

Keppel Corporation 3Q and 9M2019 Results Briefing

Transcript of the Question & Answer Session

17 October 2019, 5.30pm, Keppel Leadership Institute

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
OTG	Ong Tiong Guan, CEO of Keppel Infrastructure
CT	Christina Tan, CEO of Keppel Capital
CO	Chris Ong, CEO of Keppel Offshore & Marine
TSY	Tan Swee Yiow, CEO of Keppel Land
TP	Thomas Pang, CEO of Keppel T&T
MSM	Manjot Singh Mann, CEO of M1

Questions from Ms Angela Chan, Shareholder in Singapore

Did O&M continue to increase hiring in this quarter? Were the new hires in Singapore?

LCH: For that, can I ask Chris Ong to address that question please?

CO: Thank you, Chin Hua. Year-to-date KOM has increased its headcount by about 2,120 personnel, more than the 1,800 headcount initially envisaged. The bulk of the increase was overseas, while about 250 were in Singapore. In 3Q2019, we hired 1,354 personnel, and this includes new hires to fill new positions and to replace those who have left due to natural attrition. So comparing quarter to quarter, the net increase in KOM's global direct headcount was about 1,190.

Questions from Ms Cheryl Lee, UBS

On Tianjin Eco City, were the profits from sale of Plot 30c or Plot 34 recognised? Are there plans to launch any more plots for sale in the rest of year?

LCH: Plot 34 has been recognised. 30c will be recognised when the deal is closed in the fourth quarter. We are constantly looking at market conditions to see whether there are good opportunities for us to launch any new sites. If there should be any sites to be launched, likely will be for next year in any case.

Question from Ms Cheryl Lee, UBS

The annualised ROE of 6.1% is quite far away from the Group's mid term ROE target of 15%. Are the targets set for each of the business units still achievable?

LCH: The short answer is yes, we believe the 15% target ROE is achievable. When we first unveiled this target, we have said it is a medium to long-term target. We believe this is an

achievable target for the Group. These are all stretch goals. But if you look at the Group's recent history, we have achieved returns well in excess of that.

But of course, to get that 15%, all engines of the Group must be firing. Indeed, today I think if you look at some of the Group's businesses like Keppel Infrastructure, Keppel Capital etc, we are already hitting those targets. But of course, in order for the whole group to hit 15%, we would need to see KOM come up. We also would need to see Keppel Land improve on its performance from last year, which is already quite good at 11%. All in all, we believe that this 15% can be achieved.

Question from Mr Gerald Wong, Credit Suisse

The Property division's annualised ROE is at about 6%, the lowest in several years. Are you still confident of achieving through cycle ROE target of 12%, and what is required to achieve the ROE target?

LCH: As I had alluded to earlier, this 12% is a stretch target for Keppel Land. But again, we have seen in recent past, Keppel Land has been able to achieve these returns on a consistent basis for quite a number of years.

Of course for this year, as was explained in the results, for the first nine months, we have seen less en-bloc sales and divestments, so it tends to be more lumpy. In order for us to hit our 12%, I think we need to turn assets faster. We are also looking to see how we can leverage our experience in the various markets like Vietnam and China, to collaborate with different parts of the Group, and to earn higher returns through fees and others, besides development profits.

Question from Mr Gerald Wong, Credit Suisse

O&M's new order momentum appears to have slowed down in recent months, driving a q-o-q decline in your orderbook. Are there signs of decline in customer enquiries and contracts because of the uncertain macro environment?

LCH: For that, I will invite Chris Ong to address this.

CO: As mentioned, the FID (Final Investment Decision) of projects itself is not driven by quarters. On top of that, although there are still challenges in certain segments of the oil and gas market, for example the drilling units, we continue to see opportunities in offshore renewables and the LNG market. There are still fresh enquiries going on in those markets, and we continue to chase them and improve the quality of our orderbook. We will make announcements when there is a material development in the new orders that is to come.

Question from Mr Anshool Singhi, JP Morgan India

Could you please inform us on the gains related to the sale of SSTECH land parcels in both 3Q19 and 4Q19?

LCH: I will ask Hon Chew to address this.

CHC: For the third quarter as the CEO mentioned, we did recognise the gain from the sale of plot 34. As for the last quarter, there is one more plot that is 30c, which I think has been listed and closed, but the completion is likely to be in the fourth quarter. So the profit will be recognised in the fourth quarter. Of course at this point, we cannot say what the number is until next quarter when we announce the results.

Questions from Ms Anita Gabriel, Business Times

Since there is a clearer picture arising from the settlement agreement with Sete Brasil, can you indicate if the S\$476 million provisions by Keppel in relation to the six rigs are adequate and there will not likely be more. Also, can you let us know what are the expectations on possible writebacks?

LCH: Can I invite Hon Chew to address the two questions?

CHC: Thank you, Chin Hua. As we have explained in past quarters, we have made a number of provisions and you have rightly pointed that in total, we made S\$476 million in provisions for the six rigs. When making those provisions, we have considered a number of different scenarios and different outcomes. Based on those scenarios and outcomes, we believe S\$476 million in provision is sufficient. And looking at the information we have today based on the settlement agreement, these provisions are still sufficient.

As to your next question on whether there are any possible writebacks, I think at this point it is still too premature. As you know, the settlement agreement is still under discussion. It is not yet settled. But at this point, we believe the provisions are adequate and also reasonable.

