Keppel Ltd. FY 2024 Financial Results Webcast

Transcript of the Question & Answer Session

5 February 2025, 10.00am, Keppel Bay Tower

LCH	Loh Chin Hua, CEO
CT	Christina Tan, CEO, Fund Management and Chief Investment Officer
KC	Kevin Chng, CFO
LL	Louis Lim, CEO, Real Estate
CL	Cindy Lim, CEO, Infrastructure
MSM	Manjot Singh Mann, CEO, Connectivity and CEO, M1

Questions from Foo Zhiwei, Macquarie

Thanks for the presentation. On M1, could you share more about how M1 is driving a higher EBITDA margin, despite a lower postpaid subscriber base? On the subsea cables, could you share more about these two new projects that you are embarking on and the 30 fibre pairs that you mentioned? Are these the main pairs or do they include the branch pairs? How should we think about Keppel's share of these fibre pairs? And a sub question on that – any idea of how valuations are actually trading for these assets and how should we think about pricing for these fibre pairs that you may sell?

LCH: I shall ask Mann to deal with the first question and also part of the second question.

MSM: Thanks for the question. On M1, like we shared, digitalisation is driving down our cost to serve, which is a very important part of our digital journey and what that does is to reduce our overall cost and helps in our EBITDA. While it is true that the market is extremely competitive, and the postpaid base is going down, but equally, the SIM-only base is growing. So, as we become more digitalised and we acquire customers more online, our cost to acquire is also going down. So overall, the cost management that we have been doing over this digitalisation journey is helping us get our EBITDA stable, or in fact growing, as we have shown.

On the two new cable system projects comprising over 30 fibre pairs, it is a little too early to share too many details on them at this point in time. Like what CEO shared in his opening remarks, these are two systems that are going to connect Southeast Asia with North Asia and beyond. We have already started talking to some of our partners in co-developing these two cable systems. But, it would not be appropriate at this point in time to share how many fibre pairs Keppel will have, what is the price that we will be selling them at and so on, because at this point in time, our focus is to make sure that we are able to deliver Bifrost by the end of 2025 as we promised. Getting the ready-for-service status by end of 2H 2025 is what we are working towards. So, the two new cable systems are still in the pipeline, but this is the more immediate system that we want to deliver.

LCH: Thank you, Mann. Maybe just to supplement what Mann said: On M1, I think he mentioned about the cost management going on quite well, but on top of that, I think our enterprise side is also growing and that has also helped. This is under AsiaPac. So, that is something on the information and communication technology (ICT) side where we are seeing quite good growth. We see a potential that this ICT business will dovetail very well with our growing data centre business, as well as digital connectivity business, in terms of tapping a different pool of customers from what we are currently tapping, which are mainly the hyperscalers.

The new subsea cable systems are still in early days. But just to give a sense, we have reported that we are likely to get above 30% internal rate of return (IRR) for Bifrost. But it was an unusual circumstance, because we were able to lock in the costs very early on. Because of the scarcity value – there were no new systems (linking Southeast Asia to the United States) approved by the United States Federal Communications Commission in the last eight years – we are getting a bit of a price premium on the fibre pairs. So I would say that for the new systems, we would probably be expecting returns of probably in the mid-teens on an IRR basis. So 30% is not usual. But of course, if we get it, we are very happy. But I think the key is really operating and maintaining these cables. As I have shared in the past, each time we build one of these systems, we create returns for our investors, as well as for ourselves, but we also layer on top the operating and maintenance fees that go on for 25 years. We have shared that for Bifrost, each fibre pair is expected to attract, on average, about S$200 million worth of operating and maintenance fees over the life of the 25 years. So we are quite excited by this and I think besides doing this for Keppel and our customers, this is also a very good way to continue to enhance Singapore's position as a digital hub.

On dividend payout ratio, I think for 2H 2024, I am getting about a 55% payout ratio. I think in the last two halves, you had previously pushed as much as 75%. So, just wondering what the thinking is and how should we think about the payout ratio for 2025? Thank you.

LCH: As you know, we do not have a dividend policy per se, but we have been paying, or used to pay 40% to 50% (of net profit), but in more recent times, paying up to 60% to 70%. But at the end of the day, we do understand that total shareholders’ return is important. Part of it is driven by share price, of course, but part of it is also driven by dividends, as well as share buybacks and distributions in-specie. So we will continue to reward our shareholders and our stakeholders as the business does well.

