

Keppel Corporation 4Q & FY 2018 Results Webcast

Question & Answer Session

24 January 2019, 5.30pm, Keppel Leadership Institute

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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

Cheryl Lee, UBS: Good evening. My first question is about Property. May we have some comments about the demand and price outlook for Ho Chi Minh, Wuxi and Tianjin?

TSY: In Ho Chi Minh, we're generally still experiencing healthy demand and our launches are generally well received. This is the same in Wuxi. You will notice that we also ventured into key cities in China, such as Nanjing and Tianjin Eco-City, where we believe that the supply-demand presents a more balanced situation.

Lim Siew Khee, CIMB: Hi, can we talk more about the provisions in Offshore & Marine (O&M), Sete Brasil, the write-back and the impairments?

CHC: Perhaps I should turn your attention to page 2 of the SGXNet so that I can go through the numbers. You first asked about Sete Brasil - the provisions for expected loss on the contracts is on page 2, footnote 22. For FY 2018, there was a provision of \$167 million compared to a provision of \$81 million for FY 2017. As we explained in the past, the provision was made after looking at various possible scenarios. We do this each quarter. Especially at year end, we do a review of the assumptions taking into account the developments. We will then assess the adequacy of our provisions. We went through a very robust review with auditors, the Keppel O&M Audit Committee and the Keppel Corporation Audit Committee before we arrived at the provision. So we believe the provision is adequate at this point in time, for projects with Sete Brasil.

Lim Siew Khee from CIMB: Ok, I do understand that. So is this based on the rates that you see in the market, or is it based on potential plans to divest these rigs? What were the key developments that made you take these further provisions?

CHC: As I mentioned, the provisions are made based on a few scenarios. The probability of those scenarios happening will change over time, especially for some of the developments in Brazil concerning Sete's creditors' meeting and so on. Some of the assumptions include day rates and exchange rates. So all these updates result in adjustments through our provision. But as you would appreciate, there are many commercially sensitive issues that I will not be able to explain in detail.

You had also asked about the write-back of \$96 million for provision of claims. These are customer claims in Keppel O&M. Again, as you would appreciate, these are commercially sensitive, I will not be able to reveal which customers.

If you look at page 2 of the financial statements again, there is also impairment of investments and associated companies. For FY 2018, this amounted to a \$60 million impairment compared to a write-

back last year. I think it was also mentioned in the presentation earlier, under Investments Division, there was a provision of \$53 million.

Apart from that, there was also a provision for contract assets of \$21 million this year which relates to one of the jackup rigs. Again, as I had explained earlier, we do a review at the end of every quarter and especially at year-end. As a result of the review, we have made a provision of \$21 million for one of the rigs.

Those were the key provisions.

Nicholas Lim, retail investor: Does Keppel O&M expect to have completed most of the write-offs for the Sete Brasil rigs with the latest \$167 million provision in 4Q ? Or is there a high likelihood of more write-offs for the Sete projects still to come?

LCH: As you have heard from the CFO, we believe that the latest provision is adequate for now.

Lim Siew Khee, CIMB: There was an impairment of associates and investment. What did it relate to?

CHC: We are not able to disclose which company this relates to as some of these investments are actually listed companies.

Lim Siew Khee, CIMB: What is your outlook for O&M?

CO: As mentioned in CEO's speech, we do not expect a V-shaped recovery. Based on the development plan from oil majors, we can see that more projects are coming online for FID (Final Investment Decision) in 2019 and 2020. So we are optimistic. Nonetheless, there are different areas that we are targeting, not only in the oil and gas sector. As we have said, we have a diversification plan and we are looking at renewables projects as well. For FY 2018, we have secured \$1.7 billion new orders and I think we should also focus on operational excellence on top of the market conditions.

LCH: To add, Keppel O&M as you all know, has gone through quite a few of years of rightsizing. We are extremely pleased that last year, we were able to break even and make a small profit before impairment. So I think if things start to brighten up a bit and we start to get more orders, that will flow down to our bottom line. But of course, we have to continue to work very hard. As I have said, we hope for the best but we don't expect a V-shaped recovery.

Conrad Werner, Macquarie: Just following on from the recovery thematic, can we think about higher order flow in 2019 than 2018? Is that one way to think about your optimism, if we were to model it into our numbers?

