Keppel Corporation 1Q 2022 Business Update

Media & Analysts Conference Call Transcript

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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

Opening remarks by Loh Chin Hua, CEO of Keppel Corporation

Analysts and friends from the media, we have issued a media release and slides to provide a quarterly update on Keppel's performance in 1Q 2022. Let me highlight a few key points.

Despite a volatile global environment, exacerbated by the war in Ukraine, Keppel performed strongly in 1Q 2022, as we continued to accelerate the execution of Vision 2030.

In line with the Group's strategy to simplify and focus our business, and enhance our earnings, Keppel Telecommunications & Transportation (Keppel T&T) has signed an agreement with Geodis International to divest its logistics business in Singapore, Malaysia and Australia, as well as UrbanFox.

Significant progress has also been made in the discussions on the proposed combination of Keppel Offshore & Marine (Keppel O&M) and Sembcorp Marine, as well as the sale of Keppel O&M's legacy rigs and associated receivables to an Asset Co, which would be majority owned by external investors. Both Keppel and Sembcorp Marine announced at the end of March 2022 that more time and deliberation were required, and that we are committed to working towards a definitive agreement by 30 April 2022.

We continued to execute our asset monetisation programme and announced S$332 million in monetisation in the year to date.

So far, over S$3.2 billion in asset monetisation has been announced since the launch of our programme in Sep 2020, of which about S$2.8 billion has been received in cash by end-March 2022. We are now working on further waves of monetisation.

With the progress achieved to date, we are confident of exceeding our S$5 billion target by end-2023.

For 1Q 2022, Keppel continued the positive momentum in 2021, and achieved a higher net profit year-on-year. Apart from Urban Development, all segments delivered higher profits.

KI's net profit improved strongly, while M1, Keppel Data Centres and Keppel Capital registered improved performance. Keppel O&M's performance also improved, reporting a significant reduction in net loss.

The Group's revenue was 9% higher year-on-year at S$2.1 billion, underpinned mainly by revenue growth in the Energy & Environment segment.

Net gearing of 0.69x as at end-Mar 2022 was comparable to the 0.68x at the end of 2021.

Keppel O&M was EBITDA positive in 1Q 2022. Its Op Co[1] was also profitable, in line with the increasing top line, slimmer operations and a more efficient level of overheads. Keppel O&M's revenue rose 22% year-on-year, due to higher levels of activity as it executes its sizeable orderbook. In 1Q 2022, Keppel O&M won new orders of S$76 million and is currently pursuing a strong pipeline of projects. As at end-March 2022, Keppel O&M had a net orderbook of S$4.8 billion.

With the increase in oil price, the outlook of the O&M market continues to improve. Keppel O&M is actively pursuing bareboat charters for several of its legacy rigs and has also received sales enquiries. Given the improving market conditions, we are confident of substantially monetising Keppel O&M's legacy rigs in the next 3-5 years.

In the meantime, Keppel O&M will continue to maintain a lean cost structure to stay fighting fit, even as its workload increases.

Keppel Infrastructure's (KI) 1Q 2022 net profit grew strongly year-on-year. Its revenue grew 57%, driven by higher Power & Gas sales, and higher revenue recognition from the Hong Kong Integrated Waste Management Facility. Significantly, KI is growing its presence in renewables, clean energy and decarbonisation, in line with our Vision 2030 strategy. This includes participating in the Energy Market Authority's request for proposal (RFP) for low-carbon power import licences in Singapore, signing Memorandums of Understanding (MOUs) with industry leaders to develop and capture opportunities in the growing market for sustainable energy solutions, as well as to innovate and catalyse ASEAN cross-border renewable energy trades.

In line with our efforts to develop decarbonisation solutions, KI also recently completed a feasibility study on carbon capture integration for the Runcorn EfW (energy from waste) facility in the UK. This is one of the largest and most efficient EfW facilities in Europe, which was designed and built by KI, using Keppel Seghers' proprietary technology.

Keppel Land continues its transformation to be an asset-light urban space solutions provider. In 1Q 2022, it announced the monetisation of its stake in a project company in Ho Chi Minh City, in line with the Group's asset-light model. Keppel Land also announced the acquisition of three land plots in Hanoi, with the Keppel Vietnam Fund and its co-investor.

