

Keppel Corporation FY 2021 Results Webcast

Transcript of the Question & Answer Session

27 January 2022, 5.30pm, Keppel Bay Tower

LCH	Loh Chin Hua, CEO of Keppel Corporation
TSH	Tok Soo Hwa, General Manager of Group Control & Accounts, Keppel Corporation (representing the 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 Ho Pei Hwa, DBS Vickers

Congratulations on the fantastic results. On China's property market, how should we think about market dynamics and the outlook ahead? Is the industry reshaping a bane or boon for Keppel? What is Keppel's near to mid-term strategy in terms of resource allocation, landbank strategy and project launches there?

LCH: I will ask Louis to respond.

LL: Thank you very much for the question. Undoubtedly, the general sentiment in China is a little bit more cautious now, following the Evergrande debt crisis. Basically, the banks started to tighten mortgages initially. Since then, however, the government has responded. They have actually loosened some of these regulations. They have also flooded the market with another US\$180 billion, with the reserve ratio cut. They have also reduced the bank lending rate by 50 basis points. The government has tried to prevent a hard landing and I think that is being seen in the market now. We continue, as described earlier, to see strong sales. One of our recent projects launched was fully sold out in China. In the first half of 2021, we sold about 1,550 units. Sales decreased to 1,230 units in the second half. However, for the full year, this was still stronger performance than in 2020. Going forward, we actually see this as an opportunity for Keppel. A number of the local developers will need foreign capital to help them to invest and this is where we could play a role. So, if you talk about the urbanisation of China, in the mid to long term, we definitely see a lot potential there and this gives us the opportunity in the near to mid term to really invest in opportunities, projects which we can approach with our asset-light strategy, and bring in investors with us to work with the Chinese investors and Chinese developers to make money. Thank you.

LCH: Thank you Louis. Just to add on to what you said, I think the sentiment has turned more cautious, but we still remain optimistic and very confident of the future investment opportunities in China in the medium to long term. The de-leveraging that we see happening in the real estate market in China has not affected all cities, all projects and all developers equally. We see that for many of the Tier 1 cities where we are at, where we have projects located, the demand still remains quite strong. Of course, we will still have to approach this market with some caution, but I just wanted to stress that in the medium to long term, we are still very positive on the Chinese market.

On the Offshore & Marine (O&M) yard combination, management had previously guided that definitive agreements would be achieved by end-2021 or early-2022. It seems to be taking slightly longer than expected to conclude. What are the key hurdles that need to be cleared?

LCH: As I mentioned in my opening remarks, it is a highly complex transaction and both sides are taking more time in doing due diligence, and I think that is to be expected. We continue to believe that this is a deal that can be beneficial to all parties. So, we are working towards coming to definitive agreements by the end of the first quarter.

Questions from Terence Chua, Phillip Securities Research

Thanks for the briefing and congratulations on the strong set of results. Can management share if its Energy & Environment business is EBITDA positive?

LCH: Maybe I can ask Soo Hwa to respond.

TSH: Energy & Environment's EBITDA is negative S\$376 million for the full year; but just to highlight that the negative S\$376 million is inclusive of the provisions for the KrisEnergy-related exposures. So, if we were to exclude all the impairments for the year, then Energy & Environment will be EBITDA positive at S\$48 million.

Second question, can management also provide more colour on the sales progress of its properties in China?

LL: I think as CEO mentioned earlier, our sales in China increased 32% from 2020 to 2021. Again, the situation in China is not uniform across the country. The cities that we are in – Shanghai, Nanjing and Wuxi, have been performing very well. And we have actually seen very strong sales in a number of our key projects in those cities. Although there might be other cities across China that might have seen declines in prices, we have actually seen improvement in prices in some projects, for example, in Shanghai.

Can you provide some more details on the Singapore Press Holdings (SPH) acquisition? Is there a timeline in which the deal must be concluded?

LCH: I cannot really share much more than what I have said. From the Keppel side, we have completed all that we are required to do, including getting our EGM (Extraordinary General Meeting) approval. So, all the conditions on our side have been cleared. I think it is really up to SPH now to call the Scheme Meeting for its shareholders to vote and we would like to see that done, obviously, as quickly as possible. Thank you.

Question from Teo, retail investor

I understand that Keppel is exploring several other exciting merger and acquisition (M&A) opportunities. Could you please elaborate and shed some light on this? What would these include?