I have two follow-up questions. The first one is on M1. What is driving the higher depreciation? On the subsea cables, I know a lot of us do not really value it in our SOTP, but how would you want us to value it? Is it EV/EBITDA?

LCH: It is a growing business. We see a lot of demand for this, because if you look at it, as the world becomes more bifurcated, I think it is quite important to have this digital connection. And as what Mann had said, we have intentionally not pursued the new cable systems until we bed down the Bifrost system. As in everything that Keppel does, execution is key. So we want to make sure that we execute well. But the opportunity is quite immense. And we think that this whole digital play is something that Keppel is very well positioned to do well in.

MSM: There are two parts to that depreciation at M1. One is, of course, on the 5G roll-out, which was enhanced in 2024, both outdoors and indoors. That was added to our capex and depreciation. The second was the building of our new digital platform, both for the consumer business and the enterprise business. So, that also contributed to our higher capex in 2024, which will reduce significantly in 2025.

LCH: My colleague, Chris, reminded me not to forget to answer your question about how to value the subsea cables business. What I probably should have continued is that, as we layer on these operating and maintenance fees, and these fees are very long-dated, we expect that it should attract above 20 times quite easily, if you look at businesses like these, because it is a recurring income. And on top of that, we have factored in certain assumptions and we think we are quite prudent. So, we have assumed, for instance, a certain number of cable breaks a year. And usually we assume a higher number compared to what it is historically. So if that does not take place, then you know the profitability will improve further.

Is that 20 times EV/EBITDA or P/E?

LCH: If you think about it, it is the service income, which is the operating and maintenance fees. We do not really own the assets. So, it will probably be more on P/E rather than EV/EBITDA. And frankly, there would not be much of a difference because it is not as asset-heavy in that sense.

<u>Questions from Lim Siew Khee, CGS</u>

Since we are talking about Bifrost, I will just ask about Bifrost first. Since you are earning service fees, what should we be looking at in terms of assumptions for using P/E? Can we assume maybe about 6% over the Indefeasible Rights of Use price as your revenue and can you maybe please just give us a guide on net margins on that? Just the fees part? I know you cannot share with us the selling price of the pairs, but in terms of fee margin, I think that would be really helpful.

LCH: I think we will take it back and we will provide more information. I understand where you are coming from. I do not have the answer for you today, but we will revert.

Some questions on the financials. We saw some revaluation gains in Real Estate for assets in Singapore and Vietnam in 2H 2024. What assets are those? On Infrastructure, there was also a sudden decline in terms of a valuation loss in 2H 2024. I saw that you mentioned some losses in private funds. Can we elaborate on that? On Asset Co, is there any revaluation gain from subsuming the assets into the books? And what is the status of monetisation of the Asset Co assets?

LCH: Okay, for most of these questions, I will ask CFO to address.

KC: Sure. Thanks, Siew Khee. On valuation for Real Estate, primarily, the two assets that we have in Singapore and Vietnam are Keppel South Central and Saigon Centre. Those are the two primary ones that drove the valuation gains for Real Estate.

On Infrastructure, one of the private funds that we have invested in had some valuation losses due to some assets.

On Asset Co, when the selective capital reduction exercise was completed, we had to take in the assets according to accounting standards. It is a business combination, so under one of the accounting standards, SFRS 13, you would have to fair value those assets based on the highest and best use. So essentially, the approach that we took was to engage professional firms to give us the valuation of these assets based on value-in-use. And that was the valuation that we took to book those assets. The final conclusion is that it was comparable to the vendor notes that we are carrying, so there is no P&L impact, at least no material P&L impact on our financials when we took in Asset Co.

On the status of monetising some of the Asset Co assets, how has it been?

LCH: For Asset Co, as what Kevin said, the key thing is how do we derisk this portfolio over time. So we are looking at bareboat charters. We have already done so for all our (B-class) jackups. Now we are looking at certain markets where the conditions are quite conducive. So for these assets that are almost completed, we will likely complete those assets and put them out for charters.

