Investments

We create value for shareholders by investing strategically and developing new growth engines.

Photo credit: ST Press

Leveraging the Group's core competencies, Keppel Capital will continue to create innovative investment solutions and connect investors with high-quality real assets in fast-growing sectors fuelled by urbanisation trends.

Earnings Highlights ($m)

	2018	2017*	2016*
Revenue	**121**	173	134
EBITDA	**(15)**	177	63
Operating (Loss)/Profit	**(21)**	175	61
(Loss)/Profit before Tax	**(19)**	290	56
Net (Loss)/Profit	**(54)**	238	36
Average Headcount (Number)	**554**	416	286
Manpower Cost	**146**	110	89

* 2017 financial figures have been adjusted following the adoption of Singapore Financial Reporting Standards (International). 2016 financial figures were prepared in accordance with Singapore Financial Reporting Standards and certain amounts have been reclassified for comparability purposes.

Major Developments in 2018

Keppel Capital announced expansion into new asset classes such as senior living.

Keppel REIT divested a 20% stake in Ocean Financial Centre in Singapore.

KIT announced the acquisition of Ixom.

Keppel DC REIT and KORE expanded their portfolios with acquisitions worth over $700 million.

AAMTF III closed at US$1.1 billion.

KUS signed MOUs with Envision and ST Engineering for smart city solutions.

KUS signed MOUs for development opportunities in the Philippines and China.

Keppel & SPH launched an offer to take majority control of M1.

Focus for 2019/2020

Keppel Capital will continue to pursue organic and inorganic growth opportunities to grow the Group's asset management platform.

M1 will continue to build up its capabilities to capitalise on new opportunities. Keppel and SPH will work with M1's board and management to drive its business transformation plans.

Continue development of the Sino-Singapore Tianjin Eco-City to realise its vision of being a model for sustainable urbanisation in China.

Operating & Financial Review
Investments

Earnings Review
The Investments Division comprises mainly Keppel Capital and Keppel Urban Solutions (KUS), as well as the Group's investments in M1, KrisEnergy and the Sino-Singapore Tianjin Eco-City (Eco-City).

The Investments Division generated revenue of $121 million for FY 2018, down $52 million or 30% from the previous year, due mainly to the absence of sale of investments and lower revenue from the asset management business. The Division reported a pre-tax loss of $19 million for FY 2018, compared to a pre-tax profit of $290 million for FY 2017. This was due mainly to lower profit from land sales in the Eco-City, lower contribution from the asset management business and provision for impairment of an associated company, partly offset by lower share of loss from KrisEnergy. In 2017, the Investments Division also benefitted from the share of profits from k1 Ventures and write-back of provision for impairment of an associated company.

Accordingly, the Division reported a net loss of $54 million for FY 2018, compared to a net profit of $238 million for FY 2017.

Keppel Capital
Operating Review
2018 was an active year for Keppel Capital as it continued to expand into new markets and asset classes. Keppel Capital's total assets under management (AUM) remained stable at about $29 billion as at end-2018 on a fully leveraged and invested basis, despite a few divestments by Alpha Investment Partners (Alpha) during the year.

In 2018, Keppel Capital made headway in the investments into alternative asset classes, including senior living and education real estate sectors, as well as announced plans to establish its first retail-focused fund with an initial focus on Australia. At the same time, a Renminbi fund management entity was also established in the Sino-Singapore Tianjin Eco-City.

Real Estate
In 2018, Keppel REIT Management strategically divested a 20% minority stake in Ocean Financial Centre to Allianz Real Estate for $537.3 million. This allowed Keppel REIT (KREIT) to recognise some capital gains while maintaining its exposure to the strengthening Singapore office market through its 79.9% controlling stake. In Australia, development of the Grade A office tower at 311 Spencer Street in Melbourne is slated for completion in 1H 2020.

The Manager's proactive leasing efforts kept KREIT's portfolio well occupied in 2018, with committed occupancy at 98.4% as at end-2018, and a long weighted average lease to expiry (WALE) of 5.9 years that will underpin KREIT's long-term stable recurring income.

Meanwhile, Keppel-KBS US REIT Management delivered on its investment and growth strategy to augment Keppel-KBS US REIT's (KORE) portfolio by acquiring quality income-producing properties in first choice submarkets in the United States (US) with positive macroeconomic and office fundamentals. During the year, KORE deepened its presence in key growth cities with acquisitions in Seattle and Orlando.

As at end-2018, KORE's portfolio occupancy and WALE by net lettable area remained healthy at 91.6% and 3.9 years respectively, providing stable income streams to unitholders.