Keppel Land's 1Q 2022 net profit was lower, mainly due to lower contributions from China and the absence of enbloc sales compared to 1Q 2021. Homes sales were also lower, mainly due to timing of new project launches, which are only slated to take place later this year.

In China, sentiments have turned more cautious after the debt crisis affecting developers. The recent lockdowns have also caused some short-term disruptions to operations in affected cities. Nevertheless, we remain optimistic and confident about opportunities in China over the mid to long-term, driven by continuing economic growth and urbanisation trends.

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

We will continue to drive asset monetisation to unlock value from Keppel Land's residential portfolio. We disclosed in our 2021 Annual Report that Keppel Land had a residential portfolio held at historical cost of about S$3.8 billion, but whose market value at the end of 2021 was about S$6.6 billion. We will work towards realising this substantial value, which has not been fully appreciated by the market.

In our Connectivity segment, we continue to scale up in data centres and the adjacent subsea cable business. As we grow our portfolio of data centres, we are also actively working to lower their carbon footprint, including through exploring energy-efficient floating data centres, as well as a green data centre park concept, with a green hydrogen supply chain to support Singapore's digital needs.

In the subsea cable business, the development of the Bifrost Cable System is progressing well. We have seen strong demand for the cable, with three of Keppel's fibre pairs already committed.

M1's 1Q 2022 net profit and revenue were higher year-on-year. Revenue from the enterprise segment, in particular, grew 30% year-on-year. With the reopening of borders and progressive lifting of travel restrictions, the outlook for the roaming and pre-paid business is improving. M1 is also progressing well with the 5G Standalone Network roll-out. We have achieved over 65% outdoor coverage as at end-March 2022, and are working towards nation-wide outdoor coverage by early-2023.

In the Asset Management segment, Keppel Capital also delivered stronger operating results. Significantly, asset management fees[2] grew almost 70% compared to 1Q 2021. Keppel Capital also completed S$2.5 billion of acquisitions during the quarter. Across the Group, business units are actively collaborating with Keppel Capital to recycle capital or tap third-party funds for growth, whether in the Energy & Environment, Urban Development or Connectivity businesses. With growing concerns about inflation, many investors are looking for real assets with cash flows. These are precisely the kinds of solutions that Keppel provides.

We have emphasised our commitment to sustainability, both in terms of running our business sustainably and making sustainability our business. You would have seen from our different announcements that we are providing or exploring many different solutions that can help governments and our customers get to net zero.

To further sharpen our focus on sustainability, we announced today that the Board of Keppel Corporation has decided to establish a new Board Sustainability and Safety Committee with effect from 1 May 2022. The role of the existing Board Safety Committee will be subsumed under the terms of reference of this new committee. Earlier this year, we also appointed our first Chief Sustainability Officer to drive the Group's sustainability efforts.

In short, we have started 2022 on a positive note, with 1Q results stronger year-on-year. We will continue to deliver on Vision 2030, including executing our asset monetisation programme, simplifying and focusing our business, pursuing new growth areas aligned to our vision, growing recurring income and improving earnings. All this will be executed with sustainability at the core of our strategy, as we contribute to the global sustainability agenda and combating climate change, and create value for our stakeholders.

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[2] 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.

Thank you.

Question & Answer session

Questions from Rahul Bhatia, HSBC Global Research

Thanks for taking my questions. I have three questions. Firstly, can you share insights on what are some of the discussion points that have prolonged the timeline to finalise the Offshore & Marine (O&M) merger agreement? And should we expect Keppel to disclose details related to the Asset Co side as well by end of April? Secondly, would you be interested to acquire asset management companies to grow AUM (assets under management) inorganically and what kind of valuation are you prepared to pay? Finally, I noticed that you mentioned receiving sales enquiries for some of the rigs. Can we expect some transactions in the near future, and based on the enquiries you received so far, do you think you may need to take some impairments to sell these rig assets, or are the past impairments taken in 2021 more than adequate? Thank you.

LCH: Thanks Rahul for your three questions. I will try to answer them and my colleagues can pitch in as well. If we miss anything, I am sure you will remind me. On the first question, as I said in my opening remarks, we are making good progress. It is a very complex transaction and it has taken a bit of time for both sides. I think that is quite understandable. Since we are already getting quite close to the timeline, which is the end of April that both sides have committed to, I do not think that it is necessary to dwell on what else remains outstanding. We are getting to dotting the i's and crossing the t's.

