

Keppel Corporation 4Q and FY 2019 Results Briefing

Transcript of the Question & Answer Session

23 January 2020, 5.30pm, Keppel Leadership Institute

LCH	Loh Chin Hua, CEO of Keppel Corporation
CHC	Chan Hon Chew, CFO of Keppel Corporation
OTG	Ong Tiong Guan, CEO of Keppel Infrastructure
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 T&T
MSM	Manjot Singh Mann, CEO of M1

Questions from Mr Ajay Mirchandani, JP Morgan

I have a few questions here just specifically on the details of the P&L account. What is the fair value gain in the 4Q of investment properties of \$62.7 million? Similarly, if we could also understand which impairment of associate companies is the \$17.9 million? And lastly, the bad debts written off for \$43 million and doubtful debts \$18.4 million, any details on that as well please?

LCH: Thank you. Hon Chew?

CHC: I believe that you are referring to the 4Q. For the fair value gain on investment properties of \$62.6 million, there are a number of properties, including Park Avenue Central in China and Linglong Tiandi in Beijing. These are the two biggest contributors to the fair value gain in the 4Q. Likewise, we also have the projects in India, in Bangalore, that contributed to the fair value gain. It is made up of a number of properties; it is not just a single property. As you know, at the end of each financial year, we do a review of the valuations of all the investment properties.

Your second question on impairment of associates for the 4Q is largely due to KrisEnergy. We have since written down the equity value to zero.

Thirdly, there is a bad debt write-off in 4Q of \$43 million. That was largely due to a loan to a customer for a rig that was delivered some years ago. Because the loan was in default and the vessel was sold, we have to do a write-off as of 4Q. There is also the provision for doubtful debts in the 4Q that consists of a number of items, again coming from a few divisions, including Keppel Infrastructure. One of the items arises from a fair value loss because of the time value of money. This has to do with the Qatar claims. We expect to recover the amounts over a number of years. That also contributed to the provision for doubtful debts for 4Q.

Questions from Mr Gerald Wong, Credit Suisse

The first question is on the Property Division. Your ROE in 2019 was just at about 6.5%, which is below your ROE target of 12%. What did you think held back the divestments in 2019? And what will change to allow you to turn around your assets faster going forward?

The second question is on O&M, it swung back to a loss in 4Q. What drove the losses? And are you still confident of a sustained recovery, given the weaker orders in 4Q?

Last question is on M1. What do you expect the 5G CAPEX to be? And how will it be funded?

LCH: May I invite Swee Yiow to address the question on how we will turn the assets faster?

TSY: First of all, the 12% is over a period of time, and not measured in a single year. We have to look at a period of time. We have quite a sizeable landbank that we built up over the years. A landbank of 45,000 homes. We also have some commercial space in our landbank. First of all, we will be actively activating all these landbanks and commercial space to generate returns. Of course, this will also be dependent on market conditions. But you can see that sometimes we need not wait for development. By en-bloc sales, as we have done in the past, we have managed to generate significant contributions.

LCH: Just to add on to what Swee Yiow has said: It is clear that in our property division, we are driven by this 12% ROE. As Swee Yiow has said, this is a medium to long term target. We have quite a lot of assets in our property book. We just have to turn these assets faster. Selling through en-bloc sales is just another way of achieving a sale. We do not need to develop everything ourselves. We are still very much guided by, and we believe the 12% target for the Property Division can be met.

On the second question on O&M, in 4Q and the outlook, I will split the question into two. I will ask Hon Chew to address the question on the 4Q on O&M, and I will ask Chris Ong to talk about the prospects going forward.

CHC: In the 4Q, from the slides you can see, the profits before tax is at a \$37 million loss. But if you look at the operating profits, it is actually a positive \$13 million. The reason for the loss for 4Q is because of the share of losses in associate companies. In 4Q, in particular, Floatel had to do an impairment exercise on its vessels. As a result, KOM had to take its share of the impairment losses. So actually, the underlying business of KOM at operating level is profitable.

CO: Pertaining to the question on whether we are optimistic, given that there has been a relatively weak order win in the last quarter. During the last quarter, we mentioned that the FIDs and some of the projects we are chasing are not really dependent on a quarter by quarter. So you can see that for the whole of 2019, the amount of order wins was slightly above \$2 billion, which is already 18% higher than the previous year. Although the offshore and marine market is still challenged, our diversification has gotten us a wider portfolio of products. We will continue to chase value-add projects in 2020 and continue on the growth trajectory.

