Keppel Corporation Limited

Co Reg No: 196800351N
(Incorporated in the Republic of Singapore)

SECOND QUARTER AND HALF YEAR 2020 FINANCIAL STATEMENT & DIVIDEND ANNOUNCEMENT

1. UNAUDITED RESULTS FOR SECOND QUARTER AND HALF YEAR ENDED 30 JUNE 2020

The Directors of Keppel Corporation Limited advise the following unaudited results of the Group for the second quarter and half year ended 30 June 2020:

	SECOND QUARTER		HALF YEAR	
	30.6.2020	30.6.2019	**30.6.2020**	30.6.2019
	$'000	$'000	**$'000**	$'000
Revenue	**1,325,047**	1,784,510	**3,182,478**	3,315,178
Operating (loss)/profit	**(422,959)**	160,021	**(149,421)**	481,633
Net investment & interest expense	**(19,040)**	(3,889)	**(39,336)**	(27,065)
Share of results of associated companies	**(162,137)**	50,079	**(168,565)**	34,404
(Loss)/profit before tax	**(604,136)**	206,211	**(357,322)**	488,972
Taxation	**(94,713)**	(53,068)	**(178,810)**	(99,299)
(Loss)/profit for the period	**(698,849)**	153,143	**(536,132)**	389,673
Attributable to:				
Shareholders of the Company	**(697,592)**	153,388	**(537,131)**	356,283
Non-controlling interests	**(1,257)**	(245)	**999**	33,390
	(698,849)	153,143	**(536,132)**	389,673
Earnings per ordinary share				
- basic	**(38.3) cts**	8.4 cts	**(29.5) cts**	19.6 cts
- diluted	**(38.2) cts**	8.4 cts	**(29.4) cts**	19.5 cts
Depreciation & amortisation	***100,569***	*102,155*	***201,097***	*169,779*

2. REVIEW OF PERFORMANCE

Second Quarter

Group revenue for 2Q 2020 of $1,325 million was $459 million or 26% below that of 2Q 2019. Revenue from the Offshore & Marine Division decreased by $211 million to $270 million mainly due to significantly lower level of activities as a result of COVID-19 and the sharply reduced workforce in Singapore yards, as well as various other restrictions in overseas yards. Revenue from the Property Division declined by $62 million to $209 million mainly due to lower revenue from property trading projects in China, partly offset by higher revenue from property trading projects in Singapore. Revenue from the Infrastructure Division reduced by $167 million to $559 million mainly due to lower sales in the power and gas businesses, slowdown in progress of the Keppel Marina East Desalination Plant project and the Hong Kong Integrated Waste Management Facility project as a result of COVID-19, as well as lower contribution from the logistics business following the divestment of some China logistics assets in November 2019. Revenue from the Investments Division was $19 million lower at $287 million mainly attributable to lower service revenue and equipment sales from M1 Limited ("M1"), as well as lower revenue from the asset management business.

The COVID-19 pandemic has severely impacted the global economy and brought about significant market volatility and uncertainty, including a sharp reduction in global demand for oil and oil prices. As these events and conditions have significant financial reporting implications, ACRA had published a financial reporting practice guidance in May 2020 highlighting key focus areas when preparing and reviewing the financial statements, especially in areas where estimates, assumptions and judgement are required. For its 2Q 2020 financial reporting, the Group has carried out a review to assess the assumptions used in the assessment of the carrying values of certain assets of the Group including the recoverability of contract assets, receivable balances and stocks under work-in-progress in relation to the Offshore & Marine (O&M) business, and investments in associated companies. Amidst the highly volatile environment and low oil prices, oil majors are curtailing exploration and production spending, which has adversely impacted dayrates and utilisation rates of the O&M industry generally and the Group's O&M business more specifically. Arising from this assessment, the Group recognised material impairments in 2Q 2020, pertaining mainly to the O&M business, and the Group's financial results was significantly and adversely impacted for 2Q 2020 and 1H 2020.

Group pre-tax loss was $604 million as compared to pre-tax profit of $206 million for the corresponding quarter in 2019. Pre-tax loss for the quarter included provisions, mainly from the Offshore & Marine Division, for contract assets, doubtful debts, stocks, associated company and investment, as well as share of impairment provision from Floatel International Ltd ("Floatel"), amounting to $919 million. Excluding these impairments, pre-tax profit of the Group at $315 million, was 53% or $109 million higher than pre-tax profit of $206 million in 2Q 2019.