LCH: Well, first of all, you know Conrad, we don't provide guidance on orders. But of course, 2018 orders were stronger than the year before. There are still a lot of headwinds, so we are cautiously optimistic.

Conrad Werner, Macquarie: On Gimi, what does the limited notice to start work mean? Are you starting work on it?

CO: The limited notice to proceed includes front-end engineering, ordering of some long-lead items and limited works on the vessel itself. BP has announced that they will take about another quarter to put all the contracts in place. So for the next four months, we will be embarking on all our front-end work on the vessel, while waiting for the full notice to proceed.

Conrad Werner, Macquarie: So that implies that we will have revenue recognition on this vessel this year?

CO: Yes.

LCH: And we know that BP has announced its FID in December last year for this particular project, so we expect that they would proceed with an FID for this. So if that all comes to pass, then we would expect that Gimi to contribute to the top line for this year.

Conrad Werner, Macquarie: And then what is the status of the third vessel, Gandria?

CO: Gandria's contract has been extended by Golar and we are in talks with Golar about the potential deployment of the vessel itself. This is ongoing and we will inform when there are material developments.

Conrad Werner, Macquarie: On the property business, specifically in China – you mentioned that there is strong underlying demand in your end market. But is there any sense that the cooling measures are being eased in the markets that you are in? Are we seeing any sign that we could see some relief in that area?

TSY: At the moment, not yet. For the property business, we always operate on the basis that the cooling measures may not be lifted, so we just have to operate under the existing conditions.

LCH: Yes, the cooling measures are in place. On the demand side, the other part is that the economy is cooling, so we are watching that very closely.

Cheryl Lee, UBS: Can we get some clarifications on the property side? I recall from the last quarter, there were these gains on bonds from Nam Long which would have been booked in this quarter. Which segment would this come under, property trading? How does this relate back to page 2 of your financial statements?

Foo Zhiwei, UOB Kay Hian: Another similar question – apart from TaiMall and KPN-Keppel Alliance divestment gains, were there any other divestment gains or revaluation gains in fourth quarter of 2018, and how much was it?

CHC: Perhaps just to highlight a number of the more material items relating to the earlier question. Yes, there was divestment and conversion gain from the Nam Long convertible bonds. That's indeed taken up in the fourth quarter. Also, there was a divestment of 20% stake in OFC (Ocean Financial Centre) by Keppel REIT; the stake in TaiMall; and two plots in Thailand, Sukhumvit 19 and Sukhumvit 28. These were the main divestments in fourth quarter.

Cheryl Lee from UBS: Could you update us on your plans for Nassim Woods?

TSY: We have commenced looking at the redevelopment of Nassim Woods and we are just in the design development stage. As and when the plans are firmed up, we will make some further announcements. Tentatively, we are looking at redeveloping it into about 100 units of high-end condominiums.

Mayank Maheshwari, Morgan Stanley: In the O&M market, while we have seen order wins, can the management talk about the competitive intensity? Also what does the management think worked for Keppel O&M in 2018 in securing the new orders?

CO: The challenges and the headwinds in the market are not limited to any region, it's basically global. So for all the yards out there and the solution providers, they will be competing very rigorously in terms of cost. Therefore, I think the competitive intensity is high, because there are competitors that are hungry.

What worked for us in 2018 is that we stuck to our core competency, worked on our people, and worked closely with our customers. We have been working at the front end with a lot of our customers, which show for some of repeat orders from returning customers. At the same time, we are investing in our people and in our existing facilities with new digitalisation tools, while ensuring that we are cost-efficient. At the end of the day, it's also about execution excellence. This means the ability to deliver our projects as promised and within budget. I think our customers are glad to work with us. Most important of course, is the safety record that we have maintained all these years.

LCH: Thanks Chris. Just to add two points. I think I have said before that Keppel O&M is always looking to win top lines. We have to remain quite disciplined, especially in today's market because the market is still very competitive. So it's not just about winning orders, but making sure that we win the right orders, from the right customers, with the right profile and margins. This discipline has to continue.

Besides rightsizing Keppel O&M, we have also integrated Keppel O&M. The three business units – Keppel Singmarine, Keppel Shipyard and Keppel FELS – are now working closely as one Keppel O&M. They are sharing resources and construction methodology, and there are a lot of synergies that have been derived these couple of years. We have put ourselves in a very competitive position and we are waiting for the market to come back.

