Briefing for Keppel Corporation's Retail Shareholders Hosted by SIAS

Transcript of the Session

17 August 2023, 7:30pm, Zoom

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LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation

Opening remarks

RL: As a curtain-raiser, let me share some key financial highlights of Keppel's recent 1H 2023 results. Keppel Corporation announced its financial results for the first half of 2023 on 27 July this year. Its net profit amounted to S$3.6 billion, primarily driven by a disposal gain of S$3.3 billion from the sale of Keppel Offshore & Marine (Keppel O&M) during the first half of 2023. Excluding the discontinued O&M business, net profit for 1H 2023 increased to S$445 million, 3% higher year-on-year. It is noteworthy that recurring income contributed 76% of net profit in the first half, and an interim dividend of 15 cents per share will be paid to shareholders tomorrow on 18 August 2023. The company has also declared the 55th anniversary special dividend of one Keppel REIT unit for every five Keppel Corporation shares held.

I'm sure shareholders must be pleased to receive this news from Keppel Corporation. Tonight, we have invited senior management of Keppel Corporation to join us. We have here with us, Mr Loh Chin Hua, Chief Executive Officer, and Mr Chan Hon Chew, Chief Financial Officer.

We will kick off the session with a short presentation by Mr Loh Chin Hua. And I would like to take this opportunity to thank Chin Hua and Hon Chew for taking time to engage shareholders in this annual session with SIAS. Without further ado, over to Chin Hua to walk us through the presentation.

LCH: Thank you, Robson.

First and foremost, good evening to all our shareholders. Thank you for joining us this evening. Hon Chew and I are delighted to be here. We've been doing this (having a briefing for retail shareholders organised by SIAS) since 2017. It is a good opportunity for us to speak directly to our retail shareholders and more importantly, to also address any questions that you might have outside of the usual AGM.

This week, we have also held our inaugural Investor Day, where we were invited by Citibank to present. The management team of Keppel presented at the Investor Day, and I believe that some of our investors might have already seen the videos of the presentations that were made available publicly this morning. I understand that after this, SIAS will also be providing the links for those who have not seen it. I encourage all of you to watch it if you have time. It is not just a presentation from myself, but we also had presentations from the CEOs of our platforms, particularly the operating platform. So, I think you will get a very good sense of how Keppel is doing and also how we plan to execute our Vision 2030 strategy as we pivot from being an industrial conglomerate, to what the current Keppel is, which is a global asset manager and operator. Now, before I start the presentation, I'd like to share some perspectives with our shareholders.

This transformation, first and foremost, did not just happen overnight. This is something that we have been discussing publicly, since we launched our Vision 2030 in May of 2020. So, this is a very logical next step in our evolution and transformation.

Some shareholders might also wonder, why is there a need to transform? I would say that we have got to look further back. We started this transformation many years earlier. For those shareholders who remember, way back in 2012, Keppel made a record net profit of S$2.2 billion. That was the first time we crossed more than S$2 billion. This first half of the year, as we heard from Robson, the group has actually crossed over S$3 billion. But in 2012, when we crossed S$2 billion, at that time, our market cap was about S$20 billion. Of course, it was good, much higher than what it is today. But if you work out the math, it is really about a multiple of less than 10 times because at that time, we were making a profit of S$2.2 billion. This was driven mostly by the net profit of Keppel O&M, as well as Keppel Land which was listed at that time. And for Keppel O&M and Keppel Land, we were involved in businesses with lumpy profits, which were non-recurring, so the market doesn't really value it so highly. If you recall, a lot of analysts, when they look at Keppel O&M's profits in the good years, they will always apply a multiple to our book value, and never to our earnings. Likewise, for the property side, I think in the past, we were more involved in property trading. The conventional wisdom by analysts in the market is that they will tend to value developers such as Keppel Land at that time at a discount to RNAV. And then as I have shared, to add insult to injury, they will apply a further conglomerate discount because they see Keppel as a conglomerate of unrelated parts.

So, we have been steadfastly working on Vision 2030 to try to move ourselves away from lumpy profits to more recurring income. We hope to grow more in businesses like asset management and operating businesses that will attract multiples to our earnings, rather than be valued by the market based on a multiple to book value or discount to RNAV. And we definitely want to get rid of the conglomerate discount. So that is the rationale for doing what we have been doing in the past 10 years.

