<u>Keppel Ltd. FY 2023 Results Webcast</u>

Transcript of the Question & Answer Session

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LCH	Loh Chin Hua, CEO
CT	Christina Tan, CEO, Fund Management and Chief Investment Officer
KC	Kevin Chng, CFO
LL	Louis Lim, CEO, Real Estate
CL	Cindy Lim, CEO, Infrastructure
MSM	Manjot Singh Mann, CEO, M1

<u>Questions from Derek Tan, DBS</u>

Congrats on the spectacular set of results. You set yourselves a very high base for 2024. Could you give us a sense in terms of growth, acquisitions or divestments? What should we be expecting? Do you have a divestment target for 2024?

LCH: Thank you for the questions. Well, we have been working really, really hard for the last few years transforming Keppel. It was not done over a single year. And one of the biggest contributions from last year was the divestment gains from the sale of Keppel Offshore & Marine (KOM). And that took a number of years, but of course it was accounted for last year.

Besides the gain, I think what is probably important to note is that yes, we have quadrupled the profits and we have hit a record high in the Company's 55-year history. But what is most important is that we have really transformed Keppel. I think if you think back even five or six years ago, the kind of earnings that you see compared to what we have today. We have achieved one of the key tenets of Vision 2030, which was to move away from lumpy profits to recurring income and to be asset light. So, I think this is playing itself out very well and you can see that from the results.

Beyond the very good numbers that we have shown, I think for this year, obviously I do not have another KOM to sell, but I think if you compare continuing operations, we have also done very well. So if you take out the distribution in specie loss, last year's numbers were also more than decent; in fact, it was quite good. The Real Estate segment has contributed less, but given all the challenges that we have there, you can see we have also done very well. Infrastructure has been spectacular for us and we do believe it is recurring. We are working towards that.

For this year, our goal will be to continue to press on. You know, we are all quite an ambitious group. So it is not just me – we want to do even better and accelerate more. So, I think this year would be quite interesting. The external environment is quite challenging, but as I said in my speech, our businesses are in areas that are in demand, whether you're looking at infrastructure or connectivity, including digitalisation. In real estate, some markets are still finding the bottom, but there are some markets where the deals are starting to look more interesting. I will let Chris talk more on that.

So, we do expect to see more funds being raised, more investments to be made. This would help us in several ways. We will get obviously more fees, but we also would expect to see our AUM grow as well. And operations-wise, I think we are set to do the best that we can. So last year was a very high point, but it is by no means the high watermark. I think we expect to do better in the years to come.

On the dry powder for your funds, I noticed there is S$9 billion of embedded Funds under Management (FUM). Could you share a bit more colour on where this dry powder sits and which kind of asset class?

LCH: I will ask Chris to address the second question.

CT: Thanks, Derek, for the question. I think 2024 will be a very exciting year for us. Despite the volatile markets that we are seeing, I think that is where we also find good opportunities. We hear a lot of refinancing coming up, and with less debt available, equity players will have a good time trying to find some dislocations in the market and enter the market. Like we said, even last year, we have been very active in looking at deals in the market. The team looked at over S$300 billion worth of deals and then we funnelled through about S$14 billion of deals that we were more seriously considering. And we have indeed been in negotiations with various vendors and some of the deals closed recently. You have heard that the Enpal deal was closed by KIT on the third day of the new year. We are closing another deal soon which will be announced.

So actually, I think the pace of investments would be much faster in 2024. With all the global geopolitical issues and a lot of countries having elections this year, we believe that the government would be there to support a more benign market. As for interest rates, people are expecting some tapering off, lowering of the interest rates. I think that will actually all go really well for investments. The three segments – Real Estate, Connectivity and Infrastructure – they are actively working through some of the deals and we are seeing very interesting opportunities happening. And I think the difference is that Keppel, besides being an investor, we have really deep operating capabilities and that actually helps us in terms of extracting additional alpha, rather than just going through financing, structuring, and engineering in that sense. So we remain really excited about this year.

On your Infrastructure segment's operating income of S$655 million, just wondering whether you could give us some colour on whether it is going to be sustainable for this year?

LCH: Maybe I will ask Cindy to start first?

CL: Sure. Happy New Year, everyone. I think for the Infrastructure Division, we have always been very focused on improving the quality and resilience of our earnings. So it is beyond just tactical capturing of opportunities presented by energy market volatility. I urge us to look at the past twelve quarters of transformation we have carried out in the Infrastructure Division. We now have two platforms there, one being the integrated power business, the other one being the decarbonisation & sustainability solutions business.

To improve the quality and resilience of our power business, as you have heard from CEO earlier, we have diligently contracted longer-term retail power with very strategic customers. So nearly 60% of our electricity portfolio contracts[1] are long term, of three years or more. Besides that, we are also very diligent in expanding our generation capacity. As you have heard, we are the first to market in planting a 600 MW hydrogen-ready combined cycle gas turbine power plant. So this

[1] Based on Keppel's existing generation capacity.

means that we are constantly improving our margins, not just on the back of better electricity spreads but in terms of energy efficiency and generation capacity.

