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27 Apr 2022

Keppel Corporation & Sembcorp Marine Sign Definitive Agreements For Proposed Combination Of Keppel O&M And Sembcorp Marine

- **Proposed Combination brings together the world-class engineering capabilities and global operational capabilities of both companies, as well as their well-established track records for quality and reliability in executing complex, large-scale projects. Synergies from the combined operating and engineering capabilities are expected to deliver long-term value creation**
- **Combined Entity is expected to be a premier global player offering offshore renewables, new energy and cleaner solutions in the offshore & marine sector**
- **Proposed Combination is based on a 50:50 enterprise value ratio between Keppel O&M and Sembcorp Marine. After taking into account the respective capital structures of the two companies, the S\$500 million cash that Keppel O&M will pay to Keppel and other adjustments, the agreed equity value exchange ratio will result in Keppel and its shareholders owning 56% of the Combined Entity and Sembcorp Marine shareholders owning 44% on completion**
- **Keppel O&M's legacy rigs and associated receivables will not be part of the Proposed Combination and will be sold to a separate Asset Co that will be 90%-owned by other investors, with Keppel holding a 10% stake**
- **Keppel O&M and Sembcorp Marine will preserve operational strength by retaining and attracting O&M engineering talent while engaging with workplace unions, to address labour considerations related to the Combined Entity**
- **Proposed Combination is subject to various regulatory approvals and expected to be put to respective shareholders for approval in the fourth quarter of 2022**

Keppel Corporation Limited (“**Keppel**”) and Sembcorp Marine Ltd (“**Sembcorp Marine**”) entered into definitive agreements today for the proposed combination of Keppel Offshore & Marine Ltd (“**Keppel O&M**”) and Sembcorp Marine (the “**Proposed Combination**”). The Proposed Combination is set to create a premier global player focusing on offshore renewables, new energy and cleaner solutions in the offshore & marine sector (“**O&M**”).

The Proposed Combination, which follows the signing of a memorandum of understanding between Keppel and Sembcorp Marine on 24 June 2021, will bring together the world-class engineering capabilities, well-established track records and reputations for quality and reliability of the two companies with complementary competencies and operations. The Combined Entity will be well-positioned to capture opportunities arising from decarbonisation in the oil & gas sector and from the global energy transition towards renewables, particularly in the areas of offshore wind, and new energy sources such as hydrogen and ammonia.

Summary of Transactions

The Proposed Combination involves the establishment of a new holding company (the “**Combined Entity**”) which will combine the businesses of Keppel O&M and Sembcorp Marine via separate schemes of arrangement.

Under Sembcorp Marine's scheme of arrangement, Sembcorp Marine will undergo an internal restructuring exercise whereby shareholders of Sembcorp Marine will exchange their shares in Sembcorp Marine for shares in the Combined Entity on a one-for-one basis, and Sembcorp Marine will transfer its listing status on the Mainboard of the Singapore Exchange to the Combined Entity (the “**Sembcorp Marine Scheme**”).

The Combined Entity will be combined with the restructured Keppel O&M through a separate scheme of

arrangement of Keppel O&M (the “**Keppel O&M Scheme**”). Following this, Keppel O&M and Sembcorp Marine will become wholly-owned subsidiaries of the Combined Entity. Concurrently, Keppel O&M will sell its legacy rigs and associated receivables to an Asset Co that will be 10%-owned by Keppel and 90%-owned by other investors, and transfer other out-of-scope assets to Keppel.

The Proposed Combination is based on a 50:50 enterprise value ratio between Keppel O&M and Sembcorp Marine. After taking into account the respective capital structures of the two companies, the S\$500 million cash that Keppel O&M will pay to Keppel immediately prior to the closing of the transaction and other adjustments, the agreed equity value exchange ratio will result in Keppel and its shareholders owning 56% of the Combined Entity and Sembcorp Marine shareholders owning 44% on completion.

Keppel will distribute in-specie 46% of the Combined Entity shares to Keppel's shareholders and retain a 10% stake, which will be placed in a segregated account. Following this distribution-in-specie, Temasek will hold 33.5% and be the largest shareholder of the Combined Entity.^[1]

The enterprise value ratio and the equity value exchange ratio were determined after taking into account an assessment conducted by DBS Bank Ltd., which acted as the Joint Financial Advisor to Keppel O&M and Sembcorp Marine with respect to the relative ratios of Keppel O&M and Sembcorp Marine. The relative ratios were based on a discounted cash flow methodology approach conducted by DBS Bank Ltd., as well as the extensive negotiations and due diligence by the parties.

In addition, the independent directors of Sembcorp Marine have separately engaged an independent valuer and an independent financial advisor in relation to the Proposed Combination (collectively, the “**Sembcorp Marine Independent Advisors**”). Keppel's independent directors have also engaged an independent financial advisor in relation to the Proposed Combination and the Asset Co transaction (the “**Keppel Independent Advisor**”).

The reports of the Sembcorp Marine Independent Advisors and the Keppel Independent Advisor will be presented to the respective shareholders of Sembcorp Marine and Keppel when approvals are sought for the Proposed Combination and Asset Co transaction.

