(Business Trust Registration Number 2007001)
(Constituted in the Republic of Singapore as a business trust
pursuant to a trust deed dated 5 January 2007 (as amended))

SIAS-Keppel Infrastructure Trust Dialogue Session for the Proposed Equity Fund Raising held on 3 April 2023, 7.00pm

Transcript of the Question & Answer Session

JC: Jopy Chiang, Chief Executive Officer, Keppel Infrastructure Fund Management Pte Ltd (KIFM)
EN: Eric Ng, Chief Financial Officer, Keppel Infrastructure Fund Management Pte Ltd (KIFM)
DG: David Gerald, Founder, President & CEO, Securities Investors Association (Singapore) (SIAS)

DG: **You made a number of acquisitions in FY2022 and plan to issue new units to partially repay the equity bridge loans (EBLs). How will these acquisitions benefit Unitholders, given that distribution per unit (DPU) increased by only 1% in FY 2022? Can you explain the divergence between the 15.8% increase in Distributable Income and the 1% increase in DPU? In contrast, the Trustee-Manager's profit for 2022 has increased to $28.9 million.**

JC: We introduced DPU growth in 2021 with the intention to match the long-term inflation rate in Singapore, which is an average of approximately 1.5% over the last 30 years. We have seen strong performance across our portfolio with a 15.8% year-on-year (YoY) increase in Distributable Income for FY 2022, ending off the year with a payout ratio of 86%. The lower payout ratio allows us to maintain a fine balance of retaining some capital on the balance sheet to safeguard against the volatility that we are seeing in the market, and at the same time, to reinvest and create greater value for Unitholders by redeploying into value-accretive transactions, as we have demonstrated in FY 2022.

In relation to the profitability of the Trustee-Manager, the profit includes a number of one-off acquisition fees. 2022 was a transformative year for the Trust where we closed four key transactions and entered new markets and new sectors such as renewables. Stripping off the one-off fees, and just looking at the Base Fee and Performance Fee, the increment is a lot more modest, up from $11.8 million in FY 2021 to $14.4 million in FY 2022. Keep in mind that in the earlier part of last year, we sought Unitholders' approval to revise the Trustee-Manager's Base and Performance Fees, which is critical for KIT's growth. The legacy fee structure that we inherited is not aligned with growth. Today, our new fee structure mirrors the newer REITs in the market with a Base Fee of 10% of Distributable Income and Performance Fee of 25% of year-on-year distributions growth. This means we will not get paid a single cent in Performance Fees unless we increase distributions, which is better aligned with Unitholders.

DG: Borrowings have increased significantly, and KIT's gearing ratio has risen from 20.3% as at end-2021 to 39.8% as at end-2022. Given the increase in interest rates, is the proposed equity fund raise a precautionary measure to reduce gearing?

JC: We closed four key acquisitions last year:

- We expanded KIT's presence into the Middle East where we secured a 20-year USD denominated contract with one of the world's largest companies. The $26.5 million in distributions that we received from Aramco in FY 2022 was in excess of our investment case.
- We also made headway into the renewable energy sector, which further elongated KIT's cashflow profile and increased the tenor of the weighted average lifespan of our assets. Through these wind farm acquisitions, we entered into new markets in Europe, working with some of the best-in-class blue chip partners like Fred. Olsen Renewables AS (FORAS) and Ørsted.
- In South Korea, we acquired a majority interest in a leading waste management platform, drawing on proprietary expertise across the Keppel ecosystem.

We are very fortunate to have raised more than $1 billion in perpetual securities and medium-term notes in a low interest rate environment, where we were able to capitalise on these growth opportunities and leverage on the strength of the Singapore Dollar given the turbulence that we were seeing in global markets last year.

The acquisitions were funded with existing and bridge facilities and we have not come to Unitholders for funding of these four transactions. We've been able to benefit from the higher distributions from the new acquisitions. An equity fund raise will allow us to strengthen the liquidity of KIT's balance sheet through the partial repayment of the EBL, and improve the Trust's gearing ratio.

That said, KIT also has committed credit facilities that we can draw down to repay the EBL, including the $400 million loan that City Energy has obtained. We are seeing strong institutional interest in KIT as we continue to revitalise and reposition the KIT portfolio. Today we have more than 700 MW of green electrons in some of the most developed renewable energy markets globally. We own one of the largest waste management platforms in South Korea, and more than 90% of KIT's portfolio has a strong insulation from inflation.

Looking at the credit profile of KIT, 72% of our debt securities are hedged but that includes the short-term EBL of $580 million on the balance sheet. Excluding the EBL, we would be 90% interest rate hedged for the full tenor of our debt, which means that a 1% absolute increase in interest rates has a roughly 1% impact on our Distributable Income. This gives a strong degree of resiliency against potential market headwinds.

DG: The circular shows a 35.6% increase in Funds from Operation (FFO), and a 3.5% increase in pro forma Distributable Income per Unit (DIPU). Could you explain the difference between DPU and DIPU?

EN: Distributable Income is the amount we can distribute out of our FFO after servicing debt repayments. DPU is the actual amount that the Board has declared for payment. Hence, if you take DPU divided by DIPU, it gives you the payout ratio of 86% for FY 2022.

DG: Does the 3.5% DIPU accretion include Trustee-Manager fees and borrowing costs?

