

Keppel Corporation 2Q and 1H 2017 Results Briefing for Analysts and Media

Question & Answer Session

20 October 2017, 5.30pm, Keppel Leadership Institute

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
AWG	Ang Wee Gee, CEO of Keppel Land
CO	Chris Ong, CEO of Keppel Offshore & Marine
CT	Christina Tan, CEO of Keppel Capital
TP	Thomas Pang, CEO of Keppel Telecommunications & Transportation

Cheryl Lee from UBS: Couple of questions. Firstly, regarding Offshore & Marine, in your address Mr Loh, you talked about how you see opportunity in gas and LNG, as well as Jones Act Carriers. Could we also get a sense of the scope of jobs that you are interested in and the sizes in terms of the work that you are pursuing? Timing wise, when might we see some decisions or potential contract awards?

LCH: It is important to look for new topline. This means looking at our gas strategy, non-oil and gas segments such as Jones Act vessels and dredgers, as well as re-purposing some of our offshore technology for other uses. While projects are harder to come by, we do see some projects in these areas which I have just mentioned. Not too long ago, one of our potential customers, Pasha, from the USA, mentioned in a press briefing that they have selected Keppel AmFELS, our US yard, to build two Jones Act LNG containerships. All I can say is discussions are still ongoing and we will make an announcement when appropriate.

CO: It is a reality that projects are hard to come by, because the sector is in its downturn. But what we have done is to engage the customer early. For example, the potential contract with Pasha and other contracts secured in 1H 2017 are LNG-related projects. Even for Pasha, they are looking for dual-fuel vessel and there is LNG involved in it. The world is basically going for cleaner energy, and we are engaging our customers to help them change the profile and capability of their fleets. We are actively engaging our customers and when we have good news, we will share it with all of you in due course.

Cheryl Lee from UBS: With regards to the Singapore market, could you share your views on prices for the various segments in residential e.g. mass, upper mass, luxury?

AWG: In general, the market in terms of transaction volume has picked up. The market seems to have bottomed out and we think it will slowly recover in the coming years. The prospects seem to be brighter than in the past. For us at Keppel Land, we will be looking at opportunities. We will be looking at government land sales, enbloc sales, and of course, we also have land bank here. We have some plots here at Keppel Bay which we can develop. We can also look into the redevelopment of Keppel Towers.

Gerald Wong from Credit Suisse: Firstly, on Keppel Capital, you have given quite an aggressive target of doubling your AUM within five years. Can you elaborate on how you intend to achieve that target? Where will the growth come from? Is it from Property, Infrastructure or Data Centre assets?

CT: Keppel Capital is very fortunate as we have very strong verticals within the Keppel Group, whether it Offshore & Marine, Infrastructure, Data Centres, or Property. With the strong expertise in the various fields, we are confident of accomplishing this objective.

We also have seen strong interest from investors, whether it is the sovereign wealth funds or the pension funds that we have been working closely with for this kind of quality real assets. Keppel is well placed to create and develop such asset classes. We have very strong engineering and technical expertise in terms of operations and management. As such, investors are keen to partner with Keppel, which has the capability to create these assets and continue to operate and manage it. We are able to meet the needs across the whole value chain.

Besides private funds, we have our REITs and business trusts. Once greenfield or brownfield assets are stabilised, we can look into putting some of these assets into the REITs and business trusts, thus satisfying different returns requirements from different investors.

Gerald Wong from Credit Suisse: What are your plans now for M1 given that the strategic review has been called off?

LCH: Keppel T&T announced on Tuesday that the strategic review has ended. When we first made an announcement in March that the three shareholders were undertaking a strategic review, we also said at that time that it may or may not lead to a transaction. It is the end of this strategic review, but for us, we will continue to review our options.

Gerald Wong from Credit Suisse: There have been quite a few aggressive bids in the government land sales. How do you intend to replenish your land bank in Singapore given your expectation that the prices could potentially recover over the next few years?