On the asset management question about the multiples that we will pay, that is not something that we would share. Obviously, we do have a very strong business that Keppel Capital is growing organically. We will be selectively looking at strategic bolt-on acquisitions where it makes sense, but we do not disclose how much we are prepared to pay.

Last point on the rigs, I will ask Chris Ong to give a bit of colour, maybe just on the market and what is going on.

CO: Generally, the rig market has picked up quite significantly. There are a lot of activities and also charter tenders that are out there in the market. For Keppel O&M, through our Rig Co and Asset Co setup, we have people assigned and have been in contact with potential rig charters or buyers. The volume of enquiries has increased quite significantly, so we are quite confident that there will be parties that we can sit down with and talk to about either putting the rigs to use under a bareboat charter or an outright sale. Whether we will be expecting a transaction soon, we are optimistic, but we do not give forward-looking information. I hope that answers your question.

LCH: Just to supplement, I think you can see, Rahul, that the rig market, as you heard from Chris, is improving so we are starting to see utilisation rates improving quite quickly. Charter rates are slowly improving. Under the current situation, we believe that things are getting a lot better. That is why we are quite confident of being able to monetise the rigs over three to five years. Realistically, bareboat charter is probably very likely now. We may have a couple of opportunistic transactions in terms of sales. But because conditions are improving – we cannot predict the future, but based on what we see today – we believe that whatever provisions we have taken are more than adequate.

Should we expect more details related to the Asset Co transaction side as well by end of April?

LCH: The discussions on the Asset Co as well as the proposed combination are inter-conditional, so when an announcement is made, both transactions will be announced at the same time.

Questions from Lim Siew Khee, CGS-CIMB Research

I have got a few questions. Firstly, just want to hear some updates on China. I know that there is a lockdown etc. Could you give us an outlook on what is happening there and what should we be looking at in the next few quarters in terms of home sales or even project execution on China's side? That is my first question. Second question is, can I say that with revenue up so much in KI, the net profit would also grow in tandem or is there any EBIT margin squeeze in that segment? My third question would be also on the EBIT margin for other segments. Other than Urban Development, is there anything that we should be watchful of? And my last question is - I know that you said the pipeline is actually there, and you are bidding for some projects in O&M - is there anything that you can actually share in terms of project numbers, or are you just waiting for the definitive agreement to be more realistic in chasing pipelines?

LCH: Ok, thanks Siew Khee. I counted four questions. I will invite Louis Lim, CEO of Keppel Land to go through your first question on China.

LL: Hi Siew Khee, thanks for the question. As CEO mentioned just now, the China market is obviously going through quite a bit of uncertainty with the debt crisis last year and the lockdown. But we remain confident in the mid to long-term opportunities in the market and I wanted to add that the cities that we are in are quite resilient. So we see opportunities going forward. The other thing is that the local developers are a little bit more prudent, so that also gives us an opportunity to put equity with them on projects in China.

LCH: On your second question on the net profit of KI, this is a business update, so we cannot really tell you the net profit number. We can just tell you that it has significantly improved from last year, in line with the improvement in revenues. Hon Chew, would you like to share on the third question on margins?

CHC: As this is a business update, I do not think I can go into the details. We will give details when the announcement is out in the first half.

LCH: Ok, then the fourth question is on O&M in terms of enquiries and potential prospective contracts.

CO: I think the question revolves around whether we are waiting for the definitive agreement. Even after the definitive agreement, there will still be some time for regulatory approvals until the full closure of the deal. So in the meantime, we are still operating business as usual. When we say that we have a strong pipeline, it means that we are chasing quite a number of deals aggressively. The timing itself is not dependent on us. It also depends on the customers. Hopefully, in a very short time, we can give some good news. That is all I can say.

Questions from Anita Gabriel, The Business Times

When it comes to potential investors for the Asset Co, you mentioned that you will be providing those details at the end of the month. Can you provide any hints as to who these potential investors could be? If you cannot do it now, would you be doing it then at the end of the month alongside the announcement?

LCH: I think we had announced at the signing of the MOU that it is with Kyanite, which is an entity affiliated with Temasek. There could be third-party investors. Right now, I cannot disclose who they are. I also cannot tell you for sure that at the signing, we will be telling you exactly who they are, but maybe I can address it. I will ask our counterparty whether they would be able to disclose their name at that point in time when we sign. Is that ok?

