

Sembcorp Marine's Briefing to Media – Proposed S\$1.5 Billion Rights Issue and Potential Combination of Sembcorp Marine and Keppel Offshore & Marine

Media Briefing Transcript

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MHM	Tan Sri Mohd Hassan Marican, Chairman of Sembcorp Marine Ltd
WWS	Wong Weng Sun, President & CEO of Sembcorp Marine Ltd
WG	William Goh, Group Finance Director of Sembcorp Marine Ltd
CMY	Chua Mun Yuen, Head of Investor Relations & Corporate Communications of Sembcorp Marine Ltd / Moderator
SCM	Sembcorp Marine Ltd

Chua Mun Yuen

Thank you all for dialling in.

Good evening, members of media, ladies and gentlemen.

Welcome to this evening's media briefing by Sembcorp Marine.

Thank you indeed for joining us at this hour.

We are holding this media conference call to outline the announcements the company has just released on the Singapore Stock Exchange.

Today's discussion will contain forward-looking statements. I would like to draw your attention to the disclaimer statements in our announcements.

Joining us this evening are:

- Tan Sri Mohd Hassan Marican, Chairman of SCM
- Mr Wong Weng Sun, President & CEO of SCM
- Mr William Goh, Group Finance Director of SCM

Sembcorp Marine Chairman will start with his opening remarks followed by an address from our President & CEO. Our Group Finance Director will then take you through a presentation.

I would now like to invite our Chairman to address the meeting. Tan Sri, please.

Opening Remarks by Tan Sri Mohd Hassan Marican, Chairman of Sembcorp Marine

Good evening everyone.

Thank you for joining us at this briefing at such short notice.

I am Hassan Marican, Chairman of Sembcorp Marine.

Earlier today, we made two important announcements for our Group.

The first is the need for a further S\$1.5 billion Rights Issue to strengthen our financial position amid the continuing COVID-19 disruptions.

The second is on the MOU that we have signed with Keppel Corporation to explore the potential combination of Sembcorp Marine and Keppel Offshore & Marine.

We are making these announcements during very challenging times.

The Board and Management have been monitoring closely the market environment and the ongoing challenges in our industry.

The ongoing COVID-19 disruptions have been more severe and prolonged than we have thought.

The Board and Management have to act decisively and judiciously. We are of the view that we must pivot more quickly to the growing new energy segment, including offshore renewables.

To do this, we must recapitalise to strengthen our financial position and allow sufficient liquidity to complete our present orders and seize new opportunities in the new energy sector.

On the proposed Rights Issue, I am mindful that this comes closely after the Group's 2020 Rights Issue in September last year. But we are convinced that this is indeed in the best interest of the Group and all our stakeholders.

Mr Wong Weng Sun and Mr William Goh will give you more details shortly.

On the second announcement, let me make a few comments.

Sembcorp Marine started in 2015 to pivot to the new energy sector that is growing and robust. We have developed innovative engineering capabilities in the offshore and marine sector and this puts us in good stead to capture the growth of the new energy segment.

The MOU that we have signed with Keppel allows us to explore a potential combination which would create a larger Offshore and Marine player to capitalise on the growing opportunities in the renewable and clean energy sectors.

A possible Combined Entity will enable us to be better placed to compete on the global stage for larger contracts and pursue synergies arising from combined scale, better footprint and capabilities.

I wish I could tell you more but these are early days. I can only encourage you to watch this space for updates of our development.

And, I want to end here by stressing that these two announcements are separate and independent of each other.

The Rights Issue will address an urgent and critical funding need that will see us through till the end of 2022.

A possible Combined Entity addresses a longer-term goal to reposition Sembcorp Marine and allow us to compete and thrive on a global stage in the new energy sector.

We are grateful for the support of our shareholders over the years and look forward to their continued support for these transactions.

I would also like to thank the Management of Sembcorp Marine for their active stewardship of the company in these challenging times.

I now hand the time over to the President & CEO Mr Wong Weng Sun.

Address by Mr Wong Weng Sun, President & CEO of Sembcorp Marine

Thank you, Chairman.

Good evening everyone.

Chairman has kindly outlined clearly the reasons for our corporate actions today. Allow me to give you a fuller sense of the business overview and the operating environment facing the Group.