LCH: On the property question, Wee Gee had already answered it very well. We will continue to bid selectively, and we also have to maintain a discipline when we bid. As Wee Gee said, we also have existing land bank. We still have some unsold units in Corals and have opportunities to develop our existing land bank.

As prices move up and everyone gets a bit more optimistic because the market is turning, we also have to have some discipline. Ultimately, if you do not get the project at the right price, it will not lead to a good return. For Keppel Land, we are very fortunate that more than 20 years ago, our predecessors took a very bold initiative to go out into the region. We have since built very strong footholds in places such as China and Vietnam. We have a lot of avenues for us to invest in.

Nicholas, retail investor: I noticed that Keppel's gearing and debt has been increasingly steadily for the past few quarters. What plans does the Group have to reduce its gearing, knowing that we are in an interest rate hike environment and finance cost will likely go up in the near term?

LCH: It is true that our gearing has crept up compared to prior years. But you can also see in the recent quarters that it has also stabilised. We still have quite good head room. Our goal has always been to make sure we have an institutional quality balance sheet. That is still very much at the top of our minds. At this level, we are comfortable with our gearing, so I am not sure we necessarily have to reduce our gearing at this point.

On the interest rate hike environment, there is a big debate there how quickly the rates will move up. The treasury team, led by Hon Chew, is looking very closely and we have a combination of fixed and floating rates. This will be adjusted and managed accordingly.

Vincent Tan, retail investor: With Keppel's deep project management, technical and fabrication expertise, there may be opportunities to service similar industries such as onshore process industry. For example, oil refineries, petrochemical and pharmaceutical plants.

LCH: Keppel has been always very open at what are our core strengths, and you named a number of them. Given the slowdown in the Offshore & Marine side, my colleagues at Keppel O&M are on the lookout for things that are in our close adjacencies. We will continue to work very hard to make sure that profits can continue to be earned.

Lim Siew Khee from CIMB: Can you explain why there is an operating loss in the Investments Division this quarter?

CHC: The operating loss in the Investments Division this quarter was due to a mark-to-market loss on KrisEnergy warrants we mentioned earlier on. That is why at an operating level there is a loss for the second quarter.

Lim Siew Khee from CIMB: Looking at associates' contribution to Offshore & Marine, it has also dropped to \$6 million from over \$20 million in the first quarter. Why is that?

CHC: The difference was due to lower contribution from Floatel in 2Q 2017 compared to 1Q 2017.

Lim Siew Khee from CIMB: Can I also confirm that quarter on quarter, the recognition of land sale for Tianjin Eco-City is actually lower? The three parcels have been recognised in 1Q 2017. Am I right?

CHC: For the first quarter, we had the benefit of the sale of three residential land plots, which gave us quite a boost in our bottom line. As you know, land sales can be quite lumpy. For the second quarter, we did not have the sale of the same number of land plots. The sale were for smaller commercial land plots. As such, there is a drop in terms of recognition for the Eco-City.

LCH: The three parcels of land sales that was announced in January 2017 were all recognised in the first quarter.

Lim Siew Khee from CIMB: What are your thoughts on dividend? Despite your drop in earnings, you have maintained your interim dividend from last year. How should we be looking at dividends going ahead?

LCH: Yes, there was a drop in 2Q 2017. However, if you look at 1H 2017, our earnings are about the same as last year and the \$0.08 per share distribution is also the same as last year. So it is quite in line with what we have been doing in recent times, which is looking at paying out between 40-50% of earnings in dividend.

Shing from Apollo Investment Singapore: First, what are the capex and technical benefits/drawbacks of converted FSRU/FLNG compared to newbuilds?

CO: Before I dive into the technical details, first of all, the selection of newbuild or conversion greatly depends on how the customer intends to develop the field. If you are referring to the converted FLNG for Golar, their business case is based on a low capex and fast-to-market solution so as to make the stranded gas field viable. There are also customers that look at newbuilds because they have development plans over a couple of years and that fits into a purpose-built vessel.

