

Keppel Corporation 2Q & 1H 2018 Results Briefing to Analysts and Media

Question & Answer Session

19 July 2018, 5.30pm, Keppel Leadership Institute

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

Gerald Wong from Credit Suisse: Two questions from me. Number one, on the Property Division, are there any changes to your plans for the residential launch pipeline given the recent property cooling measures? I notice that you have recognised the gain on the redevelopment of Nassim Woods. Secondly, on the Offshore & Marine Division, are you seeing more enquiries for your FLNG conversion solution after the delivery of the first unit? Also, any update on the second and third units?

LCH: Thank you for the two questions, Gerald. I think the property cooling measures announced last week are still playing out, we do expect that there will be impact on the sentiments in the market. We have a couple of properties in our land bank - Nassim Woods, and also Keppel Towers. As these are redevelopment projects, we do have some optionality in terms of when we choose to launch them. I think it's too soon to make any comments on whether we will change those plans. As I mentioned, we do have some optionalities in terms of when we choose to launch. We will monitor the market closely. Chris.

CO: To answer the question on the enquiry for FLNG. I think the Hilli (FLNG vessel) having achieved first gas has created confidence and interest in the market for the conversion solution. That has literally taken out the technical risk of the solution itself. On the other two units, Gandria and Gimi - for Gandria, the notice to proceed has been extended to end of the year for Golar and Ophir to look for an alternative investor. In the meantime, the ship is in the yard and we are doing some preparatory works. As for Gimi, we are working closely with Golar and BP, and we expect to receive the notice to proceed by end of the year.

LCH: Just to add to what Chris has said, I think the commercial operation of Hilli has received a lot of confidence. So we are confident that this FLNG conversion market would be a very attractive one for KOM.

Lim Siew Khee from CIMB: Can you tell us how much is Nassim Woods' fair value? Would you be able to tell us the contribution from Singapore and China towards your Property Division? You mentioned that there is some weakness in property trading, so which cities in China, if I assume that the weakness is in China?

CHC: The fair value gain on Nassim Woods on the designation of the land for redevelopment is \$48 million (pre-tax).

LCH: In the first half of this year, we sold about 800 units in China compared to about 1,750 units in the first half of 2017. There is clearly a reduction. But we will hopefully be able to pick up more sales in the second half, as a number of our projects become ready for launch.

I think the cooling measures have had an impact, but they have affected the markets differently. The demand supply fundamentals are still quite positive in most of the markets where Keppel Land China is active in and has projects. Most of these markets would have a supply that is usually about less than two years of demand.

So we are still very positive on the fundamentals, but of course in many of these markets, there will be cooling measures that we will have to deal with. In the course of the last two and a half decades, we have built up a lot of capabilities in different markets through our regional drive. This is an advantage that Keppel Land has. As markets become subject to potential policy risks and market conditions change, some windows for markets will open while some will close. Keppel, through our experienced local teams, in countries like China, Vietnam, Indonesia and Singapore, to name just a few, has optionality in terms of where to invest, and where to launch our projects.

Donald Chua from Bank of America Merrill Lynch: I have three questions. The first question is a follow up on Nassim Woods, after the reval gain, what is the implied land cost for Nassim Woods now? Have you also factored in the potential DPs to lift up the lease back to 99 years?

My second question is on the Beijing commercial property sale, has this been factored in into the second quarter results? What is the rationale for selling this Beijing commercial development, since it is still under development, why not hold it for recurring income? How much gains are we expecting in terms of IRR, cap rates etc.?

The third question is a broader one on capital allocation. With the balance sheet now stronger, gearing down, where are we looking at in terms of allocation? Is it more on the real estate side or other segments? If it is the real estate side, which areas are we looking at?

LCH: You have quite a number of very big questions. I will try to address some of them. On Nassim Woods revaluation, this is part of our activation of this site to turn it into land bank from where it was as a rental apartment. As I shared earlier, we do have some optionality in terms of the timing, so we will watch the market. I can't disclose what the land value is, based on the valuation. All I can say is that we generally tend to be a little bit more prudent on how we revalue so that we don't get ourselves into a pickle.

As far as Beijing Aether is concerned, it is not factored into the second quarter results. We have a signed an option with the buyer and there was a significant deposit paid that is not refundable. We expect the option to be exercised some time in the third quarter.

