Keppel Corporation FY 2022 Results Webcast

Transcript of the Question & Answer Session

2 February 2023, 5.30pm, Keppel Bay Tower

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

Questions from John Lee, Retail Investor

Mr Loh, can you elaborate on your point about Keppel's net tangible assets rising first when the Keppel Offshore & Marine (Keppel O&M) and Sembcorp Marine transaction is approved and completed, and then falling after the Sembcorp Marine shares are distributed by Keppel Corporation to its shareholders? Does this mean that Keppel's share price will rise and then fall?

LCH: Let me be clear, this will all take place more or less at the same time. In other words, at completion of the transaction. This is assuming that the shareholders of Sembcorp Marine approve the resolution at their Extraordinary General Meeting on 16 February. So, when the completion takes place, we will, as I mentioned in my opening remarks, make a significant gain from the transaction, which will result in our net tangible assets rising first. Of course, we are distributing 19.1 Sembcorp Marine shares[1] per Keppel Corporation share. That will then result in Keppel's net tangible assets falling. The net of it all is that the net tangible assets will be, more or less, slightly below what our net tangible assets were at end-December 2022. The key difference here is that unlike distribution from our portfolio to shareholders in specie, where there is no accompanying transaction, it would have then led to our net tangible assets falling by the value of the distribution. In this case, the value of the distribution is backed by the gain that we will make or book when the transaction is completed with Sembcorp Marine.

Questions from Nicholas Lim, Retail Investor

Congratulations on the good results in spite of the global economic headwinds. I have two questions. The final dividend is lower than last year despite an increase in the company's recurring income. Should we view 33 cents as the minimal annual dividend by Keppel Corporation?

LCH: Let me explain. While we do not have a specific dividend policy, the Board and the management are well aware that dividends are a very important part of the consideration for our shareholders. We have in recent years endeavoured to pay somewhere between 50-60% of our earnings. This is how we arrive at the final dividend of 18 cents, making a total of 33 cents for the year. As the Group's recurring income goes up, as you have noted, which is also part of our Vision 2030, it will give us more confidence to pay more of our earnings in dividends, but I wouldn't say that this 33 cents is a minimal annual dividend. It would all depend on how successful we are to

continue on our Vision 2030 to improve the quality of our earnings, as well as the absolute amount of the earnings going forward.

Keppel's return on equity (ROE) of 8.1% is still some way off your ROE target of 15% for Vision 2030. Could you share what steps you are taking to achieve your targeted 15% ROE sooner?

LCH: I think that is a very fair point. We are still some way off the 15%, but we are working towards that, even in the Keppel you see today. You can see that through the asset monetisation, we are creating a lot more headroom on our balance sheet to take on new growth opportunities in energy transition, in Real estate-as-a-Service, in connectivity solutions, and asset management as well. Over time, as we move away from having assets on our balance sheet that are sitting there, such as our landbank – which may not produce returns, in fact, the landbank will have a certain holding cost attached to them – and we replace them by new investments with recurring income, I believe our ROE will continue to rise. So, we are working towards that 15% ROE and we remain confident that we will achieve that well within our Vision 2030.

Question from Terence Chua, Phillip Securities Research

Can I find out if the fine paid by Keppel O&M had an impact on the dividend distribution this year?

LCH: Hon Chew, do you want to take this?

CHC: Thanks for that. As we have announced, after taking into account the crediting of the US$52.8 million, which the Attorney-General's Chambers of Singapore and the Corrupt Practices Investigation Bureau have agreed to, the net fines and damages paid by Keppel O&M was actually US$12.2 million. So, there is no material impact on the earnings, and as a result, there is no material impact on the decision regarding the dividend distribution.

Questions from Jame Osman, Citi Research

Thanks for the presentation. Could you share what was the earnings contribution from the new energy and environment investments made in FY 2022, as well as expectations for how these investments could contribute to the segment's growth in FY 2023 and beyond?

LCH: Hon Chew, are you able to address this?

CHC: As we mentioned earlier, there were a number of investments that were made during the year, but I do not think it is reasonable to expect these investments to make material returns within such a short span of time.

LCH: Some of these investments were made during the year, and investments that we made jointly with some of the private funds and Keppel Infrastructure Trust that we manage. Over time, we expect that we will get our share of earnings from these investments, or investment dividend income, depending on the type of investment it is, whether it is an associate or investment. On top of that, we will be getting our asset management fees, etc., so these will all add to the returns and recurring income that the Group makes.

Which projects or investments are you most positive on in terms of potential?

LCH: I guess you are referring to new projects, because obviously we are positive on the projects we have gone into. Maybe I can invite Christina to share on some of the things that Keppel Capital is excited about, despite the very difficult environment?

CT: Sure. Regarding our investments, I think we are really happy that we have made investments into renewables projects in Europe as well as Asia. I think the investments that are referred to, like in Cleantech, where we have solar platforms, and in India, in the C&I (commercial and industrial) space, as well as in Southeast Asia, I think they are doing very well. So, we are very positive about them. With the Ukraine war, energy prices have gone up substantially in Europe, so our investments in onshore wind in the Nordics as well as offshore wind in Germany have done really well compared to our underwriting; it is probably about three times of what we had underwritten. So, we expect that these segments of investments are something we can look forward to in terms of contributions to our earnings. Thank you.