Foo Zhiwei, UOB Kay Hian: For SSTECH, was the profit from all three land parcels sold recognised in the \$48 million in FY 2018?

CHC: CEO mentioned that there were three land plots that were actually sold but not all three have been recognised in FY 2018. Of the three land plots, plot 26 and 31 have been recognised in the year, but plot 20b has yet to be recognised. You can refer to page 60 of the slides for additional information on the land plots.

Foo Zhiwei, UOB Kay Hian: With profits from SSTECH land sales at \$120 million in FY 2017 and \$48 million in FY 2018, how do you see land sales this year?

LCH: We don't give guidance on future land sales. However, land sales have been affected by the cooling measures. Cooling measures are also quite strict, and that makes it more difficult for developers to bid. If these cooling measures continue, then land sales could be affected. But we also see that there is a pretty good supply-demand situation in Tianjin Eco-City, where developments with sales permit could be absorbed within six months of launch. From that score, there is a shortage of homes that can be sold. Developers would likely be attracted to bid for land again. But again, it's difficult to predict whether this year will be better than last year.

Lim Siew Khee, CIMB: Going back to the impairment, just wanted to check, excluding all the impairments, is 4Q EBIT for O&M profitable or still a loss? At the operating level, is it profitable?

CHC: Yes. Net profit is after interest, after tax. EBIT is before, so it is definitely.

Lim Siew Khee from CIMB: So that means operationally you are quite good. Can we expect this to continue?

LHC: We hope to continue. As you know, we have been working towards this breakeven for a while, so we are glad that we have reached that.

Lim Siew Khee, CIMB: You have delivered some rigs to Borr Drilling. Have they been paying or are there any challenges in receiving payment from them?

LCH: No issues. In fact, there is some discussion about bringing forward some of the deliveries.

Lim Siew Khee, CIMB: How did Keppel Capital perform this quarter? Was it stable?

CT: For FY 2018, our profits were a bit lower. This was partly because we are looking to do quite a few big deals. Some of the deals have been pushed to the right, partly because of government regulatory approvals that we have to obtain in some of the countries that we are dealing with. But I think we should be closing the deals this year, and we should be looking to lock in some of these fees and profits this year.

Kwok Wei Chang, Citi: What is the current stage of work on the Awilco semisubmersible? Had work begun in earnest in 4Q 2018? And can we expect this to further ramp up heading into 1Q 2019 to lift O&M revenue?

CO: During the last announcement, we mentioned work will start in 4Q 2018. We are roughly at about 10% in our progress right now, and we expect that the construction activities will continue in 2019.

Cheryl Lee, UBS: Under the segment analysis, when I look at the net assets for O&M Division, there was quite a big jump. Could you share some thoughts on how capital is managed in the Group?

CHC: There was a capitalisation done during the year. This was to help strengthen the balance sheet of Offshore & Marine, which will be useful for them in terms of winning contracts amongst other things.

Cheryl Lee from UBS: So, previously this would have been sitting at the corporate level?

CHC: It was from issuance of equity instruments by Keppel O&M to Keppel Corporation, the parent.

Conrad Werner, Macquarie: Just to get back to the provisions in O&M, I am interested to know whether there has been any news on the Sete front? Have you had any more communications with them or has anything changed?

LCH: I think nothing more than what you have read in the press. There is now an agreement in principle between Petrobras and Sete Brasil. Sete Brasil is going to put up a bid, but that has been delayed so we will wait and see. I think things seem to be coming to a head, which is good. We are looking forward to getting this finally resolved, once and for all.

Thomas Yeh, retail investor: You have many data centres in many countries. Do you have any potential data centres coming up in China? If so, which cities in China are you looking at?

TP: In 4Q 2018, Keppel Data Centres announced a cooperation agreement with Xiangjiang Science & Technology and Cloud Engine Network Technology to look at opportunities in China. We are currently doing due diligence work and negotiation in projects in cities in Beishangguang – Beijing, Shanghai, Guangzhou. We will make an announcement when we have a definitive agreement.

LCH: Thank you. Any further questions? If not, thank you very much for your attention. Have a great year ahead.

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