Keppel Corporation's Briefing to Media & Analysts

Media & Analyst Briefing Transcript

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CO	Chris Ong, CEO of Keppel Offshore & Marine

Opening remarks by Loh Chin Hua, CEO of Keppel Corporation

Good evening.

Thank you for attending today's briefing.

You would have seen our announcement on the two non-binding MOUs that Keppel has signed:

First, with Sembcorp Marine (SMM) to enter into exclusive negotiations on combining Keppel Offshore & Marine (Keppel O&M) and SMM.

Second, with Kyanite, a wholly owned subsidiary of Temasek, to sell Keppel O&M's legacy completed and uncompleted rigs and associated receivables to a separate Asset Co to be formed. The Asset Co would be majority owned by external investors, which Temasek intends to procure.

These two proposed transactions will be inter-conditional and pursued concurrently.

I will not repeat the details of the two transactions which are in the announcements, but let me share with you our thinking, what these mean for Keppel and how they fit with Keppel's Vision 2030.

Transformation has long been a part of Keppel's DNA. Over the past five decades, the Keppel Group has transformed itself many times in response to the changing external environment. In 2001, for example, we divested our banking and financial services business, which was then contributing more than 50% of the Group's net profit. This paved the way for the growth of the offshore & marine (O&M) business over the next one and a half decades.

In May 2020, Keppel unveiled Vision 2030, our long-term strategy to transform and grow the Company as one integrated business, providing solutions for sustainable urbanisation. We announced then that we would take a more disciplined approach to managing our business, and focus on achieving our ROE target as well as ensuring alignment with our Vision, Mission and "sustainable urbanisation" theme.

Last September, following Keppel Corporation's Board Strategy Offsite, we announced that as part of the execution of Vision 2030, Keppel will commence a strategic review of the O&M business amid the sector's challenging environment, exploring both organic and inorganic options.

Over the next few months, we worked first on the organic transformation of Keppel O&M, which we announced in January 2021. The inorganic option took longer to discuss, as it involves external stakeholders. But we emphasised in January that even as we executed Keppel O&M's organic

transformation, we were still exploring inorganic options. We believed that the organic restructuring of Keppel O&M would enhance its competitiveness and attractiveness.

The proposed combination should therefore not come as a complete surprise to the market. It is the continuation of what we have been doing over the past few months, including for example, the restructuring of Keppel O&M to create a Rig Co and Dev Co to hold our legacy completed and uncompleted rigs – a structure similar to what we have just announced for the Asset Co.

Analysts and the media have often highlighted the possibility and benefits of a combination of Singapore's two leading O&M companies. The O&M business has been facing very challenging conditions over the past six years; and we have seen a number of large yards, in China and Korea, pursuing consolidation to create scale and more effective use of their asset bases.

Let me emphasise that despite the very difficult conditions, Keppel O&M has done very well, under the leadership of Chris Ong. It currently has a net orderbook of about S\$5.8 billion, including about S\$3 billion secured in the year to date. Significantly, Keppel O&M has made good progress towards an integrator role and in its pivot towards gas and renewables, which make up almost 40% of its net orderbook.

Nevertheless, amidst the fast evolving and consolidating landscape, we too must consider how we can change to be even more competitive. Combining Keppel O&M and SMM would allow us to create an even stronger player, well-positioned to address the many opportunities and challenges in the industry.

If the proposed combination is successful, Keppel Corporation will receive both cash of up to S\$500 million, as well as shares in the Combined Entity. We plan to distribute the shares received in the Combined Entity to Keppel's shareholders.

This would allow our shareholders to enjoy the upside from, first, synergies created through resource optimisation and capital allocation and second, the recovery of the O&M business and the opportunities in the energy transition, through their stakes in the strengthened Combined Entity.

At the same time, under the MOU, it is envisaged that Keppel and the Combined Entity will enter into a strategic partnership, where Keppel will hold 50% of a 50-50 JV that will be established between Keppel and the Combined Entity.

The Strategic Partnership JV will provide Keppel with continued access to Keppel O&M's expertise, intellectual property and R&D, in areas such as offshore renewables and nearshore developments, which will be within the Combined Entity. The scope of the Strategic Partnership JV will be subject to final agreement between the parties. In addition, the Combined Entity will be the preferred EPC partner for Keppel's projects where the Combined Entity has the relevant expertise.

