

## Keppel Corporation First Quarter 2016 Results Briefing for analysts and media

### Question & Answer Session

18 April 2016, 5.30pm, Keppel Leadership Institute

<b>LCH</b>	Loh Chin Hua, CEO of Keppel Corporation
<b>CHC</b>	Chan Hon Chew, CFO of Keppel Corporation
<b>CYY</b>	Chow Yew Yuen, CEO of Keppel Offshore & Marine
<b>AWG</b>	Ang Wee Gee, CEO of Keppel Land
<b>OTG</b>	Dr Ong Tiong Guan, CEO of Keppel Infrastructure

**Cheryl Lee from UBS:** With regards to the property trading segment, what was the geographical split? What percentage of revenue was from Singapore and how much was from other countries? At a net profit level, what is the geographical split? Thank you.

**AWG:** Hi Cheryl, thanks for your question. We do not disclose geographical split for net profit. But to give you an idea – in the first quarter of 2016, we sold about 830 units from China, 60 from Singapore and 50 from Vietnam.

**Cheryl Lee from UBS:** Capex for all divisions fell in the first quarter of 2016 to \$125 million for the Group. In particular, capex for Offshore and Property divisions were lower. Is this representative of the capex level we should expect for the rest of the year or are there lumpy large items which are planned for later quarters? Thank you.

**LCH:** I think you can expect that the capex will remain at the current levels. We don't expect any lumpy items. But I would also like to add that particularly for the Offshore & Marine division, we have been extremely disciplined in how we have been spending our capex even in the last couple of years when things were a lot better and I think it is this discipline that will enable us to weather this storm much better.

**Felix from Felix Investments:** What is the current exposure to Sete Brasil? In a worst case scenario, could we see further write-offs?

**CYY:** I think for Sete Brasil, we have reported that we have already stopped work by the end of 2015 and we have made a provision of \$230 million in the fourth quarter of 2015. We can only say that we are currently in discussions with our customer.

**CHC:** With regards to the write-off, if you had listened in during the analyst briefing for FY2015, we mentioned that we made a provision of \$230 million in 4Q 2015. We will continue to monitor the situation. For now, the provision remains adequate.

**Low Horng Han from CLSA:** I have some questions on the Property business and would appreciate if you could share some insights with us. First question – what are the top three selling property projects over the past one year in China? Can you share this with us? How many units have been sold, average selling price per square metre and how many remaining units unsold ready to be launched for these projects?

**AWG:** We have quite a number of different projects in different cities. Maybe just to answer your question broadly, the cities that we are selling projects fairly quickly are actually the cities we have been focusing on – Shanghai, Chengdu, Wuxi and Tianjin.

**LCH:** On how many units were sold, I think you have given that number, that's for the first quarter.

**AWG:** Yes, I mentioned 830 units. So that's the total number for China. Actually, there's no particular project whereby we sell much more than the others, so generally they are quite well spread out among the four cities I have mentioned.

**Low Horng Han from CLSA:** For the second question – specifically for Shanghai, how many units have been sold but keys have yet to be collected? And how many unsold units, already to be launched, are there left in Shanghai?

**AWG:** These are quite detailed questions. I don't have the numbers with me at the moment.

**LCH:** We will come back to you, Horng Han, on the specific questions that you have and we will post it on the web so that everyone can get the same answers.

**Horng Han/CLSA:** When was the last time that Keppel acquired land in a Tier-1 city in China? Does Keppel plan to acquire more land bank in China and where would it be? Any clarity would be appreciated.

**LCH:** I think the answer to this question is that we are constantly looking at acquiring land in our target cities in China but we are also very disciplined in how we go about acquiring land. This means that if it makes sense, we will bid at a price that we are comfortable with and sometimes when the market is a bit hot in terms of land sales, it may mean that we may back down. But I think it will serve us in the longer term to have that discipline. So, we will continue to acquire land when it makes sense and of course, we are also very focused, as I shared in my opening remarks in turning the portfolio so that we can get a better return on our assets.

**Ling Xin Jin from Morgan Stanley:** Could you please provide details on how you are looking to maintain your free cash flow? Will you require more borrowings for the Offshore & Marine division and what would be the impact to dividend payout?

**LCH:** I think for us, as I have said in my presentation at the beginning, we are watching our balance sheet very carefully. For Keppel, we only have one balance sheet and that is the balance sheet that we all work off from. We run a multi-business strategy and you can see that Offshore & Marine had been a very big contributor to the Group over the last 10 to 14 years. Now, it is facing some headwinds but we remain very hopeful that the other divisions will continue to contribute. And we can see that the Property Division is putting in more contributions to the Group last year and in the first quarter of this year.

The dividend payout will definitely be dependent on the profits, free cash flow as you have alluded to, as well as to the outlook. I think our goal is always to share as a Group. When we do well, we do share the fruits of that with our shareholders. But at the same time, we want to make sure that dividends that are paid are sustainable.

**CHC:** Just to add that at this point in time, our gearing at 56%. We still have quite good head room although we do not have a gearing target, but it suffices to say that we want to maintain an institutional quality balance sheet which means we do not expect our gearing to exceed 100%.

