

Keppel Corporation 2H and FY 2020 Results Webcast

Transcript of the Question & Answer Session

28 January 2021, 5.30pm

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
OTG	Ong Tiong Guan, CEO of Keppel Infrastructure
CT	Christina Tan, CEO of Keppel Capital
CO	Chris Ong, CEO of Keppel Offshore & Marine
TSY	Tan Swee Yiow, CEO of Keppel Land
TP	Thomas Pang, CEO of Keppel Telecommunications & Transportation
MSM	Manjot Singh Mann, CEO of M1

Question from Terence Chua, Phillip Securities Research

What is the rationale of restructuring the Keppel O&M business into two additional units, Rig Co and Dev Co? Why can't the divestment of existing rigs be done without the additional restructuring?

LCH: That is a good question, Terence. I think this is something that the Board of KOM and management have actually been working on very intensely since we announced the strategic review a few months ago. In the strategic review, the goal of creating these three different divisions is really to clearly identify what are the legacy assets, ring fence them, make it very clear what is the path to daylight for these legacy assets. We can't solve all these immediately, but I think there is a very good plan to resolve these legacy assets. In the meantime, we also do not want to burden the operating company, which itself has a very important task to transform to make itself more relevant in terms of the changing external environment today, especially with the accelerated energy transition.

Question from Cheryl Lee, UBS

What are the examples of "floating infrastructure" and "infrastructure-like projects" that Keppel O&M is interested in, post restructuring? Does this include FPSO and FSRU? If it does, how does pursuit of these projects fit in with Keppel's vision of being asset-light and people-light?

LCH: I will ask Chris Ong, CEO of KOM, to address this.

CO: Thank you, Cheryl, for the question. The answer is yes. FPSOs and FSRUs are still within the portfolio of products that we will go after. They reinforce our capabilities of being an integrator, and also an engineering, procurement and project management company. On top of that, we have examples like our FLNG projects in the gas arena, like Gimi, where we utilise the different strengths within the Group to develop projects. This fits into Keppel's vision of being asset-light and people-light.

Question from Mayuko Tani, Nikkei

You have announced to restructure KOM organically, but you also said you are considering inorganic options. What does this mean? Are you still actively looking for buyers for KOM? If you find a buyer, is selling KOM an option, or will you sell partly?

LCH: Well, Mayuko-san, as I said in my response to the first question, the energy transition is upon us. It has been accelerated and the headwinds being faced in the offshore and marine industry are intense. So, it is very important that when KOM has now come up with a good organic plan, we should work on it immediately. The challenges for us to transform KOM are very critical. But at the same time, as I mentioned in my remarks, we are continuing to explore inorganic options. There is no certainty that this exploration will actually lead to a transaction. But we believe that the organic plan that we have to transform KOM will make KOM more competitive. And should we consider an inorganic option in the future, that would actually not harm us. In fact, it may strengthen our position. In terms of the options, we are not at liberty now to share what are the different possibilities. As I have said before, all options are being considered. Thank you.

Questions from Anita Gabriel, Business Times

The Group's move to exit the rig business indicates its lack of confidence on the outlook of the oil and gas sector making a meaningful recovery in the medium to long term. Is this correct?

LCH: May I ask Chris to address that?

CO: Thank you, Anita, for the question. The exit from the rig's newbuilding business reflects our view that we have to put enough attention into offloading and putting our present rig assets to meaningful charter, or even put for sale eventually.

So, in the medium term, this reorganisation allows the company to focus on that, instead of looking for newbuild rig business, which we think will take a longer time to recover.

LCH: If I can add to that, Chris, it is also our view that with the energy transition, there will be a bigger push in the energy mix for cleaner fuel, like gas, as well as renewables. So, I think this is also reflective of the Group's Vision 2030, where we are focusing on providing more sustainable solutions for our customers.

You have a second question, Anita, which is, can you elaborate what were the other possible options that were considered under the O&M review?

LCH: I think I have addressed that. That is the inorganic option.

Questions from Low Horng Han, CLSA

Thank you for the presentation. Would appreciate if you could answer the following questions. Can you elaborate what does it mean to be a "developer and integrator of offshore energy and infrastructure assets" while outsourcing fabrication work? Does it mean Keppel will still bid for offshore wind projects together with other yards where construction is outsourced?