The key terms of the transaction are under discussion, and the shareholding of the Combined Entity is subject to negotiation, due diligence and detailed valuation to be performed by Keppel, SMM and our respective advisers.

Under the second MOU, Keppel O&M's legacy rigs and associated receivables will be sold to a separate Asset Co which will be formed. Keppel will retain not more than a 20% stake in Asset

Co as an investment. Kyanite intends to procure external investors, which will hold the balance of at least 80%.

Keppel will receive the consideration for the legacy rigs and associated receivables substantially in the form of credit notes. Asset Co shall be independently managed from the Combined Entity and the General Partner of this Asset Co will maintain, complete and monetise the rigs over time.

A key point for Keppel is that having a majority of external investors for Asset Co will allow Keppel Corporation to deconsolidate the ownership of the legacy assets from our balance sheet. The external investors will provide capital which can be used for finishing these uncompleted rigs, which would no longer be funded by Keppel. Keppel's economic exposure in Asset Co will be reduced over time, as the rigs or Asset Co are sold or securitised when conditions in the rig chartering market improve.

Let me highlight that these are non-binding MOUs. The discussions will take several months and there is no guarantee that a final agreement will be reached. In the meantime, while negotiations are taking place, Keppel O&M would remain focused on executing its strong orderbook, seizing new opportunities as well as continuing its pivot towards renewables and cleaner solutions.

What do the transactions mean for Keppel, if they are successfully completed?

On a pro forma basis, the proposed transactions are expected to be earnings accretive to Keppel Corporation for the current financial year, although there is no anticipation that any transaction, if agreed, will complete this year.

The Keppel Group's net debt will fall as a result of the deconsolidation of Keppel O&M and the receipt of a part of the consideration from the Combined Entity in cash. The distribution in specie of shares in the Combined Entity will however reduce Keppel's shareholders' funds. Overall, the Group's net gearing is not expected to be significantly affected following the transactions.

With the sale of the completed and uncompleted rigs to the Asset Co, we will go a long way towards resolving this longstanding legacy issue.

Perhaps most importantly, the proposed transactions are very much in line with Keppel's Vision 2030, and will take us further down the Company's transformation journey. Together with the planned divestment of our logistics business, Keppel will become much more streamlined, assetlight and focused in the execution of our mission. We are also increasingly focusing on renewables, and the transactions will further accelerate the Group's pivot away from oil, towards new energy and decarbonisation solutions.

We will continue to drive the Group's growth in areas aligned with our mission, such as smart cities, renewables, environmental solutions, connectivity and asset management, and work towards our target ROE of 15%.

Let me pause now to take questions.

Question from Paul Chew, Phillip Securities

For the Asset Co holding the legacy assets, how much asset and debt will be involved in the transaction? Where are these assets now in the balance sheet and are they marked down to market price?

LCH: I will ask Hon Chew to address this. Thank you.

CHC: Thanks for the question. All these assets currently are carried at book value in Keppel O&M's balance sheet. As of the year-end and every reporting date, the carrying values are reviewed for impairment. At this point in time, they are carried on a value-in-use basis. As Chin Hua has mentioned, the transaction is still under discussion. Negotiation is ongoing and there is still a lot of work to do. There is pending due diligence and also detailed valuation to be done in the coming months. So, on the details about the asset value and the amount of debt in Asset Co, we cannot at this point in time share any details until the definitive agreements have been signed.

Question from Terence Chua, Phillip Securities

Thank you for the presentation. Can we find out what Keppel plans to do with the S\$500 million it receives if the transaction goes through?

LCH: We have shared before that we have a monetisation programme that is ongoing. The funds that we have raised from this monetisation programme will be used to fund new growth initiatives. In the short term, we have also seen our net gearing come down. So, I think this S\$500 million will be part of the cash that the Group has. We can look to redeploy it. Over time, we are also looking to see if - especially if the market conditions do not provide good investments with the desired returns - we may return some of these monies to shareholders.

Questions from Chang Kwok Wei, Citigroup

Thanks for the webcast. I have a few questions. The first is: are there any other conditions precedent to the business combination and the rig sale transactions, apart from due diligence?