And then, of course, over time, we will look at various opportunities for us to monetise Asset Co. It could be from the sale of assets over time, or put into a fund. At this point in time, probably because not all the assets are cash-flow generating, we probably have to charter them out first, secure the income, and then at some point in time, we will consider bringing in Limited Partners (LPs) for this fund. Finally, we could also securitise. So the key is really to create cash flow from these assets, and then we will have more optionalities in terms of how we monetise Asset Co.

Thanks. While you are chartering the assets, we should be looking at some costs that you would incur, and you will park it under the legacy line?

LCH: Yes. That is correct.

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

What is the P&L impact from consolidating Asset Co?

LCH: I think you have heard from CFO in answering Siew Khee's question that there is no material impact.

How large are the losses from sustainable urban renewal (SUR), retail and senior living, and could the losses widen further?

LL: Thank you, Paul, for the question. I think you will notice that the net loss for the operating side for Real Estate was about S$111 million – that was also contributed by the Keppel REIT situation, where we have a lower share of Keppel REIT today. But, primarily when you talk about SUR, retail and senior living, the reason for the losses is that we have a number of assets coming online. So, for example, Park Avenue Central in China, with commercial, office and retail, as well as Keppel South Central in Singapore. As you know, the senior living business was just launched. We have about 70 to 80 residents at the moment, so we are tracking well, but as these assets are just coming online, as we pivot away from the traditional trading and development model to the current recurring income model, we are incurring losses at this stage. But we expect these losses to narrow as we go forward.

LCH: So the answer is, we should be expecting the losses to narrow, not widen further.

<u>Questions from Alvin, Retail Shareholder</u>

Since Keppel has taken back the legacy assets, when do you expect to sell and lock in the profit?

LCH: I think I have addressed that earlier with Siew Khee.

Regarding the proceeds from the sale of Seatrium shares, there is still a substantial amount in the segregated account. Does this account earn any interest or dividends?

LCH: The account will earn interest because the cash is in a bank account. If there were to be any dividends or distributions from Seatrium, it will also go to this account.

<u>Questions from Brandon Lee, Citi</u>

On your asset monetisation target, I realise that you hinted that you could have made S$11.7 billion, if you included the sale of Keppel O&M. So going forward to hit the S$10 – S$12 billion target, should we be looking at new items being placed in the bucket, such as a stake reduction in your REITs and your private funds, or even Asset Co?

LCH: As we all know, we have been discussing now for a few years, the S$10 – S$12 billion target monetisation by 2026, which is on the back of a pool of assets that we identified in June 2020. We had identified S$17.5 billion of assets in our balance sheet that we can potentially monetise, because we are now on an asset-light model, so we do not really need all these assets on our balance sheet. And specifically, the assets that we identified back in 2020 did not include any of our operating businesses. So when Keppel O&M (KOM) was divested, we did not add that to the number. So the S$10 – S$12 billion that we are targeting does not include KOM. KOM was an addition on top, which we reported today. So the pool of assets that we are potentially monetising is actually larger than the S$10 – S$12 billion. The way we look at it, Brandon, is that we are currently at close to S$7 billion. We have two more years to hit S$10 – S$12 billion, so the target for us is quite clear, and it could come in different forms. Asset Co definitely would be part of that.

I think we have seen a lot of talk over the export quotas on AI chips and obviously the cheaper AI models. So how does that impact your strategy on expanding in the data centre sector? Should we be seeing something different, or are you still looking at doubling FUM?

LCH: Your second question is very topical, so I will ask Mann to deal with that.

MSM: You know, on both these issues that have happened in the last few weeks and months, the chips quota and DeepSeek – in our opinion, it is a little too early to comment on how this will unfold in terms of both demand and supply. But one thing is for sure, that the digitalisation and sustainability trends are here to stay. The reality is that as efficiencies grow and as costs drop, we expect the innovation landscape to increase significantly. We expect it to become more democratised, and for large, medium and small enterprises to start looking at AI innovations in a far more economic way than what the world has seen so far. So, we do think that this is a positive thing. It is more an opportunity than a threat, because this will help us provide digital infrastructure as the demand grows exponentially, with the drop in costs and increase in efficiency. So I think it is really a positive trend for us, the way we see it.

