

Keppel Corporation 3Q & 9M 2018 Results Webcast

Question & Answer Session

18 October 2018, 5.30pm, Keppel Leadership Institute

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
OTG	Ong Tiong Guan, CEO of Keppel Infrastructure
CO	Chris Ong, CEO of Keppel Offshore & Marine
CT	Christina Tan, CEO of Keppel Capital
TP	Thomas Pang, CEO of Keppel Telecommunications & Transportation

John Lim, retail shareholder: China's property market has not been doing very well after the government's cooling measures. Why is Keppel buying land in Nanjing? How's the market in Nanjing?

LCH: Good question. I think it's difficult to classify the Chinese market as one singular market. The cooling measures are having an impact on sales, but the impact differs from city to city. The target markets that Keppel Land China has focused on, generally have exhibited very strong supply-demand fundamentals.

One of these markets is Nanjing, the supply situation there is relatively tight. There is less than two years' supply in the residential market. There are some caps imposed by the local authorities on selling prices. We have pencilled our numbers based on those caps. Of course the caps limit the upside but because the caps are below the current market values in the secondary market, we would expect the sales to proceed quite well in the fourth quarter when the first phase is launched. Judging from other developments launched in recent times in Nanjing, we expect the sales to perform quite well.

Cheryl Lee, UBS: Hello, within the Infrastructure Division, net profit from 'REIT and Trust' was high in 3Q. What was driving this?

CHC: This is due to the divestment of a stake in Keppel DC REIT during the third quarter.

Cheryl Lee, UBS: On Tianjin Eco-City, what was the value of profit recognised on the sale?

CHC: We do not disclose the profit by plot, but suffice to say that it has helped to boost the share of profit from Tianjin Eco-City during the quarter.

LCH: The sale price on a per-square-metre basis of GFA is lower as these plots have higher plot ratios. However, on a per-square-metre of land basis, it is actually comparable to what was achieved in the recent two years. We are starting to see interest in sites coming back, although not to the same extent as two years ago. We see Tianjin Eco-City as a steady contributor to the Group in many years to come.

CHC: We have shown more information on the land sales by Tianjin Eco-City. Slide 60 shows the plot ratios, GFA, and prices per square foot for the land plots that were sold since 2014.

Cheryl Lee, UBS: For the Property segment, what would the profit for 3Q be if we excluded divestment gains, such as the gain from the Beijing commercial project?

LCH: There is only one divestment for the third quarter - Beijing Aether which contributed S\$122 million, so you can work out the sum.

Lim Siew Khee, CIMB: Hi there, for the qoq rise in operating profit in Infrastructure to S\$43 million, are there any one-offs, and how much?

CHC: For the Infrastructure Division, we had a gain from the sale of units in Keppel DC REIT which amounted to about S\$20 million. That's the only one-off in third quarter.

Lim Siew Khee, CIMB: Are there delays in property project construction in China?

LCH: Thus far, our projects are on track. We are watching this closely.

Jean, retail investor: In a September 2018 article by Upstream Online, it was stated Golar LNG is evaluating alternative shipyards like those based in China to build future FLNG vessels. Will this result in Keppel O&M facing more intense competition in this space?

CO: There will always be competition from various shipyards for the provision of solutions. We try to differentiate ourselves with our proven solutions like Hilli, which is cost-efficient and quick-to-market, and also leverage Keppel's track record for on-time, on-budget delivery.

Foo Zhi Wei, UOB Kay Hian: Could you provide a breakdown of the post-tax gains from the sale of Aether, the change in interest of Keppel DC REIT/Keppel REIT and other divestments? Secondly, why was Saigon Sports City's launch pushed back into 2019?

CHC: For the divestment of Beijing Aether, the after-tax gain is S\$122 million. There was a dilution gain in the second quarter arising from a private placement by Keppel DC REIT, amounting to around S\$20 million. There was also the sale of a stake in Keppel DC REIT which gave us a gain of close to S\$20 million. The last part is the change in accounting for some of the units in Keppel REIT from marked-to-market to equity accounting, which gave us a gain of about S\$20 million. You will see a total gain of S\$60 million arising from change in interest in Keppel DC REIT and Keppel REIT.