The Offshore & Marine Division's pre-tax loss was $967 million which included provisions for contract assets, doubtful debts and stocks, fair value loss on investment, as well as share of impairment provisions from Floatel, amounting to $889 million. Excluding these impairments, pre-tax loss was $78 million as compared to pre-tax profit of $4 million in the second quarter of 2019. The weaker performance was mainly due to the impact from slower progress on projects as a result of significant downtime from COVID-19 and the sharply reduced workforce in Singapore yards and other restrictions in overseas yards, as well as share of losses from associated companies, partly mitigated by government relief measures for the COVID-19 pandemic. Pre-tax profit of the Property Division increased by $72 million to $233 million mainly due to higher fair value gains from investment properties, higher contribution from property trading projects in Singapore, as well as gain from the disposal of interest in the Jiangyin project in China, partly offset by lower investment income. Pre-tax profit of the Infrastructure Division grew by $40 million to $91 million mainly due to gain from sale of units in Keppel DC REIT, higher contribution from Environmental Infrastructure, and dividend income from Keppel Infrastructure Trust ("KIT"), partly offset by lower contribution from Energy Infrastructure and absence of fair value gain on Keppel DC Singapore 4 in the same quarter last year. Pre-tax profit of the Investments Division was $39 million as compared to pre-tax loss of $10 million in the same quarter in 2019. This was largely due to mark-to-market gains from investments, higher contribution from Sino-Singapore Tianjin Eco-City as a result of a land plot sale, as well as the absence of share of loss from KrisEnergy as compared to the same quarter in 2019.

Tax expenses increased by $42 million. Non-controlling interests were $2 million lower than those of 2Q 2019. After taking into account income tax expenses and non-controlling interests, net loss attributable to shareholders for 2Q 2020 was $697 million as compared to net profit of $153 million for the same quarter in the previous year. Excluding the impairments as mentioned above of $919 million, the Group was profitable at $222 million, 45% or $69 million higher than net profit of $153 million in 2Q 2019.

Half Year

Group net loss attributable to shareholders was $537 million as compared to net profit of $356 million for the same period in 2019. Loss per share was 29.5 cents as compared to earnings per share of 19.6 cents in the same period last year. Annualised return on equity was negative 10.3%.

The net loss for the half year 2020 included provisions for contract assets, doubtful debts, stocks, associated companies and investment, as well as share of impairment provision from Floatel, amounting to $930 million. Excluding these impairments, the Group achieved a net profit of $393 million which was 5% or $18 million higher than net profit of $375 million (excluding impairments) in 1H 2019.

Group revenue of $3,182 million was $133 million or 4% lower than that in the same period in 2019. Revenue from the Offshore & Marine Division is marginally higher by $26 million, at $839 million mainly due to higher revenue recognition from certain ongoing projects and revenue from new projects in the first quarter, offset by the significantly lower level of activities in the second quarter, as mentioned earlier. Major jobs delivered in 2020 include two jackup rigs, a dual-fuel bunker tanker and a Floating Production Storage and Offloading vessel (FPSO) modification and upgrading project. Revenue from the Property Division decreased by $117 million to $511 million mainly due to lower revenue from property trading projects in China, partly offset by higher revenue from property trading projects in Singapore. Revenue from the Infrastructure Division declined by $169 million to $1,256 million largely due to lower sales in the power and gas businesses, slowdown in progress of the Keppel Marina East Desalination Plant project and the Hong Kong Integrated Waste Management Facility project as a result of COVID-19, as well as lower contribution from the logistics business following the divestment of some China logistics assets in November 2019. Revenue from the Investments Division was $127 million higher at $576 million mainly due to M1 which was consolidated from March 2019, partly offset by lower revenue from the asset management business.