And number two, in terms of future-proofing, our power business is ready to capture low carbon energy demand not just in Singapore, but also in the region. This is where you see us also pushing ahead, in developing the power interconnect for the low-carbon electricity trade in ASEAN. We are working hard to push the development of such an ASEAN power grid, which will not only benefit Keppel or Singapore, but also the region. As we all know, the more resilient the region is in terms of energy security and development, the more we can mitigate the volatility in Singapore.

On the decarbonisation & sustainability solutions business, as you have heard, we have actively secured long-term contracted revenue, not just from energy efficiency solutions, but also from waste and water solutions. And the indexation of these revenue to be translated into earnings will help improve the resilience of our earnings and we have also actively diversified into new geographies. We have pursued diligently, in the past few quarters, new geographies where we see a fundamental growth in the demand for sustainability solutions. To enhance resilience and quality of the earnings, we have decisively shifted away from EPC projects. So, the lumpiness and the type of feast-or-famine earnings profile is behind us.

LCH: Thank you, Cindy. You have covered it very well. Just want to highlight a point, not specific just to infrastructure, but that the transformation at Keppel is not just a cosmetic one. You can see the whole organisation is transforming, including the businesses or the segments that we have, whether it is Infrastructure Division, M1 or Real Estate Division. We are relooking at how to make ourselves relevant to the world and how all the different divisions can come together so that we can be a stronger contributor to Vision 2030.

<u>Questions from Joy Wang, HSBC</u>

On infrastructure, can you talk a little bit about the Power Purchase Agreement (PPA) and your strategy around longer-term contracts? How could that shift your profitability? Also, you have talked about Energy-as-a-Service (EaaS). When do you think this business will be mature enough for you to actually report separately from your existing power business?

LCH: Can I ask Cindy to answer the question?

CL: On the PPA signed with GlobalFoundries, fundamentally, we do not take fuel volatility risk. That is very important. In fact, currently 100% of our portfolio is either fully hedged or indexed. I think we are commercially disciplined when it comes to securing contracts.

More importantly is the strategic partnership with our client. Not just GlobalFoundries, even across the rest of our Infrastructure Division, whether it is on decarbonisation or sustainability solutions, we see ourselves as a long-term partner to our customers. So, for large strategic customers, as well as emerging customers with the potential to grow, we want to be the solution provider for their energy requirements and decarbonisation solutions. So this kind of dovetails nicely to the second question you have on EaaS. In fact, on the contrary, I do not foresee us breaking down and reporting each of our pursuits on a standalone basis. Increasingly, we will be converging towards being a one-stop solution provider for the customer. So for example, even if we supply cooling as a utility to our client, they might also have demand for renewables or for carbon services.

LCH: I think your question is more on how you scale it up, right? So, eventually as we get to the right scale, there are also opportunities for us to securitise some of these contracts and that would then allow us to grow even faster.

On the fund management side, would you still be looking out for platform deals or would you be focusing on the first closing of Aermont?

LCH: I think the announcement on the proposed acquisition of Aermont has really kind of put us in the big leagues. People are now starting to take notice that there is this group called Keppel and Aermont is a well-regarded platform. Someone told me it is the last remaining independent real estate management platform in Europe that is worth buying. And so we are very pleased that we are progressing with that. We have also been approached now since the announcement, by various groups. But as I said during the announcement for Aermont, it is a very rare deal which checks the boxes for both sides. So if I have a list of what I am looking for and Aermont has a list of what they are looking for, I think on both our lists, the boxes will all be checked. In other words, it is not easy to find the right platform, so we are open to it. As we have said before, we are growing organically and we want to grow organically very strongly, very fast, as you heard from Chris. At the same time, we are open to inorganic growth, but we have to find the right platform.

On China, in terms of real estate, is it actually an onshore fund or offshore fund? And also just on China assets, do you see risks of impairments or valuation losses going forward? Thank you.

CT: On the China fund itself, actually the monies came from outside of China. Very strong support because I think they still believe in the China story for the long run and I think they see that Keppel offers quite a differentiated proposition in terms of our capabilities, by creating sustainable urban renewal (SUR) solutions, we are able to improve on our net operating income (NOI). So like every dollar you saved on NOI, using a cap rate of 4%, you create S$25 in value. So if you save S$10 million, we actually create about S$250 million in value, so it is quite substantial.

So when we even talk about China assets, whether there is impairment and all that, the truth is the market is a bit stressed right now. So cap rates may have expanded, but in terms of our capabilities, because Keppel is quite unique in coming up with SUR solutions, we are able to actually improve the leasing, the NOI of the assets, and that in turn actually sort of rebalances it. So I guess that is why the external investors find that Keppel is quite an interesting, differentiated manager, compared to others.