The last point I want to share is that if you see the full range of presentations at the Investor Day, you will see that Keppel actually not only has a right to play, but we also have a right to win as a global asset manager and operator. We are very confident of executing on our Vision 2030, and positioning Keppel as a leading global asset manager and operator.

Transformation is not new to Keppel. As I shared, we've been transforming progressively over the past 10 years. Many of you would remember that we actually privatised a number of operating companies, including Keppel Land in 2015. We have started to shift our operating model from an EPC contractor into using our same industry knowledge and our experience in project management and engineering, to change our business model to have more recurring income.

Of course, when you want to have recurring income, you have to own the assets. When you own the assets, you have to worry about how you are going to fund it. Can it all be from the balance sheet? So that was when we formed Keppel Capital in 2016. The idea was that we wanted to run an asset-light business. At the end of the first half of this year, we have funds under management (FUM) of about S$53 billion, of which about S$3.6 billion was from our balance sheet. The balance comes from third-party funds like pension funds and sovereign wealth funds. If you think about it, our balance sheet is about S$31 billion, so we have been able to grow the FUM beyond the size of our balance sheet. Of course, the target is not to stop there but to go to S$100 billion for FUM by 2026, and then eventually S$200 billion by 2030.

Very recently, we have also divested our logistics business and Keppel O&M. So, this has allowed us to streamline our business to bring better focus to our portfolio. If you think about it, one of the challenges Keppel faced in the past was that we were simply in too many businesses. So, we streamlined it. Now, we are very clear. This announcement of what we called internally “Project Darwin”, which is the next step in our evolution, is to be a global asset manager and operator. We are also removing the conglomerate structure that we have been operating under. We are going to reorganise Keppel as a fully integrated business.

So, what do we see for Keppel today? We see Keppel as OneKeppel with one purpose, and that purpose is to create solutions for a sustainable world. Of course, it is a very popular theme, but if you think about it, a lot of the solutions that we provide our customers, be it on the energy transition side, on the green data centre side, or on the environmental engineering side, are really to help our end-customers get to their net zero goals.

Connectivity is also very important because we believe that the world not only has to be green, it also has to be connected. So, we have collapsed our conglomerate structure, we pancaked it. And currently now we have three platforms – the Fund Management platform is responsible for raising money, for doing portfolio optimisation. We have an Investment platform, where we try to create a large pool of investable assets, which we will then evaluate and those that have the appropriate risk-adjusted returns will then be selected, invested in, and put into our REITs, our Trust and our funds. Then, of course, the most important one is the Operating platform. This is the key differentiator for Keppel because we are not just a financial investor, we can also create a lot of ‘alpha’ for our investors in our funds and our trusts, by being able to operate these assets better and more efficiently than others, so we can create value for our investors. And the key differentiator is our deep operating capabilities in infrastructure, real estate and connectivity.

Now we are riding on some very strong tailwinds of macrotrends. First and foremost, recently we heard about GIC. In their annual report, the CEO of GIC mentioned about how they are allocating more monies into real assets. Because in the world that we live in today, inflation will be a bit stickier. There is a lot more volatility. So having assets that are inflationary hedges and can provide steady streams of cash flows is very important.

The energy transition is definitely with us. Climate change is undeniable. So, we are very involved, as I mentioned, in a lot of solutions that help our end-customers get to net zero. And finally, of course, digitalisation is also very important, as well as the ageing population. These are some of the trends that our strategy will be looking at profiting from.

Now, I won’t go very deeply into this slide. I'm sure shareholders have already seen this. Just to call out a few points. I think what Robson say is correct, it is not just about the net profit increase, but more importantly, the recurring income has increased from what was 48% in the first half of last year, to now 76%. This is something that's very important. Asset monetisation is now standing at S$4.8 billion. It has slowed down a bit. And you know, this is not surprising as the market in the first half of this year has been tougher. But we believe that we are still on track to hit over S$5 billion by the end of the year. And more importantly, we should be able to hit the target of S$10—S$12 billion by 2026.

Now, as we do well, I think we are also very mindful that our shareholders are very focused on not just the share performance, but also the distribution of dividends. We don't have a dividend policy, but we have been very willing to make sure that our shareholders are rewarded.