For Keppel, we talk to different profiles of customers, and we will cater solutions to what the customer requires.

Shing from Apollo Investment Singapore: Would it be possible to get an update of the Indonesian property strategy? And plans for West Vista? I see that sales for this project is quite weak.

AWG: Indonesia remains one of Keppel Land's key markets. We have been investing in Indonesia for many years but we changed our strategy for Indonesia several years ago, and we are now focusing on Greater Jakarta. In the past we were invested in different cities in Indonesia such as Surabaya, Jogja, Manado, and we were also investing in resorts and hotels. Since a few years ago, we have decided to focus on the segments we are strong in, namely residential, township and commercial projects and mixed-use developments.

As for West Vista, we will continue to develop the project and complete it. The residential market in Jakarta has been slow for the last year or so, but we are optimistic. Indonesia is a huge market and we see the phenomenon of urbanisation in Jakarta and a rising middle income, supported by continued economic growth. We will continue to look for opportunities in Jakarta to grow our presence there.

Kyunghee Park from Bloomberg: A follow-up question on the gas strategy you mentioned. You said that a lot of your customers are looking at cleaner energy, but you are also looking at small-scale projects in the gas sector. Can you give us an elaboration on that part? What sort of markets are you targeting and what sort of projects are you seeing demand for in that particular sector?

CO: We have mapped out the gas strategy and we are not playing in the large-scale gas market. The key for this whole strategy to work is that we have to participate and enable different levels of the gas value chain to make sure the logistics will also be viable. Being an enabler in the value chain also requires us to look at the financial structures.

We are not just about large-scale assets such as FLNG, but also mid- to small-scale LNG carriers which enable us to break bulk to enable the whole gas industry to work. Countries like Indonesia, Myanmar, which are flanked by water bodies are examples of small-scale markets. We are able to do the milk runs, and be able to go through various ports thus enabling the whole chain. This is how we can play in the field, not only in one part or an isolated asset class.

Lynette Khoo from Business Times: With the recovery in Property in Singapore, are you confident of selling out your projects, The Glades and Highline Residences, before the ABSD dateline in October and April next year respectively? Secondly, given that the offshore market is not likely to recover in the near term, would it mean that the revenue mix or net profit mix that we are seeing right now with property taking a dominant contribution about 60% in earnings, will persist? What would be some of the key drivers?

AWG: We are very confident that we will sell out the remaining units in Highline Residences and The Glades. We only have 11 units left at The Glades, and slightly over 100 at Highline Residences, so we are very confident that we will be able to sell the remaining units.

LCH: We run a multi-business strategy. Some years ago, when Offshore & Marine was providing the bulk of the contribution to the Group's bottom line, there were some questions asked - what is Infrastructure, does it really matter since it is not really contributing. Today, you see that Infrastructure is not only contributing but growing from strength to strength. When you run businesses in industries that have cycles, you have to expect that there will be times when you do better. For us, contributions from the different business units are all important. They all have a time when they do well. And when times are more difficult now, Keppel O&M is also doing an outstanding job in keeping in the black, whilst preparing for the future, which we still believe to be very bright for the Offshore & Marine sector.

On Property being a big contributor, I would believe so because a lot of the sales that we have been reporting are the residential units that were sold outside Singapore. These will be recognised when they are completed. So there is already a visible pipeline. I am also sure that Investments and Infrastructure will also continue to feature strongly as contributors to the Group.

Patrick from Citibank: On page 18 of your presentation and page 20 of your MASNET filing, could I have the breakdown of the contributors for the \$130 million?

CHC: The Investments Division consists of asset management and others. This includes profit from sale of investments. In 2Q 2017, we sold some equity investments. The profit from there in 2Q 2017 is roughly about \$20 million. Others also includes our share of the profits from the sale of three land parcels in Tianjin Eco-City. In addition, there are also a number of share of results from associates, which we have

recognised our share of in 1H 2017. "Others" also includes the share of M1 and KrisEnergy's results, as well as the marked-to-market loss for KrisEnergy warrants. All these made up the \$130 million.