LCH: We are constantly evaluating the market for a good time to launch projects. The Vietnamese residential market, particularly in Ho Chi Minh City, is still very constructive. In the first half of the year, we did not launch many new projects but in the second half of this year, we would expect to see a few launches. It's really a question of timing these launches. We do expect to see, at the present time, the first phase of Saigon Sports City to be launched in the first half of 2019.

Gerald Wong, Credit Suisse: Congrats on bringing Offshore & Marine (O&M) back to profit. Were there any one-offs that boosted O&M this quarter, and can O&M stay above breakeven sustainably?

CHC: For the third quarter, O&M did turn in a profit. That's mainly because the operating profit has gone up for 3Q. It was also helped by an increase in interest income earned during the quarter. We had some shareholder loans from two customers for which we have collected interest income during the quarter. Some of that was one-off because there was catch-up recognition during the quarter. That said, O&M over the past two years has done a lot of rightsizing, which has resulted in the reduction of overheads and had helped to improve the operating profit.

LCH: We are very pleased that we have this quarter of breakeven. The team is working very hard to make sure that the breakeven is sustainable. As Hon Chew said, the hard work in reducing our fixed overheads is paying off. We are starting to see more enquiries, so we are cautiously optimistic.

Gerald Wong, Credit Suisse: For Tianjin Eco-City, the land sale prices on a GFA basis were lower than last year. Could Keppel have waited for a market recovery to achieve better prices?

LCH: That's an interesting observation and question, Gerald. Tianjin Eco-City is a major G-to-G project which we have been doing for 10 years. We have been profitable in the last two years. We expect that it will still take us a number of years to get Tianjin Eco-City fully developed. During this period, there will be market cycles but we will work with our partners to try to optimise the profit we can achieve from Tianjin Eco-City. We must not lose sight of the fact that, at the end of the day, it's really about having momentum. That momentum to bring in vibrancy and residents into Tianjin Eco-City is just as important as trying to time the market cycle in terms of land sales.

Jean, retail investor: I noted since July 2018, Keppel O&M had only won 2 projects of approximately US\$100 million. Is Keppel aiming to bid for any larger projects (e.g US\$500 million) on the horizon?

CO: The strength of Keppel O&M has always been the ability to stay in the competition, being able to provide solutions to the customers. We are always in competition for the projects available in the market and we always compete to our strength. As CEO has mentioned, there are more enquiries. We are cautiously optimistic but we also face greater competition.

LCH: We have always exerted a lot of discipline. It is very important at this point in time when the market is recovering that we continue to be disciplined about what we bid for. As Chris said, competition is still quite intense. Our goal is always to bid in a way that would allow us to make a reasonable margin on the projects that we take on.

Tay Peck Gek, Singapore Press Holdings: How would the latest guidelines on limiting the number of units allowed in a project affect Keppel's property business? How much of your residential landbank is in Singapore?

LCH: The guidelines have just been announced. Like all developers, we will take a look and factor that in when we look at land sites in Singapore. For Keppel, the Singapore market remains very important to us, but for the past 20 years, we have ventured outside Singapore and developed very good property businesses in places like China, Vietnam, and Indonesia etc. So we are not entirely dependent on the market here in Singapore. Having said that, we would like to think that the Singapore market will continue to have good opportunities for us.

The remaining units that we have in Singapore are 1,168 units. Most of our landbank is located outside Singapore.

Lim Siew Khee, CIMB: Should we be expecting a more positive trend in property in 4Q18? The profits for the last 2 quarters have been lacklustre.

LCH: We had a very good first quarter. Overall if you look at the nine months, we were up 110%. Of course, it was helped by some divestments as well as en bloc sales but I think we have done quite well on the property side. We are still seeing good conditions in Vietnam. For Singapore, we are a bit more cautious. We will monitor the latest measures to see what the impact is going to be, but like I said before, we are quite diversified in terms of property earnings.

Conrad Werner, Macquarie: Can you please provide more details around the lower fees in asset management and will they recover? Secondly, when do you expect the underlying property trading profitability to improve?

CT: Our CFO has already explained that the lower fee was due to the higher expenses for growth initiatives. Our asset management fee did not change at all. The other one was due to the one-off performance fees. Compared to last year, this year was a bit lower.