In the distribution in specie of Seatrium shares this year, the Seatrium shares were worth S$2.19 as at March, but for those of you who held on to the shares, you will know that the share price has actually gone up. At the time when we distributed it, it was like 11.5 cents. I have just checked, Seatrium closed at 13.6 cents today.

We have also announced, a distribution in specie of Keppel REIT units in celebration of our 55th anniversary. Of course, this is on the basis that we have to go through an EGM, so please come and vote and hopefully you will vote in favour.

Now, one of the areas that I want to share is that this is also part and parcel of us doing our capital management, because as we go into more recurring income, as we go into an asset-light strategy, we are able to do a bigger pool of business with a smaller balance sheet, or at least, we don't need to keep on increasing the size of our balance sheet. Our goal is still to try to hit the 15% ROE sooner rather than later. So, we are very focused on the capital management part.

Hon Chew and I, together with our Board, are very focused on rewarding our shareholders. We have done well. As you see, from January 1st last year to the middle of this year, our total shareholders' return was about 118%, this was about 12 times that of the STI index.

Now this next slide is a very important slide. It explains in a nutshell why Keppel is very unique in this space. We have actually been an asset manager for over 20 years. And you can see from the track record, that it is quite a good track record. So that means for every dollar that investors give to us in the private funds, we have actually produced S$1.80. So, it's not a bad return over that period.

The FUM now is about S$53.2 billion, and we believe that we can grow this to S$100 billion and then S$200 billion.

The other aspect of it is that we have very deep capabilities in engineering, developing, owning and operating specialised assets, whether in infrastructure, real estate or connectivity – this is part of the Keppel DNA. The skillsets and the capabilities that we have, have not changed. We are just using it in a different way. We are using it to go into business with investors such that the income that we generate will become more recurring in nature, and will be more highly-valued by the market.

There are a lot of fund managers who want to have operating capabilities but they don't have them. They are just financial investors. They can shuffle capital but they can't operate the assets. So, for them to aspire to be like us, they will have to do some M&A. They won't have the history or the DNA that we have. There are also a lot of operators who wish that they can be asset-light, but they do not have the 20-year track record in asset management. So, in a nutshell, this is something that is quite unique, and certainly since the announcement of our major transformation in May, we have been getting a lot of good traction, not just with our shareholders or investors, but also with the investors of the funds.

The next is a short slide to say – if you invest with Keppel, in the funds and REITs that we have, it will allow you to access the proprietary assets that only Keppel can provide, such as the recently announced Keppel Sakra Cogen Plant, which is the first hydrogen-ready power plant that we just broke ground for on Jurong Island. When it is ready for service in 2026, it will be the most efficient power plant and will be able to take up to 30% of hydrogen by volume. With a bit of modification, it can eventually be converted to 100% hydrogen. So, this is future ready for hydrogen.

The next slide is really about the AUM. So just to explain, the AUM is about S$12.4 billion higher than the FUM. The FUM refers to those funds that we manage, and on which we are collecting a fee. The AUM is the total assets that we manage, of which there are about S$12.4 billion in our balance sheet, which currently do not attract any fees. But our goal is to monetise these and over time, we will expect them to be converted into fee-bearing FUM.

Just to summarise, we have a very strong, established track record in asset management. We also have very deep domain knowledge as an operator. So, Keppel is very attractive as a partner for the investors that invest in our funds – we call them LPs or limited partners. As we grow our recurring income and achieve our FUM and asset monetisation targets, Keppel aims to continue to deliver superior returns to our shareholders. So, I will stop here. I am happy to take questions.

<u>Question & Answer session</u>

RL: Thank you, Chin Hua, for the presentation. You have explained and taken shareholders through the transformation process of the group from a conglomerate structure towards becoming a horizontally-integrated group encompassing fund management, investment and operating platforms.

During the first half of 2023, the core annualised ROE was 8.0%. All three segments – infrastructure, real estate, and connectivity – were profitable.

Real estate was the only segment that showed a drop in net profit in 1H 2023. In fact, both revenue and EBITDA figures were also down in the first half of 2023, compared to 1H 2022.

Against the backdrop of elevated interest rates, could you provide us with more insight into management's perspective regarding the real estate business? Are there potential challenges emerging in the property sector, particularly in regions like China?