Questions from Lim Siew Khee, CGS-CIMB Research

What is your target ROE for FY 2023?

LCH: We do not give a specific target for FY 2023, because that would be like giving you a forecast.

Why did Discontinued Operations'[2] profits come down half-on-half to S$24 million in 2H 2022 vs S$63 million in 1H 2022? How much were the provisions made for the cost overruns and what project was it?

CHC: If you look at the second half of Discontinued Operations, indeed, as you have already pointed out, there were some provisions made for cost overruns which we have already mentioned in our opening address. As you know, every financial year, as we close the books, we would have to do a very extensive review of our cost for each of the projects, looking at cost incurred to date, and our projection of what are the future costs to complete those contracts.

We need to make certain provisions for any overrun that we may expect to incur in the future. Given some of the increase in labour costs, in this case, especially at our yard in the US, we had to make certain provisions. As you know, these are live projects, and as we speak, the team is also working with the customers to try and recover some of these cost overruns. Due to the sensitivities, I will not be able to tell you which projects and how much.

But suffice to say that if you look at Op Co that I have covered in my opening address; Op Co made a loss of S$143 million. Op Co would have made a profit if not for these provisions that we made for the second half. I hope that helps to add some colour, to give you a flavour of the second half performance of the Discontinued Operations.

Are there any more provisions made for the upcoming FY 2023?

CHC: As we mentioned, we did a very, very extensive review of all the projects for the financial year end. So we can say, at this point in time, we do not expect any additional provisions to be made for these projects. I have also covered in the opening address that this is specific to our yard in the US. For all the other projects in the other yards, we do not have the same issue, and

we do not have to make such provisions. The other projects are expected to be on budget, and on time.

Energy & Environment made S$127 million net profit in 2H 2022 vs S$45 million in 1H 2022. Would you please help to quantify how much is due to strength in the Power and Gas business, and how much is related to an associated company in Europe under Keppel Infrastructure?

CHC: A lot of our business is run through not just subsidiaries but also associates. This particular associate, which we can name, is MET. It is in the new energy area which we are also going into. So I am not sure whether it is meaningful to split the two, because increasingly, more and more projects, more and more of our business, would actually be done through associates.

LCH: They are both strengthened.

CHC: With the increase in oil prices, gas prices, Power and Gas have gone up as well as some of the businesses done through associates such as MET.

Questions from Paul Chew, Phillip Securities Research

What are the key drivers for electricity spreads in Singapore in 2023? Any opportunities for spreads to widen in 2023?

CL: Thank you, Paul, for the question. The electricity spreads in Singapore for 2022, which I believe you are asking about, was due to the increase in HSFO price, the increase in gas prices brought about by the Ukraine-Russia crisis, as well as the global energy crisis. In Singapore, particularly, it was also affected by certain planned maintenance activity in some of the generation assets. In addition, throughout 2022, there were occasions of piped gas disruption upstream.

As for opportunities for spreads to widen in 2023, we cannot tell. But suffice to say, it is still healthy and strong, but we remain vigilant in terms of the global activities.

What are the planned number of residential launches in China in 2023 and what is your view of buyer sentiments?

LL: Thank you, Paul. I will start with the second half of the question. As mentioned earlier, we have faced headwinds in China, but at the same time, we are optimistic about the path forward. The deleveraging policies and the COVID lockdowns have affected the market. But with the opening of China, we have also seen positive signs. We are getting more enquiries that have also led to an uptick in sales.

With that in mind, we will be planning launches based on how we read the market. We are not going to say how many exactly we will be launching, but we do have a number of projects across Wuxi and Tianjin where we are looking to launch more units this year.

Question from HC Lim, Retail Investor

With the improvement of the O&M sector, will the divestment of Keppel O&M affect future earnings of Keppel Corporation?

LCH: We have a very good business in Keppel O&M and as you rightly said, the O&M sector is also improving. But this is really in keeping with our Vision 2030 – as we look for more recurring income, rather than lumpy profits – that we are doing this divestment or spinoff. Of course, there are other reasons associated with that, such as creating a stronger global player that can play a bigger part in the energy transition. But as far as how it will affect Keppel, it will depend on what we will do with the balance sheet space that has been freed up, both from the S$500 million in cash we have coming back, and from some of the debt space that will be reduced.

That would allow us to invest in the other growth segments that we have identified, including infrastructure, energy transition projects, real estate, urban renewal projects, senior living, asset management, connectivity, data centres, etc. It is not just about what we could potentially lose, but also about what do we do with the balance sheet that we have now, the additional balance sheet space, what do we do to look for future growth engines under Vision 2030.

Question from Chua Ting, Retail Investor

Why is the final dividend lower?