LCH: Just to be clear, Kwok Wei, this is a non-binding MOU. We have to go through the next step of the process, which is due diligence on both sides. Then we would have to finalise the exchange ratios, and then we will go into definitive agreements. At that point in time, if there are any conditions that are required or conditions precedent, that will be where it becomes appropriate to address them.

For the sale of the rig assets to Temasek, does the S\$2.9 billion asset valuation still hold?

LCH: Hon Chew?

CHC: In January, when we announced our full year results, we also talked about the restructuring of Keppel O&M into Rig Co, Dev Co and Op Co, and we mentioned at the briefing that the asset value in Rig Co and Dev Co amounted to about S\$2.9 billion. This basically consists of the completed and uncompleted rigs, but not including associated receivables. Of course, there will be due diligence to be done in the coming months. The question of whether the asset value still holds will be subject to due diligence.

Question from Jolene Ang, The Straits Times

Can we have a rough timeline of when discussions will end or when the decision will be made?

LCH: After several months of discussion with the two counterparties, we have reached an understanding on how the deal may proceed going forward. But it is still subject to due diligence and subject to finalising a number of very important factors, such as the exchange ratio. This will probably take a couple of months. We expect that definitive agreement will be reached before the end of the year, sometime in the fourth quarter. After that happens, we would still need to go to shareholders for approval, and get regulatory approvals as well. So by the time the intended transactions get completed, it would probably be well into 2022.

Question from Anshuman Daga, Reuters

Thanks for the presentation. Can you please clarify the planned ownership structure of this potential combination? Thanks.

LCH: SMM is publicly listed. It has Temasek as its major shareholder. Keppel O&M is currently 100% owned by the Keppel Group. So after the combination, as I have mentioned, Keppel will receive S\$500 million in cash, plus shares in the Combined Entity. We intend to distribute these shares received in specie to our shareholders. At the end of the combination, we cannot predict what the shareholding of the Combined Entity will be. But we can say that as far as Keppel is concerned, we will not be a shareholder. But the shareholders of Keppel will be the shareholders of the Combined Entity.

Questions from Cheryl Lee, UBS

Good evening. Could I clarify that the Combined Entity will own Op Co?

LCH: Op Co is the operating company that we had used under our organic restructuring which we announced earlier. The answer would be yes.

What is the valuation methodology (or basis) being considered for determining that a S\$500 million cash injection is appropriate, and the final respective shareholdings?

LCH: There is no valuation methodology for the S\$500 million cash. This is something that the various parties have agreed on. Of course, what is still unknown is the exchange ratio. So any cash that is paid will be factored into the exchange ratio, and this exchange ratio is still subject to valuation by all the various advisors that are involved.

What happens to the perpetual securities of O&M?

LCH: Hon Chew, can you address that?

CHC: The perpetual securities are treated as equity, so for the transaction's purposes, they are going to be equitised.

Questions from Jolene Ang, The Straits Times

What happens when these talks do not come into fruition and there is no agreement?

LCH: We have reached an MOU with the two other parties, Kyanite as well as SMM. I think it shows there is serious intent among all three parties to get the transactions completed. But of course, there are quite a lot of details that we would need to work out. It will take time for us to do so. It is not a simple combination. That is the reason why we think it will take a few months to sort out all the details on both sides, and to allow the advisors on both sides to do their work.

What will be the key challenges in trying to combine the two different entities that you will need to discuss or consider?

LCH: I suppose as in any merger or combination, there will be important issues that all sides will have to consider, such as integration. But I am very confident given that this is a very unusual time that the industry is facing. We believe that the two entities will be stronger together. They have a lot of strengths, but they will be even stronger as a combined entity. There will be sufficient reasons, including synergies that can be realised from the combination, that would allow the parties to go forth and conclude the transaction.

Questions from Rahul Bhatia, HSBC

Could I check if the land related to the yards will be moved to the Combined Entity?

LCH: The combination would include all the relevant businesses of Keppel O&M. From that perspective, any of the yards that remain still at the completion date will be moved to the Combined Entity.

What is the book value that will be moved to the Combined Entity?

LCH: Hon Chew will address that.