LCH: These would include, as I think we have mentioned before, areas where we see a lot of opportunities for growth, as growth engines for the Group, such as data centres. We are looking at potential M&A opportunities for data centre platforms, not just in Asia, but also in Europe and the US. We are also looking at asset management platforms that we can do bolt-on acquisitions. In the environmental engineering space and environmental solutions space, we are also looking at several opportunities, and on the infrastructure side as well. So there are quite a few things that we are looking at. Hopefully, in the months ahead, we will be able to provide the market with an update when we have something to report. Thank you.

Question from Terence Chua, Phillip Securities Research

What drove 4Q 2021 Energy & Environment revenue?

TSH: I think perhaps you mean 2H 2021, because that is how we have reported – on a half-yearly basis. For 2H 2021, the primary driver for the increase was from both Keppel Infrastructure (KI) and Keppel Offshore & Marine (Keppel O&M). For KI, it was led by higher electricity and gas sales. Of course, for the Singapore and Hong Kong Integrated Waste Management Facility projects, we also recognised higher progressive revenues from there. For the O&M business, the increased revenue was mainly due to higher revenue recognition from ongoing projects and also revenue from new projects in 2021.

Question from Teo, retail investor

On data centres, your larger peers, including those based in the US, are offering interconnection and cloud-related services to their customers. Would Keppel consider venturing into such areas, so as to further enhance your competitiveness in the data centre space?

LCH: I will ask Thomas Pang to respond.

TP: Thank you Mr Teo for the question. You may have seen recently, Keppel Data Centres and M1, through its subsidiary company, AsiaPac Technology, entered into hybrid cloud consulting services. This is something that we hope to be able to offer to enterprises and governments, to look into how they could make better use of cloud technology. On the interconnect, this is something that has been offered in our data centres.

What we have also expanded into is the launch of the submarine cable business. That is, in our view, a more exciting opportunity. We have announced the joint build agreement with two of our partners to build the Bifrost Cable System and the team is looking at other systems that will connect to other continents using Singapore as the hub. These are two exciting areas that will increase our competitiveness in this data centre sector. Thank you.

LCH: Thanks, Thomas. To add, besides all the things that Thomas has said which would improve the competitiveness of our data centre offering, we have mentioned before that we are very focused on energy efficiency and also trying to bring green electrons to our data centres. I think

all together, Keppel has a very unique value proposition for our data centre customers, in providing energy-efficient, well-connected data centres.

Questions from Derek Tan, DBS Vickers

Congrats on the fantastic results. I am curious about the deployment of capital. In the real estate space, with the outcome of SPH still uncertain, is the Group keen on M&A within Singapore?

LCH: Well, the short answer is we will definitely take a look, but it has to meet our Vision 2030 goals. If it does, certainly we can take a look.

Are you able to share, for Keppel Data Centre Fund II (KDC Fund II), where are the opportunities for deployment, and what are the target IRRs?

LCH: For this question, may I ask Christina Tan to address?

CT: Thanks, Derek. In terms of opportunities for KDC Fund II, we have already started investing in China as well as Europe. We are seeing a lot of possibilities in Asia as well. The target returns are still good because Keppel is able to develop and build some of these assets. So that actually helped us in terms of our ability to commit faster, as well as to deploy our investment faster. And with our close connections with all the global players in terms of the cloud players, we are able to bring them in as our tenants as well. Thank you.

Questions from Lim Siew Khee, CGS-CIMB Research

Congrats on the great results and generous dividend. Why did O&M's losses widen in the second half of 2021?

LCH: I will ask Chris Ong to respond.

CO: For 2H 2021, we had some projects with lower gross profit, as a result of continued manpower constraints on some existing projects, lower revenue from projects which have not been completed, and also the financial impact from certain projects.

Are you taking the stance of an investor or renewables operator to meet your target?

LCH: At the start, we would probably be looking more as an investor, but we do have ambitions in the right markets to also look at playing a role in the operatorship. The Group's technical capabilities in this area extend quite widely and we are now looking at not just greenfield projects, but also potential M&A platforms or platforms for acquisitions.

Question from Mayuko Tani, Nikkei

Thank you for your presentation. Can you please share more details on the floating data centre plan including development costs?

LCH: For that, may I ask Thomas to respond?

TP: Thank you, Mayuko-san. Subject to the approval of the relevant government authorities, we are looking at projects that could be in the range of 15–20MW in size and we are also looking to

significantly improve the energy efficiency of the project by 10–15%. Subject to approval, and depending on the final size of the data centre, it could be in the region of about US\$300 million, but there are still details to be worked out and we will provide the exact information once all the approvals have been obtained. Thank you.