The second part is that we have been working with our hyperscalers and cloud partners quite closely. As you would have heard, we signed a strategic framework agreement (SFA) with Amazon Web Services (AWS). We also work with other hyperscalers, and working with them keeps us very close to the market, very close to the technology trends. And the reality is that this is just the beginning. I think a lot will get innovated as time progresses, because there is so much that can happen in terms of software development, not just coming out of China, but coming out of multiple parts of the world. Every technology operator is finding its own way to address the competition that emerges, and that is good for the industry. That is good for the digitalisation trends.

Lastly, as Keppel, we have to understand that these trends are here to stay. Innovation is going to continue to bloom, and Keppel has to be agile enough to make sure that we are on the right side of opportunity. And as these opportunities present themselves, how do we monetise them? I think that is the model that we are trying to evolve, both outside, in terms of how do we monetise the opportunities outside of Keppel for our data centres, subsea cables and sustainability business, but also within Keppel, in terms of how do we adopt AI and the emerging trends to make our own operations more cost-effective and efficient as innovations evolve. So that is our thinking, that this is an opportunity. With democratisation, prices will come down, efficiencies will go up, and that will really create an innovation boom, if the trends continue.

LCH: Just to share, even for Keppel as a user of AI – and I am sure what we are experiencing is not unique to us – a lot of companies are also going through this journey. As we digitalise our operations, we are also seeing that there is actually a lot of use cases for applying AI to improve not just the efficiency in terms of the way we work, but also to provide, in some cases, a competitive advantage, and an edge in how we are able to respond to market opportunities, how we are able to use AI to figure out some of the trends and identify opportunities where we can actually improve the value set for our customers, for our investors, and also to improve, in many cases, the profit pools that we have.

And we also look at cost. On one hand, we are supplying the power, the data centres and connectivity, but as a user, we are also looking at the cost. How much would it cost to make an AI query? I think what Mann said is correct. Over time, as you bring the cost down efficiently, we expect demand to pick up, and make it more available, especially to the smaller enterprises. Today, they may find it a bit expensive, and it is something that even AsiaPac is also very actively looking at. How do you bring AI as a service to our SME customers? On the general trend of power and digital connectivity, with increasing digitalisation and the AI boom, we believe that this would be a huge positive on both counts for the businesses that we run.

The third question would be from a P&L angle. The cost savings that you have alluded to – how should we model this, especially given that you are now targeting an additional S$50 million savings?

LCH: I will ask CFO to deal with this question on how we can help you model the project that we have internally called “Project Lean”.

KC: So, maybe just to answer the question in two parts, I think the S$70 million savings that we have announced is on a run-rate basis, so it will get to the P&L in different periods, because it is on a run-rate basis.

On how to model this, at the same time, we have investments in different places as far as our strategy goes. So I would maybe leave you with this thought: If we have not done this cost savings exercise, the cost base would basically be unchanged and in fact, would be even more, given the investments. So I think this exercise is extremely important for us, given the first lot that we have done, and we have done quite well in terms of achieving it earlier than we had originally planned. The additional S$50 million that we are announcing today is essentially to continue the progress of making this organisation leaner, in order to place ourselves in a position to achieve the growth that we have planned.

<u>Question from Tom Taylor, PEI Group</u>

Fundraising was challenging for infrastructure funds across the market in 2023 and 2024. How has Keppel adjusted its fundraising strategies to secure commitments more effectively?

LCH: Chris, maybe you can address that.

CT: Hi Tom, good to have your question. Indeed, it is a very challenging market environment, given the volatility and geopolitical risks that we are seeing. But I am very grateful to be in Keppel because Keppel is really in the business of providing essential services whether it is in different forms of real estate, different forms of infrastructure, such as decarbonisation, provision of clean energy, clean environment, water desalination and of course, data centres, connectivity and subsea cables. We are really uniquely placed to be at the forefront and the leader to provide very specific strategies that will interest investors.

So, even though the fundraising environment is difficult, I think the investors and LPs that we talked to see that Keppel has a very unique ecosystem. So, for example, data centres. Nowadays, you cannot just be a data centre provider, because you need a whole ecosystem. Singapore has a moratorium, so if you do not have green electrons, you do not have green renewable energy, you cannot really build data centres in Singapore. So Keppel is very uniquely placed in that we have the full ecosystem to be able to capture value, whether it is in creation of new data centres or even in terms of creation of infrastructure funds for investors. That is why you are able to see, even when we divested the Genting Lane data centres to the DC REIT, the private fund achieved an IRR of 50%. So, investors can see that it is very interesting how we have positioned it – data centre funds within this ecosystem. Even for the subsea cables, we are looking at 33% IRR, so what I am saying is that because of where we are placed in terms of our capabilities in the provision of essential services, we are able to come up with fund strategies that would be very unique to us.

