

## **Keppel Corporation 3Q & 9M 2015 Results Announcement**

### **Question & Answer Session**

**22 October 2015, 5:30PM**

#### **Panellists:**

- LCH** Loh Chin Hua, CEO of Keppel Corporation
- CHC** Chan Hon Chew, CFO of Keppel Corporation
- PT** Paul Tan, Group Controller of Keppel Corporation
- CYY** Chow Yew Yuen, CEO of Keppel Offshore & Marine
- OTG** Ong Tiong Guan, CEO of Keppel Infrastructure
- AWG** Ang Wee Gee, CEO of Keppel Land
- TP** Thomas Pang, CEO of Keppel Telecommunications & Transportation

**Cheryl Lee from UBS:** Hi good evening. It appears there is an increase in group net gearing from 40% to 50%. Is this due to a weaker working capital cycle at the offshore and marine division? Or is it due to other factors? Thank you.

**CHC:** I believe the question is comparing the 3Q gearing of 52% with the second quarter gearing, so the movement in the quarter is largely coming from the working capital requirements from the Offshore & Marine division.

**Ajay Mirchandani from JP Morgan:** Can you run us through any one-offs or exceptional gains or losses seen in the 3Q 2015?

**LCH:** Think Ajay is referring to the RIDs in 3Q 2015.

**CHC:** For 3Q 2015, there was no major one-off item. If you look at the nine months, of course, I think we have mentioned before, in first half, we had an injection of 51% share of Keppel Merlimau Cogen into KIT and also we had investment gains upon the combination of KIT with CitySpring. So that we had recognised over \$200 million of one-off in the first half, partially offset by the provisions that we had made for Doha North, so that was in first half. In 3Q, we didn't have major one-offs.

**Lee Yue Jer from RHB:** Hi, regarding the delays of the three jackups this quarter, can we check if Keppel has negotiated additional fees for the delay and for how long the rigs are being delayed please?

**CYY:** There is provision in the contract for additional fees if there is delay. The delay is roughly about three to four months.

**LCH:** So that is a short delay, and yes, we did collect some additional fees for the prolongation by the customer.

**Abhijit Attavar from Jefferies:** Can you please elaborate the key items and the amounts included in other operating loss of \$88 million in 3Q 2015 vs the \$100 million income last year?

**CHC:** If you refer to the SGX announcement on Page 2, it is actually detailed under Note 3. But I will highlight the major items. For 3Q, under other operating loss this year is \$88 million compared to \$100 million gain last year. So the main difference firstly, is the sales of Equity Plaza last year, which generated a gain of \$90 million, so that was in last year's other operating income. This year we do not have any major sale of investment properties. The other item is foreign exchange loss this year of \$13 million compared to a foreign exchange gain of \$2 million last year. These are the major items contributing to the difference between the \$88 million loss this year and \$100 million gain last year.

**Ling Xin Jin from Morgan Stanley:** Hi, could you give an update on the Sete contracts, what is the completion status for each semi?

**CYY:** As you know, Sete is still going through its refinancing at this point in time. The exact status of how long the delivery extension would be will depend on when they can finalise their refinancing.

Just to give you an indication, as at November last year, our first vessel was supposed to be delivered by the end of this year. They (Sete) told us initially that they may be able to get it (refinancing) done by October (this year), so we gave them a ten-month extension. If refinancing is not done by the end of February, then it will add another four months. If you look at it from that perspective, it will give you an indication of the delivery status.

**LCH:** So there is not much change to the completion status, the Unit 1 is substantially completed; the Unit 2 is about two-thirds completed and then over 30% for the third unit. As we have said before, we are working with our customer to get a win-win situation for all of us. But until they can resolve all their issues, we have been going slow in terms of our construction, in 3Q, we had not spent a lot in terms of construction.

**Lim Siew Khee from CIMB:** Hi there, what is the key reason for the strong 3Q 2015 EBITDA for property vs 2Q 2015?

**CHC:** I think you are comparing quarter-on-quarter. 3Q we had higher revenue coming from residential properties in China, in particular, the Park Avenue Heights in Chengdu, the Seasons Park and Seasons Garden in Tianjin Eco-City. But of course, if you look at net profit level year-on-year, after tax and after non-controlling interests, the high contribution was also because of the privatisation of Keppel Land. So these are the key points.

**LCH:** Thank you, Hon Chew. As I have said in my remarks, despite softer market conditions in a number of the markets, we are selling more homes this year compared to last year, about 66% more. So we are doing quite well, particularly in markets like Vietnam and some of the cities in China.

**Pamela from IHS:** May I check if you have agreed to delay the delivery of CANTARELL 4 and PARAISO I for Grupo R rigs and PARAISO II for Parden Holdings. This means you are still planning to deliver three rigs to Grupo R namely CANTARELL I, CANTARELL II and CANTARELL III, is this correct?

**YYC:** That is correct, these are the three deliveries this year and the rest are pushed back by three to four months till next year.

**LCH:** So the answer to your question, Pamela, is yes, that is correct.

**Ling Xin Jin from Morgan Stanley:** Hi Chin Hua, another question please. Could you elaborate on the rightsizing of operations and resources in O&M? What costs can be managed? How does this impact your margins and potential cost savings?

**LCH:** As I shared in my opening remarks, we are still busy for the next two years in our yards. But looking ahead, we are prudently starting to look at all our overhead costs and starting to trim them, making ourselves more efficient, leaner, trimmer, so we will be prepared in case the downturn turns out to be longer than everyone expects.