Questions from Rahul Bhatia, HSBC Global Research

On the SPH transaction, the deadline mentioned was 2 February 2022. With no announcement by SPH so far, it is likely this day will be breached. Can you share, are you willing to extend this timeline if needed?

LCH: For us, it is very clear. We have already cleared all the conditions that we needed to clear and we are looking forward for the Scheme Meeting to be arranged by SPH for its shareholders to vote on.

Could you share how the management is thinking about future investments versus shareholders' remuneration? I am trying to understand how we should think about future dividend potential. Appreciate if you could share some guidance.

LCH: Rahul, we have said before that we do not have a specific payout policy, but we have been paying out 40–50% of our net earnings over the last few years. This time round, we are proposing a more generous final dividend on the basis not just of the profit that has been made, but also the progress that we have made on our asset monetisation. We have said before that with the asset monetisation gaining traction, it will allow the Group first and foremost to reduce gearing, which we have done. It will also allow us to improve our cash flow, and you can see that from the big turnaround from a S\$72 million cash outflow in FY 2020 to a positive cash inflow of S\$1.75 billion this year. And then, of course, we have a lot of investment opportunities that we are pursuing. So we will have to balance all of these. But you can say that as we make more progress on monetisation, as the Group's financial performance improves, we will reward our shareholders accordingly.

Question from Hans Tang, UBS O'Connor

Regarding the Keppel O&M–Sembcorp Marine combination: Would you consider potential anti-trust restrictions a hurdle to the deal? Have you done any due diligence on how large the Combined Entity would be in terms of global market share, such that it might face regulatory scrutiny as a result?

LCH: Thanks. There will definitely be a process that the Combined Entity will have to go through to get clearance from anti-competition regulators across the globe. I think the last time Keppel had such an experience was during the partial offer by Temasek some time ago. We went through a similar type of process. It took a bit of time, but I think there is every possibility that we will get the right approvals. We are now focused on the first part, which is to get the definitive agreement signed first, before we do the second part.

Question from Mervin Song, JP Morgan Securities

Real estate investment management platforms generally trade at higher EV/EBITDA multiples than Keppel Corporation. Will Keppel be open to spinning off Keppel Capital to unlock value?

LCH: Keppel Capital is a very core part of the Group. We also have similar challenges with our data centre business, that it could trade at a higher multiple. The solution for us right now is to make sure that Keppel Corporation is appropriately valued, and perhaps re-rated, and then we would not have this problem. This is something that we are working on.

Questions from Ezien Hoo, OCBC Bank

As a follow-up question on Bifrost, can you please share with us how will Bifrost and other cable system projects be funded? Would these largely be non-recourse project financing?

TP: Project Bifrost will be funded on the equity front by Keppel as well as our private fund partners. We are entering the last phase of discussion with private funds managed by Keppel Capital. On the debt side, that will be project financing. That has been on the table, offered by several financial institutions. We will be finalising those project financing agreements soon.

Can you please share with us if the data centre moratorium will be lifted soon?

LCH: We understand that some statements will be made, but so far I have not seen any public statements made yet, so I guess we will KIV that.

Question from Mervin Song, JP Morgan Securities

Keppel is one of the largest players in Singapore's data centre market. Could you share your thoughts on the impact of the lifting of the data centre moratorium?

LCH: I will ask Thomas to respond, and then Christina may also want to weigh in on this as well?

TP: The data centre market in Singapore continues to be a very attractive one. The growth is strong and the demand for data centres continues to increase. We all understand the need to have very efficient data centres in order to help Singapore achieve its carbon goal, and Keppel has been, for many years, focusing on energy-efficient data centres. Together with different business units in the Keppel Group, we have been looking at many areas, as Mr Loh has mentioned earlier. We are looking to bring in renewable energy, and also looking at different types of hydrogen, ammonia or liquid hydrogen. As soon as the government is ready to share more details, Keppel is in a very good place to provide the kinds of solutions that can help to bring about a net zero data centre. Thank you.

LCH: Chris, do you want to add anything?

CT: I think Thomas has answered very well. Keppel is probably one of the best players and is very well placed in terms of our data operations and management. We are able to create solutions for a net zero data centre. So I think that with the moratorium lifted, we are still in a good position to be able to be one of the top players here in this market.