LCH: Thank you for that question, Robson. I think it covers quite a few points. I will try to address it.

First and foremost, the real estate business that we have, what we call our ‘Engine 1’, is the traditional business that we have been in, which is land development for sale. It is lumpy, so we are trying to change that. Because it is lumpy, it really depends on how the market is. Our main exposures are in three markets – Singapore, Vietnam and China. The Singapore real estate market, despite all the cooling measures, has actually done fairly well. If you look through our results, you will see that the Singapore market has essentially done better this year, compared to last year.

Now, Vietnam has been a bit slow, not because of any oversupply or even the interest rate environment, it is more to do with the anti-corruption drive that they are pursuing, so the approval process has been slow.

Even though we are doing everything by the book, it just takes a bit longer to get approvals. But the value is not destroyed, because for anything that gets approved now, you will see the take-up rate is actually quite strong. In fact, the pricing is quite strong.

China is a different challenge. As we know, the economy is slowing quite fast. It recovered after the pandemic measures were released but that did not last very long. It lasted maybe one or two quarters. China has a different set of macro challenges. Even in the real estate market, we are also seeing quite a lot of headwinds. I am sure shareholders would read in the papers some of the challenges being faced by Chinese developers.

Now for Keppel, we have done more sales in China in the first half of 2023 than in the first half of last year. To be fair, this is more on the first quarter's effort. But if I look at the Chinese market, there are some challenges now.

One of the redeeming features for us is that since 2017, we started to monetise our landbank. In China, we monetised about S$3 billion worth of projects and we have recorded net profits in total of about S$1 billion. This was not because of any expectations that the Chinese market was going to slow. But it's really a change of our business model, from one that was doing development for sale to one that focuses on recurring income. Because we have changed the business model in China, we are no longer buying land like how we did in the past. We have been able to take out about S$5 billion from China to be redeployed to other markets. So, these are some of the things that we did.

Do we still have exposure in China? Yes, and more importantly, whatever we have in China, mainly the landbank, are carried at historical cost. So, there is still quite a good headroom between the book value and the current market value of this landbank. In short, yes, the real estate side has dropped off a little bit, but this can be explained by what I just said about the three markets that we are in.

RL: My next question is, you have named the three markets in Singapore, Vietnam, China, but lately there has also been some considerable global attention on India. How big really is the potential in Vietnam and India? And how confident is the group in its ability to effectively compete with local property groups and players within these markets?

LCH: Well, good question. For Vietnam, we have been there for 30 years. We are probably the earliest, I believe, foreign property player in Vietnam. And over the 30 years, we have built up quite a strong brand in Vietnam, especially in Ho Chi Minh City, which is the main city that we are in. We also have an operation in Hanoi, but our focus in recent years has been on Ho Chi Minh City. I will say that we are very confident that this is a market that Keppel knows well. As we often candidly share, we have paid our "tuition fees" over the past 30 years, so we are probably in the best position to take advantage of the business opportunities in Vietnam.

A lot of the investors that we manage funds for have a strong interest in Vietnam, and they tell us the best partner to go into Vietnam with is Keppel, because we know Vietnam. We care not just about results, but we also care about how those results are obtained. We have a very strong compliance culture. Even if the investors were to go with a local developer, they may not have the same sense of comfort. So, I think we are in a very good position.

Very recently, we did a deal in Ho Chi Minh City, where the local developer has a plot of land, and he has got all the approvals in place. So that is really a very prized asset. And he decided to partner with Keppel, and in fact, he was willing to give Keppel majority control. I had breakfast with him and I asked why, as he could launch the project on his own. And his reasoning was very simple; he said, “Look, if I partner with Keppel, most likely I will get at least a 20% premium, on the selling price because of the Keppel brand name.” So even the local developers want to partner with us, and I think that we have a lot of inherent advantages in Vietnam.

India is probably a little bit different. We have been there for over 20 years. But I think our focus now on India is moving away from residential development to offices, business parks and data centres, which havemore recurring income. And we can actually work with the local players. We have gone into a couple of forward commitments, where we don't take the development risk – an Indian developer will do the development and we will then buy the project on completion. And of course, we will not be using our own balance sheet. We are mixing our balance sheet with third-party funds to go into this, and this will help get our recurring income up.