The private funds managed by Alpha also registered strong fundraising efforts. The Alpha Asia Macro Trends Fund (AAMTF) III closed in December 2018 at approximately US$1.1 billion, including co-investments, exceeding its initial target of US$1 billion. During the year, Alpha divested over US$1.9 billion in assets across the various funds under management, and committed to acquisitions in Singapore, Brisbane, Shanghai and Tokyo with a gross asset value of over US$1.1 billion.

Data Centres
Keppel DC REIT Management maintained its focused investment strategy of seeking quality income-producing acquisitions in key data centre hubs across Asia Pacific and Europe.

In 2018, the REIT added Keppel DC Singapore 5 and maincubes Data Centre to its stable of quality data centres, and announced the addition of Intellicentre 3 East Data Centre (IC3 East DC) which will be built on the vacant land within its Intellicentre 2 Data Centre's site. IC3 East DC is expected to be completed in 2020. This has brought the REIT's total AUM to $2 billion across 15 data centres, excluding IC3 East DC. The Manager also acquired the remaining 999-year leasehold interest at Keppel DC Dublin 1, with completion expected in 1H 2020.

As at end-2018, the REIT's portfolio occupancy remained healthy at 93.1%, while the WALE was at 8.3 years by leased area, providing good visibility to its income stream.

Alpha Data Centre Fund (Alpha DC Fund) continued to expand its portfolio of assets in new markets. Working with Keppel Data Centres, Alpha DC Fund marked its foray into Indonesia through a partnership for a data centre project in Bogor, near Jakarta. Alpha DC Fund also successfully secured a built-to-suit project with a leading technology company for its first greenfield data centre asset in Johor, Malaysia. This is the Fund's first large-scale project for the customer, with Alpha DC Fund's innovative deal structuring setting a repeatable and scalable operating model for the Fund's future expansion plans in Asia.

Infrastructure
Keppel Infrastructure Fund Management announced the strategic addition of Ixom to Keppel Infrastructure Trust (KIT). Ixom is one of the leading industrial and infrastructure businesses in Australia and New Zealand. Following the completion of the transaction in February 2019, the addition of Ixom will provide KIT with long-term and stable cash flows, underpinned by multiple core assets and a well-positioned network of infrastructure, as well as extend the cash flow life of the Trust's portfolio. KIT will continue to deliver steady income from its three core sectors of Energy, Distribution & Network, and Waste & Water sectors.


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Keppel DC REIT acquired Keppel DC Singapore 5, a purpose-built, carrier-neutral colocation data centre, in 2018.

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Mr Lawrence Wong (left), Singapore's Minister for National Development and Second Minister for Finance, and Mr Zhang Yuzhuo (right), Tianjin Binhai New Area Party Secretary, officiated at the launch of the Eco-City's city centre.

Business Outlook

As an integrated asset manager, Keppel Capital continues to play a key role in collaborating with other business units to create real assets from the spectrum of solutions offered by the Group. Keppel Capital will continue to pursue both organic and inorganic growth opportunities to grow its AUM to the $50 billion target by 2022, boosting the Group's funding capabilities and expanding its capital base. Leveraging the Group's core competencies, Keppel Capital will continue to create innovative investment solutions and connect investors with high-quality real assets in fast-growing sectors fuelled by urbanisation trends.

Sino-Singapore Tianjin Eco-City

In 2018, the Eco-City celebrated its 10th anniversary. The former saline wasteland has been transformed into a thriving green city, and the Eco-City is on track to realising its vision of becoming a model for sustainable urbanisation in China.

Keppel leads the Singapore consortium, which works with its Chinese partner to guide the 50-50 joint venture (JV) – Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd. (SSTEC) – in its role as master developer of the Eco-City.

Today, more than 100,000 people[1] live and work in the Eco-City, which is a bustling community with three neighbourhood centres, five libraries, three health services centres, a hospital and 17 schools with about 10,000 students. The Eco-City's business parks also continued to attract new investments and tenants. To date, the Eco-City has over 7,700 registered companies[1].

The Tianjin government's property cooling measures have continued to dampen market demand for homes in the Eco-City. In 2018, a total of 2,700 homes were sold by various developers in the Eco-City, down 30% from the homes sold in 2017. Despite the lower sales volume, the Eco-City remains a highly sought-after residential precinct within the Tianjin Binhai New Area for homebuyers and developers alike. In 2018, SSTEC sold three residential land plots to developers keen to participate in the Eco-City's continued development. One plot was acquired by Keppel Land China to expand its presence in the Eco-City.

With the successful completion of the Start-Up Area (SUA), SSTEC will focus on developing the Eco-City's Central District, where the future city centre will be located. Land parcels will be developed or sold in tandem with the market's needs, to drive the city centre's growth.