Sure, ok. That should be fine. My second question is on the showing of the Urban Development segment. I remember when times were bad during the pandemic, it was the China projects, Urban Development, that was holding up the Group when the energy sector segment was bleeding. And right now it seems that with oil prices high, energy sectors are doing better, but given the imminent slowdown in China, due to the lockdowns and the zero-COVID strategy that could be hurting sales and your business in China, it looks like the tides have shifted. I wanted to find out if you can provide some comments on that. Can I also find out when was the last time there was a dip in earnings from Urban Development, specifically from the Chinese projects?

LCH: Ok, you had a few questions around Urban Development. Maybe let me try and address them, and then invite Louis to jump in as well. You are right. I think Urban Development has been a very strong contributor to the Group over the last few years. And we are very thankful for that, especially during the past few years when things were quite difficult for a few of our other segments. But I do not think you should necessarily look at the first quarter as an indication that this is going to be for the full year. It is true that it is more difficult in some of the markets in China. For example, in China, our first quarter sales have been affected. But it is also partly because we do not have project launches until the later part of the year. The market in Vietnam is still doing quite well so I do not think we can paint everything with the same brush. I think these are still early days. We do - as I have said in my remarks - see that things are a bit more cautious. But this is not a bad thing because we are still actively looking to invest as well. So the medium to long term in China is still looking attractive for us. The other point I want to raise is this: I mentioned earlier about the landbank. The landbank that we have, particularly in markets like China and Vietnam, have been accumulated over quite a long period of time. So you can see that the market value of the landbank at the end of last year is significantly higher than our carrying costs. So we remain quite sanguine that things will pan out. Even if the market conditions were to remain difficult, or get worse, we do have this headroom, in the sense that our carrying cost is significantly lower than market value. I hope that gives you a bit of colour on what is happening. Now, the other thing of course is that as a Group, we are also quite happy to see that earnings are quite balanced. Of course, we would like to see more profits from Keppel Land and we do expect to see them hopefully in the quarters ahead. But you can see from the first quarter results that we have contributions from the different segments. We see that as another indication of the strength of the Group.

For some historical perspective, when was the last time this particular segment saw a dip in earnings?

LL: Anita, you know that property is cyclical. A decade ago in 2011, we had a very strong year, but after that, the market went down. Specifically for China itself, which you were asking about,

our business went down from 2010 onwards because of the slowdown, but picked up again thereafter, in about 2013, and has been going strongly for the last 10 years or so.

On a quarterly basis, when was the last time earnings in the Urban Development segment dipped?

LCH: Well, pardon me Anita, but it is not quite relevant on a quarter-by-quarter basis. As Louis said, besides property being cyclical, the main thing is that earnings are also quite lumpy. So it all depends on whether projects are completed or delivered. There are two things when we are looking at sales of residential projects outside Singapore. It is based not just on what you sell, but what you deliver. So quarter by quarter, even if you sell homes, you will not see the earnings hit that quarter.

Fair enough. Thank you.

Questions from Mervin Song, JP Morgan

On the data centre business, some operators are being affected by the spike in electricity costs in Singapore, e.g. Equinix. Is Keppel also impacted negatively and how does the mechanism of pass-through of electricity costs work exactly? I note that Keppel DC REIT is actually quite sensitive to increases in electricity costs. They guided that a 10% increase in electricity costs translates to a 3% impact to their Distribution per Unit (DPU).

LCH: Thank you Mervin. I will ask Thomas Pang, CEO of Keppel T&T to address this question.

TP: You are right that the data centre electricity costs are mostly passed through to customers. The impact to the data centre operator is relatively minimal, so it does not impact the income. I will leave it to Keppel DC REIT to explain the impact on their DPU; I will not comment on the impact on Keppel DC REIT. But for Keppel Data Centres, we pass through most of the electricity costs to our end customers.

LCH: This is a Keppel Corporation conference call, but Christina is also the Chairman of Keppel DC REIT. If there is a misperception, you might want to correct it.

CT: For electricity costs, the impact on Keppel DC REIT is actually quite limited because we have long-term contracts with our electricity providers. So we are not too impacted in terms of electricity costs. As Thomas has already explained, most of these costs will be passed through to customers. So there is only a limited portion which is more for general common areas, where we would have to take care of the electricity costs.