I think in terms of costs, we also have to be quite careful. This is not just about cutting cost across the board. It is about selectively choosing where to spend our money. For instance, as I have shared, R&D, productivity gains and training, these are important aspects that we would continue to prudently spend on. So in terms of the impact on margins, it will all depend on how quickly the rig orders come back, but clearly, the more efficient we are in terms of our overheads, the better net margins will be when all is said and done.

**CYY:** I think when you talk about rightsizing, it is actually value engineering. Of course we have to make sure that we are well in control of our overheads, and be ready.

Rightsizing is also about resources, namely the workforce. We have by natural attrition, reduced 12% of direct labour, for example, when foreign workers' work permits expire, we basically have to let them go. We were also able to cut around 19% of our subcontract workforce.

Chin Hua mentioned that while we are doing this, we have also got to make sure that when the upturn comes back, we are ready to take advantage of that. So we are developing our human resources, cross-deploying our people to various yards so that they can gain experience and exposure, including overseas exposure. At the same time, we are still investing in R&D, making sure that we continue to be the leader in solutions, new ideas and so on. So that to us is value engineering.

**Abhishek Nigam from Nomura:** For the three jackup rig deliveries that were delayed into next year, are there any provisions made or suspension of revenue?

**LCH:** No provisions were made. As you heard earlier, the three rigs are only delayed by three months and there are actually additional fees that we collected for the prolongation.

**James Yoon from BNP Paribas:** Do you not feel there is a need to make provisions or write-downs related to the Sete Brasil contracts?

**CHC:** You may have read in the press that there have been quite a lot of developments in Brazil. At this point, we are still working with our counterparts in Sete Brasil, and helping them with their refinancing. So we are still in negotiations and discussions. At this point, it would really be premature for us to even talk about making provisions.

**Low Horng Han from CLSA:** Out of the \$10 billion backlog, what is the total receivables associated? What has contributed to the associate income in the Investments Division of negative \$89 million as this has gone up significantly quarter on quarter?

**LCH:** The second question has already been addressed earlier. On Sete, it's not a receivable, it's a net order book. The net order book that is associated with Sete is about \$4 billion out of the \$10 billion.

**Abhijit Attavar from Jefferies:** Was there a write-back in provisions for the Infrastructure Division in 3Q 2015? Even with that, there was a drop in operating profit. Was it largely because of Keppel Merlimau Cogen and low power prices? Can you quantify a bit more on the write-back of provisions?

**LCH:** There were no write-backs in provisions. The sale of 51% of KMC and low power prices were contributors.

**CHC:** For the current quarter, there was a write-back of impairment of investments of \$23 million. This relates to the Senoko Incineration Plant. There were some impairment provisions which we wrote-back during the quarter, arising from our change in shareholding in Keppel Infrastructure Trust from 49% to 18%.

**Tarun Bhatnagar from HSBC:** What is the outlook for the Property Division in 2016 and 2017?

**AWG:** We are fairly positive about the outlook for the Property Division for the next two years. In our major market, China, we see the market recovering. Year to date, sales have gone up quite well. The government is loosening the cooling measures, homebuyers are allowed to put down lower deposits for their purchases. The Chinese government is also liberalising the financial borrowings that buyers can secure. Interest rates have gone down – the banks, the reserve requirement has also been lowered, so there is more liquidity for home buyers. The purchase restriction has also been lifted for second homes in many cities. Recently, the government also allowed foreigners to buy homes in certain cities in China. So you can see that the government is putting effort to lift the cooling measures.

So we are quite positive about the market in the next few years. We have a sizeable land bank in China. We have about 10,000 units that we are able to launch over the course of the next two years, so we think that we will have significant contributions from our China properties.

The other market that we are quite positive about is Vietnam. As we have indicated earlier, we have sold about 600 units of homes in Vietnam. We just launched our Estella Heights phase 2 over the weekend in Ho Chih Minh City. Last weekend, we sold 110 units out of about 300 units launched. We see the prospect, the economic growth in Vietnam over the next few years to be good. We see the housing market in Vietnam to be recovering, so we are positive about that.

These are two of our key markets. We see good contribution from these two key markets that will bolster our prospects for the next two years for the Property Division.

**LCH:** We also have quite a lot of commercial developments that are currently under construction. Over the next two years, Phase Two at Saigon City Centre and IFC 2 in Jakarta for instance, will progressively start to contribute to our bottom line as well.

**Lee Yue Jer from RHB:** So far, we have been fortunate that we have only seen delivery delays but no cancellations. Are there any contracts at risk of cancellation now?

**LCH:** You could say it is fortunate, but at the KOM side, we would like to think that we have been very careful. Particularly, in the last couple of years when the market was very good, we have been very selective of the orders that we took. So the terms of orders that we took as well as the customers we have are of the highest quality. We do have to work with them because it is a difficult time in the market. But we also think that this has worked out quite well, because of the work that my colleagues have done.

**Hu Xiangyu from Morgan Stanley:** For Keppel's property business in China, will Keppel Land focus more on the few tier 1 cities, or tier 2/3 cities, going forward?

**AWG:** Our strategy in China for Keppel Land has been to focus on five key cities. These are Shanghai, Beijing, Tianjin, Chengdu and Wuxi. The markets in these cities are huge. They are a mix of first tier and high-growth second tier cities. We have significant land back in these cities, and over the course of the next few years, we will be looking at developing our land bank. Of course, we will not dismiss opportunities if they arise in other cities as well.

- End of Q&A session -