Our Group Finance Director, Mr William Goh, will also take you through the details of the Proposed Renounceable Underwritten Rights Issue, and the potential combination with Keppel O&M under the non-binding MOU.

This is the flow of our presentation today. Let me start with the Business Overview.

First of all, let me take this opportunity to give a quick introduction to Sembcorp Marine.

Headquartered in Singapore, the Group has close to 60 years of track record in the design and construction of rigs, floaters, offshore platforms and specialised vessels, as well as in the repair, upgrading and conversion of different ship types.

Our solutions focus on the following areas:

- Renewables,
- Process,
- Gas,
- Ocean Living and
- Advanced Drilling Rigs.

Sembcorp Marine operates shipyards and other facilities in five countries: Singapore, Indonesia, the United Kingdom, Norway and Brazil. We have an approximately 20,000 strong global workforce and an integrated global platform poised for future growth.

We are a global player in innovative engineering solutions for the Offshore, Marine and Energy industries, with an increasing focus on renewable and other clean energy solutions.

Let me share about Sembcorp Marine's strategic focus. While oil remains a critical resource in the short- to mid-term with anticipation of uptick because of recent under-investment, we will be rebalancing our product solutions portfolio towards gas and renewables, as we transform to position SCM for the global shift towards a low-carbon economy.

Our range of sustainable product solutions include Wind Farms, Hydrogen-powered vessels, LNG-battery hybrid tugs and LNG Terminals.

Now coming to our industry. The Offshore and Marine industry has seen a prolonged period of oil price weakness since 2015 and a sudden collapse in oil prices in 2020. Oil and gas companies have cut their capex massively and deferred investment decisions. In tandem with the industry downturn, SCM's order book was reduced significantly.

The COVID-19 pandemic has also disrupted supply chains and added further serious uncertainties going forward. The re-introduction of COVID-19 measures in 2021, including tighter border controls, amplified the shortage of skilled manpower, resulting in some attrition to competing industries.

While we have not faced any project cancellations to date, project delays could increase risk of contract terminations. Furthermore, given the challenges in the industry, we are in talks with our customers to re-schedule project completions, but this has resulted in deferral of contract payments by some customers, lowering operating cashflows.

The Group is also exploring alternative sources for skilled workers, which will result in increased manpower and other related costs.

We have also right-sized our resources and deferred all non-essential capital expenditure. Given these challenges, we are actively taking measures to improve operating and financial performance, including engaging external consultants to develop a Performance Improvement Plan.

I will now pass the time over to William to share more.

Presentation by Mr William Goh, Group Finance Director of Sembcorp Marine

Thank you, Mr Wong.

Once again, good evening everyone and thank you for taking time to attend our media briefing.

Allow me to first take you through the details on our Proposed Renounceable Underwritten Rights Issue.

First, the transaction overview.

The Group is proposing to raise S\$1.5 billion through a renounceable underwritten Rights Issue on the basis of three Rights Shares for every two existing Shares held. The Rights Issue price will be at eight Singapore cents per share, representing a discount of 35.7% to the Theoretical Ex-Rights Price or TERP of 12.4 cents (the second bar from left), and a discount of 49.2% to the pro forma net tangible assets (NTA) per share of 15.8 cents.

The proceeds from this Rights Issue will be used for working capital and general corporate purposes, including debt servicing.

Startree Investments Pte. Ltd., a wholly owned subsidiary of Temasek, has committed to subscribe for its pro-rata 42.6% entitlement and excess rights such that its total subscription will be up to 67% of the Rights Issue; while DBS is underwriting the remaining 33% of the Rights Issue. This brings certainty of raising the full S\$1.5 billion contemplated from the Rights Issue.

Moving to the rationale for the Rights Issue, in which there are four key aspects.

Firstly, the Rights Issue will strengthen the Group's balance sheet and liquidity position amidst the continuing COVID-19 disruptions.

Secondly, it will enable the Group to fulfil existing project commitments, and better position us to bid and win new projects.

Thirdly, it will augment the Group's technological capabilities development and strengthen our competitive edge; and finally it will enable us to accelerate our strategic pivot to the high-growth renewable and other clean energy segments.

To elaborate on the first point – given the challenges we face, the proposed Rights Issue will ensure that we have sufficient liquidity to meet near-term working capital needs to ride out the prolonged downturn.