LCH: Maybe just to supplement that, if your question is relating to our own balance sheet, I think I have already pointed out that while China is still an important market for us, we have de-risked significantly over the last few years. Most of our holdings there are in landbanks that are kept at historical costs. So even in today's more challenging markets, we still see quite good headroom. Because the landbanks that we have were accumulated quite a number of years ago.

<u>Questions from Mervin Song, JP Morgan</u>

Congrats on the very strong results. Maybe we could go to slide 26 in terms of the split in the length of contracts. Is it a good mix or do you expect to increase the proportion of contracts that are of a much longer duration?

LCH: Cindy, would you like to take this question?

CL: Singapore's power market is fully liberalised. It is a mature market and it is very integrative to the upstream gas contracting and also the downstream growth in demand, and also the type of customers. So when it comes to portfolio mix, it is not cast in stone. We are very driven by the spread that we contract at and also timing. And more importantly, the type of customers.

So, a key point to note is that our Keppel Sakra Cogen Plant is under construction. It has made very healthy progress, and is about 35% completed as at end-December 2023. So it will start commercial operations in early 2026. From now till then, we are also actively managing or rebalancing our portfolio to make sure there is resilience, and will allow flexibility for us to capture any upsides.

In terms of the infrastructure business, have you re-contracted everybody to the new market norms or are there still some legacy contracts which are perhaps on the lower margin side still in place?

CL: The traditional power market usually has spot, contracts at 6 months, 12 months or 24 months. Some years ago, some introduced 36 months. Then the energy market went through a bit of a, I would say, mature development and the GenCos are very agile in responding to the changes in the market. There were also regulatory interventions, as you have heard. All in all, the legacy contracts would have dropped off by now, if you were to look at when the depressed market was vis-à-vis the number of months that have lapsed. So this would also mean at the onset of the energy crisis and volatility, retailers or Gen-tailers who are diligent and sharp enough to capture new contracts would continue to benefit from it in the coming months.

<u>Questions from Paul Chew, Phillip Securities</u>

Will electricity generation margins in Singapore remain stable until 2026, when the new supply is turned on?

LCH: I guess he is referring to the Sakra Cogen Plant. Can I ask Cindy to address this?

CL: Of the total number of generation units in Singapore, if you look at the age profile, about one-third will reach its end of life by 2030-2035.

The efficiency of our fleet is also Keppel's competitive advantage. So if you ask me about generation margins, it is a function of efficiency and a function of gas upstream contracting strategy, which is commercially sensitive. So, we would not have taken the opportunity to plant it, if we do not have confidence in the performance of the new unit.

Let's put it this way, this is further cemented by the fact that post our planting, you see Energy Market Authority (EMA) calling for a Request for Proposal (RFP) and giving a very strong signal that the foreseeable power demand in the next five years is going to be very healthy.

Is there an opportunity to enter AI or GPU-only processing data centres, if yes when?

LCH: Definitely AI is very interesting, adding very strong demand into the data centre space. We have seen that some of these data centres now are getting bigger and bigger. So I think there are great opportunities for us, whether we need to go into a data centre that is only for AI, I'm not so sure.

But obviously, we are always dependent on what our customers are looking for. I think the key point here is that with AI, and it goes beyond generative AI, I think there is certainly very strong interest in having more data centres and we have seen various announcements in the last week or so.

The key contribution for Keppel is that we are very much at the leading edge in terms of developing solutions that would lead to more energy-efficient data centres, data centres that do not use potable water to cool. And these are areas that Keppel has been working on for years, so it is not something that we just suddenly thought about. And I think that puts us in a very strong position. One of the key things that Keppel can do that very few, if any, can do is that we also have an Infrastructure Division, that is very much focused on looking at renewable energy, looking at hydrogen, looking at cooling.

So all this put together puts us in a very strong position to solve this challenge, which is how to provide more computing power for the data centres, yet take care of making them more sustainable, use less water, emit less carbon, etc. So these are things that Keppel is very much in a position to do.

And of course not to forget, data centres are also quite capital-intensive. So, for us, we already have a well-proven ecosystem of capital recycling. We create private funds to co-invest. And then after the asset is mature, we monetise them through the REIT as a strong sponsor, to KDC REIT.

So, all this puts us in a very unique position in terms of playing our part in this digital transformation.

<u>Questions from Brandon Lee, Citi Research</u>

What is the expected timeline to divest the S$6.3 billion of residential landbank and inventories? What is the contribution from China for this S$6.3 billion? And if China remains challenging, are there alternative plans to divest these assets?

LCH: So, if you look at the S$6.3 billion, we have both the landbank, as well as our credit notes from Asset Co.

As I mentioned, Asset Co has about S$950 million in cash. The dayrates, charter rates are all improving. Obviously, we are hopeful that we will be able to take advantage of increased enquiries to see how we can bring forward the repayment of these credit notes.