RL: There are some questions from shareholders. First question is – what are the outlook and prospects for the group in the second half of this year, if you can share some broad insights?

LCH: If I look at the longer term, I will say that we are very confident. As I shared, we are in a very unique position, given all the things I explained in my opening remarks. We are very uniquely positioned to do well, to win as a global alternative real asset manager and operator.

In the second half, of course, we can't give you any forecasts. But we did share during our results briefing that in the first half, our investments were a bit slower, so as a result, we have about S$10 billion in dry powder that we have not invested. And because we have not invested so aggressively in the first half, our fee income has not been as high as we would have liked.

For the second half, we expect the investment pace to pick up. We are currently evaluating a deal flow pipeline of about S$13 billion. Not all of this will get converted, but we have confidence that we believe the market is coming towards us. We have been right not to be too aggressive in investing but the opportunities should be better in the second half.

RL: Another question from shareholders. What is the strategy for Keppel to increase the net income after you have distributed the Keppel REIT units that Keppel owns?

LCH: When we distribute the REIT units, we will actually, in a way, improve our ROE. Our ROE is still not as high as we would like it. But if you think about it, we currently have two very sizable components in our balance sheet. One would be the credit notes worth about S$4 billion, and we also have the landbank. The landbank has no income, in fact, it has negative income, because for the land that we own, we hold at cost, we don't revalue them, and they have financing costs. So, it is negative. The credit notes attract a 4% yield or coupon, but again, even 4% is not very high.

So over time, as we monetise, and these two broad categories are part of the assets we identified for monetisation, we redeploy them to income-generating assets with recurring income, especially if we mix it with third-party funds so that we can get a bigger pool of money. Not only can we earn income through asset management fees and O&M (Operations &

Maintenance) fees, our ROE will also improve. So, I think that's probably a better way to answer that question.

CHC: The impact (of distributing Keppel REIT units) on our P&L is not material to begin with. But these units will end up with shareholders who can choose to keep all the Keppel REIT units, and there is no difference in terms of net income to the shareholders.

RL: Thank you for addressing the question. A number of shareholders have also asked, what is the strategy of Keppel Corp? Are you moving towards or morphing into an investment holding company with an engineering services arm?

LCH: I don't think so. I think 'investment holding company' would suggest that you are passive. We are trying to move away from that. We don't want to be a conglomerate. And it is not really engineering services either, because we are using our deep domain knowledge in infrastructure, data centres and real estate to be a better partner to our fund investors. In the process, they will pay us not just the asset management fees, but they also pay us O&M fees.

Just as an example, Bifrost, which is our cable system that we are in the process of building between the west coast of the US to Singapore, through Guam, is the first fibre cable system that directly connects the US to Singapore, bypassing the South China Sea. We have sold two fibre pairs so far. This is actually a co-investment with one of our infrastructure funds, so it is asset-light. But Keppel's Data Centres & Networks continues to be the O&M service provider. For the first two fibre pairs, we will collect from the two buyers of these fibre pairs S$400 million in total over 25 years to provide maintenance for these fibre pairs. So, you can see that it is not just the asset management fee, we also get O&M fees. All these are recurring in nature. So, it will be valued by the market using a multiple approach, and we believe it should be a growth multiple. I think we are quite well positioned.

RL: I think it is very reassuring. I think shareholders would benefit after hearing what you have just explained. Some shareholders picked up this part about the monetisation of assets and they are concerned that in the current high interest rate environment, how would that impact your progress on monetising your assets?

LCH: As I mentioned, even our own acquisitions have slowed down a bit. So, it is not unexpected but having said that, we have about S$420 million monetised in the first half. This distribution in specie of Keppel REIT units will also be part of the monetisation, so if approved, it will be another few hundreds of millions. So, we have slowed but we have not stopped, and hopefully, things will improve. I think we have quite a few assets that we can potentially monetise. And we're working quite hard to make sure that this pace will continue. But, of course, there is always a balance. We do want to monetise but we also want to get a fair value for the assets that we are monetising. So, it's a balancing act.