LCH: Chris?

CO: Thank you, CEO. Well, being a developer and integrator of offshore energy and infrastructure assets is actually not new to Keppel. We have a strong track record of doing so. When we say that we would be outsourcing fabrication work, it means that we will subcontract the work of fabrication, which is usually labour and space intensive, to our network of partners. We will still be integrating the offshore assets till final delivery. On the question of whether we will still bid for offshore wind projects, it is precisely so. With the restructuring, the Op Co can really focus, enhance and strengthen our track record in offshore renewables projects. So, the answer is yes.

Logistics is currently enjoying a structural uplift in demand due to COVID. Can you share why is Keppel divesting and not investing more capital to grow this business?

LCH: I will start first and then I will invite my colleague, Thomas, to add to this. You are right, Horng Han. I think Keppel Logistics has actually been one of the beneficiaries of COVID-19. We have seen very strong growth in urban logistics and in our channel marketing this year. But I guess this decision to divest is related to our more disciplined approach and how we allocate capital in the Group under Vision 2030. We believe we have a very good business, but it is currently sub-scale. We believe that, whilst it is possible for us to invest more capital, perhaps another player with a better ecosystem may be able to grow this faster than us. Now, as I said in my remarks, it does not mean that we will divest completely. We could divest completely, or we could retain a minority stake. Thomas, do you want to add anything to that?

TP: I think Mr Loh has essentially covered most of what I wanted to say. What we could benefit from this new business partner, with a better ecosystem, could mean a better network of presence in Southeast Asia that could contribute a lot more to this logistics business in the future. So, not just additional capital, the local networks in these Southeast Asian countries will greatly help to grow this business at a faster pace. Thank you.

Questions from Terence Chua, Phillip Securities Research

What is the purpose of holding a minority stake in the logistics business?

TP: Thank you, Terence. We believe that divesting the logistics business at this current stage may not necessarily bring us the maximum value. So, we do not mind keeping a minority stake, to partner with the new investors, who could potentially grow this to a much larger entity. We could ultimately benefit from that growth, instead of divesting 100% at this point in time. But we do not yet have an offer on the table now. So, it is a little bit too early to conclude whether or not we will sell 100%, or if we will hold minority stakes in the end. Thank you.

Can you share more details of what the second wave of Vision 2030 initiatives are?

LCH: I think we will continue with our plans to execute Vision 2030. So, the second wave would include additional asset monetisation as we recycle capital. At the same time, we will be looking to seek new growth opportunities, grow new engines, and execute our plans following the strategic review of our O&M and logistics businesses and other restructuring initiatives. All these would be driven by our Transformation Office, which has the responsibility of executing Vision 2030 across the six different work streams that I have mentioned in my opening remarks. Thank you.

Questions from Foo Zhiwei, Macquarie Securities

Can you walk us through the options that would open up for Keppel as a result of the organic restructuring of KOM?

LCH: I think the organic restructuring as we have outlined is a good plan. It is something that we believe will transform KOM into a more nimble, more competitive unit. More importantly, it will be more relevant, particularly in the environment that we are seeing in terms of the accelerated energy transition, and it will fit more closely with our Vision 2030. We will execute this organic plan immediately, but along the way, if there is an inorganic option that would strengthen KOM and provide better value proposition to Keppel's stakeholders, we certainly would consider that.

Second question, how will valuations for KOM's Rig Co in the inorganic scenario work, given its negative equity value? Historical examples like EMAS Subsea showed it could be sold for its debt value at most.

LCH: Hon Chew, do you want to try to address that?

CHC: I think at this point in time, it is quite premature to speculate on how we go about the inorganic options. So, at this point, I think we can't really comment.

Question from Chen Lin, Thomson Reuters

When you say Keppel O&M will have a significantly reduced headcount, what is the headcount now and how many jobs do you expect to cut?

LCH: Can I ask Chris to respond?