As far as landbanks are concerned, we have been actively divesting, including in China last year. I will let Louis add some colour but we have done some divestments, including in China. It is more challenging for sure. But that has not stopped us from continuing to monetise. And as I have said before, we do have a pool of assets. This will allow us to bring assets that might have been planned (for divestment) in later years, to bring them forward, if for whatever reasons, the assets that we had planned to divest in the current period face some challenges. So there are some optionalities.

But maybe I will ask Louis to also talk a bit about this.

LL: Just in terms of the asset monetisation for real estate, I think, as CEO and CFO shared earlier, we had gains from enbloc sales and divestments of about S$105 million in 2023. We unlocked

S$94 million in value from a project in Chengdu, China. So we will continue to monetise. We have a landbank still of about S$2 billion across our markets, and China comprises about S$1.1 billion.

We have about 16,000 units more to sell in China. But I think as we look across the Chinese market, we have to time it right. When the time is right, including this year, we also have objectives to divest some of our assets.

In your 2024 New Year Message, you mentioned that Keppel will continue to grow FUM to reach S$200 billion by 2030, including through exploring opportunities to acquire other platforms to accelerate growth in your Infrastructure and Connectivity segments. Is it correct to say that you will no longer explore further acquisitions of real estate platforms and will instead focus on infrastructure and connectivity platforms? If so, what type of valuation multiples do you expect to pay?

LCH: I think it is true that we are looking. We have been approached from across, I would say, all three segments. But with the acquisition of Aermont, we will be quite strong in the Real Estate segment. We are already quite strong in the Infrastructure and Connectivity segments, but we are looking to diversify a bit.

In terms of valuation multiples, I think you know, we have been quite prudent. I think we are paying something like 13x EV/EBITDA multiple for Aermont. So I think for Keppel, you know, we are really looking for a win-win situation where we can not just be seen as an exit for the partners, but more importantly, coming together to create a bigger pie for everyone. And I think that was really the main rationale for both Aermont and Keppel in pursuing that partnership.

<u>Questions from Foo Zhiwei, Macquarie</u>

Congratulations on your very strong set of results. On your asset monetisation, momentum has clearly slowed in 2023. It was a challenging year. So I am curious to hear what you think about asset monetisation in 2024. What should we look at? What is the number that we should pencil in?

LCH: I think it is true. Our asset monetisation has slowed. Because quite a number of the assets that we have in the list are real estate assets.

But as you have heard from Louis and CFO, you see that we have still managed to monetise including in, if I can say, very difficult markets like Myanmar. We have also been able to monetise. You must think about it – these guys managed to sell something in Myanmar, which is not easy.

So it shows that my colleagues are all very focused on getting this done. And we have committed to getting it done. We are still looking at this S$10-S$12 billion, cumulatively by 2026.

So this is the kind of number that we are shooting for. And I have shared earlier that Asset Co is doing well. Things are improving. We are starting to see that it is not just improving, but we are starting to see S$950 million in cash in Asset Co. It is a clear sign that things are performing well and Asset Co is getting good enquiries for the assets that we have there. So, we are hopeful that we will be able to accelerate that, and we have about S$4.3 billion in credit notes.

So the S$900-over million is not in the monetisation numbers, because it has not hit our books. It is at Asset Co. So that would be very big and as Louis said, we are still looking at monetising our landbanks. And, you know, in the way we approach monetisation, we want to get the best price that the market can offer.

We don’t have to sell. We’re not a forced seller. But at the same time, we also look at opportunity costs because if our assets are kept at historical costs and there is a good time for us to divest - of course, we all want to divest at the peak – but if there is a decent opportunity for us to divest, we will take it because we can redeploy the capital to earn more.

You announced in your Infrastructure segment report that you had one large customer of about S$1.9 billion revenue contribution. Who was that?

LCH: Maybe I ask Cindy to take this question.

CL: I think you are referring to Energy Market Company (EMC), that is the wholesale market, the clearing house for our sales of electricity.

In 1H 2023, your single external client was EMC, also your biggest contributor at about S$1.2 billion. So, in 2H 2023, there was actually a revenue decline to about S$700 million. So, revenue from EMC declined, but your net profit still rose and the net margin improved significantly, from 11% to 18%. I am quite curious to understand how that dynamic actually works.

CL: Well, we tend to say this is part of our competitive advantages, so beneath it, if you unpack the number, there is a component of gas contracting. There is also a component of efficiency and there is a huge component on the availability and the reliability of the generation.

So say, if you happen to be suffering from unplanned outages during a tight market, you will have downsides. Therefore, the quality of our operations and maintenance in our operating assets is very important. This applies not just for the power generation but also for waste-to-energy and our water treatment assets. When they are not available or when you did not plan for the outage, the penalty of buying in a desperate manner from the marketplace is going to create damages to your financials.

