CREATING ENDURING VALUE

LOH CHIN HUA
Chief Executive Officer

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Q How would you describe Keppel's transformation and progress over the past few years?

A We have made significant progress over the years to transform and adapt to the changing environment. A lot of what we see today is the result of many years of restructuring, from the privatisations of Keppel Land, followed by M1 and Keppel Telecommunications & Transportation, to the formation of Keppel Capital.

2023 was a major milestone in our journey. We successfully divested the offshore and marine business, achieved the highest net profit on record in Keppel's 55-year history, and delivered outstanding value to shareholders. All of these were achieved as we executed our ambitious plans to restructure and evolve the Company under what we call "Project Darwin".

Keppel's multi-dimensional transformation has seen us turn the Company from brown to green, from a balance sheet player into an asset-light asset manager and from a conglomerate with vertical silos into a horizontally integrated company with end-to-end value chains. Our earnings have also pivoted from lumpy orderbook and trading profits to what is now mostly recurring income.

We have successfully harnessed our industrial roots to transform the Company into a global asset manager and operator. Our strong investment track record, built up over 20 years, as well as our operating capabilities and domain knowledge in the key segments of Infrastructure, Real Estate and Connectivity, provide an unparalleled value proposition to the investors of our private funds, REITs and business trust. Investors also find our active value adding approach to creating superior returns appealing.

Keppel's shareholders have benefitted – and will continue to benefit – from our transformation. Keppel today is run more efficiently as one company. We are executing one business strategy, and exploiting synergies among our three segments to create greater value for our end customers, investors and shareholders.

Our earnings, now much more recurring, should attract growth multiples, rather than being valued based on price to book and discount to Revalued Net Asset Value with a further holding company discount. In fact, over 80% of the analysts who currently cover Keppel no longer apply a conglomerate discount to our stock.

Reflecting the significant changes in the Company, with effect from 1 January 2024, we have changed our name from Keppel Corporation Limited to Keppel Ltd., marking a new chapter in our corporate journey.

Keppel harnesses its competencies to build and manage assets, especially those in the alternative real asset space, to create unparalleled value for LPs.

But we are not done yet. The direction has been set. We will scale up our Funds Under Management (FUM), grow recurring income and monetise our assets, as we accelerate the execution of our Vision 2030 strategy. I am confident that Keppel is well positioned to ride the next S-curve of quality, sustainable growth.

Q How is Keppel different from other asset managers?

A Institutional investors are increasingly looking for General Partners who can provide more than just financial investment solutions. They are looking for partners with the competencies to build and manage assets, especially those in the alternative real asset space.

Keppel, with the DNA of an asset manager as well as strong operating capabilities, presents a very attractive proposition to our Limited Partners (LPs). We are able to draw on our deep domain expertise, whether it is in the energy transition, infrastructure, connectivity or real estate solutions, to create alphas for the funds that we manage.

Some large financial investors aspire to become operators but they do not have those competencies and need to acquire the necessary assets and platforms.

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In contrast, at Keppel, we have already been operators for a long time, with rich experience in engineering, developing and managing innovative solutions and providing essential services that help to address some of the world's most pressing challenges.

Conversely, there may also be operators out there who want to be asset managers, but they lack the DNA and the track record for investing third-party capital and running private funds.

Ultimately, LPs are entrusting us with significant investments which may be locked up for as long as 10 years. They would want to ensure that their interests are well taken care of by a trusted partner. At Keppel, we uphold our fiduciary duty zealously. We know what investors require, and we have built a strong track record and reputation on an LP-first mindset. Our competitive advantage as an asset manager and operator with deep expertise in sustainability solutions is a key differentiator that sets us apart from our peers.

Q Looking forward over the next few years, which opportunities excite you most in asset management?

A Private markets have experienced some headwinds in the past couple of years from fears of recession and elevated interest rates. With inflation starting to ease and interest rates stabilising, market liquidity should gradually improve in the latter part of 2024, availing more opportunities for fundraising and dealmaking.

However, LPs are expected to remain highly selective of investment strategies and asset classes, with a preference for sectors underpinned by resilient macrotrends, such as the energy transition, climate action and digitalisation, all of which are driving demand for Keppel's solutions.

Over the next few years, infrastructure is expected to be one of the fastest-growing asset classes, underpinned by the global push for cleaner energy, decarbonisation and digital connectivity solutions. A significant amount of capital will be required not only to replace ageing infrastructure but also to provide more advanced solutions needed for sustainable development.

With conditions in the capital markets improving, we will continue to pursue our quality deal flow pipeline of over $14 billion, the majority of which are in the Infrastructure and Connectivity segments. By leveraging Keppel's domain knowledge and operating expertise in multiple asset classes, we can provide more fund products with strong value propositions to our LPs.

Q As Keppel transforms its earnings stream with a focus on growing recurring income, how sustainable are Keppel's earnings, especially the contributions from Infrastructure?