The Rights Issue will enable us to strengthen our balance sheet and enhance liquidity to meet projected operational funding needs till the end of 2022, including replenishing our working capital. This in turn will strengthen the confidence of our external stakeholders, especially our lenders and customers in their ongoing partnerships with us.

In terms of the key financial metrics, on a pro forma basis as of 31 Dec 2020, the Rights Issue will increase our equity base and improve the Group's leverage significantly from 0.75 times to a much lower 0.25 times. Our net tangible assets will increase by close to 45% to S\$4.9 billion. And our cash balance would increase to S\$2.3 billion.

Secondly, the Rights Issue will also help us to execute and complete our existing projects, fulfil our commitments to our customers, and be better positioned therefore to bid for higher-value and large-scale projects to ensure our long-term viability.

As of 31 Mar 2021, the Group has a net order book of S\$1.89 billion. This is also represented by the extreme right-hand green bar of which about 40% relates to Green Solutions.

At the bottom of the slide, our suite of products and solutions are represented by the five pictures. So besides executing our existing projects, we are also actively tendering for new projects especially in the Renewables, Gas, and Process Solutions segments, which include Floating Production, Storage and Offloading vessels, or FPSOs, and other floating production solutions.

Thirdly, the Rights Issue will also enable us to augment our technological capabilities so as to maintain and enhance our competitive edge.

We will be able to continue to selectively acquire and develop intellectual properties, technologies especially in relation to renewables, and other clean energy solutions; and at the same time, build the associated engineering talent to execute our solutions. We will also be able to make very selective investments to build strategic yard capabilities to execute secured projects. For example, in our flagship integrated Tuas Boulevard Yard (the picture at the upper centre), we have a 30,000 tonne crane-lifting capability. This will enable us to build mega structures and solutions with reduced costs and time, while enhancing safety and quality. And naturally, we will continue to collaborate with other industry players and mutually develop and tap best-in-class capabilities.

Last but not least, the Rights Issue will enable a greater capability to fund growth and our strategic expansion especially into the renewable energy sectors, the outlook of which has been increasingly promising.

So while the overall outlook for oil exploration and related activities remains uncertain, the outlook for energy transition solutions is robust, including areas such as offshore wind and clean energy such as hydrogen. Global offshore wind expenditure, for example is projected to grow at a compound average growth rate or CAGR of 11% this decade to reach US\$126 billion per year by 2030, according to independent energy research firm, Rystad Energy.

In this regard, SCM has already made significant inroads into this renewables space. As you may know, a few months ago in March 2021, we jointly secured with GE Renewable Energy a S\$1.12 billion contract from RWE Renewables for the 1.4 GW Sofia Offshore Wind Farm. And we delivered our first offshore wind farm substation topsides solution, for the Dudgeon project in the UK North Sea, back in 2016.

We will continue to strategically broaden our business portfolio to extend into new areas of renewable energy, electrification, gas value chain, ocean living, as well as carbon capture and storage solutions.

In summary, this slide encapsulates the overall benefits to our valued shareholders and external stakeholders from this Rights Issue. The Rights Issue will position us well to be a global player in innovative engineering solutions for the Offshore, Marine and Energy industries, with an increasing focus on renewable and other clean energy solutions.

Moving on to some important dates:

This is a snapshot of the important dates to note with regards to our Rights Issue. Following our announcement today, the EGM for shareholders to approve our Rights Issue is estimated to be convened in August, and the Rights Issue is targeted to be completed by September 2021.

The Rights Issue is subject to the approval of SCM shareholders and the receipt of applicable approvals from the SGX-ST.

Let me now move on to the second part of our announcement – the Potential Combination with Keppel Offshore & Marine (or KOM).

SCM and Keppel Corporation have today entered into a non-binding memorandum of understanding to begin negotiations with a view to create a combination of the businesses of SCM and KOM.

Under the Proposed Combination, all existing assets and operations of SCM will be transferred into the Combined Entity. Likewise for KOM. However, certain KOM assets are excluded from the Proposed Combination. They include KOM's legacy completed and uncompleted drilling rigs, the associated receivables, and certain other assets.

It is envisaged that the Combined Entity, if a Potential Combination is completed, will be a listed entity.

Let me quickly summarise the rationale for this Potential Combination.