LCH: Thank you. Anyway, we have established our market position even without the moratorium. That is the point.

Question from Adrian Loh, UOB Kay Hian

Thank you for the presentation and well done on a strong set of results. With inflation and supply chain issues plaguing other industries, could you please let us know how these issues are affecting Keppel overall? Specifically for Keppel O&M, when do you expect the labour and supply chain issues to normalise?

LCH: I think you can see from our results, Adrian, that we have been able to manage our business despite the very challenging environment. Keppel O&M has been able to deliver nine projects, of course, not without difficulty. We still face challenges, but I am very confident that my colleagues will work very hard to make sure that any supply chain issues are already being thought of. So in case there are further disruptions, we will find alternative sources or solutions. Since this question is also directed to Keppel O&M, can I ask Chris Ong to provide some colour?

CO: Thank you Adrian for the question. For supply chain issues, we work closely with our regular suppliers to work around issues for the present projects, such as how we make adjustments to the schedule and critical path. For labour, right now, due to the ongoing pandemic, although activities in the yard are going on as usual, we have stepped up our diligence by doing regular testing. There are still challenges to bring in new labour. But because Keppel O&M's strategy has always been agile, some projects that we newly secured are done in our overseas yards. That helps to spread out the risk and also gives our Singapore yards the opportunity to use our integration expertise. We are living with the limitations right now. But I think that for the ongoing projects and the projects that are newly secured, we have already factored that in.

LCH: Thank you Chris. KI is also undertaking some major projects locally and in Hong Kong. Just wondering, Cindy, if you want to add anything here?

CL: Thank you Mr Loh. Indeed, KI is executing mega projects in Hong Kong, as well as in Singapore. The overseas project clients are typically the local municipal governments. To this end, we are working very closely with our client to make sure that on the ground, we focus on executing the project safely, ensuring the health and safety of our workforce. In terms of the supply chain, we have a very experienced project management team that has focused on de-risking by looking for alternative supplies, as well as focusing on the critical path of the project with the intent to deliver the project safely and on time. Thank you.

Questions from Lim Siew Khee, CGS-CIMB Research

Can you help us understand the manpower situation in Keppel O&M this year?

LCH: Chris, do you want to add more? I think we have answered this.

CO: I think the question is largely answered. But just to give you a feel, this year, our total labour actually dropped by about 6%, but that is manageable. With our global network of yards, we have planned to work around those issues by subcontracting some of the components out.

Are you positive about the asset monetisation momentum this year?

LCH: The short answer is: we are. We have a Transformation Office that looks at all the different Vision 2030 initiatives, and there are quite a lot of them, including the asset monetisation programme. We meet regularly, and the meeting is attended by all the CEOs. We have been looking at projects, potential divestments and asset monetisation for 2022. For some of these monetisation projects, we have already started planning last year. But at the same time, we also have projects or potential opportunities for monetisation in the later years - 2023, 2024 and beyond. We are also looking at the possibility of shifting some to this year, if there are any delays in those that were originally planned for this year. So we have a pipeline of monetisation deals. It is important for us, because with the traction for monetisation, it will help us pivot to the new growth engines and allow us to grow faster. Thank you.

Question from Mayuko Tani, Nikkei

What are the types of renewable assets you are interested in acquiring? What is the size of the deals you may look at and how much do you plan to earmark on M&A of brownfield renewable platforms?

LCH: Well, it depends. There are quite a few possible answers. I will start with Keppel Renewable Energy, which is under Chris Ong. He can talk about the greenfield side, and later I will ask Christina to also talk about the brownfield and M&A opportunities. Thank you.

CO: Keppel Renewable Energy is looking at good greenfield developments and also the types of developments that are potentially nearer to financial close. As we mentioned in the past, we are looking at Australia, and we are also venturing more into Vietnam and the Philippines. This would be the area that is under the responsibility of Keppel Renewable Energy. We are looking basically at grid-size types of developments, and working closely together with Keppel Capital and Keppel Asia Infrastructure Fund, to make sure it is an end-to-end investment and that, at financial close, we are able to monetise that investment.

CT: We have different pockets of money. We have value add, Keppel Infrastructure Trust, which is listed, as well as core funds which are interested in renewables. There is a lot of space for us to play in the renewables space, whether it is in wind, in solar, and whether it is brownfield or core operating assets. The size of the deal varies anywhere from S\$500 million to S\$3–5 billion. We remain interested in the renewables platforms play. Thank you.