LCH: I don't want to short-change Gerald as he had asked one more question on M1. And so if I could invite Manjot to address that question?

MSM: Thank you. Like Mr Loh said in his speech, we have entered into an exclusive agreement with Starhub to bid jointly for the 5G spectrum. At this point in time, we are unable

to share any commercially-sensitive information, so I will not be able to share the CAPEX numbers that you asked for.

Question from Ms Tay Peck Gek, Business Times

Would the China coronavirus and the Hong Kong unrest impact Keppel Corp?

LCH: So far, we have not had any direct impact on Keppel Corp. We do have about 170 staff in Wuhan, and of course, we also have operations across China. We have advised our operations there and our staff there to take the necessary precautions. We are watching this very closely.

Questions from Ms Lim Siew Kee, CGS-CIMB Research

Going back to the margin trend, I see that revenue for this quarter has been quite strong versus the past few quarters. Is there anything special that we should be aware of that your margin actually dipped? But it did go down q-on-q in 4Q. It was about five-ish (%) last quarter, but now it came down to less than 2 (%).

LCH: You are referring to operating margin for O&M?

Yes, operating margin for O&M. What is sustainable? We should expect that as revenue goes up, as you ramp up the work, your operating leverage should improve. Is there anything you did this quarter that hindered this progress?

CHC: As we have said before, we try not to look at it quarter-on-quarter. The margin really depends on the projects that are being worked on. As we have always said, our objective is really to get offshore and marine back to profitability. And we have successfully done that this year. We look forward to further improve O&M's performance in 2020.

Back to KrisEnergy, you said that you wrote down the investment to zero value. That means there won't be any potential provision, even if there is any progress in KrisEnergy?

CHC: We have written down the equity value, including the warrants, down to zero. We still have the remaining zero coupon bonds in our books. At year end, that amounts to \$74 million.

Questions from Ms Cheryl Lee, UBS

I have a few questions on offshore and marine. Could you help us understand the intent to improve the headcount by another 1,500 even though orderbooks have been quite sluggish. Is this just based on work that you expect to complete based on your current orderbook, or in anticipation of something that you might secure?

The other question is about the CAPEX levels that we are seeing in O&M. Are these maintenance levels that we can expect or do you expect some additional CAPEX that is upcoming that we need to be aware of?

Could you help us understand why there seems to be a positive tax impact in the 4Q for O&M?

LCH: The planned increase in workforce is due to the anticipated increase in workload. You can see that we have been steadily building up our net orderbook. We expect that in the next few years, we will be executing the net orderbook. This is actually based on the workload that we currently have. We have high hopes. We hope that there will be even stronger orders this year. KOM is now working on quite a number of enquiries.

On CAPEX level, I do not believe that there is anything exceptional that you should expect from KOM.

CHC: On tax, I think you are referring to the positive tax number. That is largely because of some writebacks that were made in 4Q. In particular, there was some group relief that was recognised. As you know in Singapore, among group companies, you can actually transfer tax losses between companies. As a result, there is a tax credit that KOM actually recognised during the year. Apart from that, there are also some KOM entities that were able to do tax writebacks because of certain expenses that are actually tax deductible, which are not recognised as such in previous years.

Questions from Ms Aradhana Aravindan, Reuters News

Has Temasek discussed any potential consolidation of Keppel and Sembcorp Marine with you?

LCH: No, the offer is still a conditional, partial offer. There's no discussion. We'll see. We're still managing as it goes.

Are M1 and StarHub considering working with Huawei as a vendor to provide 5G if they are successful in their bid?

MSM: As of now, all our energies are focused to making the joint bid and responding to the proposal by IMDA. This question is extremely premature at this time, so we will not be able to respond to it. Thank you.

Question from Ms Lim Siew Khee, CGS-CIMB Research

Can you explain why is there a drop or loss in share of results of associate companies in infrastructure in the fourth quarter?

CHC: In the fourth quarter, as you know, we have to do a fair value evaluation. There are some data centres that saw reduction in fair valuation. That is the main reason for the drop in performance.

Questions from Mr Adrian Loh, UOB Kay Hian

Just wanted to follow up on one of Gerald's questions regarding Floatel. Will there be any more impairment losses on Floatel?