CO: Thank you, Chen Lin, for the question. The present headcount stands at 10,500. It is premature for us to determine a final number on what the workforce will be at, bearing in mind that we still have an orderbook of S\$3.3 billion to execute. But part of the transformation is also to re-train, and create more skilled and high value jobs for our people. So, there will be a mix with our HR talent mapping exercise too.

Questions from Lim Siew Khee, CIMB

First question, will there be any future cost impact from the O&M restructuring?

LCH: I think if you are talking about the rightsizing, we have shared before that we have shaved off about S\$90 million in run rate in terms of overhead costs, starting from January this year. If you are referring to potential cost impairments, you know it is still too early at this point in time to judge.

Second question, can you please update on the development of the Petrobras rigs with Magni?

LCH: Maybe I will ask Chris Ong. Can you answer that?

CO: Thank you, CEO. At the present moment, Petrobras has announced that at the request of Sete, they would basically re-negotiate the settlement after the inability of Sete to meet the settlement requirements and the due date. So, it is actually an open extension of the date and we would have to wait for the outcome of that re-negotiation.

Next question from Siew Khee is, can you elaborate on your investment plan in the solar farm in Australia?

LCH: This is undertaken by Keppel Renewable Energy, which is also headed by Chris Ong. So, can I ask Chris to elaborate?

CO: Well, this is a Harlin solar project that is in Queensland, Australia. It is a minimum of 500 megawatts of solar development. The financial close is scheduled to be in next year, 2022, and construction will start and last for almost a year. Now, the way that we are set up is to utilise the different strengths of the Keppel Group, and Keppel Renewable Energy is working closely with the Keppel Asia Infrastructure Fund to take a look at how we can actually monetise this project.

Questions from Donald Chua, BAML

First question, what is the value of the logistics business to be sold? How much gains are you expecting?

LCH: Donald, this is commercially sensitive so we can't answer that question.

Second question, where would the capital from the S\$3 to 5 billion of divestments be redeployed into. Will the bulk be going into energy and environment?

LCH: I think we have announced before that we have a few areas of growth that we have identified under Vision 2030. Connectivity is one. We also see large-scale smart urban development as another. Environment is also very important. And then of course, energy, particularly new energy and renewable energy, and asset management as well.

Third question from Donald. Which markets will you invest the second DC Fund of US\$500 million? Will this be pipelined for KDC REIT?

LCH: Maybe I will ask Thomas to answer the first question and then Christina can answer the second question.

TP: Thank you, Donald. The exciting markets are North Asia, China, Singapore, of course, and the major cities in Europe. We are seeing strong pipelines from those countries and cities that I mentioned.

CT: Yes, most of the investments that we have done for the first fund will actually be potential pipelines for KDC REIT. The second fund will provide another group of pipelines for KDC REIT. Connectivity and digital infrastructure are what investors are most excited about nowadays. So, we are quite fortunate that we have the expertise in-house to actually carry out and execute this strategy. Thanks.

Questions from Gerald Wong, Credit Suisse

First question, what is the estimated capital requirement for the O&M Op Co to ensure that it is asset-light and self-sustaining?

LCH: You know, as an Op Co, we would expect that the capital requirements will be fairly limited and as Chris has explained, it is going to be a very asset-light business. With the ring fencing of the rigs that are built and rigs to be built, the Op Co will actually be quite light in terms of its balance sheet. And more importantly, the Op Co has quite a sizeable net orderbook of over S\$3 billion, most of which is in gas and renewables. So, we believe that there is - we are not making a projection - but there is a good opportunity or good prospect for the Op Co to be profitable in the near future.

Next question, would you consider FLNG conversion work, given that some of them may require large capital requirements?

LCH: Maybe Chris, you want to deal with that?

CO: From the development basis, FLNG work, with a good offtaker and a good end customer behind it, is actually cashflow neutral for us, just like the FLNG that we are converting right now. Given the ability to develop some of these upstream projects with our partners, we also utilise the strength of the Group, working with Keppel Capital, to participate in some of the equity, which can be monetised over time.

Next question is also from Gerald and his question is, would you potentially be giving up on synergies with the connectivity business with the sale of the logistics business?

