

Briefing for Media and Analysts on Keppel's Final Offer for SPH ex-Media

Transcript of the Question & Answer Session

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LCH Loh Chin Hua, CEO of Keppel Corporation
CHC Chan Hon Chew, CFO of Keppel Corporation

Questions from Derek Tan, DBS

Why did you think of proceeding to do a final offer instead of just another offer? Thinking from the perspective that there could be a counter-offer, like what Cuscaden Peak did earlier in providing an offer which was 0.1 cent higher, would you then be stuck?

LCH: Thank you for the question. As I said, whilst we firmly believe that this is a very strategic and attractive acquisition for Keppel, and there are a lot of synergies that we are uniquely positioned to realise, we will not do a transaction at any cost. The other point I made, which is quite important as well, is that the offer that we made is not just on pricing. If you look at deal certainty, we have practically no other conditions left to be met, and we have also waived our "material adverse effect" clause (MAC clause). So the only conditions left essentially would be for the shareholders on both sides to approve the deal, plus the court approval process.

I would not want to speculate about what some others might do, but I do believe that the SPH (Singapore Press Holdings) board as well as the shareholders of SPH should and will take into account that our offer provides the best certainty of a deal. Also, as I shared earlier, this is the fastest way, assuming approval by shareholders on both sides, to getting the deal completed and the consideration paid to SPH shareholders by around mid-January 2022.

Could you remind us, for the joint venture (JV) that you have at Genting Lane, do you have a ROFR (Right of First Refusal) for the stake that SPH currently holds? Or would it fall into the hands of another party, assuming that there is a counter-bid for SPH?

LCH: The Genting Lane property is 60% controlled by Keppel, 40% by SPH. The commercial terms are private and confidential. I do not think that has been disclosed before. But Keppel is driving that development.

Questions from Lim Siew Khee, CGS-CIMB Research

Temasek is an independent shareholder of Keppel. Can you shed some light on whether you will talk to them on this transaction, or did you actually talk to them beforehand on this? Because it appears to outsiders that there is a pricing war within the same group of companies. Is it worth it?

LCH: Thanks for your question. Temasek is our largest minority shareholder. We treat them like any shareholder. We do not confer with our shareholders before we make any moves. Of course, after it has been decided by the Board of Keppel Corporation, and we go public, then as part of our normal engagement of shareholders, we will engage with our shareholders, including Temasek. I hope that answers your question.

How much more value can you actually reap from this transaction because you are going to take out about \$1.4 billion in cash on this. You have announced \$2.4 billion in asset monetisation, and a large part of it will be spent on this transaction. How much more can you reap from this and how long would it take?

LCH: As I shared, we have improved our offer. Just to be clear, it is not because there is a competing bid, but because the conditions have changed. When the first offer was made, that was in July 2021. Since then, the economic conditions have improved. We have also seen an improvement in the financial performance of SPH through their results announcement. Last but not least, through the interaction with the management team at SPH over the past few months since the announcement was made in July, it is a lot clearer to us the synergies that we can hope to derive from this. So for these various reasons, we are able to improve the offer, to provide an offer that is attractive and compelling for SPH. But more importantly, it is still an attractive deal for Keppel. So I truly believe this is win-win.

In terms of gearing or the ability to fund this, you can see that our asset monetisation has actually been quite well executed. We have so far announced \$2.4 billion, and we have collected about \$1.6 billion in cash. But that does not stop there, as you know. We have already said that we expect to exceed our \$5 billion monetisation target by 2023. So we do expect to see more monetisation happening. So this increase in consideration will not have net too big of an impact on our gearing immediately. But more importantly, while gearing may increase post-transaction, it will stay below 1x. We would expect the gearing to move down quite rapidly with the monetisation programme going forward, and we expect to be able to fund the other growth initiatives, whether it is renewables, decarbonisation solutions, or data centres etc. These are the growth engines we see. We believe that there will be sufficient balance sheet space for us to do that and at the same time continue to reward our shareholders for their support and confidence in Keppel.