Ajay Mirchandani from JPMorgan Singapore: Firstly, on a quarter-on-quarter basis, can we better understand the reason for lower earnings from the Investments Division? Secondly, would it be fair to say that a large share of Investments earnings in 2Q 2017 come mainly from Tianjin Eco-City?

LCH: Quarter-on-quarter, Investments Division earnings was lower as we recognised the sale from the 3 plots of land in 1Q 2017.

CHC: For your second question on whether 2Q 2017 Investments earnings was mainly from Tianjin Eco-City, the answer is no. 2Q 2017 profit for the Investments Division was largely due to the sale of investments.

Cheryl Lee from UBS: With regards to the financials in 2Q 2017, there was a \$17 million profit on sale of fixed assets. This was disclosed in your SGX announcement as attributed to O&M and property. Does this relate to the sale of the Rotterdam yard and also, how much was Offshore & Marine and how much was Property?

CHC: This includes the sale of equipment and machinery at Keppel O&M. Also on closure of the yard, we disposed some fixed assets. So that's the large part of the profit.

Cheryl (UBS): So most of the \$17 million is related to Offshore & Marine? Is it recognised in Offshore & Marine's earnings for the quarter?

CHC: Yes, largely. That is right.

Jacqueline Woo from The Straits Times: Were there be further job cuts this quarter? What is the latest number on staff strength?

LCH: I suppose this is referring to our Offshore & Marine Division. For Keppel, most of our rightsizing has already taken place. But in 2Q 2017, the global workforce did drop by about 5% from the previous quarter. Most of this took place as a result of natural attrition, but we also have sold the Verolme Yard in Holland so there was a reduction of the number of workers from there.

Lim Siew Khee from CIMB: Can you share on the strategy for the Alpha Data Centre Fund?

CT: We are looking for the greenfield and brownfield projects in the data centre space. Once we have stabilised the projects, we will look at possibly selling it to Keppel DC REIT. We see a lot of growth in the area of data centre needs by the cloud players. We have also seen a lot of investor interest in this area with large growth in data centre requirements.

Lim Siew Khee from CIMB: What is Keppel Corporation's effective interest in the Alpha Data Centre Fund?

LCH: It is around 50% at the moment.

Lynette Khoo from Business Times: With regards to your land bank in China, how much of the launch-ready homes in China land bank comes out of the Tianjin Eco-City? I don't have a breakdown of the over 62,000 homes.

LCH: There will be some that's in the Tianjin Eco-City that Keppel Land is developing as a vertical developer. But the land holdings of SSTECH is not included in those numbers.

AWG: If I may add, we do give a breakdown of the residential land bank. On slide 49, you will see the breakdown of all our residential land bank including China,

LCH: Just to be clear, SSTECH is held separately. So the land that is sold in SSTECH is not included in Keppel Land's land bank.

AWG: What you see on slide 49 is basically the land bank under Keppel Land.

Kyunghee Park from Bloomberg: Are you comfortable with the current land bank or do you need to show up your land bank in any of these markets – China, Vietnam, Indonesia, or are you also identifying new markets for the property segment? Thank you.

AWG: I would say that we are comfortable. If there are opportunities for us to acquire land at a good price, we will certainly continue to do so.

LCH: I think what Wee Gee said is absolutely right. We have the opportunity to buy land and we have been buying land this year, we've been buying land in Vietnam and we've been looking at different markets. If you look at last year's total, we sold just over 5,700 units, so we have about 62,000 units in our land bank. Theoretically, we have about 10 years supply and that is the key for Keppel. What that means is we will still continue to buy land when it makes sense, but we are not under any pressure to buy land if it doesn't make sense.

Conrad Werner from Macquarie: Would you entertain the idea of a larger consolidation within the Singapore shipyard sector, i.e. with your main competitor?