A Our recurring income has been steadily rising over the past three years. In FY 2023, it rose 54% year on year to $773 million, bolstered by improved contributions from our Infrastructure Division, which has succeeded in becoming more asset-light and shifting away from lumpy engineering, procurement and construction profits towards steadier trading and fee-based income.

As we continue to pursue opportunities in renewables, clean energy and decarbonisation solutions, we are also expanding the pipeline of long-term contracts that provide stable income with good earnings visibility. One such example was the GlobalFoundries power purchase agreement inked in January 2024, which will see Keppel providing electricity to power the customer's Singapore operations for more than 15 years.

As at end-2023, about 60% of our contracted generation capacity was locked in for three years and above, up from 36% just six months prior in June 2023.

Concurrently, our growing base of infrastructure-related supply and service contracts stacked up to $4.3 billion at end-2023, with revenues to be earned over the next 10-15 years. New engines such as Energy-as-a-Service are also contributing to our growth, making up more than half of this substantial contract backlog. More recently in February 2024, we were appointed to design and build a large-scale solar photovoltaic system at Changi Airport, which we will own and operate for 25 years.

We are excited by the many opportunities in the infrastructure space. We are confident of not just sustaining our performance but also growing both profits and returns from this segment through our asset-light model.

Q China continues to be a difficult market. How has your strategy for the market changed?

A Keppel has been in China over three decades. While China is still an important market for us, we have de-risked our investments significantly over the last few years, in line with our asset-light strategy. Since 2017, our Real Estate Division has monetised over $3 billion of assets in China, including $94 million in 2023, and recognised total profits of more than $1 billion. We have also repatriated more than $5 billion of cash from China over the same period.

Today, we have a remaining landbank in China of about $1 billion held at historical costs in our books[1]. As we continue to seek monetisation opportunities, we will also be looking out for opportunities and attractive asset deals that may surface when markets undergo distress.

To be clear, we believe that China, with its sizeable market, still holds good potential over the medium to long term. However, it is important to recognise that China today is very different from what it was 10 years ago, and the country's needs have also evolved. With this in mind, we have developed a new China playbook that focuses on the energy transition, infrastructure, sustainable urban renewal and data centres – areas aligned to China's longer-term sustainable development goals, and where Keppel has strong differentiation and value add. With our deep know-how in sustainability solutions, and established presence in China, Keppel is well-placed to create value for investors and customers in this market in the long run.

Q Following the acquisition of Aermont Capital (Aermont), what are your plans for mergers & acquisitions (M&As) moving forward? What would you be looking out for in potential M&A targets?

A As we expand our business, we are looking out not just for good assets but also top talent and strong capabilities that can add value to Keppel as well as bolster our value proposition to global LPs. We do not have a standard playbook for M&A – the key is to find platforms run by good people who share the same values, and with whom we can grow.

For us, Aermont was a rare find, and the acquisition checks all of the boxes for both sides. Aermont was looking for a partner that could add strong value to its platform and was drawn to Keppel's expertise in the energy transition, infrastructure and connectivity. While real estate is an area that Keppel is very familiar with, we have not had a significant presence in this asset class outside of the Asia Pacific. So there was very little overlap between us, and Aermont can serve as our platform in Europe.

[1] Based on the carrying values of residential landbank and development projects held by subsidiaries.

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If you were to drill down into the way Aermont creates value for their LPs, you will find that it is not unlike Keppel's own approach. In fact, both our companies share very similar operating cultures and values. As asset managers, neither of us are pure financial investors. Aermont's emphasis on value adding and active management, as well as its operator-oriented approach are a strong fit with Keppel. Furthermore, we believe that the senior team at Aermont, with their extensive track record and networks in Europe, would add significant value to Keppel as we work together to co-create new fund products for global LPs.

Inorganic deals work like an accelerator, i.e. they allow us to reach our goals in a shorter time. But good ones are hard to come by. We cannot just rely on M&A alone to get to our $200 billion FUM target and will still have to drive organic growth. As we explore opportunities to acquire synergistic platforms in areas such as infrastructure and connectivity, we are also planning bigger flagship funds bearing Keppel's hallmark, such as the Keppel Sustainable Urban Renewal Fund and the Keppel Asia Infrastructure Fund series. We are also working towards the launch of our third data centre fund in 2024.

Q What are Keppel's asset monetisation plans moving forward, to get to $10 – $12 billion by end-2026?

A A big part of the $17.5 billion pool of monetisable assets that we identified on our balance sheet as at June 2020 was in real estate.

Since the launch of our asset monetisation programme in October 2020, we have announced the monetisation of about $5.4 billion in assets as at end-2023, well ahead of our $3-$5 billion target. A substantial part of this was from our residential landbank, which are low-returning assets that take up balance sheet space and incur holding costs. At the start of our monetisation programme, we had about $4 billion worth of residential landbank and development projects, and we have since brought that down by around half, to about $2.1 billion by the end of 2023[1].