LCH: Thanks, Chris. As per what Chris is saying, how investors look at us is that we are not just a financial investor. We have very strong operating capabilities, whether in infrastructure or real estate or data centres and connectivity.

<u>Questions from Xuan Tan, Goldman Sachs</u>

How is the fundraising progress of Keppel Data Centre Fund III?

CT: For Keppel Data Centre Fund III, we are doing really well. Based on the track record that we have secured for the previous divestments, I think investors are seeing that we are really uniquely placed to take advantage of the strategies that we have in developing these data centres. So, in terms of the returns profile, I think they are looking at Keppel being able to provide this whole ecosystem for Fund III and this has attracted a lot of investors, both from the infrastructure side as well as the real estate side for this fundraising.

LCH: So we expect the first closing very soon.

CT: We have actually been working through with the investors on the documentation and all that, and in the right time, we will announce the fund closing.

On the asset management segment, can you share what the EBITDA margin is?

CT: I think we do not share the EBITDA margin, but in terms of the Fee-to-FUM, it is about 50 bps.

Will you consider a separate reporting for this segment in line with other asset management peers?

LCH: I guess we are already doing it. We are showing the asset management fees and also profitability from the three different segments that we have, whether it is real estate, infrastructure or connectivity.

<u>Questions from Felicia Tan, The Edge Singapore</u>

On the subsea cables, we just want to know how Keppel is likely to structure its stake. Will Keppel build and operate, or just invest?

LCH: We do not just invest. I mean, Bifrost is built and operated by us, so that is the model that we have. We do not intend to just invest passively, if that was your question.

What is your outlook on the O&M market, particularly in relation to RigCo?

LCH: When we undertook the deal with Sembcorp Marine, this was a couple of years ago. The closing was only in 2023 but actually the transaction was negotiated, I believe, in 2022. At that time, compared to now, the O&M sector has improved by leaps and bounds. Having said that, I think there will be some soft spots along the way, but generally, I would say the trend is upwards. There are essentially good reasons why these rigs will be required. I think oil as a part of the energy mix will probably have a longer-term play compared to what some people might have thought even a few years ago. The dayrates are improving, and we are unlikely to see new supply come on, because the dayrates will have to go significantly higher for a new rig to be built. By which time, when the dayrates are high enough, we should be able to achieve some form of monetisation for Asset Co.

Does the interest rate cycle mean that Keppel has to provide higher returns to compensate for the higher-for-longer rates? Have investors given any indication whether they prefer Keppel to have real assets or instead of a platform that manages them?

LCH: Sorry, I did not quite understand the question. Can you repeat that?

On investors' preferences, have they indicated that they prefer Keppel to have real assets, or a platform that manages them?

LCH: You are talking about investors in Keppel, or investors in our funds?

Investors in your funds.

LCH: There are different ways we could have organised this. We have private funds that invest in the different asset classes or segments where we have operating divisions that have all the strengths that Christina mentioned. That makes us very unique. That is, I think, a very key selling point, as you heard from Chris, for the LPs.

More importantly, we also have a group of publicly listed REITs and trusts that are part of our ecosystem for recycling. So, I think it works well for the investors that we attract, and that is why they continue to support us and you can see our FUM growth. For our shareholders, it is also attractive because we are generating profits from our investments in the funds, where we are aligning our interests with LPs.

But on top of that, we can also create long-term annuity income for Keppel through the operating and maintenance contracts, and of course, the asset management fees that we earn. So this is the model that we have, and I think investors are quite happy, both on the LP side and on our shareholder side. Our assets are all real assets. That means they are assets that can generate cash flows generally, and they can also provide some hedge against rising inflation. On the interest rate cycle being higher for longer, I think this is something that we have already baked into our own underwriting models. As I shared in earlier results webcasts, we do not depend on gearing just to provide returns, so it is mostly from our value-adding, whether it is how we build better, create more value that way, or we manage better. It is not related to just interest rates. That makes it more sustainable. That means we can actually invest through the cycles, rather than just depend on interest rates coming down. So, we do not rely strictly on gearing.