I roughly understand that. But that was talking about just efficiency, maybe could you help us understand, in terms of how you derive that margin expansion? I suspect it comes from the power side, considering that EMC is probably where most of your spot electricity sales go to. So, considering that spark spreads were actually down in 2H 2023, does that mean that this 18% net margin for 2H 2023 is the sort of baseline that we should be thinking about your contracted positions going forward?

CL: We will keep it short, let’s not get into the technicalities. Since last year, we don't have any of our customers on spot. That is number one.

And number two, the contracted spread usually will be protected in the sense that it is either hedged or passed through. So, revenue in terms of the electricity clearing prices, is just a guideline.

We focus on spread. That is the price risk management part.

LCH: I think he's trying to understand how come your spread is improving despite the market.

CL: It is a function of gas price. It is also a function of efficiency of the machine.

LCH: Okay, thank you.

<u>Questions from Lim Siew Khee, CGS-CIMB Research</u>

Can I just understand, on the quantum of growth of the Infrastructure Division, is it because you actually managed to very opportunistically close contracts at higher spreads from all the older contracts that rolled off? So, I know that your profitability will be sustainable. But we are trying to understand whether the growth could maybe just be steady, because you have actually rolled off, you have already recontracted all the older 2- to 3-year contracts, in the past two years.

LCH: Cindy, you want to take that?

CL: By the same token, as you progress along, there will be customers who will be coming on-stream to look for electricity contract purchases. So, our commercial team and our retail team are, like I said earlier, laser-focused on how we respond to customers' RFPs for electricity. The healthy spread, let me just emphasise, it is not taken for granted, it is a portfolio approach. There are times whereby we did not want to engage in a price war or race to the bottom. So that is the key. On contracting, the way we contract our portfolio allows flexibility and to us, flexibility is very important. Even the upstream sources of gas – the flexibility of your gas supplies is very, very important. So it is really a secret sauce, which I think, over the past quarters, we have demonstrated that even during the most trying times, we remained disciplined.

LCH: Cindy is like a very good chef – always invites you to her place to cook you a meal but she will not tell you what the recipe is.

Just to confirm, the increase is mainly from power and there are no opportunistic gas sales, right?

CL: Well, if you look at the spot gas now. The spot gas price does not allow any opportunistic gas optimisation. But for us, I think we have the benefit of not depending on a single source of gas.

You mentioned the higher asset management net profit was mainly due to fee structure change, could you elaborate on that?

LCH: So this is the process that KIT went through to change or revise its fee arrangement, which was approved by their unitholders at an extraordinary general meeting last year. So this one has kicked in and has resulted in a higher fee income.

But of course, this higher fee income is on the back of us actually creating more value for KIT unitholders.

CT: KIT made a special distribution out of Ixom's value creation? So that was actually quite a large distribution to unitholders. And on the back of that, there were some fees related to it.

LCH: So it is like performance fees that kicked in.

What is the valuation gain in the Infrastructure segment?

CT: Valuation gain in the Infrastructure segment relates more to the private funds. So that is from KAIF (Keppel Asia Infrastructure Fund I).

We had a land sale in SSTEC in 2H 2023. So that actually clocked in quite fair bit, about S$30 million of gains. Do you see more opportunities to divest in 2024?

LL: We have been in SSTEC now for over 15 years. We have the land at historical cost, so any land sale is quite accretive to us and we do continue to see opportunities as there is a pipeline of land plots to be sold. It will be agreed with the partner on when to release the land for sale.

Finally, for Chin Hua, you mentioned that you are looking at an S-curved growth. So where are we right now? You are not talking about S-curve profits, you are talking about the growth momentum. So just wanted to hear your views on why you used S-curve?

LCH: I think you can see that, as we restructure and transform, our original high was quite high. This was back in 2013, when the group had quite a big year. So from that point, we went through the history of what happened with the oil price and how it badly it affected KOM, so we kind of bottomed out a few years ago. I think we can see that the last two years have been quite transformative.

And as I mentioned, it is not just about the financial numbers, but it is really how Keppel is now positioned for future growth. When it comes to growth, I mean profits are important, but it is really how the market will value our profits.

So we are hopeful that as earnings become more recurring and we become more growth-oriented, analysts like you will start looking at applying a growth multiple to our earnings. So the growth will come in various forms, it will come from obviously profit growth, but I think more importantly is the type of earnings that we have, the quality of the earnings. And the type of earnings that are recurring will hopefully allow the market to apply a growth multiple rather than looking at the traditional way, where you look at price-to-book, discount-to-RNAV, etc.

Question from Goola Warden, The Edge Singapore

Congratulations on your excellent results. As an alternative asset manager, what are your priorities in terms of the different groups of investors, such as Keppel shareholders and your REIT unitholders, as you get towards your S$200 billion target? Will the REIT unitholder interests still be protected?

LCH: The short answer is yes. But I think, what is probably more important is that as we position ourselves as a global asset manager, we can only be successful if we continue to put investors' interest first.

