

KEPPEL LTD

TRANSFORMING INTO A GLOBAL ASSET MANAGER

DOES IT HAVE THE RIGHT TO WIN?





ABOUT CORPORATE MONITOR LIMITED

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"our operating capabilities and domain knowledge in the key segments of Infrastructure, Real Estate and Connectivity, provide an unparalleled value proposition to the investors in our private funds, REITs and Trust."
 Keppel CEO, 2H2023 Presentation

REPORT OBJECTIVE

If Keppel succeeds it will be the only industrial operator that successfully transforms into a global asset manager. The shortlist on the right, which ranks firms by AUM rather than Keppel’s preferred metric of FUM, shows that firms with financial pedigree fully dominate the industry.

Given the industry’s history, the objective of this report is to examine Keppel’s claim that its unique position as an operator gives it a competitive pathway to success within Asset Management. Keppel’s acquisition and running of M1 will serve as a lens to evaluate Keppel’s claim.

We fully agree that one case study will not be comprehensive or sufficient. We welcome Keppel to provide other cases, or better yet, a comprehensive performance track record as suggested in our earlier report – see *“Transforming into a Global Asset Manager – Are Investors in the Dark?”*.

WHY IS M1 INDICATIVE OF KEPPEL’S CAPABILITIES?

M1 was selected for the following reasons:

- i) Keppel has been a founding shareholder since 1997, giving it deep familiarity with M1 [1]
- ii) It is a sizeable investment made by Keppel, with an estimated acquisition value of S\$1.9bn. [2]
- iii) Connectivity was, and remains to be, a key operating business of Keppel

** Due to the scant disclosure of key financial and operating numbers of M1, it was necessary for certain estimates to be made within this report.*

**TOP 10
 GLOBAL ALTERNATIVE
 ASSET MANAGERS**

Alternative Asset Managers	AUM (US\$)
Blackstone	\$1.1T
Brookfield	\$929B
Hamilton Lane	\$903B
Apollo Global Management	\$671B
KKR	\$575B
Ares Management	\$428B
Carlyle Group	\$425B
EQT AB Group	\$242B
Bridgewater Associates	\$197B
CVC Capital Partners	\$186B

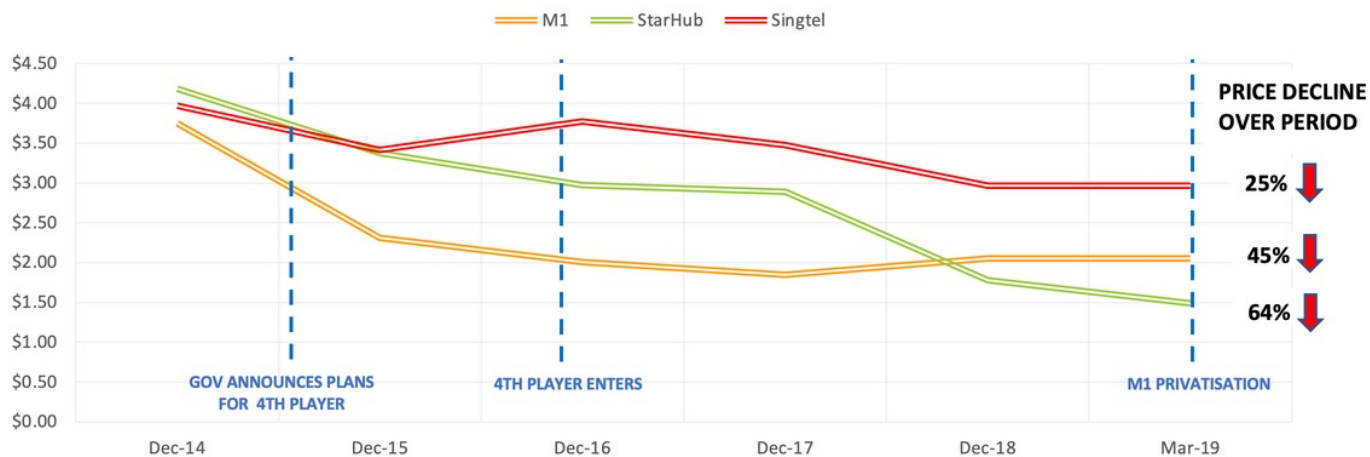
Source: Investing in the Web, 'Largest Alternative Asset Managers by AUM in 2024'

BACKGROUND: WHY WAS M1 PRIVATISED?