<u>Questions from Joy Wang, HSBC</u>

On the Infrastructure Division, I remember Cindy mentioned that you wanted to build one more power plant by the end of this decade. So there is one being awarded to PacificLight. Does that change your decision in terms of building one more?

LCH: I will ask Cindy to respond.

CL: Thank you. Happy New Year. First and foremost, we congratulate the winner of the award on the request for proposal from the Energy Market Authority. You are right, we have ambition to grow our power generation capacity by the end of this decade. We run our business as an integrated power business, so whether it is high-efficiency gas-to-power or renewable integration, or subsequently low-carbon molecules in the form of hydrogen, ammonia and its derivatives, these will be our focus for the Infrastructure Division.

Our planning of another 600 MW combined-cycle gas turbine (CCGT) power plant is a function of supply and demand, so we will be very laser-focused on the supply and demand situation in Singapore. Suffice to say, we are very cautiously hopeful and optimistic about the demand momentum in Singapore. As you have heard from the earlier conversation, from data centres to electrification, especially from the transportation sector, as well as cooling of the built environment, and the pick-up of advanced manufacturing.

More importantly, in Singapore, you have to layer on the fact that the current generation fleets are also aging, so there is a need to have replacement of aging CCGTs, to have high-reliability systems. On the back of this, we are also very focused on upgrading some of our existing generation efficiency, so that we can capture the upsides. As you know, by 2026, we will have our 600 MW CCGT that is currently under construction coming online. This is something which we are very happy with in terms of the timing, because we will be the first to market. As you know, Singapore is a merit order market, so being the first to market and the most efficient in the market will augur well for our integrated power business' performance. Thank you.

On Aermont integration, I think you have done quite a bit together with them. Is there any opportunity for them to raise funds for you in Asia? On top of that, are you ready to explore more M&A opportunities, including supporting your REITs, looking at consolidation opportunities? How much would you support as a sponsor for your REITs?

LCH: As you said, we have worked very well with Aermont since the acquisition. I will invite Chris to address the question that you posed.

CT: Hi Joy. On Aermont, I think the integration went really well. Like we said, they check the boxes of what we were expecting, and the relationship went really well. In terms of the investing style, I think we like what we see. Very small, lean group, and yet they are able to do large funds. They are more like private equity real estate investors. So, I think their style of investing is what we like, and we could actually leverage on that to look at doing similar things in Asia. In terms of the LPs, because of the combined LP base, I think there is a larger reach for Aermont to our LPs as well as for us to actually reach out to some of the LPs that we do not have. So, I think the Aermont acquisition is actually a very positive combination between the two groups.

LCH: We now have this challenge, in that our Board now says, Aermont is so much more efficient in terms of the number of people versus the size of FUM. So, you know, I think these are things that we can learn. It is not always the acquirer imposing on the acquired. Sometimes, the acquirer can also learn from the acquired.

On shareholder returns, your recycling pace has picked up. Can we expect a bit more of a step up in terms of a potential reward to shareholders and particularly, what is your thought on share buybacks?

LCH: On what we do with all these asset monetisations: Our goal is that if you look at our balance sheet, quite a large chunk of our balance sheet is kind of what we call the 'old Keppel'. That means these are assets that no longer need to be on our balance sheet, with the new Keppel. Our goal is to, as quickly as possible, in a very measured way, make sure that we get the right pricing, and monetise them. And when we monetise, we will reduce our debt. We will also, of course, invest in growth. At the same time, we will also be looking to reward our shareholders, through dividends, distributions in-specie or through share buybacks. So in short, we will do all that. I do not have any specific point to address your question on share buybacks today.

On the REITs consolidation?

LCH: That was a loaded question. I think we are always looking to help our platforms to the extent that we can, so we will work closely, look at opportunities that they might come up with and see how we can be supportive.

<u>Questions from Pimfha Chan, DealStreetAsia</u>

Just wanted to go back on the fundraising topic for Chris. How are we feeling about the fundraising achievements last year, and how do you think things are going to fare this year, now that we are in the new year?

LCH: I like her question. She says, how are "we" feeling? So she is part of us. That's very good.