Beijing Aether is in a very prime location, near the Third Ring Road, on the eastern side of Beijing. Ordinarily, we would have liked to keep it for the long term for recurring income. But this is a project that has also been quite challenging for us to execute. In the best interest of the partnership, we thought it might be best that we sell. Of course, in the process, we have been fairly well compensated. The profit was disclosed, of course this is subject to the deal being done. When we signed the option in the second quarter, we announced that the expected profit is \$114 million after tax.

In terms of capital allocation, we do not generally do top-down allocation as a Group as that can be dangerous. Of course we have a general sense of where we want to see our balance sheet being deployed. We tend to look at things more from bottom up to see where the best deals are for the Group that can provide the best risk-adjusted returns. We do continue to see opportunities on the property side. We can replenish some of our land bank, where it makes sense, when it makes sense. We can also look at opportunities on the infrastructure side. With urbanisation, there are a lot of

requirements for different urban solutions. We also have opportunities in Keppel Capital but these would be a bit less capital-intensive because we tend to work with third party investors.

Foo Zhiwei from UOB: I have two questions. First one on property, second one on Tianjin Eco-City. For property, I notice that your quarterly revenue run rate has actually declined to about \$200 million this quarter. Historically, your run rate was about \$400-500 million. If you were to exclude your one-off gain in the property trading segment, your core profit for property was about \$48 million, which was also a quarterly decline. Bearing all these in mind, how should we think about property in the future?

Second question is on Tianjin Eco-City, SSTECH to be specific. There were no land sales and I understand from the local media that it was because there was no bid received. So would you be lowering the bid price in order to secure sales this year?

LCH: Ok, on the property side, we look at the entire picture so that would include the en bloc sales because these are, I think I have mentioned before, more opportunistic. We can choose to sell the units one by one, or we could, where the opportunity arises, sell the project en bloc. So to us, that is also sales. We don't see that as a one-time gain. Of course, that is a bit lumpier compared to unit by unit sales.

Just to be clear, even when we do unit by unit sales, I am sure you are all well aware, for projects that are accounted for by the completion method, the reality is that they will still be lumpy. Meaning, at the end, assuming that we can sell out during construction, we can only recognise the revenue and the profit when the project is completed. So from a financial point of view, there is very little difference. The only difference is that we can't just rely on en bloc sales all the time, we will still have to continue to look at property launches and at selling units the traditional way.

I had mentioned earlier that despite all the cooling measures, the supply demand fundamentals are quite attractive in most of the markets in China where Keppel is involved. SSTECH is a very good example because Tianjin Eco-City is now more mature, connectivity has improved, and with more amenities, it offers quite a nice environment for residents. Tianjin Eco-City is probably one of those markets that are considered quite healthy. If you look at the supply demand fundamentals - the land sales, land that has been sold, land that is ready to be launched or projects that are ready to be launched the supply side represents about 1.2 times years in terms of demand requirement.

There will be good opportunities for us to continue to sell land in Tianjin Eco-City. As mentioned in my remarks, SSTECH is expecting to launch some land sales in the second half. I also shared last year that Tianjin Eco-City is going to be a long-term contributor to the Group, but it will be lumpy because the profits will be realised whenever we sell land, and it doesn't mean that we will have land for sale every quarter.

Foo Zhiwei from UOB: To put it in another way, last year you were talking about the SSTECH land sales and how it could be potentially recurring, so given its lumpiness, conservatively, should we think of it as more of a less recurring nature?

LCH: I don't think that we ever put it as a recurring type of business. It would not be the same as what TG has in terms of operations and maintenance in the Infrastructure Division, where it is a regular stream of cash flow, or what Christina can generate in terms of asset management fees, which are also recurring in nature. The basic business model of Tianjin Eco-City derives profit from generally two sources. One would be self-development, they will be develop and sell properties like Keppel Land China would, either by themselves or in joint venture with partners. That would provide profit like

development profit. The second part, which is equally important, is selling land. When you sell land to other developers, you will recognise the profit when the land has been sold.

Conrad Werner from Macquarie: Maybe just following up on the recurring income issue, looks like it was down from \$150 million to \$130 million, half over half. Any reasons to be concerned about that, can we make up some of the difference in the second half? Are there some trends there that need to be called out maybe to explain the decline?