Going forward, we will continue to accelerate the monetisation of our remaining landbank. In addition, we also have the Asset Co vendor notes worth about $4.3 billion that we are hopeful of monetising over the next few years, riding on improving market conditions in the offshore sector.

When we succeed in monetising the vendor notes and landbank, it will liberate an additional $6.3 billion from our balance sheet and allow us to achieve our $10-$12 billion cumulative monetisation target by end-2026. And as we continue to improve Keppel's performance, expanding both recurring income and margins, we will get much closer to a Return on Equity of 15% on a sustainable basis – this is a target that we are confident of achieving well before 2030.

Q As Keppel advances on its strategy to be an asset-light company, what are your priorities in terms of capital allocation?

A Capital management is a key part of our transformation, which focuses on driving capital-efficient growth. At the end of 2023, we had total assets of $26.8 billion on our balance sheet, a decrease of about 17% compared to $32.3 billion as at end-2021. Over the same period, our FUM expanded by more than 30% to about $55 billion from $42 billion at the end of 2021[2]. As we have been paying out 50-60% of our annual net profit as cash dividends over the past few years, in addition to the *in-specie* distributions of the then Sembcorp Marine shares and Keppel REIT units in 2023, our balance sheet has reduced while our FUM continued to grow.

The proposed strategic acquisition of leading European asset manager Aermont Capital will give Keppel a strong foothold in Europe and significantly expand its presence beyond Asia Pacific. From left: Ms Christina Tan, CEO, Fund Management and CIO of Keppel Ltd.; Mr Léon Bressler, Chairman of Aermont Capital; Mr Loh Chin Hua, CEO of Keppel Ltd.; and Mr Paul Golding, Managing Partner of Aermont Capital.

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We have demonstrated both our commitment to work our assets harder, as well as our willingness to return capital to shareholders. Being an asset-light company means that we will be less reliant on our balance sheet for growth moving forward. As we scale up to reach our FUM targets of $100 billion in 2026, and $200 billion in 2030, our investments will be done mainly through, or together with, our private funds and listed real estate and infrastructure trusts. In addition, our strategies to grow recurring income and drive asset monetisation would collectively release more funds, and I expect that there will be more than enough for investments and to pay down debt, as well as reward our shareholders.

Q Almost every company is talking about sustainability. What is Keppel's approach and how is Keppel's sustainability approach different from other companies?

A Keppel takes our commitment to sustainability seriously. We have announced our target to halve Scope 1 and 2 emissions by 2030 compared to our 2020 baseline, and achieve net zero Scope 1 and 2 emissions by 2050. Given the good progress we are making, I am confident we would be able to get to our net zero target well ahead of 2050.

More than just running our operations responsibly, sustainability is a key part of our business. We are providing sustainability and decarbonisation solutions that help our customers and communities on their net zero journeys. These include the importation of renewable energy into Singapore, the development of the Keppel Sakra Cogen Plant, Singapore's most advanced and first hydrogen-ready power plant, our Sustainable Urban Renewal initiatives, and our efforts to green our data centres, among others.

At the United Nations Climate Change Conference (COP 28) in December 2023, the international community pledged to triple renewable energy capacity globally, transition away from fossil fuels, and accelerate zero- and low-emission technologies. These are sustainability solutions that Keppel is already focused on.

I have therefore often said that Keppel is at the right space, at the right time. Our ability to match third-party capital with sustainability expertise and real assets, will allow us to help the world progress towards a greener and brighter future, while delivering investment solutions with good returns to our LPs.

Q How are you preparing the organisation to drive the next phase of Keppel's growth?

A The bold multi-year transformation that we have undertaken builds on Keppel's unique strengths to make it an even better, and future-ready, company – one that is strongly positioned to harness the opportunities of today by investing in and creating solutions for a sustainable future.

Notwithstanding the restructuring and changes within the Company, I am heartened to see that our employee engagement score has improved year on year, supported by Keppelites who are proud to work for Keppel and be part of its transformation.

As we ink the next chapter of Keppel's growth story, we will continue to streamline the organisation and our processes to become fitter, more agile and more capital-efficient. We will further invest in our human capital, developing our people to remain relevant in a changing landscape, while bolstering the Company's capabilities in areas such as asset management and digitalisation. We will fully leverage technology, including artificial intelligence, to do our jobs better and faster.

In line with our sharpened focus, we have adopted a refreshed and shorter set of Core Values – Agile, Can Do, and Trusted – or ACT for short. Being Agile is to be ever ready to innovate and change in a rapidly evolving world. Can Do, which has long been a defining attribute of Keppel, encompasses courage, a spirit of enterprise and passion for excellence. Being Trusted by our stakeholders, is pivotal to the success of our business, whether it is our shareholders, LPs, regulators or customers who put their faith in us.

Guided by our Core Values, I am confident that Keppel will continue to create superior returns and enduring value for generations to come as an asset manager and operator.

1 Based on the carrying values of residential landbank and development projects held by subsidiaries.
2 Gross asset value of investments and uninvested capital commitments on a leveraged basis to project fully-invested FUM.