Reflecting the good progress of the Eco-City, at a meeting in September 2018, the Eco-City's Joint Steering Council, co-chaired by Singapore's Deputy Prime Minister Teo Chee Hean and Chinese Vice Premier Han Zheng, supported the replication of the Eco-City's experience in other Chinese cities as well as along the Belt and Road regions. A joint cooperation framework was signed between the two governments to promote the replication of the Eco-City's development experience.

In 2018, Keppel Land China sold about 630 homes in the Eco-City. As at end-2018, Keppel Land China had launched about 4,500 homes in the Eco-City, of which about 98% had been sold. Riding on its strong track record in the Eco-City, Keppel Land China also successfully secured a 10.97-hectare residential site in the Eco-City's SUA, which will be developed into an eco-community comprising terrace houses and low-rise apartments.

Different business units in the Keppel Group are contributing to the Eco-City's development. The occupancy of Keppel Telecommunications & Transportation's logistics distribution centre in the Eco-City improved to about 80% by end-2018, compared to 65% in 2017. In the meantime, the Sino-Singapore Tianjin Eco-City Water Reclamation Centre, a JV between Keppel Infrastructure and Tianjin Eco-City Investment and Development Co., Ltd, commenced commercial operations in January 2018. The Centre treats wastewater effluent from an existing wastewater treatment plant to produce recycled water that meets China's most stringent standards for urban miscellaneous water consumption. Keppel Capital China also established a fund management entity in the Eco-City in 2018.

Keppel Urban Solutions

KUS is an end-to-end master developer of smart, sustainable urban townships, leveraging the Group's experience and strong track record in the planning and development of large-scale projects in the Asia Pacific. KUS brings together the Group's diverse capabilities in energy, property, infrastructure and connectivity to create highly liveable, smart and sustainable communities.

With more than half of the population in Asia moving to and living in cities and urban centres by 2040, KUS is focused on capturing the growing demand for smart, sustainable townships and precincts in the region. KUS' points of differentiation are premised on its

[1] These figures include the Tourism District and Central Fishing Port.

Operating & Financial Review
Investments


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end-to-end offerings from planning to precinct operations, leveraging the Keppel Group's solutions. These include horizontal and vertical infrastructure, connectivity, urban logistics and place management.

KUS' capabilities will first be applied in Saigon Sports City (SSC), a 64-hectare township development in Ho Chi Minh City, Vietnam. The development of SSC will be driven by enablers for essential services such as smart security management, smart mobility and environmental infrastructure solutions. Through active programming and place-making initiatives, SSC aims to be an inclusive and vibrant destination of choice.

In 2018, KUS established a partnership with ST Engineering to leverage each company's expertise and resources in the design and implementation of smart city masterplans and solutions within Keppel's developments. The companies can also collaborate on third-party projects in Asia Pacific.

Over in China, KUS signed an agreement with Envision and the Wuxi government for the development of a Smart Internet of Things (IoT) City which includes a smart IoT-industry park in Xuelang Town of Taihu New City in Wuxi. Through a city-industry integration, the parties intend to create a work-live-play model that is replicable and scalable in China and overseas.

KrisEnergy
In 2018, exploration & production (E&P) operator KrisEnergy continued to face strong headwinds. Brent crude oil averaged US$72 per barrel (bbl) during the year, an increase from 2017's average of US$55/bbl. In 4Q 2018, a series of geo-political developments coupled with surging oil production in the US resulted in oil prices swinging from a high of US$86/bbl in October 2018 to a low of US$50/bbl in December 2018.

Notwithstanding this, KrisEnergy recorded a 40% increase in the average realised oil price to US$69/bbl. Average gas sales price in Thailand increased 15% year-on-year to US$4.58 per thousand cubic feet (mcf) in 2018, while the gas price achieved from the onshore Bangora field in Bangladesh was unchanged at US$2.32/mcf.

In 2018, KrisEnergy reported revenues of US$145 million and net cash flow from operations of US$37 million, up from US$141 million and US$23 million for FY 2017 respectively. Earnings before interest, taxation, depreciation, amortisation, geological expenses and exploration expenses amounted to US$58 million, up from US$27 million for FY 2017, marking KrisEnergy's highest performance since 2011. Despite these improvements, the company reported net loss after tax of US$160 million for FY 2018, due to non-cash impairment expenses and write-offs for non-core assets, depreciation, depletion and amortisation costs, and finance charges.

Total capital expenditure (capex) for 2018 was US$56 million versus a revised forecast of US$97 million at mid-2018, due to a change in timeline for certain projects. KrisEnergy's balance sheet remains under pressure. As at end-2018, gearing rose to 99.9% from 73.5% as at end-2017. KrisEnergy intends to execute the appropriate strategies to de-leverage its balance sheet while maintaining its investment in core assets to maximise future cash flow.

In 2018, KrisEnergy remained focused on its core development assets in the Gulf of Thailand (GOT), namely the Apsara oil development offshore Cambodia and the Rossukon oil development in the G6/48 licence.