And the Borr revenues that were recognised in the second quarter, was there any margin on those revenues, or were those zero-margin type revenues? Just trying to understand the accounting there. And then maybe just a follow up on the Tianjin Eco-City - was it the case in the first half where you had land for sale and could not get the price you wanted, so now you are relaunching that in the second half at a lower price? I think that was the essence of the question asked before. Thanks.

CHC: On the first question, the drop in recurring income from \$150m to \$130m was largely on the O&M side. As you know, the O&M business has been facing quite a bit of headwinds. The drop in the recurring income is mainly the drop in our share of profit in Floatel. In terms of the underlying business, the number of vessels on charter this year is three compared to four last year.

On Borr, we announced the sale of five rigs during the quarter. Those five rigs were actually sold at close to breakeven. So that's why the revenue has gone up by quite a lot compared to last year, especially in second quarter, but if you look at the margin, it is close to breakeven.

LCH: On your question on Tianjin Eco-City, Conrad. It is not so straightforward in terms of just tendering land for sale. Our Chinese partner is a government-owned entity, there are some processes that we have to go through and that includes having a valuation done before the land can be put up for sale. So there was a site in the first half that was put up, but because the land sale prices in 2017 were quite high, there was expectation that prices would go higher than the last transacted price. That piece of land was put up at a fairly high valuation, so as a result, that particular site did not attract any bid but it does not mean that there is no interest.

As I said earlier, Tianjin Eco-City is maturing quite nicely and the supply demand dynamics are actually quite positive. There is a shortage of homes and there is also strong demand. So I am quite confident we will see a land sale in the second half.

Cheryl Lee from UBS: I have a couple of questions. Firstly with regards to infrastructure, could we get a sense of how much of the net profit was due to the dilution gains and how much was from improved contributions from the environmental business? And also some comments about what you see as a sustainable or even growth level for the environment business?

The second question is with regards to O&M, could we revisit the repair business and maybe give us an update of how big or how small, what size it is right now? What kind of revenue run rates we are seeing and the kind of vessels being constructed?

And on property, could we get a sense of how much were all these gains on sales of the Shenyang sites, Nassim Woods and the sale of the Vietnam investment company in the second quarter?

LCH: Maybe just a quick one to answer your last question. The gains from the two Shenyang en bloc sales and the sale of a stake in that development land in Thu Thiem in Ho Chi Minh City, we can provide that to you, it is publicly disclosed.

CHC: Nassim Woods is \$48 million (pre-tax). It's also disclosed in the SGXNET, a fair value gain on investment property of \$48.3 million in the second quarter. That is on page two of the SGXNET, and that falls under the line item Other Operating Income.

Cheryl Lee from UBS: Then on the Vietnam side, basically you announced it in two tranches, there was the first sale and the second sale, but the second announcement was after the end of the quarter, so just to clarify that the gain on that also hasn't been booked in, is that correct?

LCH: The gains for the Vietnam one was put in the net profit, the net gain there was put in the second quarter, I believe. If it is okay, may I suggest Cheryl, that you take it offline with the team? You had a question on O&M repairs?

CO: The repair business still forms a staple work load for the yard. This quarter itself, we saw a gradual increase in the number of enquiries for repairs. We think that the usual base load should be sustainable. That is mainly on the shipping side. As for rigs, we do have a steady volume of upgrades in the yard but that one will be a bit more muted depending on whether the rigs are going on charter.

Cheryl Lee from UBS: May I just clarify, how much of your revenue roughly is from repair now?

CO: We don't break that down.

LCH: So coming back Cheryl, to your question on infrastructure, the dilution gain is just under \$20 million from the placement of new shares in Keppel DC REIT. On the infrastructure side, we are seeing very steady contributions from Keppel Infrastructure as we are starting to recognise EPC profits from the Keppel Marina East Desalination Plant. We also expect to start to recognise EPC profits from the Hong Kong Integrated Waste Management Facility next year. Then of course, the point is that as each of these projects are completed and they go into the long-term operations and maintenance (O&M) phase, the O&M fees will keep on layering on top. I'll ask TG to give an update on the two projects.

OTG: For the Marina East Desalination Plant, we are about 50% complete, and as for the Hong Kong project, we will recognise the contributions starting from next year. From the operations of the environmental and infrastructure services, the operating income for the first half was very strong, we have contributed about an additional \$15 million compared to last year. But last year, remember, we had a one time gain of \$12 million from Keppel GE, so the variance is not as big, but from the operating level, it's quite a significant improvement.