CHC: The transaction is basically based on valuation. As Chin Hua mentioned, the valuation is still being negotiated. It is still subject to negotiation and due diligence. So at this point in time, we cannot give further details until the definitive agreement has been signed.

LCH: I think on the valuation, we can say that we have agreed that we will use discounted cash flow to look at it. But as Hon Chew said, this is still subject to much work by both sides. So I think it would take a while before we come to the definitive agreement.

Am I right to say Floatel will stay as part of Keppel Corporation?

LCH: Yes, Floatel is excluded, together with Dyna-Mac, from this transaction. So Floatel will become a non-core investment for Keppel Corporation.

Question from Ajay Mirchandani, JP Morgan Securities

Assuming the combination is successful and completed, any reason why Keppel will distribute its stake rather than retain its ownership in the Combined Entity, given the long-term potential outlook?

LCH: It is a good question, Ajay. I think this is something that we have also debated. But I think from Keppel's perspective, we are also looking to streamline our businesses. If you look at the business of Keppel O&M, it is more in the EPC space at the moment. For Keppel, we are moving more towards recurring income. So this does not fit perfectly with our Vision 2030. But like you, I do believe in the long-term potential. Under the Combined Entity, we believe that this entity will do well.

Questions from Lim Siew Khee, CGS-CIMB Research

Can I just confirm that post completion, your exposure to O&M will be not more than 20% in Asset Co, and 50% in the Combined Entity which is your current Op Co?

LCH: This is not quite right. Post completion, we will have 20% or less in Asset Co. We will still have some exposure to the credit notes that we will receive when we sell the stranded rigs to Asset Co. We do not know what percentage of the shares of the Combined Entity Keppel will receive. We will receive S\$500 million, plus shares. The exchange ratio has not been determined at this point. And as I have shared, Siew Khee, post transaction, it is Keppel's intent to distribute in specie the shares that we receive from the Combined Entity to our shareholders. So net, Keppel will not own any shares in the Combined Entity.

What happens to your building of renewables projects in O&M?

LCH: I think for the projects that are under Keppel O&M, such as the TenneT project and the wind turbine installation vessel for Dominion Energy, those will travel across to the Combined Entity. Those projects that are under Keppel Renewable Energy, where we are more a developer than an EPC player, stay with Keppel. It does not travel to the Combined Entity.

Question from Terence Chua, Phillip Securities

Is there a long stop date for this MOU?

LCH: Yes, there is a long stop date. It can be extended. But I think it would behoof all of us to try and get this finalised. It would take time, as I have shared, because there are still quite a lot of details to be worked out. But I think it behooves all the three parties to get this negotiated and completed as soon as possible.

Questions from Low Horng Han, CLSA

Thanks for the presentation. Can I understand the rationale for the up to S\$500 million cash consideration which Keppel will receive? What is the basis for this?

LCH: I think this is part of the negotiations, Horng Han. When Keppel O&M travels over, we believe Keppel O&M will be pretty clean in terms of its balance sheet. It is negotiated that we will receive the S\$500 million, plus shares.

Keppel is giving all the shares in the Combined Entity via dividend in specie. Is Keppel going to distribute the cash portion as well?

LCH: The cash will be part of the cash that the Group will keep. We also have other growth initiatives that we are looking to invest in. And of course, at the end of the day, we will distribute dividends to our shareholders as per normal, through our interim dividends as well as the final dividends.

Questions from Kang Wan Chern, The Straits Times

Keppel is divesting its O&M assets at a time when demand for transport as economies reopen after COVID-19 is expected to rise, thus supporting higher oil prices. Is this pivot towards renewables and decarbonisation a missed opportunity for growth?

LCH: First of all, this is not a divestment. We see this more as a combination to create a stronger O&M player by combining Keppel O&M with SMM. We think that pivot towards renewables and decarbonisation is really, very key to Keppel. We think that this is a very important opportunity not to be missed. So we do not really agree with your statement here. We think that actually, the energy transition has accelerated and it is even more important for companies like Keppel, who see sustainability as our business, to move even more quickly towards renewables and decarbonisation solutions.

Questions from Derek Tan, DBS

Thank you for the presentation. What is the longer-term strategic view on Floatel International and Dyna-Mac, and why are they retained by Keppel?