Of course, we have many stakeholders, including, of course, our own shareholders. And I think our shareholders will know that our interest is aligned with the shareholders' and our investors in the funds and the REITs that we run. Where there are situations where there is a potential conflict, we have very good, strong corporate governance to deal with interested person transactions. But I see that taking care of different stakeholders' interests is very paramount to the group.

Specifically to answer your question on unitholders for REITs or our LPs for the funds: As a global asset manager, we cannot not look after their interests. If we do not look after their interest, we do not have a business. I think a case in point recently, which was announced by KIT, is perhaps a good demonstration. Through the good work done by KIT and also its sponsor, our Infrastructure Division, we were able to work with the National Environment Agency to extend the contract for Senoko. It was coming to an end. I think it clearly shows that we can work in a situation where we are creating value for the unitholders of KIT, and also at the same time, it is good for Keppel shareholders because obviously we will earn fees as well, for the Infrastructure Division as well as our asset management arm.

But at the same time, we are also an investor. We have shares in KIT, so we will also benefit as a unitholder.

So I don't see that there is any cause for concern, as we push towards S$200 billion FUM. If anything else, I would say that investors in our REITs and also our LPs in our funds should be very comfortable that we will continue to look after their interests while looking after the interest of our shareholders.

<u>Question from Ee Tian Chor, Retail Investor</u>

A big chunk of profit from Real Estate was from valuation gains. With China's real estate slump, how bad will it impact future earnings? Would there be any impairments?

LCH: I think that has been dealt with between myself and Louis, so I will not go further into it.

<u>Questions from Joel Siew, DBS</u>

Congrats on the good results. I am just wondering if you have an internal gearing ceiling and has this changed in the new environment with higher interest rates right now?

LCH: I will ask Kevin to address the questions.

KC: The gearing is obviously something that we have managed very closely, as far as what we have said. We have an internal ceiling, not to cross 1x. Obviously, as CEO has mentioned, as the profile of our earnings changes, then we expect that to be easier to manage as we pivot our organisation.

Regarding your operating cash flow, I noted that your working capital deficit is rather high. Just wondering which segments are consuming this and will this continue?

KC: The increase in working capital is essentially in relation to some of our projects that we continue to build. It is a timing issue as far as work that has been done, but with collection coming in later on. So that is the explanation for working capital increases, primarily in the Infrastructure segment.

What would the working capital deficit look like going forward?

KC: The working capital deficit, I think you would expect it to narrow as we go forward with our change of plans, as our businesses evolve going forward. But, as it relates to some of these projects, you will continue to see some gaps in our working capital because there is a timing difference as we continue to build these projects. But you are right to say that over time, if you look at the profile of our earnings, the working capital deficit you have seen, that is what you would expect to see.

LCH: I think generally you would expect it to come off because of two things. One, we are not actively buying landbanks, or land for development for sale. Because those will all be classified as working capital. Also, in the past, I mean, a long time ago, we were doing all those rig constructions on deferred payments. So that required a lot of working capital for KOM in those days.

Now, for all the projects that Cindy takes under the Infrastructure Division, there are milestone payments. So this working capital increase is more of a timing issue as Kevin has said. We have been very, very focused on making sure that our balance sheet is managed carefully.

The other thing I will add is, as Kevin has said, we kind of transformed Keppel's earnings. The net gearing also becomes less meaningful. So you see that in more recent times, we have been reporting the Net Debt to EBITDA so we will continue to develop that as a measure. As you see the changes in our earnings, that is probably more of the metric to focus on, especially as we clear our landbank or credit notes, then it becomes a little bit more clear. And maybe at a subsequent results briefing, we will also try to dissect that to give the market a better sense of how we are approaching some of these debt metrics.

<u>Questions from Dexter Low, Bloomberg</u>

I **know a lot of people have asked you this question. Is China still your biggest presence in terms of residential and commercial land – you have mentioned that you are going to divest from China, but is it still going to remain your biggest market in the long term? Are you progressively trying to divest in the sense that you will gradually reduce your exposure, because it is a big part of your portfolio? In terms of your outlook for China, Evergrande obviously liquidated this week. Do you think there is still more to come or worse to come? Keppel is looking to monetise its landbank. We hear from a lot of asset managers right now that it is hard to find buyers in the Chinese market, which is facing huge discounts. Are you facing the same challenge as well?**

LCH: Thank you for your question. I think first and foremost, we are a bit ahead of the game, because as I said, we have been de-risking from China since 2017. As I said, we have not only sold over S$3 billion of assets since 2017, making a profit of S$1 billion, but we have also brought back about S$5 billion worth of RMB. That is because our business model has changed. We are no longer buying land, not just in China, we are not buying land almost everywhere. When we buy land to develop, it will usually be as part of a fund. So it is not just strictly on our balance sheet. That is something that has changed for us.