The Potential Combination would create a stronger player and accelerate the Combined Entity's pivot towards the energy transition, with the aim of creating sustainable value over the long term for Sembcorp Marine, Keppel Offshore & Marine, and their respective stakeholders.

The Combined Entity would bring together the best talents, engineering skills, intellectual properties, and technical know-how from both companies. This will enable it to be better positioned to compete for larger contracts, whilst pursuing the synergies that can arise from the increased operational scale, broader geographical footprint and other enhanced capabilities.

Here is a snapshot of both companies' demonstrated and ongoing track record in renewables for your information.

The combination will bring the strengths of both companies and accelerate the pivot to the new energy sector.

Let me quickly summarise our two announcements today. We have highlighted the rationale and key terms for our proposed S\$1.5 billion Rights Issue, with undertaking and underwriting arrangements in place to ensure certainty of our receipt of the S\$1.5 billion cash proceeds.

In regard to the Potential Combination, which is a separate and distinct development, we have signed a non-binding MOU to enter into negotiations; and respective parties will conduct mutual due diligence and negotiate terms in due course.

At this point, discussions are at a preliminary stage, and there is no certainty that the Potential Combination will take place.

But if completed, it would create a stronger player by bringing together the best of each company, to better compete globally, in the O&M, renewables and other clean energy sectors. That is all for the presentation. Thank you for your kind attention.

Q&A Session

CMY: Thank you, William, and thank you panellists for your earlier remarks. I would now like to open the floor for questions. May I invite you to pose your questions via the Q&A button at the bottom of the screen. Please do state your name and the organisation that you represent.

CMY: Alright we have the first question. This is from Goola Warden (The Edge).

Question from Goola Warden of The Edge Singapore

What will SCM's share in the Combined Entity be? What is the value of the assets that will be placed in the Combined Entity?

WG: Thank you for the question. The value of shares is very much driven by the respective valuation of the assets, which will have to go through the usual due diligence process. So, in that sense, the respective shareholding of both companies in the Combined Entity will then be determined accordingly. At this point, it is at a very preliminary stage. So, it is premature to consider what are the possible ranges of numbers. I hope that helps. Thank you.

CMY: The next question is from Anshuman Daga from Reuters.

Question from Anshuman Daga of Reuters

What is the expected ownership level in the potential Combined Entity?

MHM: Well, this will not be known till after we complete the valuation process, and worked out the merger ratios, and all the details. The shareholders from both Sembcorp Marine and Keppel Corp will be the shareholders of the Combined Entity. Now, how large a percentage of each other, it will be dependent on the valuation and the merger ratio.

CMY: Thank you Chairman. Next we have a question from Boon Leong of Lianhe Zaobao.

Question from Chew Boon Leong of Lianhe Zaobao

Could I clarify the proceed raised from the Rights Issue is not for the potential deal with Keppel?

WG: Thank you for the question. The answer is yes, it is not at all related to the combination of the companies. The S\$1.5 billion Rights Issue is strictly for our working capital and other general corporate purposes including debt servicing. Thank you.

CMY: Thank you William. We have Goola Warden from The Edge back with two questions.

Question from Goola Warden of The Edge Singapore

Will there be cash consideration for SCM? Also, what will be left in SCM after the Combined Entity is created?

MHM: In the Combined Entity, SCM shareholders will become the shareholders of the Combined Entity post the merger. They will receive shares in the new entity which will be listed shares.

WG: Chairman, let me respond to the second part of the question: what is the cash balance situation after the combination. Technically, as we have explained, the cash that we raise is very much for operational funding needs. So, it should have no impact on the cash balance at our end, with or without that combination.

CMY: Anshuman Daga (Reuters) is back with one question.

Question from Anshuman Daga of Reuters

Sembcorp Marine is the smaller player in the rig building sector and is doubling down. Why is this so, while Keppel is exiting from the legacy business?

MHM: Weng Sun can answer this.

WWS: Sembcorp Marine has since some years back already been diversifying into non-drilling products and other solutions. Going forward, SCM will also pivot into cleaner, greener and renewable solutions including alternative fuels for marine use. So hence, we are not only focusing on our past rig building experience, but we are also forward looking into the future. This is our focus. Hope this helps.

CMY: We have one question coming in from Goola of The Edge.