LCH: Both of these are going to be retained as non-core investments for the Group. Floatel has gone through a recent debt for equity swap. It is actually doing quite well at the moment. It secured quite a number of new contracts. Again, this is part of the negotiation. It is not something we wanted to retain. This is part of the negotiations.

What percentage of assets are these investments?

LCH: Hon Chew?

CHC: In our announcement in April, when Floatel announced the results of the financial restructuring, we recognised a gain, and after the gain our book carrying value is S\$284 million. As for Dyna-Mac, it is quite small, it is over S\$20 million. Thank you.

Keppel O&M is in a negative equity position. Will this be relooked at before injecting into the JV co?

CHC: Actually, Keppel O&M is not in a negative equity position because the perpetual securities are treated as equity. And also to remember, the completed and uncompleted rigs are also going to Asset Co, and not going to Op Co. So for sure, Keppel O&M is not in a negative equity position. But just to be clear, as we have mentioned earlier, the contribution to the Combined Entity is based on valuation. And as Chin Hua has explained, it is based on discounted cash flow.

Questions from Anita Gabriel, The Business Times

Are you able to indicate the value of assets in Keppel O&M to be merged into the Combined Entity?

LCH: I think CFO and myself have answered that earlier.

Can you provide some expectations on how the Combined Entity will stack up against rivals?

LCH: I will invite my colleague Chris Ong, CEO of Keppel O&M, to address this question.

CO: We cannot speculate about how the Combined Entity will turn out; but based on the existing capabilities, solutions, and also the strategic directions of both competitors, I think that there will be synergies and strengths that complement each other, and they will form a stronger competitor on the world's stage as a combined entity.

Given the scale of the combined operations and potential redundancies, it is likely to result in painful headcount adjustments. Can you shed some light on the issue of layoffs?

LCH: I think it is still too early for us to address this. Naturally, both SMM and Keppel O&M will have to figure out their headcounts. But like what we have announced, people are very important. So, we intend to engage with the unions as we walk through this. This is something that I think is still a little too early to say at this point in time.

Questions from Anshuman Daga, Reuters

Can you please clarify that it is fair to say that Keppel Corporation will not hold any shares in the Combined Entity at the end of the transaction?

LCH: Of course, anything can happen, but we are very clear that for Keppel, we will be distributing our shares in specie. So, Keppel Corporation will not hold any shares in the Combined Entity.

Who will be the controlling shareholder in the Combined Entity?

LCH: I believe that logically, it will be Temasek, who is the current controlling shareholder or the largest minority shareholder in SMM.

Question from Lim Siew Khee, CGS-CIMB Research

Is S\$500 million the value ascribed to sell the previous Op Co? Isn't this a steep discount?

LCH: As I said, there is no valuation attached to this S\$500 million. The overall way to look at this is that you are combining two entities, and it is still subject to valuation. We are looking at using discounted cash flow. The S\$500 million is just one part of it. Then there is the other part, which is the shares that we will get in the Combined Entity. So, the S\$500 million does not reflect a price. It is just a part of the consideration that we will be paid. The part that is still missing is the number of shares, which will be determined after we can fix the exchange ratio, which of course will take into account the S\$500 million in cash.

Question from Cheryl Lee, UBS

Can we clarify how much of Keppel Corporation's consolidated gross debt of S\$12.6 billion as at end-2020 relates to O&M debt, and which would therefore be deconsolidated?

CHC: As of December, S\$704 million of gross debt relates to Keppel O&M, and that will be deconsolidated. But that is as of December 2020.

Question from Anshuman Daga, Reuters

Keppel is one of the world's biggest rigbuilders and Sembcorp is a smaller competitor. So why is Keppel getting out of the business while Sembcorp is doubling down?

LCH: Well, I'm not sure we would agree with that (i.e. that Sembcorp is a smaller competitor). As I have said, it is not about Keppel getting out. We see that combining is important, given the industry headwinds that we are facing. It is important for the two entities to combine to produce a stronger competitor. That is the key. And we believe that there would be a good outcome for both Keppel O&M and SMM. As to why we have chosen to distribute our shares in specie to our shareholders, I have explained that our Vision 2030 is more focused on recurring income rather than the orderbook business. This is in line with our Vision 2030.