The other thing I wanted to say also is that you might have caught that we had announced last year that we have relooked at our China playbook. Keppel has been in China for 30 years. We have done very well there. We still believe that China is a very good market, in the long term. We will continue to be engaged there. But the things that we will do there will change. So it does not mean that we will continue to do more residential land development. We had relooked at our playbook, looking at what China needs today. What are the areas in which Keppel can bring value to the new China? Also looking at what are the areas that policymakers in China are encouraging and areas that they are discouraging? And actually, we find that we have quite a lot to offer for the new China, but it may not be in the old, traditional ways of building homes for sale. So I think that is the change that you should factor in.

Will it remain your largest market or largest focus going forward?

LCH: We have said we are going to be a global asset manager. So, it will be an important market, but it cannot be our only market. The Aermont acquisition is a clear indication of Keppel's move to be more global. And it is not just about whether it is China or not. It is really more global versus say, Asia Pacific.

So does that mean that Keppel will focus more on Europe and US in future, instead of Asia?

LCH: Well, we are growing. So if we are going to grow to S$200 billion, it does not mean that we will go to Europe and we stop growing in Asia. Not everything is in black and white. We are just saying that we are growing. So we are going to be global. We will continue to be active in Asia-Pacific, but we are also growing in new areas.

Keppel is going through a restructuring and got a huge profit from the sale of KOM last year. Do you foresee any more core sales as part of your restructuring or sales of any core units?

LCH: We do not speculate on these things. I know you would all like to know. But when the deal is done, we will tell you. I can't tell you anything for now.

On 19 Nassim, is there a reason why the sales have not been as high as your other projects?

LL: On 19 Nassim, we have sold about 15% so far. The Additional Buyer's Stamp Duty (ABSD) rules were changed last year, so that has slowed demand. We are still continuing to see interest from buyers. We have quite a lot of time to play with, as we have a very small ABSD, which we have actually already paid for, because we own most of the units when we redeveloped 19 Nassim. So the time pressure on us is a lot less and even for the Qualifying Certificate, it is up in 2026. So we have time to sell our units.

LCH: Thank you, Louis.

<u>Question from Paul Chew, Phillip Securities</u>

Can you share some colour on your conversations with funds when building AUM for infrastructure? What are the attractions of working with capital and potential pushbacks?

LCH: Chris, can you take this?

CT: Thanks, Paul. For infrastructure, the investors are finding the sector really attractive. Because like we say, infrastructure is really essential services with very good cash flow and it is inflation-hedged. So there is a lot of interest from investors. And I think what is really unique about Keppel which they like is that we are in the right space, at the right time. We are providing solutions, whether it is for clean energy, clean water, clean environment etc, and that is what the world really needs with growing urbanisation trends. So, Keppel is really in the right segments and we have deep operating capabilities in the various segments that we have, generating more value for investors.

And I think they also like the fact that we are in digital infrastructure, so I think there is no other fund manager like Keppel who can build a subsea cable from the West Coast of the US through Guam to Singapore, and then linking up the rest of Asia. I think they find that all these are very unique skillsets or operational capabilities that Keppel has, that they cannot find working with other managers. So, this remains something which investors all like.

Thirdly, Keppel remains very focused, because we are in operations. So we are very good in terms of value creation. We may not announce everything that we are doing for private funds, but the more visible ones that you see are in KIT, where we actually create a lot of value, even with Ixom, generating extra additional cash distribution for investors, growing the EBITDA from S$120 million to S$200 million, even during the COVID period. Keppel is always looking for ways to improve our performance. So we are not the kind of managers that will just wait and sit there, hoping that success is based on financial structuring or engineering, but we are more operational in terms of our capabilities. I think the value creation bit is what our investors find interesting. And because infrastructure is the asset class where a lot of CIOs are looking to allocate more capital to, so we are seeing strong growth in this area.

Questions from Choon Kiat Tan, Retail Investor

Keppel has signed various memoranda of understanding (MOUs) in the last couple of years. Any indications of which MOUs are getting closer to execution stages?

CL: The various MOUs are healthily progressing. Some are multi-year partnerships, some are very tactical and executable. So those relating to EaaS, for example, that we announced last year in Vietnam and Thailand, translated into contracts and some of them are already contributing to our earnings.

In your opinion, how is Keppel progressing on regional ASEAN grids with MOUs and import approvals from EMA?

CL: So you would have heard, as part of building the energy resilience of Singapore and the region, as well as the pursuit of decarbonisation by using more renewables, the ASEAN power grid is a very strategic imperative for Southeast Asia, and Singapore has played a very leading role in making this happen. To this end, Keppel has secured 1.3 GW of conditional approvals for power importation projects. This is progressing pretty healthily. As we all know, such projects entail many considerations, such as legal jurisdiction, regulatory, operational and technical. So it will take a bit of time to iron out the developments, but happy to say that we are the first that managed to flow multi-border renewables across Laos, Thailand, Malaysia and Singapore, so this learning curve and track record position us even better in risk management and in bringing such import projects to fruition in time to come.