Following up on what you mentioned, what are the things that you want to do in the next one year with SPH? Surely, you would want to reap some of the seeds that you have sown. What can you do in the next one year?

LCH: You asked a very good question. First and foremost, SPH is a very attractive portfolio because it has recurring income. Using an example - the easiest one I suppose would be the GCBs (Good Class Bungalows) that they own. I do not believe that the GCBs are core to SPH, and they are certainly not core to us. So this will be something that we hope to be able to monetise quite quickly. There are other non-core assets that we will monetise.

But beyond that, we also see many possibilities of securitising assets. For instance, their purpose-build student accommodation (PBSA) portfolio. And, of course, there are synergies - things that Keppel can do that others may find a bit more difficult. We can create private funds to support the growth of the PBSA portfolio. So that does not cause too much of a burden on our balance sheet going forward. Currently, the PBSA portfolio, as I understand, is fully funded under SPH's balance sheet. I think there are ways that we can make it more capital efficient.

So there are a lot of things that we can do. Rest assured, management has a plan. We have told you in September 2020 that we have a monetisation plan and a transformation roadmap for Keppel's Vision 2030, and you have been following us long enough to know that whatever we say, we will execute.

Can I confirm that the \$5 billion that you want to monetise by end-2023 does not include SPH assets?

LCH: The \$5 billion by the end of 2023 does not include SPH assets. So any further securitisation or monetisation from the SPH portfolio will add to that number.

Question from Ho Pei Hwa, DBS

My question is somewhat similar to what Siew Khee asked, I wanted to see if management is able to elaborate a bit more on your thinking behind the counter-offer and the basis for arriving at this new offer price? From Keppel's perspective, what is the potential upside to Keppel in values that are yet to be captured in the RNAV of SPH that you see?

LCH: I have already answered this question, but just to elaborate further: We do believe that the increase in the consideration for the final consideration is well underpinned by the improvements in values that we see in the SPH portfolio. I have also said that it is very clear to us, especially now after a few months (of discussion), that there are a lot of synergies that we can derive from this transaction - whether it is how we execute M1's transformation, how we look at the PBSA portfolio and how can we grow that further, not just using our balance sheet, but also working with Keppel Capital's third party investors who have a great interest in this space.

And of course, even on the retail side, SPH's retail portfolio in Singapore is quite dominant. For Keppel Land, we have quite a growing portfolio of retail assets, especially in Vietnam. So having SPH REIT will also create opportunities for us to work with them, where we can provide deal flow pipeline, and help SPH REIT continue to grow.

So there are a lot of synergies that we see, and we can tap on the symbiotic relationships with Keppel Capital, Keppel Land and SPH to derive more value. We believe that the additional cash consideration of 20 cents is very well justified. We are able to still achieve the financial returns that we have set, which have not changed. And of course, the deal remains accretive; I think that is the key thing. If the deal is not accretive to us, then you might question it. But the deal remains very accretive. And all the strategic rationale for this deal in terms of increasing our assets under management (AUM) by \$10 billion, pushing more for an asset-light model, and increasing our AUM managed by Keppel Capital - I think it checks all these boxes. And we believe that the improvement in the consideration is well supported by the fundamentals as well as by the improvement in values in the SPH portfolio.

Question from Uma Devi, The Business Times

I would like to find out a bit more about the increase in gearing. In the near term, you mentioned that there will be very little increase. In the medium term, you will see an increase in gearing but it will also be below one. Keppel has several other deals on hand, such as Keppel Offshore & Marine's (Keppel O&M) combination with Sembcorp Marine, or other transactions that you have not announced but you are keeping in mind. Will the increasing cash component affect Keppel's ability to close the deals that you are currently involved in, or the ability to enter into similar new deals in the market?