In July 2015, Singapore's regulator announced its intention to increase telco competition with a 4th telco [3]. On December 2016, the telecommunications industry's cosy triopoly was disrupted by the entry of a fourth player – Australia's TPG Telecom [4]. Mobile plans prices have fallen ever since [5]. Post announcement of liberalization in 2015, the market has seen severe profit erosion and the telco share prices slumped drastically, as shown below.

It is fair to assume that Keppel fully understood the more challenging industry dynamics when it privatised M1 in April 2019.

SHARE PRICE DECLINE SINCE 4TH TELCO'S ENTRANCE



Source: Investing.com

M1 PRIVATISATION DETAILS

Date: 24 April 2019

Take-Private Price: S\$2.06 per share

Take-Private Valuation: S\$1.9bn

Take-Private Premium: 18%

Keppel's Original Stake: 19.3%

Keppel's Publicly Stated Goals

- 🎯 arrest the decline in M1 shareholder value through synergies and transformational efforts [6]
- 🎯 achieve a target ROE of 25% [7]



"M1's privatisation was an opportunity to turn around a business that Keppel knows well."

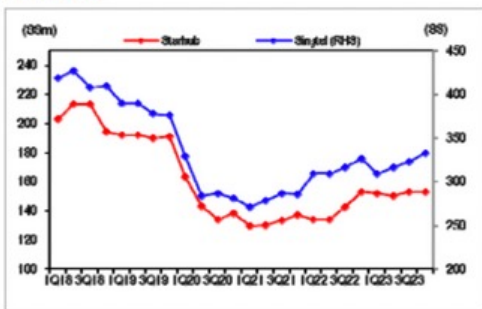
Keppel, Presentation "Update on M1's transformation", Oct 2019

POST-PRIVATISATION: THE TELCO INDUSTRY'S INEXORABLE DECLINE

In the past few years, Singapore's liberalization of the sector has led to the proliferation of mobile providers, with today's consumers having choices of 16 different service providers. The mobile segment, which is the main source of revenue and profits for telcos, is severely challenged due to the saturated and competitive market [8]. Fibre Broadband and Enterprise Services are unable to make up for the huge fall in mobile revenues.

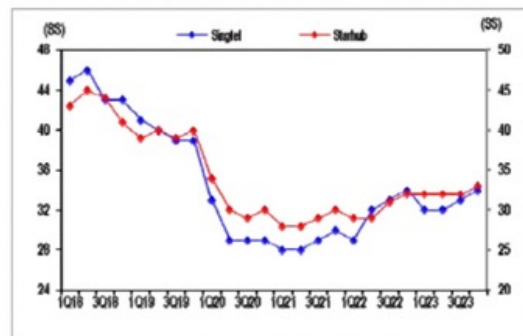
MOBILE SERVICE

STARHUB AND SINGTEL'S MOBILE SERVICE REVENUE



Source: Starhub, Singtel, UOB Kay Hian

STARHUB AND SINGTEL'S POSTPAID ARPU



Source: Starhub, Singtel, UOB Kay Hian

UOB's research shows the ARPU (Average Revenue Per User) dropping by about 30% over the 5 years of 2018 to 2023. With growth being limited by the saturation of the small local market, the brutal competition translated into a drop in overall mobile service revenue [9] for Singtel and StarHub.

(*M1 does not break down the revenue from Mobile alone).