How is your progress on MOUs for low carbon energy alternatives, given that Greenko in India appears to be making a lot of ground in that area?

CL: This is linked to the earlier comment on MOUs. If I want to categorise our signed MOUs, a big chunk would be related to low carbon energy. In fact, we are the forerunner, in developing the low carbon energy value chain in a scalable manner. Other than the EaaS MOU, which I mentioned earlier have translated into contracts or are already delivering, some of our low carbon energy MOUs, with Greenko for example, or with Incitec Pivot or CQ-H2 in Australia, have reached FEED or are at pre-FEED stage. For the CQ-H2 project in Queensland, I am happy to report that our consortium is one of the six successfully shortlisted for the Hydrogen Headstart Programme in Australia and this is going to be an interesting development to watch.

<u>Questions from Anita Gabriel, The Business Times</u>

The lion share of Keppel's revenue stems from Singapore. Can I have an idea on how this geographical spread has changed over the years and how much of that happened in recent years owing to the transformation programme? And what can we expect going forward?

LCH: This is a good question, Anita. First and foremost, if you look at how Keppel's revenue has changed over the years, two of the biggest contributors were from KOM as well as from the old Keppel Land, in terms of residential development for sale. Of course, KOM is no longer part of Keppel. And even in the Real Estate Division, as we have explained, we are no longer focusing on land development for sale. We are focusing on recurring income from the SUR programme that we have. So, in its place now, the biggest contributors are from the Infrastructure Division and also from M1, under our Connectivity segment. And at this moment, most of that revenue is generated in Singapore. Of course, you have also heard from Cindy, we are not forsaking Singapore. We are in fact doubling down, planting a new power plant in Singapore. We are importing renewable energy as well. But the Infrastructure Division is also looking outside Singapore. So I think you will start to see that having an impact over the years to come.

The other thing to remind ourselves is that as we become a global asset manager and operator, revenue from the asset management side is not as significant because we are really focusing more on AUM and net profits. But because we are an operator, the revenue side is important from that perspective. So I think there is a bit of that change that we have to take into account.

On the asset management side, while we book our asset management fees in Singapore, many of the assets that our funds invest in or our REITs invest in increasingly will be overseas. And this is not very different from how Singapore has grown as a financial centre. It does not mean that all the activities happen here. But this is where we have our headquarters. This is the headquarters of a global asset manager, so we could have earnings in different parts of the world outside Singapore, but it gets recognised here. I hope that answers your question.

<u>Questions from Mervin Song, JP Morgan</u>

Just a couple of questions. For M1, I think one of the key growth drivers was the return or recovery of the roaming business, how far are we from pre-COVID levels? And in terms of cost savings from decommissioning the old stack, can you help us quantify the cost savings going forward?

LCH: I think Mann was hoping to get away without a question. Mann, can you take the question?

MSM: I do not think we have reached the pre-COVID levels yet. I think we are close to about 80% of pre-COVID levels. My suspicion is that they may not ever reach pre-COVID levels, because I think people have learned to live without traveling all the time. So I do expect a marginal increase from where we are, but I do not think we will ever get back to pre-COVID levels on roaming.

On decommissioning, we have completed our consumer migration to the new platform. We are now looking at migrating our corporate customers, our prepaid customers, and then finally, B2B enterprise business as well. So as we migrate to the new platform, we are decommissioning the legacy stack, which has a positive impact on our bottomline, saving costs. This year, because it is a staggered decommissioning, we expect close to about S$10 million to our bottom line. And as we go along, the full-year impact would be seen in 2025 or 2026 going forward. But of course, like I said, it is a staggered decommissioning plan, and we have been very careful in decommissioning the legacy stack so as to not impact the service to the customers.

On your Vietnam business, obviously, there are changes in land reform and a significant drop in mortgage rates, how are you thinking about that business? Should we see acceleration in terms of units sold or launched? And would there be opportunity for us to eventually buy something from Saigon Sports City?

LL: We have been in Vietnam for as long as China – over 30 years. It will remain one of our key markets in emerging Asia, alongside India and China. But as we have shared, we are also pivoting to the developed markets in Asia, as well as Europe with Aermont. Specifically in Vietnam, I think one of the issues at the moment, as you would be aware, is the anti-corruption drive that the government is pushing hard on, and this has created an air of caution. And so that is what creates quite a lot of delays in terms of the sales permits or construction permits that we can get to launch projects. Notwithstanding that, I think the underlying demand in the market is very strong. So when we do launch, we actually sell very quickly. Our partner recently had a project which had about 1,000 units. Within 2-3 days, they sold about 90%. So the underlying demand is there and I think what we need to do is navigate the system to get the approvals to launch our projects, including Saigon Sports City.

Closing remarks by Loh Chin Hua, CEO of Keppel Ltd.

Thank you. If there are no further questions, I want to thank everyone for attending this call and asking very good questions for myself and for my team. Have a great Chinese New Year and Lunar New Year, wishing everyone all the best.

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