Pre-EGM Virtual Dialogue Session for Retail Shareholders hosted by SIAS

Transcript of the Session

28 November 2022, 7:30pm, Zoom

DG	David Gerald, President and CEO of Securities Investors Association (Singapore) (SIAS)
LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation

Opening remarks

DG: Good evening, shareholders of Keppel. We meet again. Thank you for joining us at the SIAS-Keppel Corporation Virtual Dialogue Session tonight.

Keppel Corporation will be holding an Extraordinary General Meeting (EGM) on 8 December this year to seek shareholders' approval on the transfer of its legacy assets to an asset company, the sale of Keppel Offshore & Marine (Keppel O&M) to Sembcorp Marine and the proposed distribution of Sembcorp Marine shares to its shareholders.

Tonight, we have invited the senior management of Keppel Corporation, with whom you are very familiar and comfortable with, to join us at this dialogue session to discuss the proposed transactions and answer questions from shareholders.

They have been very forthcoming and are pleased to meet you tonight. On my right, Mr Loh Chin Hua. He is the Chief Executive Officer, with whom you are all very familiar. You are also very familiar with Mr Chan Hon Chew, the Chief Financial Officer.

So, let me first start without further ado, by inviting Mr Loh Chin Hua to take us through the presentation.

LCH: Good evening, shareholders of Keppel Corporation. First, I would like to thank Securities Investors Association (Singapore) (SIAS) for organising this, it is very helpful for management to engage with shareholders through SIAS. I will cover a couple of points. I do not want to take up too much time, so as to leave more time for Q&As.

I will cover a few slides. None of this is new, but I think it is worth reiterating some of the messages that we have shared with our shareholders when the deal was announced, first in April 2022, and more recently when we tweaked the transaction.

I will cover this in three slides, and essentially, cover three perspectives. From the perspective of Keppel as a company, what does the proposed transaction mean? From the perspective of our shareholders, what does this mean? And finally, but also very importantly, from the perspective of the Merge Co[1], or the new entity, what does it mean? Because ultimately, based on the proposed transaction, if approved, our shareholders will end up with the shares of the merged entity.

[1] References to "Merge Co", "combined entity", "merged entity" and "new entity" in this transcript refer to Sembcorp Marine post the proposed transaction.

First, from the Company's perspective, we believe this will accelerate Keppel's Vision 2030 transformation. We are already making very good headway with Vision 2030, and we have updated shareholders on it. But this is definitely going to help us accelerate the Vision 2030 transformation of Keppel Group. It will help us to streamline, focus and align the Group to Keppel's mission, and scale up our focus areas into renewables, clean energy and decarbonisation solutions. From Keppel's perspective, this transaction will also see a realisable value of about S$9.05 billion over time from our offshore & marine business and legacy assets.

From our shareholders' point of view, that is yourself, Keppel shareholders will receive 49% of Sembcorp Marine shares, or 19.1 Sembcorp Marine shares per Keppel share held. This has an implied value of S$2.33 per Keppel Corporation share, based on the value of Sembcorp Marine shares at the point in time when the transaction was announced in April 2022, of 12.2 cents. Of course, the final value of this block of shares will depend very much on the final value of the merged entity when it is traded on the exchange.

Now, the last point, which is equally important, is that this proposed transaction is expected to create a premier global player providing offshore renewables, new energy and cleaner solutions in the O&M space. Both Sembcorp Marine and Keppel O&M have seen their orderbooks increase since the deal was first announced in April. And collectively, the two companies will have a total net orderbook of over S$18 billion. This puts the combined entity in very good stead for the next few years. It will also allow the company to continue to perform well, hopefully, as they transition into new areas such as renewables, new energy, etc.

This next slide basically reiterates what I have just mentioned, that the transaction will see a realisable value for Keppel of over S$9.05 billion over time. We also have out-of-scope assets, worth S$300 million, namely our shares in Dyna-Mac as well as Floatel. So altogether, the total transaction value for Keppel is S$9.35 billion, or approximately S$5.34 per share.

