net generation and contracted spreads, partly offset by lower share of results following a dilution of interests in an associated company in 2H 2022.
18. The lower EPC contribution arose from environmental projects abroad partly due to lower progressive revenue recognition in 1H 2023 and unrealised foreign exchange differences.
19. Asset management income was lower year-on-year as 1H 2022 benefited from significant acquisition fees recognised by Keppel Infrastructure Fund Management (KIFM). This was partly offset by higher base fees following the change in the fee structure that took effect in 2H 2022 for a public trust managed by KIFM.

## Real Estate (Slide 22)

20. The Real Estate segment delivered a net profit of \$186 million, which was 29% lower year-on-year mainly due to lower operating income and fair value gains from investment properties. These were partly offset by higher asset management income, development profits and gains from capital recycling.
21. The decline in operating income was a result of lower contributions from our sponsor stakes, higher net interest expense and costs incurred for new initiatives. Last year's operating income was also boosted by a reversal of cost provisions relating to a commercial project in China.
22. Fair value gains decreased by \$77 million to \$31 million compared to a year ago, largely due to lower fair value gains from investment properties, and share of fair value losses recognised by Keppel REIT on its investment properties as compared to fair value gains in the same period last year.
23. The Real Estate segment achieved an increase in asset management income driven by higher acquisition fees from an office tower in Seoul, and higher management fees relating to acquisitions completed in 2022.
24. On the back of higher contributions from Singapore trading projects and from the Sino-Singapore Tianjin Eco-City with the sale of a land plot in 1H 2023, development profits rose 29% from \$110 million to \$142 million.
25. During the half year, \$21 million gain was also recorded from enbloc sales of a project in Ho Chi Minh City, Vietnam and a project in India.

## Connectivity (Slide 23)

26. Net profit from the Connectivity segment of \$37 million was 12% higher than that in 1H 2022 of \$33 million, mainly due to higher operating income. Asset management income was stable year-on-year.
27. Supported by continued growth in revenue from enterprise ICT and managed services, M1 registered an 11% improvement in net earnings.
28. This was partly offset by lower contributions from the Data Centres and Networks Division mainly due to costs of entering into new markets and initiatives.
29. With that, we have come to the end of the presentation, and I shall hand the time back to CEO, for the Q&A section. Thank you.

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<sup>i</sup> Includes S\$500m cash component realised as part of the divestment of discontinued operations, which will be presented as cash inflow from financing activities in the financial statements. The inclusion herein is for better comparability and understanding of the free cashflow.