LCH: Thank you. To answer your question, you are right. The impact of the increase in the consideration on gearing is only 0.03x. So it is not a very significant shift. The overall net gearing post-transaction will remain below 1x. As I have alluded to, we are going through our monetisation programme even before the SPH deal was announced, and it is going very well. We do expect

that there is a possibility for us to monetise the non-core assets within SPH's portfolio, to securitise some of the portfolios that are already currently in SPH, and to make it more capital efficient. With all that, we believe that the gearing will come down for Keppel very, very fast post-transaction. As to whether there is any impact on the proposed combination between Keppel O&M and Sembcorp Marine and the creation of Asset Co, this will not have any impact. The proposed combination that we announced should not in itself have an impact on our net gearing, because we are expecting to receive cash of \$500 million. Of course, we will be distributing our shares of the Combined Entity to shareholders - that is the proposed plan. But that transaction by itself will be gearing neutral to the Keppel Group. So this SPH transaction has no impact on that transaction (involving Keppel O&M), and that transaction by itself is gearing neutral to the Group.

Question from Mayank Maheshwari, Morgan Stanley

Can management comment on the impact of the dividend payout for Keppel for 2021 and 2022, on the back of the new offer? Also, is Keppel re-looking at its asset divestment targets into 2022?

LCH: This transaction should not have any impact on our dividend for 2021. If the deal were to close, it would probably be closing close to year-end or early next year. But more importantly, when the Board considers the final dividend for the year, they will look at the business conditions and outlook, and also how well we have performed. They will also look at the capital requirements of the Group. As I have shared, our gearing will still be below 1x post-transaction. So that should not have an impact on the final dividend for 2021. Going forward, this transaction is not just earnings accretive to us, it also increases our recurring income. With more recurring income, as we have shared before, it will also improve our ability to pay more dividends. I would say that in the short term in 2021, there is no impact. In the longer term, I expect it to be positive in terms of improving our ability to pay dividends.

Question from Rahul Bhatia, HSBC Global Research

Can management comment on the technicalities related to the supplementary documents signed, specifically, the dates of 16 November and 1 December? 16 November is the deadline for SPH to enter into an alternative agreement, but 1 December is the deadline for a competing general offer. How does this help us with deal certainty? Can you clarify if SPH still needs to organise an Extraordinary General Meeting and put across the Keppel offer to their shareholders? Am I right to say that SPH can consider a competing offer?

LCH: First of all, SPH has agreed that our offer is superior to the Cuscaden Peak offer. They have undertaken that they will expeditiously move ahead with organising a Scheme Meeting, and that the Scheme Meeting will take place no later than 8 December.

On the ability to consider a competing offer – this is something that perhaps should be addressed by the other side; so maybe you can ask SPH.

But as far as we are concerned, the main thing is that they will have to convene a Scheme Meeting, where our Scheme will be put in front of the SPH shareholders.

As I have shared, our Scheme is very compelling because all the conditions have been fulfilled, other than the shareholders' approval on both sides, and the court process that will have to take place thereafter.

Questions from Lim Siew Khee, CGS-CIMB Research

What if there is a very compelling cash offer that tops you? Because this is your final offer, you will have to walk away? What would you do with your intended cash spending?

LCH: I think it is very speculative, Siew Khee. What is very clear is that this is our final offer. We believe that it is very compelling. As I mentioned, it is not just about price but it is also about the certainty of the deal, and how quickly you can get the deal done. We believe that we offer the best proposition to SPH shareholders, but the rest is really between others and SPH. So I do not want to speculate on that.

I guess there is no change in your Vision 2030 strategy, but you would have to then look harder to find other assets?

LCH: Again, it is speculation. We are not doing this to fail. We have put our best foot forward. We believe that this is a very compelling deal for both SPH as well as for Keppel shareholders. It is win-win. We believe that this should get done. But even if it is done, we have sufficient balance sheet space to pursue other growth initiatives. So if your question is – is there enough balance sheet space for other growth initiatives and to reward shareholders, the answer is yes, even after this deal is done.

Question from Paul Chew, Phillip Securities Research

What was considered by Keppel or any other offeror between choosing a general offer versus scheme of arrangement? And will a general offer have higher certainty?

LCH: I cannot speak for anyone else. Our goal is really to privatise SPH. We believe that the Scheme offers the best opportunity for us to do so. Of course, at the end of the day, shareholders of SPH will decide. And this is something that we respect. We do believe that this is a very compelling offer for them, but at the end of the day, only they can decide.