Now, you may also wonder, after this transaction, what will Keppel become? Moving forward, we increasingly see ourselves as a global asset manager and operator. We are not just an asset manager, but also an operator with very strong development and operating capabilities in energy and environment, urban development and connectivity.

We are steadily moving Keppel towards sustainability as our business. Of course, our asset-light business model also allows us to do a lot more to grow our business portfolio without overburdening our balance sheet. This year, we have announced S$2.4 billion in new investments, mainly in the renewables space, as well as the environmental engineering space. Even with this huge investment, our net gearing has stayed quite steady. That is because of our asset-light model. Of course, Keppel has always been a user of technology to enhance the value propositions to our ultimate customers.

So these are the three business thrusts that you can see Keppel becoming more involved with moving forward – sustainability, being asset light, and using technology to enhance the solutions for end customers. With that, I will take a pause and would be happy to address questions from our shareholders.

Question & Answer session

DG: Mr Loh and Mr Chan, I remember this started way back in June 2021 when Keppel and Sembcorp Marine entered into a non-binding Memorandum of Understanding (MOU). That was nearly one and a half years ago.

It was followed by an earlier definitive agreement in April 2022. And that was superseded by the current arrangement that was announced at the end of October 2022. So the questions are, first of all, what prompted the revised structure and terms?

LCH: I think this is a question that we had also fielded when we announced the change in the transaction more recently. The point is that, for this transaction to work, it has to work for both sets of shareholders. At that point in time, we had already crossed many of the conditions precedent, including the anti-trust filings and regulatory approvals. So what really remained were the two sets of shareholders' approvals.

Investors and our shareholders have asked us, since things are looking better for Keppel O&M, our orderbook has actually ballooned significantly, why now, why change the terms? I think the response to that, and I have said that earlier, is that at the end, we should not be looking at the fine lines of who gets 2% more or 2% less. Ultimately, it has to be a transaction that works for both sides. And we are very happy that we were able to come to this arrangement. Because ultimately, when Keppel Corporation shareholders get shares in Sembcorp Marine (the new combined entity), what is of value to our shareholders will ultimately be how well Sembcorp Marine, the combined entity, performs. And we think with this enlarged orderbook, and also with a good business plan, a good integration, which I think is important, it will put Sembcorp Marine, the combined entity, in a very good shape moving forward. And I think that is probably what our shareholders should be more focused on.

At the same time, we have also tweaked the transaction such that there is better deal certainty for us, meaning to say that, with the change into a direct acquisition, we are able to speed up the process. We still hope that the transaction can be completed by year end, subject of course to getting all the EGM approvals on both sides.

Then of course, finally, we have also been able to tweak the terms of the Asset Co transaction. In light of the higher interest rates, we are now getting a higher coupon on the vendor notes that we are getting in return for the rigs. This will mean that over around four years, we will be able to receive back more or less the difference between the original transaction and the transaction now with the lower exchange ratio. Of course, last but not least, the two transactions are no longer linked. They are not inter-conditional. So whatever happens, so long as our shareholders approve this Proposed Transaction, including the creation of Asset Co, whatever happens with Sembcorp Marine's EGM, the Asset Co transaction can go through. So these are all quite important considerations.

DG: With the latest move to sell Keppel O&M, some shareholders are asking, in your view, you have expressed that this is good for Keppel, and therefore will there be more special dividends?

LCH: I think we will have to look at how the group performs for the whole year. The final dividend will be determined by the Board at the conclusion of the year. So, I cannot say more than that. But I think it is useful to remind our shareholders that you will be receiving quite a big dividend *in-specie*. As I said, based on 12.2 cents, this would be around S$2.33 of

Sembcorp Marine shares per Keppel share. At today's share price for Sembcorp Marine – of course, we will only know the final outcome when the transaction is done and the shares trade post completion; but at today's share price, it is significantly higher than S$2.33.