Questions from Rachel Tan, DBS Vickers

Congratulations on your fantastic results. Given the recent M&A into giant integrated commercial S-REITs, what is your view of Keppel REIT to compete with its peers?

LCH: This question should rightly be directed to Keppel REIT. So if it is OK with you, we will direct this question to our colleagues at Keppel REIT and they can circle back to you, Rachel.

Would you be able to share the potential target split in asset class as you look to achieve your S\$50 billion assets under management (AUM) target?

LCH: Can I ask Christina to address this?

CT: On the target split, since we are now at S\$42 billion, it is already very close to S\$50 billion. It will be quite close to the asset classes that we are looking at, whether it is in real estate, data centres, and infrastructure. We are looking to grow the AUM to S\$100 billion. We are looking at probably one-third in real estate, one-third in infrastructure, and the balance in alternative asset classes. Thank you.

Questions from Mervyn Song, JP Morgan Securities

How far along are we in M1's restructuring? Will we be 30% or 50% completed? What else needs to be done on the cost base, retail business and enterprise business?

LCH: I do not think it is restructuring. It is more transformation. I will ask my colleague, Manjot, to respond.

MSM: Thanks, Mr Song for the question. On the transformation piece, it will be very difficult for me to tell you whether it is 30% or 50%, but let me give you a flavour of where we are. Our digital platform is complete. It is a best-of-breed digital platform. We have close to about 40,000 customers now on our new platform. We will start migrating our customers from our old technology stack to the new platform this year, and hope to finish it by next year. So the digital platform is up and running.

The other parts of the transformation are primarily on the enterprise business. The other digital touchpoints, whether it is the app or microsite etc, are also in progress. This kind of addresses the second half of the question, which is what else needs to be done on the cost base, retail business and enterprise side. I think on the cost and retail business, it is a part of our digital strategy. As we become more and more digital, we expect our cost to be more rationalised. On the retail business, we continue as aggressively as is happening today; just that we expect our digital sales to be far higher in contribution than our physical sales.

Also on the enterprise side, I think there are two parts to it. One is that we expect the enterprise business to be at the forefront of our growth in the future, which is our existing enterprise business coupled with our foray into other markets, that we have started with Malaysia. There is also 5G, and I think it is going to play a very important role in the growth of our enterprise business. We are already earmarking verticals where we think 5G is going to play a very critical role. We are getting our organisation structure and our partnerships in place, both on the device and platform side, so that we can harness the growth that we expect to come from 5G. You will see significant progress from M1 on the 5G business in the coming future. Thank you very much.

In the worst case that the bid for SPH fails, would Keppel be open to buying SPH's stake in M1?

LCH: This is highly speculative, so I would not address it. Thank you.

Questions from Teo, retail shareholder

Is the Company looking at India for data centre opportunities? Understand it could well be an emerging and huge market for data centres.

LCH: The short answer is yes, you are right. It is a huge market. We are starting to see a lot of enquiries there. And we are also setting up our teams to be able to look at this market.

Keppel is a sponsor to a few REITs including Keppel REIT, Keppel Infrastructure Trust, and Keppel DC REIT. However, why is there limited sale of assets to your REIT vehicles over the recent years, whereby the bulk of their acquisitions are from third parties?

LCH: The REITs operate independently of Keppel, in the sense that they have their own independent boards. Of course, in a number of these REITs, Keppel entities are sponsors. So to that extent, we do try to provide a deal flow pipeline to these REITs. But ultimately, the REITs have an open architecture. They look for the best deals in the market and if the good deals are from the Sponsor, they can go in. And if the Sponsor has assets that are right and ready to be harvested, and it suits the REITs or the Trust, then it will go in naturally. So this is something that we cannot totally control. I think you would have to leave it to the independent boards of the REITs, as well as to wait for the deals to mature to a point where they have been de-risked and suitable for potential divestment to the REITs.

Question from Nicholas Teh, Credit Suisse

For the data centre business, while you are investing more to grow AUM, are there any data centres that are already stabilised which could be monetised given the tight cap rate environment?

LCH: This is something that Christina, as the Chairman of Keppel DC REIT, is actively looking to see how we can grow the DC REIT portfolio. So, to the extent that our data centres are stabilised, we would expect to see more of these being sold or monetised through Keppel DC REIT.

This is the last question. Thank you so much for your kind attention this evening. Again, wishing everyone a wonderful Chinese New Year ahead. Thank you.

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