LCH: For the property sales, we have about S\$2.4 billion in our books. We won't be able to recognise these until they are completed. We expect to see some completions in the second half of this year. So it will depend not just on the sales, but on when we complete those projects that are located outside Singapore. For the first half of this year, we had fewer new launches in markets like Vietnam and China compared to last year. For the second half of this year, we are in the process of launching some new projects, which we believe would improve the sales.

Donald Chua, Bank of America Merrill Lynch: On the Singapore residential market, are there any plans to go ahead with the launch of Nassim Woods and Keppel Towers in the near future, post property curbs? Are there any potential delays?

LCH: Yes, we are going ahead with Nassim Woods. For Keppel Towers, we are relooking at the plans, we still believe that this will be a good project. We are now tweaking the yields for the new development, which may lead to a bit of delays.

Donald Chua, Bank of America Merrill Lynch: Any updates on the MoU with Vicinity? Can you share the fee structure? Why is Keppel going into retail malls in Australia?

CT: On Vicinity, most people would say that retail malls are unloved at this point in time, but I think that's where we find great opportunities in terms of being able to select some of the most defensive malls in this market and getting in for quite an attractive yield.

We are looking at more of the sub-regional malls within this portfolio, which have been very stable assets in the occupancy of 95% and above in over 5 to 7 years, based on non-discretionary spending by the consumers. We like this sector for its stability in terms of the cash flow it will generate. Even though it's an unloved sector, with less competition, we are getting a better deal. We are also finding a lot of opportunities to add value, so it is great from our point of view looking into retail malls in Australia at this time.

Cheryl Lee, UBS: For the O&M Division, may we have an update on the status of the FLNG conversion projects with Golar?

CO: On Golar Gandria, it's quite well publicised that with the exit of Schlumberger from OneLNG JV, Ophir and Golar are looking for alternate investors. The notice to proceed has been extended from mid-2018 to end-2018 and we will monitor the situation closely with Golar. For Golar Gimi, we are in advanced talks with Golar on the development of the Tortue Field in which Gimi is involved. The FEED has been completed and we are waiting for the notice to proceed by the end of the year.

Ansh, JP Morgan: Out of the 2 SSTEAC plot sales in 3Q18 mentioned on Slide 60, which plot sale was recognised in 3Q18?

LCH: Plot 26 sold in August has been recognised. There is another plot that will be recognised likely in the fourth quarter.

Derek Tan, DBS: Will you please help us understand the recent cooperation with three technology firms to develop more efficient data-centres. Is there a scope to plant a flag in China? For Keppel Capital, how scalable are the senior housing and education real estate sectors?

TP: Thank you Derek for the question. The various partners will contribute different services to the joint venture if there is a project that comes about. We will work hard to try to bring about new data centres in China. So, partners could contribute for example, in terms of equipment, design services, sales and marketing and so forth. The objective is of course, to ultimately build new data centres in China. We have to be mindful that IDC licence is restricted in China and therefore we need to rely on local Chinese partners to make this happen.

CT: Hi Derek, whenever we look at investments, we always look at long-term trends and fundamentals. So the long-term macro trend for aging population is there. Most of the world's population will be aging including Singapore. This is really huge scale in all countries, whether it is in the US, China, or all over the world. Senior living is a very scalable investment.

For the education sector, when I was in Vietnam, I was also surprised to find that Asian parents do put in a lot of money into education. Even in places like Vietnam, for kids that are 7 years old and below, the parents are prepared to pay about US\$1,000 a month just for education. So in terms of the size and scalability, we believe that both these sectors are indeed very scalable.

Simon Jong, DBS: Are you able to provide more insights into how the general offer for M1 and privatisation of Keppel T&T would potentially be financed? Could you share how the sales of the Garden Residences have been since July?

CHC: We have already started discussions with banks on the credit facilities for these, so we have already secured sufficient facilities for this purpose.

LCH: The sales at Garden Residences have been affected a little bit. We are still watching. So far we have not given any discount since it was launched. We have sold about 74 units to date, this is just under 50% of the units that were launched.

Lim Siew Khee, CIMB: Did you start recognition on the semi-submersible Awilco? If not, is it still on track for 4Q?

CO: The progress of the semi-submersible at the moment is mainly on procurement and engineering, so there is minimal recognition so far. We are on track for the actual construction to begin in 4Q.

LCH: Thank you. Ok. I think that's all the questions we have for this evening. Thank you very much for those who dialled in. Thank you.

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