But the other point about the high interest rates, something that we have been sharing with shareholders for the last one and a half or two years, is that we have a very active programme to monitor our debt and part of that is looking at whether to fix our interest rates. We are quite happy that we have been able to lock in about 65% of our loans. And our average tenure is about three years. Our interest rate cost as a group is about 3.53%, which in today's environment, for three years' average tenure, is not bad. And this is not something that happened overnight. If you try and do it now, it's too late. The horses have bolted. So, this was something that we have done over many years. I think this is something that investors and shareholders can be reassured about, that even as we look for growth, we also play a very strong defensive game. So, it's both offence and defence.

RL: And it is very strategic. I like that quote that you have slowed but not stopped. Well, I guess your good dividend payout has prompted shareholders to ask you, could you share whether there would be some form of dividend payout policy going forward?

LCH: Well, as I shared, Robson, many shareholders have told us that they own Keppel shares because they believe in the management and the Board. They know we have a good business. And this is not just about the current group of management and Board, but many have been invested in Keppel for many years. So, they know that we have a history, that we are strongly managed. But we have also been told that, dividends do matter to them. And the Board and management are well aware of that. As I said, one of the main driving factors is that we also don't want to keep too much shareholders' equity. If we didn't have an asset-light model, then in order to run our business, we have to keep retaining profits so we can do bigger and bigger things. But once you run an asset-light model, we don't have to keep holding on to shareholders' capital, because if we are good managers, investors will give us more money. And this will allow us to also improve our ROE because the denominator becomes a bit more manageable.

RL: It is a form of rationalising your balance sheet. Another shareholder has come up with this question – would removing the conglomerate structure mean that Keppel will continue the trend of reducing your REITs' holding percentage and go towards the structure of CapitaLand?

LCH: I don't think so. I think we have announced the distribution in specie of Keppel REIT units. And as Hon Chew said, there were a few motivators for us. One is to reward our shareholders. Two, we think that we could have sold the units but it's just frankly very good value. It is a good REIT, very good portfolio, best-in-class buildings, good board, good management and good sponsor. But it is trading at a discount to NAV. Its NAV is S$1.30. But today, it is trading at below 90 cents. So, for us to sell it in the market is a bit "sayang". So better that we distribute to shareholders, then shareholders can then decide whether they want to hold it. So, I think we are quite comfortable with this. You know, if assuming this gets done, our stake will be down to 37%. So, it is still a very significant stake.

RL: I think so. A shareholder has just asked this question which focuses on money management platform. Is this intended as the vehicle to raise capital? And if so, what are the typical methods employed to raise capital, including equity fundraising?

LCH: We raised capital as an asset management group and play an asset-light strategy. We will have private funds, we have set up many private funds over the years. We are fundraising as we speak, in infrastructure, in real estate, etc. So, we have these vehicles to raise capital. And of course, we also have the listed REITs and Trust, which are also raising money as they invest, and then from time to time, they will also do a share placement to their unitholders. For Keppel, I guess you can see from what I'm saying is that we think our shares are a bit undervalued even today, despite the increase. I mean, that is our view. So as a result of that, we are less likely to be issuing new shares, if that is the question. If anything else, you know, we have done share buybacks in recent years, when we have share programmes for the staff and for management. We have always been reluctant to issue shares. So, we would rather buy shares from the market. It is a reflection of our view, right or wrong, that the shares of Keppel are actually more valuable.

RL: So lower valuation is something that has affected many counters. So, this is something that is dependent on market forces. A shareholder has just asked, they picked up what you said that you are thinking of multiplying your FUM to S$100 billion and S$200 billion? And they would like a bit more elaboration.

LCH: When I joined the group 20 years ago, our FUM was zero. And 20 years later, it is S$50 billion. To get to S$100 billion, to S$200 billion, many shareholders have asked me, "Is it difficult doubling it?" My answer is yes, it is going to be a challenge. It won't be a simple task. But at Keppel, we don't believe in simple things. We expect to be able to stretch ourselves. We believe it can be done, because as I have explained, when it comes to fund management, the hardest thing to do is to raise the first fund. Then to raise from S$100 million to S$1 billion is very, very difficult. But after that, it gets easier because you have a track record, you have a following. At Keppel, I will say that in the past 20 years, it was probably only in the last five years that asset management became more important in the group. Before that, when I first joined the group 20 years ago, asset management was more of an experiment. It was something that was not tested yet, so we were not sure that it would succeed. But now we have the whole force of the group behind. It was not that long ago, maybe even five years ago, when we ran our investments and the balance sheet very separately from the investments in the funds. But today it is merged so we no longer just invest with our balance sheet, we always invest together with the funds. So, with all this concentrated firepower and focus, I believe we can get to the S$200 billion.