As to dividends, I just want to add that we do not have an explicit dividend policy. But as Chin Hua has alluded to, when we make decisions on dividends, we have to make sure that we look at our balance sheet, our cash flow requirements and make that decision, together with the Board when we look at the financial year-end results.

**Lee Hong Liang from Seatrade:** What is the outlook for the oil and gas market for 2016, in particular the global rig-building market? How will the prospects affect Keppel O&M?

**CYY:** Well, with the low oil price, I think the outlook for the oil and gas market for 2016 is not very good. But our repair and conversion FLNG business is actually doing quite well, and our specialised shipbuilding business is also doing quite well. The biggest challenge for us is in the rig building division. We think that for our rig building division, it will be a prolonged period that we have to be ready for, as we expect the number of rigs that we will win going forward to not be so high. There is still the niche market play and non-oil & gas businesses that we are looking at. So I would say that out of the three divisions, the biggest challenge for us is in the rig building business.

**Nancy Wei from UOB Kay Hian:** The first question is on O&M. Can you give us some colour on your shiprepair business – how much of the first quarter O&M revenue was derived from shiprepairs and what is the outlook?

The second question – there was a write back of impairment of \$7.8 million in the Property division. Can you give some colour on that figure?

**CYY:** Last year we repaired 428 ships and this year the number will look about the same. From the previous year, the number of ships that we repaired had actually gone up by about 10% and this year, we will likely see that it will be sustained at about that level. The pressure on the shiprepair business is actually on margins right now. Because of the world's economic outlook, some of the shipowners are actually reducing their scope for repair wherever possible.

**CHC:** The write-back of impairment of \$7.8 million was in respect of an office tower in Philippines known as Keppel Centre. The provision for impairment is no longer required because of the valuations that actually allowed us to do that.

**LCH:** For the first question on how much of the first quarter O&M revenue was derived from ship repairs – about 10% of O&M's top line.

**Conrad Werner from Macquarie:** Thanks for the answer on capex. Similarly, what is the profile for working capital for the rest of the year? Was it mainly O&M driving the increase in working capital in the first quarter of 2016?

**LCH:** I think the increase in working capital for 2016 was for both O&M and Property. For Property, just to refresh everyone's minds, our trading projects are all treated as inventory. So any investments into projects for trading purposes will lead to an increase in working capital.

**Ajay Mirchandani from JP Morgan:** Keppel was reported to be bidding for the takeover of Biffa, a UK waste management company, which now has been reported to be off the table. Is Keppel still looking to acquire similar cash flow heavy utility type of businesses?

**OTG:** I think we will look at opportunities that gives us the right level of returns and cash flow. We will not chase after projects that is of marginal nature.

**Lim Siew Khee from CIMB:** Which are the two semi-subs that are being deferred from 2017 to 2019 and 2020?

**LCH:** I think those are for customers that are not named and remain unnamed.

**Lim Siew Khee from CIMB:** There've been new deferrals in every earnings release. Is your delivery schedule in 2016 realistic? Which quarters are the six jackups to be delivered? Can we be assured that there will be no new provisions required for the deferred projects? What is the \$39.9 million loss from associated companies in investments?

**CYY:** I think in the last meeting in January, I mentioned that there will be nine deliveries. Right now, of those nine deliveries, we have delivered three of them and we have six more to be delivered this year. At this point in time, there is no request for deferrals. We will work with our customers if they come to us. If there are any challenges and they need us to discuss with them on the delivery schedule, we will certainly look for a win-win solution.

**CHC:** As YY has explained, on this discussion of deferrals, we are actually able to receive compensation under the contract. At this point in time, there is no talk of cancellation and no requirement for new provisions. But of course, as Chin Hua has mentioned in his speech, we will have to continue to monitor this carefully.

The last question on loss from associated companies under the Investments division, this relates to our share of losses from KrisEnergy. As you know, KrisEnergy is a listed company and when we equity account for our share of their profits or losses, there is a one quarter lag. So in other words, the share of loss that we recognised in the first quarter arises from KrisEnergy's announcement of their results for the fourth quarter of 2015.

**Hu Yuanwen from SPH:** The major oil producers have failed to reach an agreement yesterday. What is your view on oil price trend going forward? What is the impact on your O&M business? You mentioned you cut overheads by 28% for O&M. Is this through headcount cut?

**LCH:** This is an ongoing process in terms of both the OPEC and non-OPEC producers to try to come to terms with the market today. In the long term, we believe that the oil price at today's level is not sustainable. So, we believed that oil prices in the long term will move to a higher level that is more sustainable. But in the short run, we believe that oil prices could remain volatile. Yesterday's failure to reach an agreement will contribute to that volatility. But I think fundamentally, as what you have heard from YY, we believe that the outlook for the offshore side will remain quite challenging for the foreseeable future.

**CYY:** Actually the cut in overhead is across all sectors in O&M, meaning that we look at infrastructure, our facilities, G&A and also headcount. So, it's a combination of all.