LCH: I did answer this question at the previous results briefing. I think at this point in the cycle for Offshore & Marine, our view is that it will still take a bit longer before we can see a full recovery and we've taken very decisive steps to rightsize the Division since early 2015. Because of these painful steps that we took, we are on a better footing. Despite the drop in revenue, Keppel O&M has still been able to keep in the black. We are also looking at other markets because we need new top lines.

We believe that the industry still has a very bright future. We continue to look at R&D and continue to look at acquiring capabilities. But at this point in the cycle, we think that capacity is not that important. Indeed, we think that in the short term, the capacity may be a bit of a liability, if you are not able to fill the yard. So we do not see any advantage in growing our capacities at this point in time

Conrad Werner from Macquarie: Can you please outline again the specific orders you are targeting?

LCH: Pasha is actually a customer in the US that had made an announcement that they have selected Keppel AmFELS, our yard in the US, to build two LNG fuel containerships under the Jones Act. We do not give details on the other orders that we are targeting but we are looking at a number of projects. Like I said, we leave no stones unturned and when Chris and the team gets a deal done, we will announce the good news.

Conrad Werner from Macquarie: Were there any big one off items in 2Q 2017?

CHC: There weren't any big one off items but of course there are some items that can be lumpy. For example, there was a question that Cheryl asked about - profit from sale of assets can be lumpy. If you look at page 2 of the SGXNET, you can see the disclosure of some of the lumpy items there.

Wayne Lau from Morgan Stanley Singapore: Why did Offshore & Marine operating margins improve in 2Q 2017 from 1Q 2017? Was it due to any particular project recognition?

LCH: It is very difficult to look at the operating margin quarter-on-quarter because there are different types of work being recognised, and the different types of work have different margins.

Wayne Lau from Morgan Stanley Singapore: On Property, what is the impact of the tightening of the property in China? Have there been restrictions on property sales? What do you expect for Keppel China?

AWG: We notice an impact on transaction but the prices have not been affected. There are no outright restrictions on property sales but you may know that in China, the authorities will need to approve the selling price. Once we secure the approval, we can commence sale. We expect Keppel Land China to contribute significantly to our performance.

Joshua Lee from Deutsche Bank Singapore: Can you kindly share with us developments on Courex post-acquisition?

TP: Ever since we acquired Courex, the number of last-mile deliveries has gone up two folds if you compare to year-to-date results. More importantly, with Courex and Keppel Logistics complementing each other on the B2B segment and B2C segment, we have created new capabilities to service customers in the omni-channel requirement. For example, some of our FMCG clients have signed on with us to create channels on the e-commerce front, and using Courex capabilities to deliver, we are able to provide e-commerce sales. We are also able to store the goods in Keppel Logistics and we are now able to deliver

these goods to customers. This essentially created a new market segment for us in the urban logistics. Once the model is proven and profitable, we will export this model into the Southeast Asian countries that we are operating in.

Shing from Apollo Investment: It seems that there are intentions to co-own floating infrastructure assets. What type of assets are you looking to own? And what the expected returns there? Generally the asset owning business appears capital intensive with high ROEs only possible with leverage.

LCH: I think Chris Ong from Keppel O&M had explained what some of the small-scale LNG floating assets, and infrastructure assets that we are looking at are. These will include small-scale LNG carriers, regasification floating carriers and even floating power barges. These assets do not operate on their own, but are part of the ecosystem that would be built up. These assets will be on long-term contracts, providing services usually for infrastructure assets and the idea here is that the returns and cash flow should be quite steady.

You can of course put some gearing. But more importantly, these are what we call real assets which generates cash flow that investors are looking for. When these assets have been de-risked and are stabilised, we can put them into Keppel Infrastructure Trust, for example. Because an Infrastructure Trust can own such an asset, which generates reasonable returns, without being overly geared.

Neel Sinha from Maybank: Have there been any developments or updates in 2Q 2017 that you could share on the Sete Brasil situation?

LCH: We are constantly keeping watch and of course discussing with the various stakeholders. For now, things are still the same and there are no major developments.