The point is that even with the reduction in exchange ratio, we have also ensured that our shareholders will get slightly more (upfront). In the previous transaction they will get 18.5 combined entity shares per Keppel Corporation share. Now they are getting 19.1 shares, so that is slightly more, even though the exchange ratio has been tweaked in favour of Sembcorp Marine shareholders.

DG: On financial ratio, what is Keppel's book value after Keppel O&M is acquired? What will be the net asset value (NAV) and gearing ratio post *in-specie* distribution? Thirdly, will the Sembcorp Marine deal really go through? You would of course want it to go through, and if yes, is there any firm timeline? If no, how will Keppel's dividend look like in 2023 with rising interest rates?

CHC: To illustrate the impact from the transaction, we use the last audited financial statements for December 2021, when our net tangible asset (NTA) was S$5.53. And because there is a dividend *in-specie*, that will reduce the NTA per share, from S$5.53 to S$5.29. I am sure you have heard from Chin Hua that the dividend *in-specie* is worth S$2.33 per share. So why did the NTA only drop by 24 cents? That is because, as we have said, the transaction is accretive first of all. Secondly, there is also a gain from the transaction. So as a result, net of it, the drop is only 24 cents of NTA, notwithstanding the S$2.33 dividend *in-specie*.

On net gearing, as Chin Hua mentioned earlier, there is a slight improvement on a pro forma basis, again based on 31 December 2021, from 0.68x to 0.65x. Why did the gearing improve? Because we are also receiving cash of S$500 million.

DG: There is a live question from a shareholder who is now watching. Can you explain again the implied value of Sembcorp Marine shares of S$2.33 per Keppel Corporation share?

CHC: As Chin Hua mentioned, we are going to distribute 49% of the Sembcorp Marine shares. On a per Keppel Corporation share basis, every Keppel Corporation shareholder will receive 19.1 shares in the combined entity. So, this S$2.33 is based on the 10 day VWAP (volume-weighted average price) leading up to the time when we announced the definitive agreement on 27 April. That VWAP is equivalent to 12.2 cents per Sembcorp Marine share. So on that basis, it is S$2.33.

LCH: So if you take 12.2 cents, multiply by 19.1 shares, that will get you the theoretical value of S$2.33.

CHC: The actual value will depend on the actual share price when it is traded.

DG: Shareholders are also wondering, do you and your team, including the Board still believe that Keppel should go ahead with the transaction at this point in time, and some believe that the benefits will outweigh the costs, even though we see that the recovery is gaining momentum?

LCH: This is a question that we have been receiving quite often since the transaction was first announced. I can understand because the group has a very, very storied tradition in offshore & marine. We have traditionally done very well. Of course, after some years of difficulties, we

have restructured Keppel O&M, and taken out a lot of the fixed costs, so the entity is now actually in quite a good shape. With the improvement in the offshore sector, and also the very exciting area of renewables as well as clean maritime fuel, it is perhaps an exciting moment for the industry. The combining of the two, we think, is still very critical because we can create - we have a better chance of creating - a strong global champion.

In this transaction, in a way, you can see that we are also looking from the shareholders' point of view. Shareholders have a choice. After they receive the shares, they can still retain the shares, and we hope many of them will. And by retaining the shares, they will still have exposure to both sides. From the Keppel Group's perspective, it helps us streamline our business. I think the days when conglomerates are viewed very positively by the market are now kind of behind us. You see everywhere that people prefer a pure play, or rather investors prefer a pure play. They want to have companies that are easier for them to understand. So this year, we have sold our logistics business. We are almost in the midst of spinning off our offshore & marine business. And these are two businesses that the Group has been involved in for many years. You can even say, and it is a fact, that the rest of the Group actually grew up from offshore & marine. So I think this is not an easy decision for us. But at the end of the day, I think it is the right decision, because it will help us streamline.