BROADBAND



Broadband is facing an onslaught of competition. Formerly dominated by the Big 3 telcos, it has now expanded to at least 7 providers, with the new entrants aggressively cutting prices.

ENTERPRISE

The enterprise space, while experiencing strong revenue growth, is not providing margin relief.

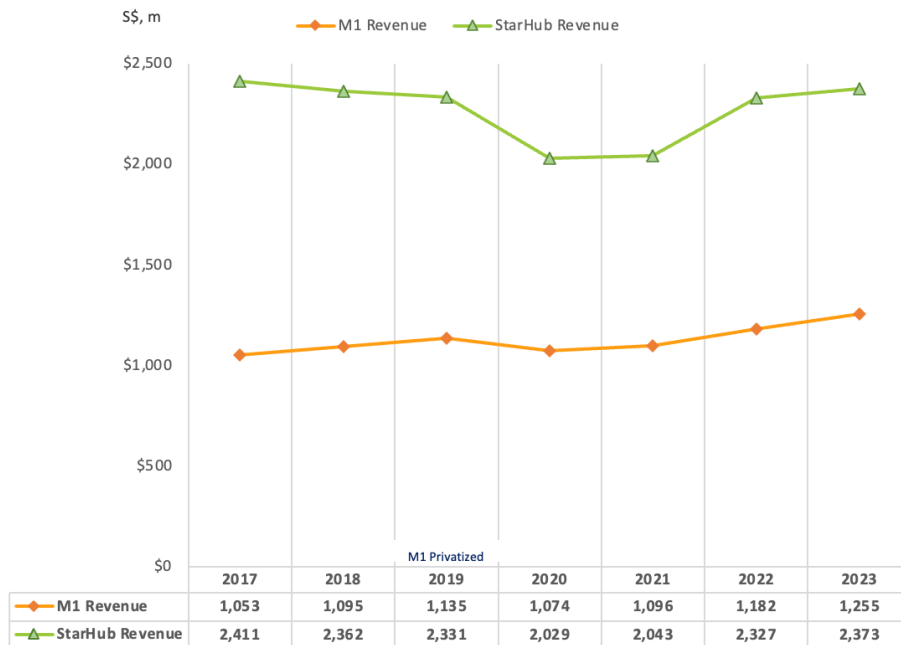
For example, StarHub's Cybersecurity Services losses has deepened while its Regional ICT Services is barely profitable, reporting just S\$1.6m operating profits on S\$80.4m of revenue (1H2024) [10].

The widely predicted profit erosion of the industry has played out, resulting in destruction of shareholder value.

M1'S REVENUE GREW SLIGHTLY BUT NET PROFIT NEARLY HALVED

For benchmarking, M1's performance is placed against its closest comparator, StarHub. SingTel, due to the difference in business models and its global scope, is not an appropriate comparator. However, where relevant, SingTel's performance is used to provide more industry context.

M1 HAS TEPID REVENUE GROWTH, STARHUB'S IS VOLATILE



Source: Keppel Annual Reports and Presentations, Starhub Annual Reports

INDUSTRY PROFITS ARE POOR, KEPPEL STOPPED DISCLOSING M1'S PROFITS IN FY2023



* Due to a lack of disclosure, M1's 2023 Net Profit was estimated based on Management's comments that it is similar to FY2022.

Assumed that Net Profit Margin of 2022 is carried into 2023.

Source: Keppel Annual Reports and Presentations, Starhub Annual Reports

Over the past few years, StarHub had double-digit revenue growth in Enterprise but this did not make up for the drastic fall in Consumer revenue. M1 managed to better compensate the decline in the Consumer segment by growth in the Enterprise segment.

Both faced the issue of declining profits. StarHub and M1 saw their profits approximately halve, for the period from 2017 to 2023.