TP: For master lease, there is no impact at all.

CT: Yes, for the master lease data centres, there is no impact because clients themselves will be the ones contracting with the electricity provider. Hope that answers your question.

To clarify on the pass-through mechanism, is it based on the SP rates which may be different from your wholesale rates? In which case, it may translate to some negative drag on earnings, which was what seemed to be experienced by Equinix in Singapore?

TP: Different customers will have different types of contracts, depending on how they have entered into the colocation agreement. Some of them are on a cost-plus model. Some of them are on a cost recovery model. There will be some ancillary areas, as what Christina has mentioned, in which the operator will have to bear the cost. But those are very, very minimal. The large energy consumptions tend to come from the cooling and IT equipment, and the servers. Those are either on a cost-plus model or a purely pass-through model and costs are recovered from the end customers. So the impact to us, as mentioned earlier, is very minimal – for some of the ancillary lighting of the offices and common corridor etc.

On M1, there is a big jump in the enterprise business revenue. What is driving that?

LCL: Can I ask Mann to address this question?

MSM: Our enterprise revenue refers to the Information and Communication Technology (ICT) revenue, which is driven by three pillars. The first one is managed infrastructure, the second is cloud solutions and cloud migration, and the third is end-user computation. All three verticals comprising our ICT revenues have shown significant growth, pretty much driven by the need to go digital during the pandemic. Small and Medium-sized Enterprises (SMEs) and government bodies have decided to go digital and that helps our ICT revenue going forward as well.

On the Vietnam property business, I understand that there have been some government investigations relating to the property market and there have been some arrests as well. There also has been some temporary suspension of loan disbursement by certain Vietnamese banks. What is happening on the ground for the Vietnamese property market?

LL: On Vietnam, you are right that the investigations have in the past led to a slowdown in some of the approvals. But we have been working very closely with the government authorities as well as local partners to clear some of these hoops. The other thing to note is that the demand in Vietnam continues to be very strong. So every time we launch a project, it is sold out very quickly.

There is no impact or suspension to your current sales at this point?

LL: We have fewer sales this quarter compared to last year, but that is because we have not actually launched anything new. The launches are slated for later this year.

Questions from Derek Tan, DBS

On your data centre demand, I understand that Genting Lane is completing in 2023 and there is strong leasing interest. Can you provide some colour on whether the demand for leasing is more from consolidation or are any end tenants themselves expanding?

LCH: Thank you Derek. I will ask Thomas to address this question.

TP: It is mainly coming from expansion. Our customers who are experiencing very strong demand are expanding their capacity as well, so it is an expansion of the demand from our customers and not consolidation. Thank you.

On China, there is a bit of a lockdown for 1Q 2022, so it is potentially a "write-off quarter". Could you give us some colour on what are your plans for launches in the second half of

this year? Based on what you have booked in terms of sales, could you give us a sense of what are the unbooked revenues that may be recognised in the next nine months or a year?

LL: On China, it is hard for us to predict exactly when the lockdowns will be over. But for the positions that we have in the Chinese cities, the underlying demand continues to be very strong, so we are confident that when we are able to launch, we will have positive sales. On your question about how much value we have in sales going forward, we have about S$4.4 billion in sales value, and this will be recognised from the second quarter of 2022 to 2025, across China and some in Vietnam.

Questions from Goola Warden, The Edge

What are the electricity costs like at Keppel REIT as a percentage of the property expenses and of NPI (net property income)?

CT: Given that this is a Keppel Corporation call, we will not spend too much time on the REITs and business trust. But for Keppel REIT, it has very limited impact from electricity prices because we have signed long-term contracts with our electricity provider. As you know, we are part of the Keppel Group, so we have Keppel Electric supporting us as well on all these electricity contracts.

Is there a revised target for Keppel Capital given that the SPH transaction did not go through?

CT: I do not think we have revised our targets down. We are looking to increase our AUM because through this period, we are seeing more investor interest in real assets. When we speak to the CIOs (chief investment officers) of various funds, people are actually moving from bonds into real assets, because they find it to be a great inflation hedge mechanism. With interest rates going up, bond values are coming down. So there is a big switch that we are seeing towards real assets. So the demand for fund management is strong, and we are looking forward to more good years to come.

What sort of assets are you looking at? Are they likely to be property? Are you planning for infrastructure assets, or is it a mixture? What is the mix like?