Questions from Ms Lim Siew Khee, CIMB

What is the reason for the strong operating profit of S\$50m in Infrastructure? Are there any exceptional items? Can you comment on the losses in associated companies in Offshore & Marine? When do you foresee the final resolution for the Sete Brasil rigs? What is your plan with KrisEnergy?

LCH: Keppel Infrastructure has performed very well during the quarter, but there was a dilution gain from the placement of shares in Keppel DC REIT.

On the second question, I will ask Hon Chew to address.

CHC: Yes, indeed for the third quarter, the associated companies of Offshore & Marine did not perform well, one of them being Floatel. Floatel has incurred losses in the third quarter, in fact reversing the profits in the earlier quarters because of the five vessels, four are actually out of charter. So Floatel is facing quite a bit of headwinds, and as a result, they have incurred losses in the third quarter.

LCH: On the third question, I will direct it to Chris Ong.

CO: Right now, we have crossed the first hurdle, which means that the creditors are agreeable to the settlement. There are still conditions precedent to the final settlement, and they have up to 120 days to come to a final settlement.

LCH: Thank you. For KrisEnergy, maybe Hon Chew you can address that.

CHC: As you know, KrisEnergy has filed for a moratorium protection, and at this point in time, we have yet to receive any proposal for the restructuring, so we are waiting for the proposal before we can evaluate the options available to us. So there is no further update on that.

Question from Mr Gerald Wong, Credit Suisse

There was a S\$14 million charge relating to the acquisition of M1 in 3Q19. Is this going to be recurring, and what is run-rate going forward?

LCH: Can I ask Hon Chew to address this?

CHC: These relate mainly to a number of different items that have arisen from the M1 acquisition, including among other things, interest, because there is the funding cost related to the acquisition. At the same time, there are also some intangibles that were recognised because of the acquisition, so those intangibles have to be amortised, and as a result, there are \$14 million in charges. Yes, these are recurring charges.

Question from Mr Jeffrey Tham, retail shareholder, Singapore

Hi, thank you for taking my question. In line with your commitment to sustainability, are there any businesses that you will exit such as oil?

We are committed as a business to sustainability, and as I mentioned in my opening remarks, we will not go into any business that is pollutive, for example coal-fired power plants. As for the oil business, although it has a carbon footprint, the world still requires fossil fuel. And you can see from our business at KOM, that we have also started to move, partly driven by market - in the last few years we have moved away, pivoted away from oil. We are still doing oil-related business but have pivoted away a little bit, and are focused now on renewables and on gas. As I shared in my opening remarks, this has actually paid off for us. For this first nine months, renewables make up about \$720 million of the \$1.9 billion in new orders that KOM has secured. So in short, we are taking a portfolio approach. We are looking to emphasise renewables, gas, etc. but there are no plans currently to exit any business.

Questions from Mr Jason Yeo, Goldman Sachs

Hi, I have three questions. Are there any updates on the redevelopment possibility for Keppel Towers? Do you see any opportunities for further asset divestments or en bloc sales in 4Q? What drove "Others" in the Investments Division from a \$39 million profit in 1H to a \$19 million loss in 9M?

LCH: The first two questions I would like to invite Swee Yiow, CEO of Keppel Land, to address. The third question I will ask Hon Chew to address.

TSY: For Keppel Towers, we have started the design and redevelopment process. We are in the process of consulting different approving authorities on this redevelopment possibility. We will make an announcement when the plan is firmed up. For asset divestments and en bloc sales, it is very much about ongoing portfolio optimisation, and it will be on a case by case basis. It is difficult for us to make a forecast of future divestments or en bloc sales.

CHC: Indeed, in the first half under 'Others', there was \$39 million profit but it turned into a \$19 million loss in nine months mainly because in the first half, we benefited from the one-time remeasurement gain relating to the acquisition of M1. In addition to that, there were further interest costs and also the M1 charges we talked about earlier on.

Question from Ms Anita Gabriel, The Business Times

What are your expectations on the direction of oil prices?

We don't give forecasts on oil prices, but I think it's useful to note that for Keppel O&M (KOM), as I mentioned earlier, in the last few years, we have diversified our business in KOM. In the past, we were very dependent on building oil rigs and oil solutions. In today's world, if you look at the orderbook we have, while we still have a lot of production assets that are oil-related, KOM has increasingly a lot of renewable projects as well as gas solutions. So whilst oil price is important to us, it is not as critical as it was in the past. If you look at renewables, offshore renewables, wind, the demand there is quite incredible if you believe the projections. Certainly, if you look at the enquiries we have been getting, this is a market which we believe will grow.

Question from Mr Wei Kiang, retail shareholder, Singapore

I read that you have a target to grow your fund management business to \$50 billion by 2022. Can you provide an update on this? What is the progress?

LCH: For this question, may I invite Christina to address this please?

CT: With regard to your question on the fund management business, we are confident in terms of our target to achieve \$50 billion. This is because given the volatile market right now, investors are looking for real assets which can provide long-term cash flows which are more valuable to them, given the stability of these cashflows. Keppel is very well-placed in the creation of these assets. We are able through our sister companies to develop infrastructure projects, offshore rigs, and FLNGs, which provide long-term cashflows for investors. We are quite fortunate that Keppel Capital is part of this ecosystem. And with the demand from the sovereign wealth funds and institutional investors, we are very confident that we are able to achieve this target.

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