RL: As you gained traction, there is a momentum compared to what was five years ago. So, I think this is very reassuring. Another shareholder is concerned regarding performance in terms of share price of Keppel's REITs and Trust. Would this be something that can erode confidence in Keppel funds? And if so, how does Keppel plan to address this?

LCH: Well, each of the REITs have their own board. So, I can't speak for the boards. But I do know that the management and the board are well aware of that, it's no different from Keppel, we always need to win the confidence of our shareholders, and the best way to do that is with performance. And this is something that I think we are all aware of. But I think to be fair, with the REITs and Trust, you do see a good yield. So, it is not a pure capital appreciation play, it is really set up to provide less risk, steady distribution, and I think the REITs and Trust that we run have been able to achieve that. But we do know, that winning over the shareholders and getting their confidence to back us is very important and a key part of that is through total shareholders' return.

RL: I think shareholders will give you their ringing endorsement after what you have just said. Someone has picked up on China – they say, look, property developers in China are going bankrupt. Is it a good time to buy land in China?

LCH: I'm sure there will be some opportunities there. And the way to think about this is that our business model has changed. So, we are no longer looking to kind of build up our landbank. In fact, we are trying to monetise it. When the right offer comes along, we will consider it. We have also been looking out for potential land purchases, but this will not be entirely through our balance sheet. So, what we are seeing through the geopolitics is that the number of investors outside China that can invest in China has reduced because some Western investors are now a bit more cautious about investing in China. But there is actually quite a large pool of capital within China looking for investment opportunities. So, for Keppel, we are very focused on tapping on this pool of capital that can invest in China. So, if we do any land purchases in China in future, most likely it will be again through an asset-light strategy, but this time working with Chinese money investing in China.

RL: Now talking about geopolitics, which is the next question and their concern of course, the conflicts like the Ukraine-Russia war for an extended period of time, what is the impact on Keppel's businesses?

LCH: So far, as we have seen, the Russian-Ukraine war has led to, especially in last year, an elevated energy crisis. I mean, energy prices were quite elevated and we have also seen that some costs have gone up. But, generally, the impact on us is quite limited. We have also benefited in some ways. For our renewable projects that we've bought into in Europe, there's a take or pay price. But when the war came and energy prices in Europe jumped, we were actually able to gain quite a bit more than what we underwrote the projects at. But those are all transient, as we see the energy prices have now moderated or stabilised. And we think that the impact for us, of course, is something that we still have to watch because the war is not over, there is no exit offramp that anyone can agree to. So, we are watching that, but I think at the present time, the impact on us is very little.

RL: Someone has just asked a hypothetical question. They said that after CapitaLand distributed its sponsor units in CapitaLand Ascott Trust, a few months later, CapitaLand Ascott Trust launched a rights issue to acquire some properties. And they asked – would that same thing happened to Keppel REIT when Keppel shareholders receive Keppel REIT units?

LCH: I honestly have not followed what has happened at CapitaLand, I mean, whether it is related or not, I cannot comment. As far as we are concerned, on the distribution, I think I have already explained the reason for doing so. I think for longer term it is good for the Keppel REIT unitholders, because it would allow for a larger free float.

RL: Let's go to the next question. Someone says this is his personal experience. He bought Keppel at S$14 plus many years ago, and he is still holding on to it. What are your thoughts on the likely price of Keppel in the next one to three years?

LCH: That's the thing. I would say, as CEO of a listed company, I can only influence how the company is run.

RL: But not the share price.

LCH: The market will decide.

RL: So next question is please clarify why there are sales of Seatrium shares in the open market by Keppel. What are the reasons?

LCH: We've explained this before. This is something that we had agreed amongst the various parties there. The shares of Seatrium held at that time was about 5% in escrow. The purpose of that was to backstop some specific liabilities, or I should say contingent liabilities. We don't think the contingent liabilities will happen. But if they do happen, then this (Seatrium shares held) would be used for that. The whole purpose was that we didn't want Keppel to use our balance sheet to stand behind it. So, this kind of provides a backstop.