KrisEnergy's working interest production averaged 10,691 barrels of oil equivalent per day (boepd) in 2018, down 16% from 2017. The KrisEnergy-operated Wassana field, in the G10/48 licence in the GOT, produced an average of 4,455 barrels of oil per day (bopd) in 2018, up from 4,377 bopd in 2017. Meanwhile, the Bangora gas field onshore Bangladesh produced an average of 14,798 boepd. In the non-operated B8/32 in the GOT, infill drilling commenced in 2H 2018 and gross production averaged 32,724 boepd in 2018.

As at end-2018, KrisEnergy's working interest proved plus probable (2P) reserves were estimated by Netherland, Sewell & Associates, Inc. (NSAI) at 63.5 million barrels of oil equivalent (mmboe) compared to 83.5 mmboe as at end-2017. This was largely due to the company ceasing participation in the Block A Aceh production sharing contract in Indonesia and the G11/48 licence. Reserves assigned to the G10/48 licence in the GOT decreased 53% due to 2018 production and lower well recovery. Assessments for 2P reserves also decreased for B8/32 and Block 9 due to 2018 production and, in the case of B8/32, assumptions of reduced future infill drilling.

NSAI recognised best estimate contingent (2C) resources of 64.1 mmboe as at end-2018, a 27% drop from 2017 due to the removal of contribution from G11/48 and Block A Aceh. Gains in 2C resources of 6.6 mmboe were recorded for G10/48 and G6/48, which contains the Rossukon oil development project in the GOT.

Health, safety and the environment remained a priority. In 2018, KrisEnergy recorded about 1.6 million man-hours on its operated assets with one lost-time injury in March.

In 2018, KrisEnergy appointed Keppel Offshore & Marine (Keppel O&M) as the preferred contractor under a cooperation agreement. With this, Keppel O&M can offer KrisEnergy a comprehensive suite of offshore oil and gas solutions as KrisEnergy enhances its assets in Asia. Subsequent to the agreement, Keppel O&M secured a production barge upgrade contract from KrisEnergy in November 2018. Works commenced on the barge at the end of 2018.

M1

In 2018, M1 continued to expand its customer base. The company added 22,000 postpaid customers in 2018, bringing the total base to 1.4 million as at end-2018, while its fibre customer base grew 11% from 2017 to 209,000 in 2018. As at end-2018, M1's total customer base stood at 2.2 million.

Amidst intensifying market competition, M1 seeks to strengthen its position by enhancing customer experiences, introducing value-added services and seeking new growth verticals.

M1 is committed to delivering the best mobile experience to its customers. Recognising the need for faster network speeds and high-bandwidth mobile applications, M1 continued to invest in expanding capacity and delivering superior network performance. In 2018, M1 collaborated with multiple vendors to embark on Singapore's first end-to-end 5G live trial, and announced plans to conduct a 5G small cell trial to develop the next generation of 5G small cells architecture.

M1 became the first operator in Singapore to launch the digital eSIM on the new generation of iPhones, allowing users to activate an additional cellular plan. M1 also launched a new cloud-based subscription video surveillance service to help businesses and small and medium sized enterprises with the adoption of digital technologies. As part of plans to expand its corporate segment and digital solutions in Smart Nation, Fintech and Cybersecurity, M1 signed an MOU with Jurong Port to provide a terminal-wide wireless private network.

Privatisation of M1

In September 2018, a Pre-conditional Voluntary General Offer was made by Konnectivity, a joint venture between Keppel Corporation and Singapore Press Holdings (SPH) for the remaining shares in M1, for a cash offer of $2.06 per share.

By end-February 2019, Konnectivity and its concert parties had obtained majority control of M1. Strong support for the Offer by M1's shareholders has resulted in M1 ceasing to have at least 10% of the total number of shares held by the public. Konnectivity will be de-listing M1 from the Main Board of the SGX-ST after the close of the Offer, and will be exercising its right to compulsorily acquire all the shares of M1 from shareholders who had not accepted the Offer.

Together with SPH, Keppel seeks to drive business changes that will enable M1 to compete more effectively in the telecommunications industry. With the privatisation of M1, Keppel and SPH will be better able to drive changes and create greater value, together with M1's board and management.

M1 also complements Keppel's mission as a solutions provider for sustainable urbanisation, which includes connectivity. M1 can serve as a digital platform and connectivity partner to complement and augment Keppel's current suite of solutions, and at the same time, benefit from harnessing the synergies of the Keppel Group.

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1
Saigon Sports City is envisaged to be a bustling hub, combining high-quality urban living with modern healthy lifestyle concepts.

2
M1 can serve as a digital platform and connectivity partner to complement and augment Keppel's current suite of solutions for sustainable urbanisation.