CT: Actually, this is quite an interesting year for us, because as we launch our new products and share the results of our exits with the investors, I think they become more excited about the strategies that we are showing them. So, for example, for real estate, we are actually working on KSURF, and this is attracting a great amount of interest, because I think everyone is still looking forward to making sure that buildings are sustainable and green, saving more energy, lowering carbon emissions and actually all these add to the bottom line. So like we explained, the net operating income for this building itself (Keppel Bay Tower) went up by 31% because of all the solutions that we are providing. And for every dollar that you saved, or you actually created, using a cap rate of 4%, you create a value of 25x, so for savings of S$10 million, you actually can create value of S$250 million. So, I guess that is where investors get really excited when we share with them about the SUR solutions. We are working towards the documentation for some of these closings that we will be announcing soon. It is going to be a very big fund actually.

Data centres is the hottest sector right now, and coupled with our exit in Genting Lane at 50% IRR and 3x equity multiple, I think investors are really excited. And they know that there is this growing digitalisation, AI is coming, so everyone is looking forward to this. There is a huge demand for data centres, and it is also evidenced by what you saw when Keppel signed the SFA with AWS.

For infrastructure, we are very good at digital infrastructure, like subsea cables. Even for Fund II, we are looking at acquiring the full ecosystem now – such as subsea cabling vessel companies that are generating this monopolistic situation. Things like that excite our investors. Even for our renewable energy projects, I think Keppel is the only one that can actually help the investors derisk it completely, because we have the data centres that need all the green electrons, and if we are able to create huge renewable projects, whether it is importing from our neighbouring countries to Singapore, we are able to sell it and derisk it completely for the infrastructure projects. So, I think we have the ability to create such unique projects, which are essential services.

Regardless of what is going to happen to the world, every day you wake up, you still need some of these services. This will generate good cash flows for the investors and in a way, that is where I think our fund offerings become more interesting for them.

I am building on the successful integration with Aermont. Are you thinking about any other geographic targets that you would want to expand into, such as buying up another General Partner (GP)?

CT: I think we are always on the lookout for interesting acquisitions. So on M&A, whether it is the REITs and trust space, whether it is on the private funds side, or whether looking at other GPs, I think we are really open. But we are still very disciplined in terms of how much we are going to pay for each platform. So I guess that is where we are balancing the opportunities versus the cost as well.

LCH: We will also focus on organic growth; because for inorganic growth, like Aermont, the opportunity was there, but to be very honest, you also need a bit of luck to land with the right platform, because they do not come by every day. So, we have to kind of depend on our own steam to grow organically, and then, as Chris said, if something interesting like another Aermont comes along, then we will look at it, and we will be very disciplined, because we do not really need to depend on inorganic growth to get to our S$200 billion FUM target. If it comes, it gets us there faster, maybe we can become bigger, more than S$200 billion, but we do not have to depend on inorganic growth.

<u>Question from Tom Taylor, PEI Group</u>

With real estate assets making up 51% of total asset monetisation efforts, is Keppel shifting towards a more infrastructure-heavy portfolio?

LCH: I think you have heard what Chris has said. You heard what Cindy has said. We are firm believers in infrastructure, including connectivity. We have seen from the assets that we have in our portfolio and in our funds that these assets that provide essential services perform very well through cycles. They performed extremely well, for instance, during the pandemic, so we like that. But I think the fact that real estate makes up 51% of our total asset monetisation is actually related to the fact that most of these assets that we sold are landbanks. This is certainly one area that we are not going into. You have heard from both Louis and Chris – we are now looking more for recurring income. We are looking for fee income and on the recurring income side, I think a fund like KSURF is quite interesting because it allows us to bring our capabilities to address the built environment, the existing built environment, how to turn them green, and in the process, as what Chris has said, we are able to generate positive returns for our investors. So, it is win-win for everybody. This is something that we are pushing towards. And of course, infrastructure will continue to grow. Whether it is energy, decarbonisation, built environment and connectivity, it will continue to grow.

Questions from Joel Siew, DBS

On that S$1.1 billion cash in Asset Co, how much would potentially be needed to complete and operate the legacy O&M rigs, and how much could you extract for more productive use? How is the market appetite for such assets?

LCH: As I mentioned earlier, we still have some uncompleted projects under Asset Co. We have only taken effective control in end-December, so we are still in our first 100 days. I think we will have to work very closely to see what the best way is to extract value from them.