So, if the specific contingent liabilities do not eventuate, after a period of 48 months, then it (the value) will be returned to Keppel. If however, it happened, and Seatrium has to use this escrow to backstop the contingent liabilities, it would be difficult for them to do so using shares. So, there was an agreement that we will appoint an institutional financial services provider to basically manage this and to, over time, monetise the shares, but with very strict instructions. They are independent, they can do as they wish but their action should not impact the share price of Seatrium. So, I think that's how it's been done, so we don't have any control over it at all. This is decided by the institutional financial services provider.

RL: A form of risk management. You have looked at it, you have made a judgement call. You have appointed a qualified financial advisor to manage this independently. If it ever happens, it will be taken care of.

RL: Let’s go on. Again, the question is on high interest rates. How does that affect the timeline to reach your corporate objectives? Looking at the horizon, there is concern that interest rates will continue to spike, and it is persistent. Will that be a spanner in the works?

LCH: I don't think so. I think we probably have seen the worst of the rate hikes behind us. But of course, whether interest rates will stay high persistently, as you said, I think there's a possibility. It may take a while before it comes back. As I said earlier, we are quite focused on managing our interest rate risk. So, we have done well there. So, we are well positioned. I think the question is – does it impact our FUM? Again, I don't think so.

I think what happens is that when the rates move, it may take a while for the market to reprice. But once the market reprices, then the investment activities can continue. So, I think some of these repricing is already taking place. So that's why I'm quite hopeful that our investment pace will increase. But wherever the interest rates are, I think the fact is that people will still need real assets. The reason for the high interest rates is because inflation is high. So, if inflation is persistently high, then real assets should perform relatively well. So, I think we're in the right space at the right time.

RL: I guess it's a question of strategic positioning. So, there are certain factors you can't control. I think shareholders like to know that you thought about this, and it’s comforting, what you just said. Someone has just raised a question on the current monetisation of the rigs, as part of the demerger of Keppel O&M. Is that something you can comment on?

LCH: Nothing specific other than what we have reported during the first half results. The rig market is improving. I think I mentioned during the first half results that we see that utilisation rates have gone up significantly. Modern jackups are now above 83%. New-generation drillships are now about 97%. These are all very healthy numbers. I think we are also starting to see that dayrates improve. So, I think our credit notes which are backed by the assets in Asset Co are in a good position. And we hope to see the monetisation happen sooner rather than later. Because if we monetise rigs, we can be repaid for the credit notes earlier, we can redeploy the capital and we can improve our ROE.

RL: Last question. How does Energy-as-a-Service (EaaS) function?

LCH: I think EaaS has been quite strong. I think credit goes to our Infrastructure Division for doing this and it’s quite interesting when you think about it. So far, we were able to do about S$2.1 billion in EaaS contracts, including S$1.2 billion that was won in the first half of this year. These EaaS contracts have not hit our bottomline yet, but they will take maybe 18 months before you start to see that. But just remember these contracts are quite long-dated so it would take a while but we are also increasing the size of the contracts.

What is also very satisfying for us is that we are able to not only pursue EaaS contracts in Singapore — where we are an integrated power player, we have a power plant, we sell electricity — but we have also been able to break into the Vietnamese market as well as the Thai market. In Thailand and Vietnam, we are shareholders and we don't have power plants. So, it is truly another form of an asset-light model, where we don't actually need to own a power plant to run this. So, it's an interesting thing.

RL: Well, we are coming to the end of the dialogue session. Any closing thoughts or messages for shareholders?

LCH: I'd like to thank Robson and SIAS for working with us to do this. It's a pleasure for Hon Chew and I to be able to address our retail shareholders outside of the usual AGMs. We hope that you'll continue to support us in the things that we do. I think we are in a very strong position, not just in terms of the results that we have produced in this first half, but more importantly, how the Company is set for the future. So, thank you again for attending this.

RL: Thank you, Chin Hua. Thank you, Hon Chew. On behalf of SIAS, I must thank Keppel for spending time, patiently explaining and addressing questions. I think shareholders will be better informed and I would like to also take this opportunity to thank shareholders for attending and supporting Keppel Corporation's annual retail shareholders' session and hope to see you again next year. Thank you and good night.

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