**Gerald Wong from Credit Suisse:** There was a write-back of \$8 million for the Property division in first quarter 2016. Could you share which project or geography this came from? Can you provide an update on Can-Do drillship? When is the hull for the drillship expected to be delivered? Following the cut in workforce by 2,300 from overseas yards, how many workers are there remaining in Brazil? Are there plans to reduce the workforce further in Singapore and overseas?

**LCH:** The completion of the Can-Do drillship will be in the fourth quarter of 2017. I believe the hull will come probably later this year or early part of 2017.

**CYY:** Yes, the hull will be here sometime in January 2017.

**LCH:** On the third question, we had a rightsizing exercise last year in Brazil and this continued this year. Currently, we have just under 4,000 workers in Brazil, at least 4,000, in our Angra yard. As you have heard in the presentation, we recently won a contract for a fabrication of the topside from

MODEC so that will keep our yard there reasonably occupied until 2017. As to whether there are plans to reduce the workforce further in Singapore and overseas, we will have to watch the work load very carefully. The team is working very hard to make sure that as the topline comes off, that we continue to remain profitable, and if there is a need for us to further rightsize, we will do so.

**CHC:** Gerald might have missed the earlier question from earlier submission. This write-back of \$8 million, as mentioned earlier, relates to Keppel Centre in the Philippines. We can write back right now because of the valuation we have right now to support the write-back.

**CYY:** Maybe I can add a bit more colour to the situation in Brazil, in our yard in Angra dos Reis. Besides the MODEC project, there are also two more FPSO integration work that the yard is currently doing. So actually there are three FPSO integration works that are going on in the yard. The latest one is the one that we just announced which is the MODEC and that one will include the fabrication of nine modules.

**Nicholas, investor:** It is noted that Brazil's opposition party succeeded in an impeachment vote for President Dilma Rousseff this morning. Does Keppel Corp see this as posing further challenges to current negotiations of receivables with Sete given Sete's close link to Brazil's government?

**LCH:** I think today's vote, as reported in the news, just adds to the uncertainty in that country. We already touched on that, so I won't go further into it.

**Nicholas, investor:** Are there any special measures being taken to safeguard Keppel Offshore & Marine's business in Brazil should there be major government changes?

**LCH:** Thank you for taking an interest in our staff in Brazil. We do always keep a very close watch on the situation, whether it's from a natural disaster like earthquake or from man-made challenges like the recent terrorist event in Belgium. We do have operations in over 30 countries, so we do take very special care that our people are safe all the time. Right now the team is on top of it, so we don't expect anything untoward to happen.

**Daniel from EDMW Capital:** We are a local hedge fund vested in Keppel and we look to engaging the management at the AGM tomorrow. Despite the poor first quarter results, we are glad Keppel has addressed the issue of gender diversity by deploying Ms Christina to Keppel Capital.

**LCH:** We picked her not just because she is a lady, but she's suited and is good at what she does.

**Daniel from EDMW Capital:** We have two questions. Can you comment on the geopolitical risk in Latin America, for example, Brazil and the risk of losing almost BrasFELS shipyard to nationalisation.

**LCH:** I think this question is speculation, so I will not address it.

**Daniel from EDMW Capital:** Mr Loh has just mentioned that Keppel is keeping a watchful eye on its gearing and cash flows. However, it was reported that Keppel was one of three bidders for UK's Biffa at a size that was said to be as large as GBP1 billion. While the deal was reportedly canned, can Keppel explain how would it have intended to take over Biffa while maintaining an institutional-quality balance sheet?

**LCH:** First of all, I wouldn't want to comment on speculation in terms of our bid or purported bid for Biffa. But clearly whenever we take on any investment, we do keep a very close watch on the impact that it will have on our gearing and our cash flows. Hypothetically, should we have gone into something like Biffa, there's always a possibility that with the newly-formed Keppel Capital, we would find potential co-investors to come alongside with us.

**Ling Xin Jin from Morgan Stanley:** On the Property division, could you share how many units were recognised in the first quarter of 2016 and how many units are expected to be recognised in 2016? Could you also share the reason for lower operating margins for the Property division? Should we expect this level of operating margin for the rest of the year?

**LCH:** Operating margin will vary, depending on project launches, geography, when the land was purchased etc. So, it is very hard to draw any trends from the first quarter and project it for the rest of the year. Can someone answer how many units were recognised?

**CHC:** If you refer to some of the additional slides, there are some notes on profit recognition. For instance, in Singapore and China, what are the projects, in terms of the profit that has been recognised. This is in terms of the profit rather than the number of units on slide 38. The sales achieved in China is on slide 39. This is in terms of the number of units sold for the first quarter. There is also some information on the average selling price as well for each of those projects. So, those two slides would be of interest to you.

**LCH:** Please check the website.

**Low Horng Han from CLSA:** Can Keppel disclose what the outstanding receivable amount from Sete Brasil is?

**CHC:** This question has been asked before. No, we do not actually disclose the amount of receivables by customers.

**LCH:** Thank you all for a very robust session of questions and answers. Thank you.

- End of Q&A session -