My second question relates to your renewables efforts. Last year you won some decent-sized offers. Just wondering whether you can give us any colour on what sort of margins you get on those projects versus say a semisub rig?

LCH: We don't make any forecast on provisions. We look at the carrying value of all our assets every quarter and we believe that what we have provided to date for all these assets are correct and this is checked by our Audit Committee as well as by our auditors.

LCH: On the question on renewables, I think you're referring to the outlook for the offshore renewables sector. Maybe I can ask Chris Ong to respond?

CO: I think your question was to shed some light on the margin of the projects. We don't usually do that. But maybe we can share with you on some of the areas that we are actually looking at in terms of the offshore renewables business. From adjacency and capability in design, construction and procurement, we are able to reach out to customers in areas of offshore renewable energy and offshore wind market. We are able to do the support, installation and also all the substation-type of construction and design – so we are going full force out in the market to make sure that we are able to reach out to the potential customers.

Questions from Mr Foo Zhiwei, Macquarie Securities

I just have a follow-up question on the losses at Floatel. At one part you described it as an impairment. It would be helpful if you could tell us what the amount was, partly because the losses you experienced in 4Q were due to absence of work for all five of the Floatels for that quarter, and as we move into 2020, you actually have two of them going back to work. I think it would be helpful if you could shape our thinking of what those losses were, so that we can think about how 2020 will be.

CHC: I think the underlying reason for the poor performance of Floatel is really because of the five vessels, only one at this point has a charter. So as a result, it has made a loss – so we have to then equity account for our share of the loss. But because the vessels are out of charter, at the year-end when they do the valuation, there will be an impact on the valuation, so as a result, they had to take an impairment, which we also have to equity account for our share. As a result, if you look at the share of associate line for Offshore and Marine, a large part is actually the share of loss from Floatel.

Thank you for that. I'm just wondering if you can share with us the impairment amount so that we can understand the magnitude of the losses from the low utilisation. And a clarification – I thought you had two contracted for this year, and not one.

CO: I think the results is because of what was operating last year. But pertaining to your question on the two vessels, there are two that are contracted for this year. So that's the distinction.

CHC: To your earlier question, the share of the losses for Floatel in total is actually \$51 million, of which \$20 million relates to impairment.

Questions from Ms Cheryl Lee, UBS

This is with regards to infrastructure. So I can see that year-on-year the net profit has been flat, but some of this is related to execution of projects and I suppose some of this is recurring in nature. As we understand, when your Marina East Desalination Plant

comes off – as in the project completes – and then it goes into the recurring state. The question is: How sustainable is this? Will the loss of project-related earnings be able to be compensated by recurring income? So do we expect earnings to be stable, or should we consider that it might decrease?

LCH: We actually report quite a few business units under the infrastructure division. If you're referring to Keppel Infrastructure, which is building the Marina East Desalination Plant, as I shared in my speech, actually the performance of KI has been stronger this year (2019) compared to last year (2018). While the construction for the Marina East Desalination Plant is coming to an end, we will, as you said, have O&M fees, but for the Hong Kong project – we are just starting to recognise that. Is there anything you (OTG) would like to add?

OTG: I don't think we are expecting a drop. We are very optimistic about our prospects for 2020.

Questions from Mr Jason Yeo, Goldman Sachs

Can you share your plans for the redevelopment of Keppel Towers?

TSY: We have submitted our redevelopment proposal and are consulting the various authorities on the proposal. Once we obtain the approval, we will share more information.

Is the pipeline of O&M tenders/enquiries stronger this year vs. last year?

CO: What we can see is that there is a strong pipeline of enquiries in place compared to last year or two years back. We are seeing a stronger pipeline of enquiries. But it's also sector dependent. It depends on FID timing and different projects coming online, but we are actively engaged in all of them.

Can you share the timeline, target size and seed assets for the Keppel Asia Infrastructure Fund?

CT: Jason, with regard to the Keppel Asia Infrastructure Fund, we are looking to launch at US\$1 billion in terms of target equity size. This will probably attract a lot of quality institutional investors, especially the sovereign wealth funds, because the first seed asset that we are looking to put into the fund would be Project Gimi. Leveraging the strength of the Keppel Group and Keppel's capabilities, we are able to provide a good pipeline of dealflow projects for this fund. In terms of timeline, we'll be announcing the first closing quite soon, so when it's done, we will do a press announcement.

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