LCH: Well, I guess there is a bit of that. We do see, as we said earlier, that the logistics business has picked up and the potential is certainly there. But I think what is important for Keppel, if you follow our Vision 2030, is that we do want to own businesses that are scalable and if we are not able to scale it ourselves, then maybe it can be better owned by someone else. There is also a possibility that we could take a minority stake if we feel that it is a good partner, and the offer is a good one.

Question from Chang Kwok Wei, Citigroup

With the aim of becoming more nimble and asset-light and labour-light in mind, could you please elaborate on what are the Group's plans for its network of yards? Which particular asset would be considered for mothballing or disposal, for example?

LCH: I will direct this question to Chris.

CO: As we move towards an asset-light model, we will streamline our yard operations; of course, while keeping the most capable and most income generating yards, to emerge even stronger. Some of the yards would be divested or repurposed in the longer run. We do not have plans to share at this particular moment, but it is in progress, and we will provide updates when there is progress.

Question from Mayuko Tani, Nikkei

Is this your first full year loss? If not, when was the last time you recorded a full year loss?

LCH: I will leave it to Hon Chew to answer this question.

CHC: The last time we had a loss goes back to many years ago in 1998, around the time of the Asian Financial Crisis.

Question from Anita Gabriel, Business Times

Can you elaborate on what happens to the shipyards, are they converted to non-rig, offshore infrastructure building, or are they sold or repurposed? Will this mean potential write-downs down the road?

LCH: I think you have answered the question, in the sense that if we find that we do not need the yard footprint as we have today, there is a possibility that we can repurpose the yards. We can also sell the yards that are in surplus. But a lot of the activities that we are going into, which are not oil rigs, may also require some production space. I think it is too early to say whether there is any potential for write-downs related to this.

Questions from Jeffrey Tan, The Edge Singapore

Can you please share examples of how Keppel O&M's offshore rig technology can be repurposed for other uses?

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

CO: Our rig technology includes our jacking system, for example. That has been repurposed for wind turbine installation vessels, which we already have some track record in. So, we will continue to strengthen, and reuse our strong IP in those areas.

Could you please also elaborate on how the Op Co of Keppel O&M will collaborate with other Keppel business units to provide other urbanisation solutions?

CO: At the present moment, we are already utilising our engineering and project management capabilities to develop joint infrastructure projects with other Keppel units, like floating data centres that we are studying and also some of the potential nearshore infrastructure projects. At the same time, we utilise the capabilities throughout the Group, including Keppel Capital's in terms of funding.

Question from Mayank Maheshwari, Morgan Stanley

In the new areas of offshore energy, how does Keppel see its strength?

LCH: Can I get Chris to answer this question?

CO: As mentioned earlier, Keppel O&M's strength is in terms of development of projects, engineering, procurement, project management, and our track record has given us the ability to repurpose some of our IPs and also pivot to new energy solutions in the energy transition. For example, we have our own franchise of floating LNG vessels, bunkering vessels, as well as our own solutions in wind turbine installation. So, the capabilities are adjacent, and we are confident that we would be able to make use of this strength in the offshore energy space.

Questions from Teo, retail investor

Keppel Corporation seems to be betting big on data centres, Keppel DC REIT is also the only REIT on SGX focusing entirely on data centres. However, there are also other listed entities on SGX going into data centres. What competitive advantages does Keppel have over these other entities?

LCH: I will direct this question to Christina, who is also the Chairman of Keppel DC REIT.

CT: We are not just betting big on data centres, but the truth is that data centres are very well demanded. Especially with COVID-19, digital infrastructure is hugely demanded by all businesses, with all the streaming and all that is happening, everything is going through the internet. With 5G coming up, there is a huge demand for data centres, so we are focused on the right sector. What Keppel has as an advantage in, compared to others, is that we have an ecosystem where Keppel Land can build the core and shell, and Keppel Infrastructure can build the power and cooling infrastructure that is needed by these data centres. In the past, data centres had 5 MW, but nowadays, you are looking at data centres of 100MW, which is like a mini powerplant.