LCH: I will take a question now from the web, just to give people in the room some time to think of the next question. First question is from Derrick Heng of Maybank Singapore. His question is how many land parcels will be put up for sale by SSTECH in the second half 2018?

We generally don't disclose that. As I mentioned, there will be plans by SSTECH to sell some land parcels in the second half.

Next is a question from Somesh Agarwal of HSBC Singapore. "Of the \$225 million profit in the second quarter 2018 in the Property Division, how much came from en bloc sales? Also of the overall \$603 million in the first half 2018 in the Property Division, how much came from en bloc sales and fair value gains?"

CHC: The second quarter en bloc sales, as we mentioned, was from the two sites in Shenyang and one in Vietnam. On an after tax basis, the total was \$111 million for the second quarter. As for the first

half, we had the sale of Zhongshan Marina in the first quarter, so including that one, the total is \$416 million after tax for en bloc sales. As for the fair value gain, the after tax basis is \$40 million.

LCH: There is a question from Low Pei Han of OCBC Singapore. “Thank you very much for the opportunity, would it be possible to provide your expectations in terms of timeline and ASP for the Garden Residences?”

For Garden Residences, the average achieved price of the units sold was about \$1,645psf. We have a bit of time, as I mentioned, the Garden Residences’ site was acquired not long ago and we have just launched it. In terms of looking at the ABSD deadline, that is some time in 2022. We do have time, it’s a good product and well located. We have very strong partners in both Keppel Land as well as Wing Tai, and the partners are confident of being able to achieve good results.

There are two questions from Derek Tan of DBS Singapore. His first question, “Where are the potential asset recycling opportunities within the property portfolio where management feels have achieved fair value?” Second question, “Will the management be able to comment on the current IRRs for your Alpha Funds if they are above hurdle rates and where you see further opportunities to grow AUM?”

I will take the first question and I will ask Christina to address the second question. On the first question on potential asset recycling opportunities, as part of our goal to make Keppel Land a multi-faceted property player with a focus of achieving the highest returns, we have to look closely at the property book that we have to get the best returns. Over the 10 years to end-2017, the average ROE for Keppel Land per annum is about 14.6%. So that is actually quite a good return and we have also set a target of a through cycle return of about 12% ROE. This would be on fairly conservative gearing levels. So it is important that we constantly look out for opportunities to turn our assets faster. But you must also remember that some of our assets including our land bank were acquired in some of these markets over quite a number of years ago. So where there are opportunities for us to recycle, especially if the markets are non-core to us, like what we have seen this year in Shenyang, as well as in Zhongshan, we will do so.

CT: In terms of current IRRs, the Alpha Funds have done well. We don’t disclose all the returns as those are private funds for the pensioners. Some of you might have read about the potential sales and divestments in the papers, I think generally we have performed well for the investors. On where we see opportunities to grow AUM; we are always looking at adding new geographies, looking at new partnerships and potentially new asset classes, and this could be the alternative assets space. We will announce some of these as and when there are further details.

LCH: Thanks, Christina. There is a question from a retail investor, Nicholas from Singapore. “Good evening Mr Loh, thank you for the good results. I have two questions. First question, with the property cooling measures implemented in Singapore, does Keppel Land foresee weaker profits in the coming quarters? Second question, any plans to IPO Keppel Land to unlock value for shareholders? Thank you.”

First question, as I mentioned earlier, whilst we do expect the latest cooling measures to have an impact on sentiments, we are still monitoring and will have to see how this turns out. But if you look at it overall, at least in the first half of 2018, the home sales that we have for Keppel Land in Singapore was under 10% of the property sales for Keppel Land as a Group. Singapore is an important market, but as I mentioned earlier, because of our diversification into different markets, like Vietnam, China and Indonesia etc., it may not lead to a weaker profit immediately in the coming quarters, so it’s not a foregone conclusion that that will happen.

Any plans to IPO Keppel Land? The answer is no. Keppel Land is a core part of the Group and it is working out very well in terms of how it has been able to contribute to the overall profits for Keppel Corp. More importantly I think, as *OneKeppel*, we also see a lot of opportunities to unlock value with different parts of our Group working together. Keppel Urban Solutions is an example.

Looks like we have answered all the questions, unless there is a last question from someone in the room. Any last question? If not, thank you very much for your attention.

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