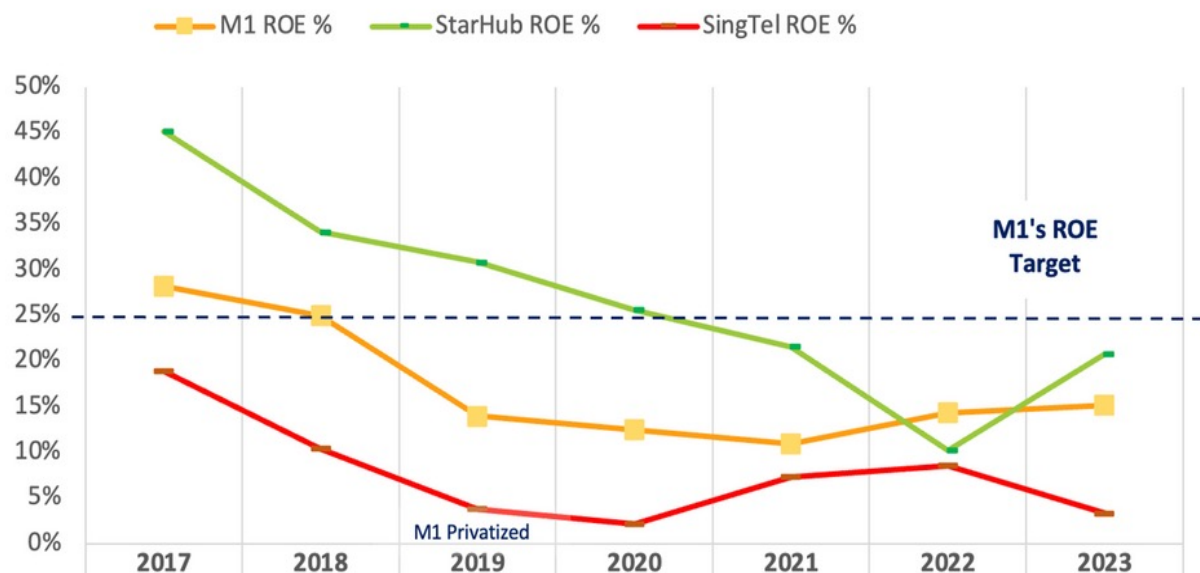
M1's CEO, Manjot Mann, instead of speaking of a turnaround, described the current landscape as "a tough market to be in" [11] and the numbers reflect it. Disappointingly, Keppel had ceased reporting the net profit of M1 since FY2023.

M1: ROE TARGET OF 25% APPEARS TO NOT HAVE BEEN MET

ROE is a measure of creation of shareholder value. For M1's privatisation specifically, Keppel had set a target return of 25%, which it apparently failed to meet based on our calculations.

StarHub and Singtel, both larger competitors to M1, have also seen their ROE decline to below 25%.

THE ENTIRE INDUSTRY'S ROE IS FLAILING



	2017	2018	2019	2020	2021	2022	2023
M1 ROE %	28%	25%	14%	12%	11%	14%	15.1%
StarHub ROE %	45.1%	34.1%	30.8%	25.6%	21.6%	10.2%	20.7%
SingTel ROE %	18.90%	10.40%	3.80%	2.10%	7.30%	8.50%	3.30%

* M1's ROE is an estimate due to the lack of disclosure on equity value and FY2023's net profit.

Source: Keppel Annual Reports and Presentations, Starhub and SingTel Annual Reports

M1's current performance is clearly lower than its pre-privatization days of 2018.

After reporting net profits of \$75m in FY2022, Keppel stopped disclosing M1's profits. As such, CML assumed M1 retains its NPM% and estimates its FY2023 profits to be \$79m. After making conservative assumptions on its equity base, we place its ROE to be around 15%. These current figures are a far cry from M1's pre-privatization state.

CML assumes M1's equity value to be constant post privatisation. In reality, M1's equity value could have increased due to retained earnings or additional capital; in which case, the ROE will be even lower.

DECLINING PROFITS – IS M1 STILL WORTH THE VALUE IN 2019?