Group pre-tax loss was $357 million, as compared to pre-tax profit of $489 million for the same period in 2019. Excluding impairments of $930 million, pre-tax profit of the Group was $573 million which was $65 million or 13% higher than $508 million (excluding impairments) in 1H 2019. The Offshore & Marine Division's pre-tax loss was $963 million as compared to pre-tax profit of $5 million in the same period in 2019. Excluding impairments of $890 million, the division's pre-tax loss was $73 million which was largely due to impact from slower progress on projects due principally to significant downtime as a result of COVID-19 and the sharply reduced workforce in Singapore yards and various restrictions in overseas yards, as well as share of losses from associated companies, partly mitigated by government relief measures for the COVID-19 pandemic. The results of the same period last year were contributed by operating profits and share of profits from associated companies. Pre-tax profit from the Property Division decreased by $16 million to $326 million as a result of the absence of gain from the disposal of a partial interest in the Dong Nai project in Vietnam compared to the same period in 2019, lower contribution from property trading projects in China, as well as lower investment income. These were partly offset by the higher fair value gains from investment properties, higher contribution from property trading projects in Singapore, as well as gain from the disposal of interest in the Jiangyin project in China. Pre-tax profit of the Infrastructure Division grew by $202 million to $273 million. This was mainly due to mark-to-market gain recognised from the reclassification of the Group's interest in KIT from an associated company to an investment following the loss of significant influence over KIT. Excluding the mark-to-market gain, pre-tax profit doubled that of the same period last year, led by gain from sale of units in Keppel DC REIT, higher contributions from Energy Infrastructure, Environmental Infrastructure and Infrastructure Services, as well as lower losses from the logistics business. Pre-tax profit of the Investments Division decreased by $64 million to $7 million mainly due to the absence of fair value gain recognised in 2019 from the remeasurement of previously held interest in M1 at acquisition date, as well as mark-to-market losses from investments. These were partly offset by higher contribution from M1 due to the consolidation of M1 from March 2019, gain from divestment of interest in Gimi MS Corporation, as well as the absence of share of loss from KrisEnergy and fair value loss on KrisEnergy warrants as compared to the same period in 2019.

Taxation expenses increased by $80 million mainly due to absence of write-backs of tax provision compared to the same period in 2019. Non-controlling interests were $33 million lower than the same period last year. Taking into account income tax expenses and non-controlling interests, net loss attributable to shareholders was $537 million as compared to net profit of $356 million for the same period in 2019. Losses at Offshore & Marine and Investments Divisions were partly offset by the profits generated from the Infrastructure and Property Divisions.

3. PROSPECTS

The Offshore & Marine Division's net order book, excluding the Sete rigs, stands at $3.5 billion. The industry is going through unprecedented challenges from the severe downturn as well as the COVID-19 pandemic, and this is also affecting the performance of the Division. Despite these challenges, the Division will continue to focus on delivering its projects well, exploring new markets and opportunities, investing in R&D and building new capabilities. The Division is also actively capturing opportunities in gas solutions, offshore renewables, production assets, specialised vessels, and floating infrastructure, as well as exploring ways to re-purpose its technology in the offshore industry for other uses.

The Property Division sold about 1,230 homes in the first half of 2020, comprising about 80 in Singapore, 1,050 in China, 10 in Vietnam, 60 in Indonesia and 30 in India. Keppel REIT's office buildings in Singapore, Australia and Korea maintained a high portfolio committed occupancy rate of 99% as at 30 June 2020. The Division will remain focused on strengthening its presence in its key markets such as Singapore, China and Vietnam and scaling up in other markets such as Indonesia and India, while actively seeking opportunities to unlock value and recycle capital.

In the Infrastructure Division, Keppel Infrastructure will continue to build on its core competencies in the energy and environment-related infrastructure as well as infrastructure services businesses to pursue promising growth areas. Keppel Telecommunications & Transportation (Keppel T&T) will, in collaboration with Alpha DC Fund, continue to actively pursue new development opportunities to grow its data centre footprint beyond its traditional areas of operation while concurrently exploring innovative new solutions to strengthen its market position in the long run. Keppel T&T has also commenced a strategic review of its logistics portfolio in South-East Asia.

In the Investments Division, Keppel Capital continues to leverage the Group's core competencies to create innovative investment solutions and connect investors with quality real assets in fast growing sectors fuelled by urbanisation trends. This includes seizing growth opportunities across our chosen sectors, as well as expanding into new markets and alternative asset classes.

Keppel Urban Solutions will harness opportunities as an integrated master developer of smart, sustainable cities. Starting with Saigon Sports City in Ho Chi Minh City, Keppel Urban Solutions will also explore opportunities in other cities across Asia. The Sino-Singapore Tianjin Eco-City Investment and Development Company Ltd will continue the development of the Eco-City, including selling land parcels to drive the Eco-City's further development.