CT: Yes, when we said real assets, it will include property, infrastructure and connectivity assets, so all real assets that produce good cash flow. That is what people are looking for.

LCH: And most of these assets, as I mentioned in my remarks, are solutions that Keppel is providing.

Is there any breakdown in this percentage? Is it more likely to be property because people are more familiar with it? Or could it be infrastructure and connectivity assets?

CT: There will be an increase on all fronts. We are all quite comfortable with property; but actually, most of the institutional investors are also very comfortable with infrastructure, data centre and connectivity assets.

Questions from Adrian Loh, UOB Kay Hian

On M1, are you seeing an increase in roaming demand given that travel lanes have opened up? Obviously, Singapore Airlines (SIA) has increased its capacity and passenger load factors have increased. Have you seen a marked increase in the near term on the roaming revenues that you are getting?

LCH: I will ask Mann to address this question.

MSM: Yes, we have seen roaming revenues coming back compared to last year, but one must remember that last year was really low as a base. So, the growth is there, but we are still far from pre-pandemic days. So the green shoots of growth are there, and I hope that this continues and returns back to its normal, pre-pandemic levels. To answer your question, yes, the roaming revenues have started showing promising trends upwards.

On Keppel Capital, I note the remarks about sustainability and a lot of the new investments going into data centres. But would that necessarily rule out investments in sectors that are kind of unloved? Like resources and oil and gas, I guess the less sustainable segments of the economy?

CT: Besides sustainable assets which have seen a lot of strong interest, people are also looking at the "unloved sectors" – because the problem right now is that the renewable energy sector is not able to provide enough power. So even for fossil fuels, we are seeing high demand. You are seeing record oil prices right now. Gas is looked at as a transition fuel, and there is a huge demand for gas products. So I think that fossil fuels still have a role to play in this environment.

LCH: But just to be clear, we are very focused on sustainability. Gas is a transition fuel, as mentioned, so that is fine. But you can be assured that we will not invest in coal.

<u>Questions from Russell Searancke, Upstream</u>

Could you clarify on the number of drilling rigs that are included in the fleet of legacy rigs? What is the status of the CAN-DO drillship? Lastly, could you clarify on the strategy for the rigs? Are buyers' appetite improving and is the preference to sell the rigs rather than do bareboat charters?

LCH: Can I invite Chris to address the question?

CO: Pertaining to the number of rigs, there is a mixture of physical rigs that we are holding. For the physical rigs, for which we announced that we have just terminated the contracts, those are four B class rigs. There are other assets on hand, a mix of receivables that we have contracts with Borr and Grupo R on. There is the CAN-DO drillship too, and of course, the Awilco rigs that were also terminated.

And on your question on buyers' appetite, as I mentioned earlier, there is definitely increased activity, and there are increased enquiries from both types of players – those that are in the market to look for bareboat charters, and enquiries to purchase the rigs. On your question about whether we have a preference, definitely the preference is for sale. That is if the right value is accorded to the asset at this moment. Other than that, we will be very open to bareboat charter, because by putting the asset to work, in our opinion, it actually increases the value of the asset itself, beyond the financial numbers. So we are actually open to work with our clients. These are all our existing clients. We know them since we are in the market, and we are talking to all of them to provide

different solutions and work with them on different solutions that they will require to participate in the tenders that are in the market right now.

Questions from Foo Zhi Wei, Macquarie

I have two questions. One on Infrastructure; the other one on Asset Management. For the Infrastructure side, I note that you saw a 57% year-on-year increase in revenue due to two factors. Was the revenue growth more due to the higher Power & Gas sales, or was it more due to the Hong Kong Integrated Waste Management Facility (IWMF)? On the Asset Management side, could you clarify what is driving the 69% year-on-year increase in asset management fees, and what is Keppel Capital's AUM right now? Thank you.

LCH: Okay, I will ask Cindy to address the first question, and Christina to address the second question.

CL: For KI, we have been focused on the quality and visibility of earnings as well as positioning for growth. What you see in the improved performance is coming from (1) the Power and Renewables line of business; (2) higher profit from our projects in Hong Kong and Qatar, as well as (3) higher contribution from an associated company in New Energy. In all three lines of businesses, KI has performed.