A CURIOUS CASE OF GOODWILL

In 2019, the Group obtained controlling interest in M1 and Keppel recorded a goodwill of \$988m upon the M1 acquisition.

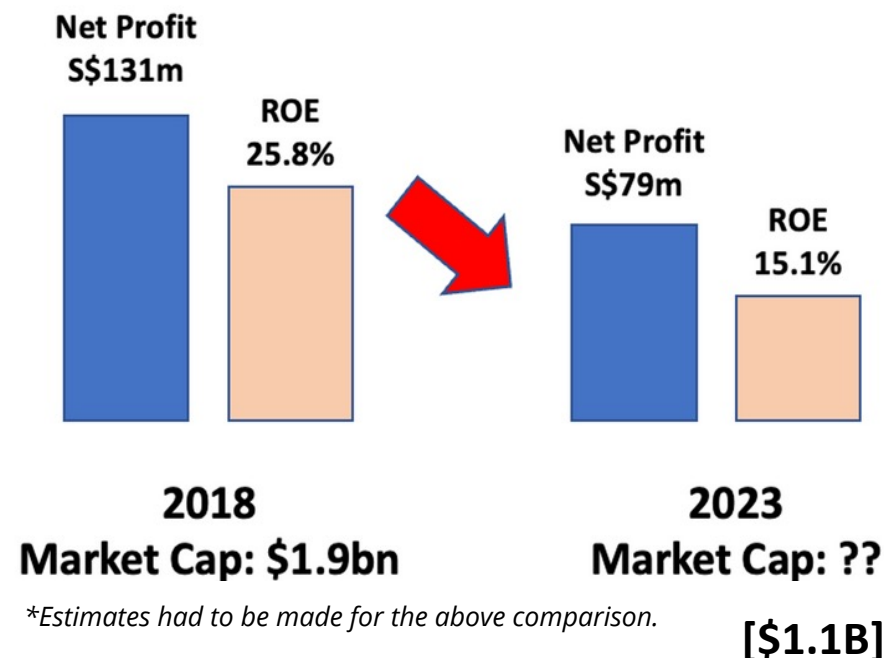
Despite the struggle in performance over the years, the goodwill was never once impaired. As of FY2023, it sits on Keppel's Balance Sheet per its original amount of \$988m. This is justified by Keppel using a DCF value based on a 5-year projection and extrapolated using a terminal growth rate.

CML would like to raise the following questions:

- (a) Why did Keppel not consider corroborating the valuation derived from PE multiple method, which is commonly used in equity markets? Based on our estimation, the valuation has significantly declined and the goodwill impaired.
- (b) Why did Keppel use a more favourable terminal growth rate (from 1.48% to 2%) and a lower discount rate (from 7.9% to 7.2%) in FY2023? M1's performance and market outlook were not getting better.
- (c) Has Keppel changed the projection significantly between 2022 and 2023?



PE: 14.5
(Upon Privatisation)



PE: [14]



PE: 14
(Sep'24)



QUESTIONS RAISED BY CML

Keppel was aware of the sector's liberalization and the very negative impact on telcos (other markets had experienced the same) and market's reading that it would badly erode returns. Why did it still make the decision to invest in M1?

Keppel no longer publicly mentions its 25% target ROE for M1. Has Keppel abandoned its ROE target? Why did it not disclose M1's ROE post privatisation?

Why did Keppel stop disclosing M1's profit in 2023?

Is it prudent to not make impairment on M1's value given the clear underperformance?

What is Keppel's future plans for M1?

Is M1 an isolated case study that raises concerns on Keppel's operating capabilities and investing acumen?

We call on Keppel to make full disclosures on the return profile of its portfolio of private funds.

APPENDIX: REFERENCE LIST

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10 StarHub, 1H2024 Results Call Transcript

11 The Edge, 'M1 In State of Constant Flux to Stay Nimble Amid Intense Competition'
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