The Scheme offers that ability for the shareholders of SPH to decide for themselves, whether they agree with us that this is a compelling offer, and that they should accept this offer.

Questions from Rachel Tan, DBS

Thanks for the call. Just a few questions from me. In your review of the SPH portfolio, what is the percentage that comprises non-core assets to Keppel?

LCH: Thanks for that question, Rachel. I cannot disclose that. But just to make sure that you do not have any misunderstanding, for the non-core assets, we will obviously monetise them. But even if it is core, we can also securitise the asset. It does not mean that if it is core, it cannot be taken off the balance sheet. It can be.

If Keppel is successful in taking over SPH, does it change any of the JVs that are under SPH? For example, does it invoke any change in control clauses?

LCH: This is something that is confidential. We have an understanding of some of the JVs that we are involved in, and we have done our due diligence. But I cannot disclose this.

Question from Mayuko Tani, Nikkei

May I ask what is the conversation Keppel management had with the shareholder Temasek? Having Temasek-related companies on both competing sides looks confusing. Does Keppel have an agreement with Temasek on the SPH offer?

LCH: I have said this before. Temasek is a very important shareholder to Keppel. They are the largest shareholder, but we treat Temasek equally with other shareholders. Before a transaction is contemplated, we will not brief any of our shareholders, particularly if it is market sensitive. But after the transaction has been announced, along with our normal shareholder outreach programmes, we will speak to all shareholders including Temasek.

Questions from Lim Siew Khee, CGS-CIMB Research

When will the trading halt be lifted?

LCH: This is quite a major announcement and the announcement for both companies only went out close to midnight last night. It would be prudent to allow the news to sink in. And of course, we are waiting for you, Siew Khee, and the other analysts to write reports so that the market can be better informed. I think probably this will be lifted tomorrow morning.

Can you please share how you will bring better value to the PBSA for SPH versus Mapletree?

LCH: I think that is not a fair question. I cannot comment on others, but certainly for ourselves, we have been looking at this space for some time. We have quite a few ideas that we think will be quite interesting. Of course, SPH has already amassed quite a good portfolio in the UK and Germany, and we think that this is good way to use, as a strong starting point for us. The key, as I mentioned earlier, is that we can securitise it. We can also create private funds. We have private investors. Siew Khee, you know the way that Keppel Capital organises itself. We can for instance, create a private fund to fund new PBSAs that are under construction, or before they are stabilised. And after they are stabilised, we can then inject these assets into a securitised vehicle. We also have an education fund where we invest in schools. So there is also a possibility that some of these social infrastructure can be combined together. There is a lot that we can do, and we believe we can bring a lot of value to this.

Closing Remarks by Loh Chin Hua, CEO of Keppel Corporation

The questions have been around the two areas that I have touched on in my opening remarks. Why is this a compelling offer for SPH shareholders? I think I have covered that. Let me stress again, it is not just about pricing. The pricing, we believe, is really very compelling. But the fact is that our proposal has the most deal certainty for SPH shareholders, and will be the fastest to be able to get the transaction completed, and to get the consideration paid to the SPH shareholders as early as mid-January 2022.

For Keppel shareholders, I want to stress that this remains a very attractive and a very strategic portfolio for Keppel. Yes, we have to pay a bit more, but this additional consideration is well supported by the improvement in values since July 2021, when the first offer was made. More importantly, we continue to believe that this is a portfolio that we can add a lot of value to, through the synergies that we have identified and clarified further during the last few months, as we got to understand the business of SPH even better, beyond the due diligence that we have done,

through closer interactions with the management team. So we believe that the synergies are real, and we believe that we are in the most unique position to be able to realise these synergies. The main thing is that the deal structure has not changed, so the impact on our balance sheet is very limited, even with the additional consideration. Most importantly, we believe that we can still derive good financial returns from this transaction.

We believe that this is a win-win deal for both SPH's and Keppel's shareholders and we urge both sets of shareholders to support this. Thank you.

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