Keppel's advantage is that we have an in-house team in the infrastructure space, who is able to build and deliver this infrastructure for the data centres. The most important part would be our operating capabilities. Keppel has been ranked number 2 in the world in terms of operational management capabilities, against 93 other operators in the world, by one of our top cloud players. This is quite a huge advantage that we have as we are able to operate and maintain these data centres. With that, all the top 5 cloud players in the world are working very closely with us in terms of their demand for data centres, where they would need the next data centre etc. Most of them would spend a lot of time with us to discuss and work through a plan in terms of their requirements for data centres.

LCH: I would also like to add that Keppel has very strong engineering capabilities. We have been able to use our engineering nous to look at how to make data centres more energy efficient. At the same time, we have Keppel Renewable Energy. Nowadays, whilst there is a huge demand for data centres, there is also some concern that data centres emit a lot of carbon. Keppel DC has been a pioneer in looking at how to reduce energy consumption through its high-rise data centres, tropical data centres, floating data centres etc. Being able to bring green electrons through Keppel Renewable Energy will be a huge advantage.

Did Keppel Corporation ever consider listing a logistics-focused REIT in addition to your current family of REITs, and to divest your logistics business into this REIT? And can you elaborate on the reason why?

LCH: I will direct this question to Christina.

CT: Right now, it is probably not the time for us to list a logistics-focused REIT, but it is always possible in the future that we might consider that. As for now, the decision has been taken by the Board to divest the logistics business, so we are not planning to set-up a REIT just to take into account all the logistics businesses that we have right now.

Question from Terence Chua, Phillip Securities Research

Can management provide an update on the sales progress of 19 Nassim? What are the expectations for The Reef at King's Dock?

LCH: I will direct this question to Swee Yiow.

TSY: We have sold two units in 19 Nassim so far. Due to COVID-19, we have been going by appointment only.

We have launched a preview for The Reef at King's Dock on 16 Jan 2021 and based on the response so far, we are reasonably optimistic that the response and demand will be good. We will be launching the project soon. More importantly, The Reef has many positives – it is in a prime location, at one of the most convenient waterfronts within walking distance to the MRT, has good design and also the first-of-its-kind floating deck. We are reasonably confident that the response will be good.

Question from Low Horng Han, CLSA

Based on the revised O&M asset-light strategy, what will be the proportion of contract value attributable to Keppel, if we use the example of contract wins with Orsted and TenneT, which were worth \$160 million and \$560 million respectively? Will Keppel be shifting its focus to the upstream operator business in offshore wind farms, such as bidding for offshore wind projects in other parts of the world, e.g., the US?

LCH: Maybe I will ask Chris to address this.

CO: Each project will have its different scope. If the question is on the contracts that are in the yard at this present moment, Orsted was a contract in which we undertook mainly construction and integration. Using that as an example, as a like-for-like comparison, our ambition is to be able to do engineering, procurement, project management, and to be able to manage the whole value chain. We are looking for more value-adding types of projects which will contribute to the bottom line meaningfully, given that there is a different scope for each of the projects. At the moment, we (Keppel O&M) are not planning to be in the upstream and operator business because it requires different skillsets. But for the development and integration parts

of that business, we are definitely interested and are looking out for them with our partners and current clients.

Questions from Rahul Bhatia, HSBC

What is the long-term vision for Op Co? Will it continue to hold all the yards that you currently own?

LCH: We have answered that in the remarks earlier.

How is the environment in Vietnam for property sales?

LCH: I will direct this question to Swee Yiow.

TSY: Vietnam's property market is generally still very healthy, but with COVID-19, there is a lot of focus and attention devoted to handling this. As a result, the approval for new launches generally slowed down across all projects. As shared by Chin Hua earlier, when we launched Celesta Rise in November last year, we managed to sell almost all of the 519 units within one month. This shows that the market is still quite strong if we have a good product to market.

Questions from Nicholas, retail investor

Can you share with us the status of Golar's current FLNG conversion projects with Keppel, namely Gandria and Gimi? Are they on track for completion on time and are there risks of impairments from these projects?

LCH: Can I get Chris to answer this?

CO: We still have an effective contract and are following up with Golar on the Gandria project. We will await their updates on the notice to proceed. We will provide updates if there are significant new developments.

For Golar Gimi, it has been extended by 11 months, and the vessel re-delivery from Singapore is planned for early 2023. The manning up is according to plan and activity has been restored. We are working towards the new delivery plan.