LCH: I had explained earlier that while we do not have a specific dividend policy, we have been paying about 50-60% of our net profits every year. So our net profits this year is 9% lower than last year. We have paid a higher interim dividend compared to last year. Overall, the total dividend for FY 2022 remains unchanged from the year before at 33 cents.

Question from Jame Osman, Citi Research

Could you share what are the main drivers behind the flattish revenue trend in 2H 2022 for Connectivity despite the growth in subscribers and ARPU at M1?

LCH: I will get Mann to talk a bit about M1.

MSM: Thanks, Jame, for the question. I think while our ARPU and subscribers have both grown, there has been a bit of slowness in the handset sales in the second half of 2022, compared to last year, which we are seeing as a trend in the market where handset sales are going down and people are adopting SIM-only plans more. I think that is probably what you are referring to – that the revenue trends are flattish due to handset sales primarily. But otherwise, from a service revenue perspective, roaming subscribers and ARPU all have grown, so service revenues are quite handsome. It's just the handset sales which have diluted revenue to a certain extent.

(Note: Revenue for the Connectivity segment was flat in 2H 2022 compared to 2H 2021 mainly due to the divestment of the logistics business. M1's 2H 2022 revenue was about 9.5% higher compared to 2H 2021.)

Questions from Mayuko Tani, Nikkei

Can I clarify about the launches of new residential projects in Wuxi and Tianjin? I heard it

will be next year, but is it this financial year or next? Would you also comment on the pace of the recovery of the property market in China?

LL: Sorry, to clarify, I meant this year, so 2023. Across all four quarters, we have plans to launch units in our residential projects. The pace of the recovery of the property market – I would love to say that it is going to be brilliant, but I think this is very much up to the market itself. But what we have seen more recently with the Chinese New Year, there was an expectation that there would be a second COVID wave, which did not quite materialise. Overall, I think we are cautiously optimistic that the market will pick up. Right now, the pick-up is more on consumer and tourism, but we look forward to that translating to the property market in the next few quarters.

Questions from Terence Khi, JP Morgan Securities

Thanks for the opportunity. I wanted to ask about data centres. There was mention of potential divestments and asset recycling into Keppel DC REIT. Can you share which of the data centres in the portfolio are ready for divestments? Also, how is the progress for Keppel DC Singapore 7?

LCH: Maybe I can ask Thomas to address this.

TP: Thank you, Terence, for the question. DC 7 is under construction right now. Phase 1 RFS (ready-for-service) should be within this quarter. There will be subsequent phases where we will continue with the fit-out and construction, and it would be in the fourth quarter. So, we will continue to complete the construction and fitting-out and get the space ready for service and once the revenue stabilises, we will look at potential recycling of the asset into Keppel DC REIT.

Questions from Paul Chew, Phillip Securities Research

In Connectivity, what are the planned greenfield data centres, if any? And is Singapore's mobile industry ripe for consolidation?

LCH: Thanks, again. I think the second part of that question is highly speculative. So, we will not touch on that. Can I ask Thomas to speak on the first part of his question on greenfield data centres?

TP: Thank you very much, Paul. Together with our private fund managed by Keppel Capital, we are looking at quite a number of projects both in Southeast Asia and North Asia. So, there are currently projects under construction in China and Singapore. We are looking at negotiating and developing projects for the North Asia market, and in addition to that, we are looking at designing new generations of innovative, green data centres that are being planned in Singapore.

Question from Foo Zhiwei, Macquarie

Hi management, thanks for the presentation and generous dividends.

LCH: Thank you for acknowledging that, Zhiwei.

On the dividend payout ratio, the 18 cents payout in the second half is more than the 50-60% range on the second-half basis, and as you mentioned, net gearing was higher due to dividend payment and share buybacks. With this in mind, how would you think about the dividend payout ratio in 2023 and its impact on gearing, if any?

LCH: I guess, taken as a whole, we are looking at dividend payout within those ranges as guidelines. But ultimately, we also look at things like, how fast our monetisation is going. For 2023, whilst we were very happy that we were able to continue monetising those assets that we have identified in our portfolio that are due for monetisation, it has been a bit slower compared to 2021. So, it will depend on how the monetisation goes this year. As you have heard from Louis, the outlook for China seems a bit more positive now. But again, as Louis said, it is probably too early to celebrate, but we certainly are encouraged by what we see there. And we do have a number of assets there that we could potentially monetise. So, this will depend on how that goes for the rest of the year.

Closing remarks by Loh Chin Hua, CEO of Keppel Corporation

I believe this is the last question. I want to thank everyone for listening in. Since this is still the Chinese New Year period, I want to wish everyone a very Happy Lunar Year. Thank you.

[1] The number of DIS Shares to be distributed to the Shareholders for every one (1) KCL Share held by an Eligible Shareholder is calculated based on the assumption that the Company's issued and paid-up share capital on Closing would be 1,751,959,918 KCL Shares (excluding treasury shares) which is the number of KCL Shares (excluding treasury shares) of the Company as at 31 December 2022, and on the further assumption that 33,436,214,314 DIS Shares will be distributed to Eligible Shareholders.

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