If you look at our Vision 2030, we also have a goal to try to improve our percentage of recurring income. So while we are very confident that the restructured Keppel O&M is in good shape, the business that it runs is still very much what we would call an "orderbook business". Orderbook businesses tend to attract a certain premium to book, that is how people tend to value them. We prefer to go for recurring income, which will hopefully attract a multiple from the market. This is also part and parcel of our Vision 2030. In that sense, both the logistics business, which we sold earlier, and Keppel O&M did not quite fit into this Vision.

DG: Is an orderbook business more sensitive to geopolitics?

LCH: Not necessarily. The key point is that for an orderbook business, you have to win every year. It is not recurring income. So when it is recurring income, hopefully the market and the analysts would apply a multiple to it. Whilst in an orderbook business, you can value by discounted cash flow; but sometimes the analysts in the market may not have the ability to look beyond a few years, so they will tend to do more of a shortcut. They will look at the price to book.

DG: Let's look at the Asset Co. Keppel Corporation will transfer 10 vessels and 10 target companies to the Asset Co. These are the legacy rig assets, associated receivables and associated intercompany loans granted by Keppel Corporation to the target companies.

Keppel will receive S$4,058 million from Asset Co – what is the estimated gain/loss for these rigs? How are these amounts to be recognised in the books of Keppel Corporation?

CHC: These 16 rigs will be transferred to Asset Co at the book carrying value – so whatever value we have carried in Keppel O&M. And in return, we get the vendor notes, perpetual securities and core equity. So because it is at book value, there will not be any profit and loss (P&L) impact at the point of transfer.

DG: How are the legacy assets performing in today's more buoyant market?

LCH: As expected, the rig market has gone through quite a tough time over the recent years with the oil price collapsing. In more recent times, in the last maybe 12 to 18 months, we have seen an improvement on the back of a better oil market. The utilisation rates for rigs have gone up, and day rates have started to improve. So what we have seen is that now all of our jackup rigs in Asset Co are on bareboat charter. We have sold some recently, three of the Borr rigs. The rest are all bareboat chartered, so they are income producing. We think that this will continue. We expect to see day rates continue to improve as the utilisation rates increase. And with this, we expect that the valuation of these rigs in the market will also start to improve. They have already improved, but they will go further. We believe that in the next three years, we will be able to monetise substantially most of these rigs. In other words, once we monetise the rigs, we will then be able to convert the vendor notes into cash. When the transaction is first done, we do not get the cash of over S$4 billion, it is coming back as vendor notes. That is why we say that over time we will be able to realise S$9.05 billion through this transaction. If we include the S$300 million of out-of-scope assets, it will be S$9.35 billion.

DG: Some shareholders are wondering how the legacy assets are valued – are we potentially leaving a lot of money on the table given the market recovery?

LCH: Our book value is substantiated annually by third-party valuation. And in this third-party valuation, they use Value In Use – looking at the longer-term value of each piece. The market value of these rigs is based on Value In Use. And in time to come, when we are able to monetise the rigs, we will be able to convert these vendor notes into cash. Our vendor notes also attract a 4% coupon. So we will not lose out, in that sense, if the market improves.

DG: A follow up question – the coupon for the S$3.9 billion in vendor notes was raised from 2% to 4%. That is an additional S$79 million in additional interest earned. Is 4% enough in the current interest rate environment? Why not have floating rates on your vendor notes?

LCH: Well, this is a negotiated deal with the parties involved in Asset Co. Of course, we would want it to be 10%, but we are not negotiating by ourselves. We have a third party that we are negotiating with. And I think that 4%, in the scheme of things, is a fair value.

DG: How secure are the vendor notes from Asset Co?

CHC: The Asset Co has a specific purpose, which is to hold the legacy rigs. It has no other business. So whatever proceeds from the charter or sale of the rigs go toward repayment of the vendor notes and perpetual securities. So, there is no other business other than to operate and to sell the rigs.