Questions from Foo Zhi Wei, Macquarie

What is the strategic rationale for retaining a 20% stake in Asset Co for the legacy rigs?

LCH: This is part of the negotiations with Kyanite, where they will procure investors for at least an 80% stake. So, that is part of the agreement that we arrived at.

Can you explain how you arrived at the S\$500 million cash consideration if the yard valuation is still being explored?

LCH: As I explained in response to Siew Khee's earlier question, the S\$500 million is not a price and it is not a valuation. It is just part of the consideration. Of course, the part that is still unknown at this point is the exchange ratio and therefore what are the shares that we will receive in return, together with this S\$500 million. That will form the consideration.

Question from Chew Boon Leong, Lianhe Zaobao

Could you share your thoughts on how this deal will affect Singapore's position in the O&M sector?

LCH: I will ask Chris to address this.

CO: Again, we are not able to speculate how the negotiations will proceed. But based on the present market shares and also the capabilities of the two entities, I think that with the O&M industry having faced challenging conditions for many years - and that is common to the O&M sector all over the world - combining the two entities and harnessing the collective strengths and talents, there is potential of forming a stronger player for Singapore.

Question from Adrian Loh, UOB

Are you able to give us an idea of the magnitude of the earnings accretion for Keppel, either in 2021 or 2022?

LCH: Thanks for the question, but we cannot.

Question from Low Horng Han, CLSA

Can we assume the dividend in specie will be separate and on top of the regular dividends that Keppel will be paying to shareholders?

LCH: Thank you. Yes, you can assume that.

Questions from Mayank Maheshwari, Morgan Stanley

Any changes in Keppel's long-term plans regarding sustainable investments post this transaction?

LCH: I do not think so. Our Vision 2030 is very clear. We are moving towards those areas that we have mentioned, which include renewables, environmental and decarbonisation solutions. With this transaction, we will pivot even faster in our move towards renewables, new energies etc. So, there is no change. In fact, I would say that it is going to be accelerated.

What are the key unique selling propositions (USPs) for the Combined Entity on a global basis? Can you provide some examples?

LCH: I think we can only talk about our very strong USPs for Keppel O&M. But I think that is something that we can address another day. Thank you.

Question from Cheryl Lee, UBS

Will the approval of Keppel O&M's customers (e.g. Petrobras, Golar, Van Oord) need to be obtained for Keppel O&M to "travel" to the Combined Entity?

LCH: No, we do not need their approval. But of course - I think it is important, and this is something that we will do – Chris and the team will be engaging with our customers to explain this transaction and to reassure them that our commitment to complete the rigs remains unfettered and unchanged.

Question from Mervin Song, JP Morgan Securities

How will the cash and debt from Keppel's balance sheet be shifted to the Combined Entity?

LCH: I do not think cash will be shifted, but some of the debt that is sitting in Keppel O&M will "travel" to the Combined Entity.

CHC: As we mentioned earlier, the S\$704 million in debt will be deconsolidated.

Question from Joel Ng, KGI Fraser Securities

The initial strategic review of Keppel O&M mentioned that Keppel will procure funding from external investors via Keppel Capital for the rigs. However, it seems that Temasek will be the one finding investors for the rigs according to the second MOU. Any reason for this change?

LCH: We mentioned in the strategic review that we have formed the Rig Co, and we anticipate that it will take time before we can monetise the rigs - whether selling the rigs or chartering the rigs because the market conditions will need to improve. So, we shared in the initial strategic review that we expect that this would take a few years, because you would need the rigs to be income-generating before we can find investors. Temasek helping us find investors is quite a key part of this transaction for us, because we now have a solution. We had a solution before, in terms of Rig Co and Dev Co. The current Asset Co, if you can put it this way, is really a combination of both the original Rig Co and Dev Co. Now, with Temasek helping us find investors, it allows us to deconsolidate the rigs. It also provides funding, which is quite critical to finish the uncompleted rigs and to provide for the operating and maintenance costs for the rigs under Asset Co. This means that Keppel will not have to fund this from our own balance sheet. So, it is an important part of the overall transaction that we can find not only a good way to combine Keppel O&M and SMM to form a stronger competitor, but also to find a solution for our legacy rigs.