JC: The 3.5% pro forma DIPU accretion for FY 2022 is net of associated borrowing costs and Trustee-Manager fees.

DG: The 3.5% pro forma accretion to DIPU is based on 571.4 million new units being issued. However, the Trustee-Manager is seeking approval to issue 758.8 million new units. How would this affect DIPU accretion?

JC: At the upper bound of 758.8 million units, DIPU will still be accretive for Unitholders, albeit at a lower rate. We are seeking Unitholders' approval to issue 758.8 million new units to provide some buffer for market volatility as we are targeting to raise approximately $300 million.

Unitholder: Why are you selling Ixom? It is a very profitable business, contributing $96 million in DI. How will you reconcile future earnings?

JC: KIT acquired Ixom in 2019 for A$1.1 billion, and EBITDA was approximately $130 million in 2019. As of end of last year, Ixom's EBITDA increased to $199 million. We have been able to grow Ixom's EBITDA organically and inorganically by more than 10% year-on-year.

Through the pandemic, there has been a better appreciation of industrial assets. As a business that handles hazardous chemicals in Australia, Ixom continued to thrive during the pandemic, and we received unsolicited offers for the business, which triggered the strategic review.

A strategic review of Ixom will allow us to optimize the KIT portfolio through crystalising Ixom's intrinsic value, to redeploy capital for asset recycling and rotation. This is an active asset management approach to increase our capital and available cash at our disposal, to achieve further growth.

Ixom is a creditable investment for KIT, which has been delivering attractive returns since 2019. Hence, we will only sell the business at a valuation that incentivizes an exit, a price that not just meets our internal hurdle rate, but also justifies the quality of Ixom's business and its strong cash generation profile.

Unitholder: Did you make these acquisitions so as to replace the cash flows from the concession assets that are expiring?

JC: The concession assets in KIT's portfolio are finite life investments, and some of them are coming to the end of term. With the acquisitions last year, we have elongated the cashflow profile of the Trust. We added (i) a 20-year contract with Saudi Aramco, (ii) approximately 27 years of useful life from the renewable energy assets and (iii) an evergreen business in South Korea.

In the Aramco Gas Pipelines Company investment, we received approximately $26.5 million in FY 2022 for two quarters of contributions. With an annual contribution of approximately $30-40 million on a conservative basis, this investment would help to replenish cash flows. The acquisitions of the European Onshore Wind Platform, the German Offshore Wind Farm, as well as EMKH are also DIPU-accretive on a standalone basis and will continue to contribute to the concession shortfalls such as the Senoko WTE plant that is expiring in 2024. Beyond replenishing cash flows, we are also actively working with regulators to extend the concessions and look to provide an update on the extension of the Senoko WTE plant sometime this year. As for the concession of the SingSpring Desalination Plant which is expiring in 2025, its land lease will only expire in 2033, and we are similarly working to seek an extension.

In short, we will have to continue to make new acquisitions and optimise our portfolio to safeguard and underpin sustainable DPU growth going forward.

Unitholder: Can you share more about the impairment at Philippines Coastal?

EN: The impairment follows a review of cost of capital for the Philippines Coastal assets as part of good accounting practices. A major reason for the write down on the value was due to the higher cost of interests.

JC: As a matter of accounting, we are required to perform an impairment test of our businesses and assets annually. Philippines Coastal was negatively impacted by the pandemic. That said, we have now seen utilisation rates increase from 66% when we acquired the business in 2021 to 90.5% as at the end of last year. Going forward, we see good potential in the business as we see the country recover post-pandemic with an uptick in customer demand.

Unitholder: What happened to Basslink?

JC: Basslink was one of the first housekeeping items we addressed to free up management bandwidth. We put Basslink into voluntary administration in 2021, and we recognised an impairment loss in FY 2021. Today, there is no ongoing liability from Basslink.

Unitholder: Basslink has very important legacy lessons for us, particularly in the form of risk management practices. Going forward, this scale of loss should not be repeated.

JC: We have learned some key lessons from Basslink and have put in safeguards to prevent such occurrences from happening again. When we entered new markets and new sectors last year, we work with companies with decades of experience such as FORAS, Ørsted, and Aramco. Secondly, it is very important to have people on the ground. Today, we have established an overseas office in Australia, as part of our strategy to accelerate growth. We want to be able to capture investment opportunities and have our own people on the ground to ensure that our businesses and assets continue to perform.

DG: If unitholders approve the resolution, when will the equity fund raising be carried out?

EN: It can be carried out immediately after Unitholders' approval.

Unitholder: Can you share more about the equity fund raising, whether it will be a private placement or preferential offering, and at what pricing?

JC: The 2019 equity fund raise would be a good reference point. Our intention is for our sponsor Keppel Infrastructure to retain their pro rata stake. In terms of pricing, the circular has indicated a 4.1% discount to the base price of $0.54. We will continue to evaluate market conditions prior to launching the equity fund raise.

Unitholder: Current interest rate is 3.7%, and a refinancing could increase your weighted average interest rate to more than 4% and eat into your income.

JC: It will depend on the rate curve going forward. Excluding the EBL, we are 90% interest rate hedged for the next 2.6 years.

KIT's weighted average interest rate of 3.7% is reflective of current borrowing costs as the $580 million EBL is on a floating interest rate.