On the Bifrost system, are you able to share how many fibre pairs there are currently in the existing Bifrost project? Could this potentially grow over time on the same project, beyond the 2025 completion?

LCH: There is only a certain number of fibre pairs in the Bifrost system, and you cannot grow them in a sense. You can build a new system, like what we said about building new systems to North Asia and beyond, so two new systems. That would be where we see the growth.

On power plants, does it make sense to build or to perhaps acquire existing power plants. Just wondering if you are in the market looking to get such deals?

CL: Thank you, Joel. We are always open in terms of potential inorganic opportunities. However, like what CEO said earlier, we do have a very strong desire to grow organically, as we have seen in the Infrastructure Division's earnings improvement in the last three years. The considerations with regard to inorganic acquisition of power plants depends on whether: one – there are synergies, synergies with supporting infrastructure, synergies in terms of timing and operations, synergies in terms of the gas contracting portfolio positions and also synergies in terms of how we deploy our capital stack. The second very large consideration is how we manage the transition of the carbon intensity of the portfolio. As you are aware, while we have the ambition to grow our power business, we are laser-focused on lowering our carbon intensity – how we can bring low-carbon molecules to the power plant and how can we then serve our end-user, whether it is a data centre or high-value commercial and industrial customer effectively.

Questions from Lim Siew Khee, CGS

On Real Estate, we have seen a drop in EPC over the years and year on year. Is this the new norm? What is your EPC outlook in 2025?

LCH: Louis?

LL: On the real estate front, as you point out, Siew Khee, we are definitely doing less of EPC and focusing on more recurring income. But definitely, that does not mean that we are not doing EPC at all.

For the Keppel Bay precinct, we completed The Reef project, and have sold out all but one unit (in the whole Keppel Bay). In Keppel Bay, we still have one more plot on the private island, which we will be developing. So, that is an example of something that we are still developing. Vietnam is a market that we see a lot of continued interest in development. We have ongoing projects, and we are still continuing to look for projects there, although as we do development going forward, we will also be looking at using more of a fund model of bringing co-investors, so we can earn fees. So for example, with our education fund, we could potentially work with the fund in particular projects where we will develop schools for them.

Just want to hear your thoughts on the slightly lower operating income in Infrastructure. Is this a new norm? What are your thoughts on spread?

CL: Just let me share some colour. While we say that net profit is 4% lower compared to FY2023, there are two major contributing factors, one being the distribution from Keppel Infrastructure Trust (KIT). In 2023, there were two effects from KIT's distributions, one being the special distribution from KIT, I think that makes up nearly S$24 million of special distribution from KIT. Besides that, due to the timing of the stub distribution in 2023, we have effectively about 15 months' worth of distribution from KIT versus 2024, which had about 11 months of distribution. Just the distribution effect from KIT contributed to more than a 5% reduction in the earnings or an effect of about S$33 million.

Another drag is the contribution from an associated company in Europe. As you are broadly aware, the exceptional contribution from the European energy market back in 2022 and 2023 was due to an externality, in this case, the war. So we do see the momentum of this externality diluting over time. It will normalise. So that effect also contributed to the drag.

More importantly, you can see that we managed to keep very stable earnings from the operating business. So, this would mean that the other parts of our engines have covered these two one-off impacts, plus the changes in spread that we were talking about. So, we should be very focused on the fact that we have built up a very resilient performance in the Infrastructure operating division, coming from both the integrated power business and the decarbonisation and sustainability solutions business.

On Connectivity, we see the S$25 million impairment on non-core assets. What are those?

KC: They were largely from China logistic assets.

<u>Closing remarks by Loh Chin Hua, CEO of Keppel Ltd.</u>

Thank you all for your kind attention. Thank you for all the questions. I cannot remember a session where we had so many questions. I am sure there are still more questions; my colleagues from Investor Relations will be happy to try and address them offline. We are very excited by what we have achieved over the last few years in our transformation, and as we have been sharing, you can see that the transformation is actually very deep within Keppel. It is not just at the group level.

Even in the individual platforms and divisions, you have the transformation. But more importantly, I think we are very excited about the future. As we said many times, we are in the right space at the right time, and Keppel now is very well integrated. We are truly hunting as one Keppel, and we think that the future is very bright. Thank you very much for your attention.

-End-