Can you share if there are still ongoing investigations or lawsuits against Keppel O&M by the Brazilian authorities due to Operation Car Wash, or is the case officially closed?

LCH: First of all, Keppel O&M has successfully complied with the obligations under the deferred prosecution agreement (DPA) that was entered into with the US Department of Justice on 22 Dec 2017, and the DPA has accordingly been concluded. There are still some matters to be resolved with the Brazil public prosecutor's office, but this is more dealing with the administrative charges, which are still ongoing.

Questions from Tat Wei, Nikko Asset Management

With regards to asset monetisation, can you share with us the potential amount of remaining non-core assets that may be monetised?

LCH: I do not think we provide that, but I will direct this question to Hon Chew.

CHC: When we shared our asset monetisation plan, we did share that of the \$17.5 billion, \$3.9 billion are actually part of the non-core assets.

Is there a leverage ratio target that you can share that is to be achieved over the medium term?

CHC: As we have said before, we do not have any leverage target. That said, we have mentioned that we want to maintain our net gearing at 1.0x or below and that remains relevant today. As we said earlier, we managed to bring down our gearing from 1.0x as at end-June 2020 to 0.91x as at end-2020. If you look at the divestments that we have done so far, and as Chin Hua shared in his address, on a pro forma basis, our gearing would have been brought down to 0.81x if we take into account all the divestments that we have announced.

Question from Yong, retail investor

Does Keppel Corporation see itself competing with other Singapore-based companies for global projects, especially in the renewable energy space? Will this cause a bidding war amongst Singapore-based companies, thus resulting in lower margins?

LCH: The truth of the matter is that there is quite a bit of capital going into the renewable energy space. We think that there are still a lot of opportunities there, but like most things, we have to be quite careful in making sure that we do our sums and only go in when the risk-adjusted returns make sense.

Question from Teo, retail investor

What is Keppel Corporation's plan for M1 in the larger scheme of things and general direction of Vision 2030? Any concrete examples of how M1 has been contributing meaningfully in that regard?

LCH: M1 is part of our Connectivity segment, and it is undergoing a transformation at this point. I believe that Connectivity is going to be a major growth engine for the Group. I will ask Manjot to share with us some of the exciting things that we are doing at M1.

MSM: Apart from the transformation plan that we put in place and are executing right now for M1, to your second point on concrete examples of how M1 has been contributing: with 5G, there are a number of use cases that M1 is working on with different Keppel BUs. The big advantage that M1 has over other telcos in the region and Singapore is that with Keppel's diversified business model, it gives us a great opportunity to try out and create use cases with 5G that we can then use for other industries within Singapore and outside of Singapore. Those use cases are already in action with other BUs of Keppel.

Questions from Cheryl Lee, UBS

As Rig Co and Dev Co are transient structures, can Keppel share its target deadline by which they may be dissolved?

LCH: We expect Dev Co to have a shorter runway. For projects under Dev Co, those with contracts will be built. Those without contracts, if we build them, they will go into Rig Co. After that is done, Dev Co will be surplus to requirements. Rig Co on the other hand, will depend on how quickly the oil market recovers. The going is still quite tough in the next year or so, but if you look at some of the industry reports, the expectations are that with a lot of older rigs being put to pasture/scrapped, eventually the newer rigs and the premium rigs will get work, and good work. When that happens, we will either sell the rigs under Rig Co or potentially, if we charter them out, they will create cashflow, and we can then work with investors. So, the timing for that will depend on how quickly the offshore rig market recovers.

Offshore & Marine's PATMI losses widened from \$959 million to \$1.2 billion for the full year. What was the drag on the business in 2H, and are there any one-off impairments in 2H?

LCH: Can I ask Hon Chew to address this?

CHC: As I mentioned in my address, revenues were down for 2H as well, and share of losses from associates also contributed to the widening of the losses. There were some impairments in the second half, and if you refer to slide 28 of my presentation, there is a list of all the impairments. In particular, the items on fixed assets and intangibles, which are \$24 million and \$23 million respectively, are the two impairments made in the second half.

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