Question from Goola Warden of The Edge Singapore

Will SCM be listed after the merger?

MHM: The new merged entity will be a listed entity not SCM. This is based on the shares exchange and the new organisation will be the listed organisation.

CMY: Thank you Chairman. It looks like we are not getting any more questions. But we shall give them a little bit more time. Perhaps William, we could look at the opening slide again, just to allow them to recap on the transaction/ Rights Issue.

WG: Sure, we can move to the overall transaction summary.

CMY: Yes, as we wait for the next question to be posted.

CMY: We do have a question from Uma Devi of Business Times.

Question from Uma Devi of Business Times

Back in 2020, Sembmarine has also announced a fund raising exercise, and it is again having another equity raising so soon thereafter. Could this explain the reason behind such a big discount between the TERP and the last traded price and issue price of the new shares?

WG: Thank you for the question. The determination of the rights price for our Rights Issue is very much driven by market norms. So in that sense, if you look at the theoretical ex-rights price or TERP, the discount is in the range around 35% plus/minus. So, that is generally within the range. We have also taken into consideration that, as our Chairman has mentioned, this is our second fund raising and we seek the support of our shareholders. So therefore, with this reasonably priced rights shares, we would like to encourage our shareholders to support and participate. And as you know, this rights price applies to all shareholders. So, we hope that with this rights structure, our shareholders will all participate and support the transaction. Thank you.

CMY: Perhaps, William would you like to just take them through our strategic thrust into the renewables. Can we touch on that just to refresh their understanding of our business thrust?

Could we have the slide to move to our strategic thrust of our positioning.

WG: Perhaps, maybe just a quick recap on the strategic focus for us. I think our Chairman and our CEO on multiple occasions including today have highlighted our strategic thrusts and diversification for some years now. As you may know we built our Tuas Boulevard Yard with integrated advanced capabilities, with the completion of our phase two back in 2015. This has enabled us to build multiple types of solutions, including newbuild EPC as well.

We believe that these capabilities are important for us take on the needs of the industry in the next 20, 30, 50 years and beyond.

That flexibility to therefore acquire the solutions, technology and engineering will complement our yard capabilities. This will enable us to move up the value chain in whichever sub-segment that we go. As you know, as we move up the value chain, over the years we started off with repair, upgrade and conversion. We are now able to do, for some time now, full EPC of offshore structures and solutions as we have the design and IP ownership as well.

As we move up the value chain, we are able to tap on a broader part of the profit pool. The higher the value chain, the better would be the margins. So strategically, acquiring new technologies and engineering, building our yard capabilities and talent as well as broadening our suite of solutions and very increasingly moving into cleaner energy solutions – we believe these are important for our long-term viability and sustainability.

CMY: Thank you William. We'll pause here for a minute for questions to come in.

WG: Perhaps to highlight, while we wait for the next questions – many have asked, when we talk about offshore wind farms, about the trend going forward. As you know, presently most offshore wind farms are very much in the shallow parts of the ocean and they are all fixed and piled onto the sea bed. Increasingly, floating offshore wind solutions will become very prevalent, as more wind farms go further offshore because shallower waters are being used up. This is why it is important for us to be able to develop suitable wind farm solutions and be ahead of the curve to offer floating offshore wind farm solutions.

As you see on this slide the image at the bottom (second from the left), this is our SWACH solution. This is our small waterplane area cylindrical hull (SWACH) solution, which we can offer for future floating wind power solutions. We believe that increasingly the trend is moving towards renewable energy. The potential of offshore wind, being very clean energy, is significant and we want to position ourselves well in this space, while leveraging on our

existing capabilities. At the same time, we are developing offshore solutions for the deeper and floating space. That is one of our key areas of focus.

And, if you just extend to the right, you will find a kind of vessel that we are building. There is a clear trend for us going towards the clean, green and sustainable space. What we have here is already in construction – fully-electrified, battery operated roll-on/roll-off passenger and car ferries in Norway for example. The batteries are powered by hydropower, and the batteries power the ferries. So literally zero carbon emission. These are some of the solutions that we have developed, and we will continue to very strategically and selectively develop what is needed in line with the energy transition.

CMY: With no further questions, this media briefing has come to an end. Thank you for your participation and good evening.

MHM, WWS & WG: Thank you.

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