CT: On the AUM, we have announced that we are at S$42 billion. We are looking to grow this further this year. In terms of asset management fees, the increase is due to new funds that we have raised since last year, as well as acquisition fees for new acquisitions that we have done, including the deal that Keppel Infrastructure Trust did, namely the Aramco deal.

LCH: To be clear, the S$42 billion AUM is as at the end of last year. We do not disclose AUM during the year. But it has grown.

As a follow up on KI, I did not quite get a clear sense on which was the bigger driver of your improvement. You stated a multitude of drivers including power, renewables, some associated companies as well as the IWMF. So which one was the bigger contributor?

On Keppel Capital, thanks for the clarification. If I were to remove all these fees, what would the asset management fees look like excluding the new funds raised, just to get a sense of where the base fee is before including all these new funds?

LCH: I will ask my two colleagues to address your question. But just to be clear, this is not a results briefing. So we will not go into the details which you are seeking. I think you will have to wait until the half year results, where we will provide the details.

Sure. Even on the revenue side, there are just two factors that you pointed out in your slides, which one was the bigger driver?

CHC: For Infrastructure revenue, Power & Gas was the biggest driver for the increase.

CT: For Keppel Capital, our base fee remains strong because of new funds raised. So that has remained stable. Whenever we do acquisitions, we will always receive a bump up in fees as well. That to us is still recurring income, because we are doing many acquisitions during the year.

When you raise new funds, what sort of income do you receive? How does the fee income work? Is it a percentage of the funds raised?

CT: Sometimes what we do is charge based on committed capital. The fees could be on committed capital. For the listed REITs and business trust, we have some acquisition fees as well.

LCH: Just to be clear, for some of the funds we raise, we have committed capital, which means that the fees are charged on the funds raised, and not the funds deployed. But we also have asset management fees that are related to the funds deployed. So when the fund is raised, you will get some commitment fees, and when the funds are deployed, you will also get an asset management fee on top of that.

Understood, so many bites of the same cherry. Got it, thank you.

Question from Lim Siew Khee, CGS-CIMB Research

You monetised S$332 million of assets in 1Q 2022. Were there any significant gains we should be looking at, or not much?

LCH: Hon Chew, do you want to address that?

CHC: This is not a results briefing, so at this point, I would not be covering the details of the financial statements.

Questions from Mervin Song, JP Morgan

I have a few questions. My first one refers to Keppel Capital on the asset management side. Are there any funds that are coming up to fund life? And I presume all your funds are performing quite well. Any material promote fees that are coming up in the next year or two that we should be aware of?

LCH: Christina, do you want to address this question?

CT: We do not typically accrue our promote in the financial statements to be prudent, so it is more conservative in terms of our accounting treatment. We do raise a number of flagship funds, a series of funds. So we can see that the carried interest or promote would be a feature going forward, as and when the fund's life ends. We do not give estimates on the promote.

LCH: We do not give a forecast. The point is that as the AUM grows and you have more funds under management, you will see more of these private funds come to maturity more often. So the promote, although it is lumpy, becomes more recurring, where you have some every year as you grow more private funds.

The second question would be on the stakes in Keppel REIT. I note that other companies like City Developments have distributed their shares in the REITs that they manage, such as CDL Hospitality, to their shareholders. Is this something that Keppel would consider doing?

LCH: On the potential distribution of Keppel REIT, you will know from the past that we have done so before, but that is not to say that we will do it again. Just to make sure I have communicated correctly, there are no plans for us to do anything at this moment.

On the third question, I note that you are tracking ahead of the S$5 billion asset disposal target. Unfortunately, SPH rejected Keppel's somewhat compelling bid. Are you looking at further transformative acquisitions going forward?

CT: There are many merger & acquisition (M&A) targets that we are looking at. Because we are a global manager, we do not just look at Singapore acquisitions. There are actually a lot of targets out there for us to work on.

LCH: As Christina said, we are looking at quite a number of potential M&As. Not all of them are property related. Some of them are more related to environmental engineering, data centres and asset management. So we have quite a number of growth areas where we could potentially do bolt-on acquisitions.

Closing remarks by Loh Chin Hua, CEO of Keppel Corporation

Thank you everyone for attending this business update. We are all working very hard. We have got off to a good start for 2022. The environment out there is very challenging, as we all know. But at the same time, we see quite a number of opportunities that we will look to fully exploit. So thank you again for your interest in Keppel and for your support. Have a pleasant evening.