Questions from Derek Tan, DBS

Will you consider this restructuring of Keppel O&M as one of the final steps towards achieving Keppel's Vision 2030?

LCH: I don't think it is a final step. Keppel's Vision 2030 is quite a lot more ambitious. We are now into our Wave Two initiatives, and we have Wave Three initiatives coming up. We have announced quite a number of asset monetisations over the past year, and we expect to announce more in the coming months. The idea is that we are also looking to invest into the new areas, which I have mentioned – whether it is environmental engineering, decarbonisation solutions, new energy, renewables or data centres. So, this is an ongoing journey for us. We have set our goals, and listened to our shareholders after we unveiled Vision 2030. Overall, everyone likes the Vision. However, the question that keeps coming back is "Why does it take so long?" Hence, our new mantra is to achieve Vision 2030 by 2025, and this is just a part of that journey.

Can we assume that the share consideration will be larger than the S\$500 million in cash?

LCH: We cannot speculate at this point. All I can tell you is that we need to go through the valuation, get advisors involved, and we need to do due diligence on both sides. We will then arrive at what is the exchange ratio. At that point in time, we will know what would be shares that we will receive, on top of the S\$500 million in cash.

Question from Lim Siew Khee, CGS-CIMB Research

What will be left in Keppel's Energy and Environment (E&E) segment post transaction? Only the previous Infrastructure segment?

LCH: No, as I mentioned, we are now also pushing very hard into new energy. So, in the E&E segment going forward, we continue to see a lot of infrastructure projects and this will add to the

contributions for this segment. As we go into more renewables projects, this will be reported under E&E. This would include new energy, energy efficiency, solutions such as district cooling etc.

Question from Adrian Loh, UOB

Will you need approval from various competition commissions globally for this transaction to go through?

LCH: Yes. We will have to go through anti-trust authorities in various jurisdictions.

Question from Low Horng Han, CLSA

There are many moving parts in the discounted cash flow (DCF) calculation. Why is the DCF valuation methodology chosen, given the extreme cyclicality of the business?

LCH: Precisely! We think that when we look at businesses like Keppel O&M and SMM, we should not just look at the balance sheet. It is important to look at the cash flow that the businesses are generating. That is really where the value lies. It is important that you do not just look at book value. So, that is why we have agreed that DCF should be the valuation methodology. Of course, there would be all sorts of adjustments for receivables, net synergies, sharing of synergies from combining the two groups etc. Hence, you are right that it is quite complex, but it is a better way of reflecting the real economic value that both sides bring to the table.

CHC: That's absolutely right. It should not just be based on the balance sheet. DCF is more forward looking.

Questions from Chang Kwok Wei, Citigroup

How will imminent new orders which are coming in be allocated between Keppel O&M and SMM?

LCH: The transaction will take quite a few months. So, until it is completed, not only after the definitive agreement is reached but actual completion, the two entities will remain separate and they will have to operate as they are now. So, there will be no allocation. They will be competing in the marketplace.

What are the plans to address excess capacity at either Keppel O&M or SMM, in view of SMM's large greenfield yards?

LCH: Again, this is something that will have to be discussed. We have not discussed this yet.

What is the estimated cost to complete the uncompleted rigs at this juncture?

LCH: We have not provided any numbers. Thank you.

Question from Rahul Bhatia, HSBC

Will you be okay for the transaction to go ahead in the case that the valuation of SMM or Asset Co would mean an impairment to be taken by Keppel Corporation on its current value of assets?

LCH: We cannot predict what will happen, but I think that at this point in time, we do not expect an impairment based on the transaction.

Question from Ho Pei Hwa, DBS

With key personnel and talents from both Keppel O&M and SMM, how would we think about the new management team of the Combined Entity and the strategic partnership JV postmerger?

LCH: It is too early to say because we have not had that conversation. But I will say that both Keppel O&M and SMM have very talented people, and I would imagine that the management team that will manage the Combined Entity will have representations from both the senior management teams of Keppel O&M and SMM.

LCH: This was a very exhaustive list of questions. Thank you for your questions. Have a great evening.

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