M1 will complement the Group's mission as a solutions provider for sustainable urbanisation, which includes connectivity. Through a multi-year transformation plan, M1 seeks to develop and implement new strategic and operational plans to sharpen its competitive edge, increase its momentum in digital transformation and undertake growth initiatives. It will focus on strengthening its consumer business to meet changing customer needs and expectations, developing platforms and initiatives to support enterprise customers, collaborating actively with other Keppel entities to create smarter and future-ready offerings, and working closely with Singapore government agencies, industry players and enterprises to co-develop 5G use cases for selected markets. With the final award of 5G network licence to M1 and Starhub Limited by the Infocomm Media Development Authority (IMDA), M1 will start to roll out its 5G network coverage across Singapore.

The Group will continue to execute its integrated business strategy to provide solutions for sustainable urbanisation, and deepen collaboration across divisions, while being agile and innovative, and investing in the future.

The COVID-19 pandemic shows no signs of abating and has impacted the lives of countless people around the world as well as the global economy. Many of the Group's businesses provide essential services, such as power, data centres and telecommunications, and continued to operate even during the circuit breaker in Singapore. Nevertheless, with the sharp fall in global economic activity, as well as the demand for oil and oil prices, lockdowns and movement restrictions in various countries, and disruptions to supply chains, the Group's businesses have inevitably also been affected. As a result of the sharp reduction in the number of personnel working in the yards due to COVID-19 and measures to contain its spread, several of the Offshore & Marine Division's projects have been delayed. Force majeure notices have been served to customers of the affected projects and the Group is working closely with them to mitigate the impact of COVID-19. Given the current highly volatile environment and low oil prices, oil majors are curtailing exploration and production spending, which has adversely impacted dayrates and utilisation rates of the O&M industry generally and the Group's O&M business more specifically. The Offshore & Marine Division will face very challenging conditions in the near future. The Property Division has limited retail and hospitality assets and our office portfolio is relatively resilient to COVID-19. The impact of the pandemic is therefore mainly on residential trading projects and its impact across markets is not uniform. Construction works at the Keppel Marina East Desalination Plant (KMEDP) and Hong Kong Integrated Waste Management Facility slowed as a result of COVID-19. Despite this, the KMEDP has commenced commercial operations on 29 June 2020. COVID-19 and work from home arrangements have further increased the demand for digital connectivity and accelerated digital transformation for many organisations. This will create new opportunities for the Group's connectivity business. As the COVID-19 situation continues to evolve, the Group will proactively implement measures to mitigate the potential impact on the Group, while at the same time safeguarding the health and well-being of our employees and stakeholders.

The Group continues to have a strong balance sheet and the necessary credit lines to finance its operations. Nevertheless, given the tightening liquidity and the difficult operating environment that the Offshore & Marine Division is facing, we will continue to monitor cashflows and gearing closely, and exercise discipline in capital allocation and cost management.

We will continue to work as a Group and strive to provide better outcomes than what the underlying business conditions might otherwise allow. In times like these, it is important for the Group to be guided by a bold, long term vision, which transcends the impact of the current crisis. This is the reason why we had unveiled our Vision 2030 in May this year. We will work hard to make Vision 2030 a reality, and in the process, realise the long-term value of our business.

4. DIVIDEND

The Directors are pleased to declare a tax exempt one-tier interim cash dividend of 3.0 cents per share (2019: tax exempt one-tier interim cash dividend of 8.0 cents per share) in respect of the half year ended 30 June 2020. The interim dividend will be paid to shareholders on 20 August 2020.

Notice is hereby given that, the Share Transfer Books and Register of Members of the Company will be closed on 11 August 2020 at 5.00 p.m. for the preparation of dividend warrants. Duly completed transfers in respect of ordinary shares in the capital of the Company ("Shares") received by the Company's Registrar, Boardroom Corporate & Advisory Services Pte Ltd, at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 up to 5.00 p.m. on 11 August 2020 will be registered to determine shareholders' entitlement to the interim dividend. Shareholders whose securities accounts with The Central Depository (Pte) Limited (CDP) are credited with Shares at 5.00 p.m. on 11 August 2020 will be entitled to the interim dividend.

BY ORDER OF THE BOARD

CAROLINE CHANG/KENNY LEE
COMPANY SECRETARIES
Singapore, 30 July 2020