LCH: If there is any third-party debt taken that is more senior to our position, it will only be for the purpose of finishing the rigs. So, I think, in that sense, it is as safe as we can structure it to be.

DG: Resolution 1 at your EGM is on the “Proposed Transaction involving the Asset Co Transfer and the Proposed Combination of Keppel O&M and Sembcorp Marine which constitute a major transaction and an interested person transaction”. Given that the Asset Co transaction will no longer be conditional upon the outcome of the proposed combination, why is Resolution 1 structured this way? Are there in fact two decisions in Resolution 1 that you are seeking shareholders’ vote on? Should they be voted on separately?

LCH: No, we think that it is quite appropriate to put both in the first resolution because whilst the two are no longer inter-conditional, we want our shareholders to vote on both. So even though it is not inter-conditional, it would have been very difficult - or that was not the deal that was cut - if you split it up. You do not want a situation where our shareholders - let us say theoretically - approve the Asset Co transaction but do not approve the combination, or vice versa. So our transaction is the entirety, including the creation of Asset Co and the Merge Co, so I think it is appropriate to put them under Resolution 1.

DG: Some of your shareholders are a little confused with the terms. The circular refers to this as a combination although in the October announcement, it was referred to as an acquisition of Keppel O&M by Sembcorp Marine. Why not call it an acquisition or a sale? Why is it still being referred to as a combination?

LCH: From a legal point of view, it is an acquisition. It is effected through an acquisition, but the intention was always to create a combined entity. The outcome is still the same. From a technical and legal point of view, it is now an acquisition. But the basis of this transaction, or the spirit of it, is a merger of equals.

DG: What are the plans for the 5% of Sembcorp Marine shares which will be retained by Keppel?

LCH: There are no current plans. There is a reason for creating this 5%, which we held back from the distribution to shareholders. It is there to take care of any potential crystallisation of some contingent liabilities. If it doesn't happen - as we expect it not to happen, otherwise it would not be contingent - and this is released from the segregated account back to Keppel at some time in the future, this will then be up to Keppel to decide what to do at that time.

DG: Since Keppel will own 54% of Sembcorp Marine, how many seats will Keppel O&M management have in Sembcorp Marine's management team after the merger is completed? Will anyone from Sembcorp Marine's management team join Keppel Corporation?

LCH: To answer the last question, first, there are no plans for any Sembcorp Marine executives to join Keppel at the end of the transaction. It is important that the combined entity moving forward has the best people running it and I would expect that it will have representatives from both sets of management involved in the running of the merged entity. Ultimately, in terms of board seats, in terms of management, this will be left to the shareholders of the combined entity at the time. It is true that we will take 54%, so essentially we are the majority, but it is only a technical majority, because we have already said that assuming that our shareholders also approve Resolution 2, we will be distributing 49% of the shares. So if shareholders approve Resolution 1 and Resolution 2, and the transaction completes, Keppel will end up with only 5% in the combined entity. At that point in time, the shareholders of the entity will decide. Temasek will be the largest after we distribute *in-specie* – even though Temasek cannot get to vote at the EGMs on both sides. If the transaction proceeds, Temasek will end up with shares from Keppel, and of course their existing shares in Sembcorp Marine. So they will be the largest shareholder. Temasek has been known to be a very good steward of capital. So they will make sure that this company will have the right board.

DG: There is also some worry about the business outlook. Although we are here tonight to discuss the Proposed Transaction, many of your shareholders are keen to know the business outlook of Keppel Corporation.

LCH: It is a worrisome time for everyone because the macro environment is tricky. There are a lot of moving pieces. But fortunately, where Keppel is headed, and where we are now, in terms of our focus, is increasingly more and more on infrastructure and providing essential services. What we saw was that during the pandemic, many of Keppel's businesses, which are providing essential services, remained in demand. In fact, I will say that, as we reported, many of our businesses, especially those providing essential services, are now at a level, whether it is in terms of revenue, or in some cases, net profit, higher than what it was pre-pandemic.

So, I think we will continue to focus on what the world needs, which is not just essential services, but also sustainability as a solution. For many of our customers, we are helping them to get to net zero. So, I think that is a growth industry. And despite all this turbulence in the external environment, I think we are in a pretty good state. As we like to say, Keppel is in the right space, at the right time. But of course, there will be some turbulence.

The Chinese property market has gone through some difficult moments. But fortunately, as I shared with shareholders, most of our land bank was acquired some years ago, and we keep them at cost. So, in terms of the cost vs. market value, there is quite a good headroom.

Vietnam continues to perform well. There are other challenges in Vietnam, but generally, the market outlook is good.

So, I think, in a nutshell, we are quite excited about the future for Keppel. It does not mean that we are not going to see some turbulence from time to time. But I think we are quite well positioned.

DG: What is the risk of monetising the vendor notes? Is it guaranteed?

LCH: No, it is not guaranteed per se. As I shared earlier, it is tied to when we can monetise the rigs. With the improvement in the offshore market, we are quite sanguine that most of these rigs will be monetised over the next three years. So, once they are monetised, after we pay back the debt and so on, we will be able to get the vendor notes back.

DG: Okay, so let's go to the conduct of EGM. Some are wondering, given that this is such an important meeting, why are you not holding a physical or hybrid EGM? SIAS prefers physical. But it is not easy, I agree.

LCH: We did a bit of a market research. I asked my team to do market research. About half of the general meetings in recent times were held physically, the other half virtually. Very few were hybrid. So, for now, we thought that a virtual EGM would work better because it gives greater access to a bigger group.

I just wanted to add that even though it is a virtual EGM, we will provide for Q&As in real time, and also voting, so that shareholders can hear the presentation first before voting. Those shareholders that have not attended this SIAS briefing can hear the presentation and they can also ask questions, before they cast their votes.

DG: So, shareholders can vote live at the AGM. When is the deadline to register for the EGM and to submit the votes?

CHC: 5th of December. It is stated on the circular. If they want to cast by proxy, the deadline is also 5th of December.

LCH: Shareholders who want to register or want to cast the vote by proxy, it has to be by 5th of December. The EGM is on the 8th of December.

DG: We have a little bit more time. So, personally, are you excited about this?

LCH: Yes. Hon Chew and I have been working on this now for more than a year. And I think it is quite important. I go back to what I said at the beginning, it is important for Keppel, as a company. It helps us accelerate our Vision 2030. I believe it is a positive transaction for our shareholders. They will be able to hold the shares of the combined entity, and they can decide. We hope they see the positive attributes of the combined entity with the improving offshore & marine sector and the exciting pathway towards renewables and wind energy. And then they will continue to hold the shares. But they have a choice whether to do so. Right now, Keppel O&M is part of the Group, so they do not really have a choice.

Last, but not least, I think the ability to combine the two entities will create a global champion.

DG: So you would say this is a win-win deal?

LCH: I think it is a win-win-win deal.

DG: Three wins, you cannot go wrong, shareholders.

So tonight, we've asked your questions, we've also posed our questions. And as always, your CEO and CFO have been very open, forthcoming and honest.

SIAS never says to vote for or against, but we have provided you with all the information you need. But if you have more questions, I'm sure the Investor Relations Department will be happy to answer your questions, please send them in either to SIAS or directly to Keppel and we will continue to satisfy you by answering your questions.

LCH: Can I add one more thing? I know that SIAS cannot make recommendations. But I suppose you know, our Board has recommended to our shareholders to vote in favour of both Resolutions 1 and 2. I just wanted to say that to all the shareholders that are present this evening and thank you very much for your attention.

DG: The recommendation has been given, so you will know what to do and I wish your shareholders the very best. I'm sure you will do the right thing. Thank you very much. Good night.

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