The Proposed Combination will be subject to the approvals of the shareholders of Keppel and Sembcorp Marine at separate extraordinary general meetings (“**EGMs**”), which are expected to be convened in the fourth quarter of 2022.

The composition of the Board of Directors and senior management of the Combined Entity will be disclosed ahead of the EGMs. The Combined Entity will adopt a new name and brand identity to reflect its focus on offshore renewables, new energy and cleaner solutions in the O&M sector.

Both Keppel O&M and Sembcorp Marine have taken a constructive approach toward labour considerations of the Combined Entity and are focused on preserving operational strengths by continuing to retain and attract local talent, supplemented with international expertise. Keppel O&M and Sembcorp Marine are committed to working cooperatively with their respective labour unions, including continuing workforce development and training and the creation of higher value-adding jobs.

Loh Chin Hua, CEO of Keppel and Chairman of Keppel O&M, said, “The signing of a win-win agreement on the Proposed Combination of Keppel O&M and Sembcorp Marine marks a strategic milestone for the offshore & marine sector. It brings together two leading O&M companies in Singapore to create a stronger player that can realise synergies and compete more effectively amidst the energy transition. Together with the resolution of Keppel O&M's legacy rigs, this is a major step forward in Keppel's Vision 2030 journey, as we simplify our business and sharpen our focus on providing solutions for sustainable urbanisation.”

Tan Sri Mohd Hassan Marican, Chairman of Sembcorp Marine, said, “The Proposed Combination marks a major milestone in Sembcorp Marine's strategic business transformation journey since 2015 to stay resilient amid dramatic changes in our industry. Sembcorp Marine and Keppel O&M are Singapore's homegrown marine icons. I am confident the Combined Entity, with its larger operational scale, broader geographical footprint and enhanced capabilities, will create a leading Singapore player to capitalise on the opportunities in the offshore and marine, as well as the renewable and clean energy sectors.”

Nagi Hamiyeh, Head, Portfolio Development Group at Temasek, said, “We are pleased that Keppel and Sembcorp Marine have come to an agreement on the terms of a combination that we think will be transformational for the companies. We believe the combined business will have the expertise and capacity to accelerate the pivot towards growing opportunities in the renewable and clean energy sectors, and pursue meaningful projects around the world that address the increasing need for greener and cleaner energy solutions. In doing so, it will be able to deliver long-term value creation for shareholders and other stakeholders.

We look forward to the support of the shareholders of Keppel and Sembcorp Marine to make this possible.”

Rationale for the Proposed Combination

The O&M sector has faced a prolonged and severe downturn since 2015, exacerbated by the rapid global transition towards renewables and clean energy, as well as significant disruptions during the COVID-19 pandemic. Amid this downturn, competition for a shrinking pool of projects has intensified, contributing to an increased level of debt across the industry and necessary equity issuances to strengthen financial positions. Additionally, many offshore players have sought consolidation to achieve the scale and synergies needed to become more competitive and build a sustainable order book.

Oil prices have rallied in recent months, and conditions in the O&M sector are improving. However, the long-term outlook for the O&M sector is shifting amid the energy transition. Growing commitments by governments and companies around the world seeking to achieve net zero carbon emissions are driving increasing demand for renewable and clean energy solutions. These include areas such as offshore wind, hydrogen and ammonia, in which both Keppel O&M and Sembcorp Marine have built their respective capabilities and track records in the past few years.

Creation of a Premier Global Player for the Renewable, New Energy and Cleaner O&M Solutions Markets

Against this backdrop, the Proposed Combination will create a premier global player with a deep engineering heritage to offer offshore renewables, new energy and cleaner solutions in the O&M sector, in the following areas:

- **Offshore Renewables:** Building on the existing wins to date to scale up the Combined Entity’s footprint in offshore wind energy, a sector that is expected to see global expenditures of S\$260 billion between 2021 and 2030^[2], with participation across the value chain, including substations and wind turbine installation vessels;
- **New Energy:** Making select early investments in new energy sources, such as hydrogen and ammonia, and in carbon capture technologies, with a view to building successful franchises in these areas for the decades ahead; and
- **Cleaner O&M solutions:** Contributing to energy production and resiliency by continuing to serve the demand for floating production systems, such as floating production storage and offloading (FPSO) units, and other offshore oil & gas solutions, which is estimated to amount to a S\$290 billion opportunity in terms of market size^[2], through focusing on innovating and applying new technologies to reduce the carbon footprint of such structures.

Greater Synergies from Combined Operational Capabilities, Engineering Bench Strength and Track Record

The Combined Entity is envisaged to unlock synergies from the integration of two established industry players by:

- Leveraging the combined technical and engineering abilities, as well as in-house design and research and development know-how, to expand its suite of technological capabilities and to carry out a wider scope of work;
- Combining the respective track records of successful executions and deliveries, and reinforcing the Combined Entity’s distinctive intellectual property and thought leadership in complex projects;
- Building a global footprint and integrating the operations in Singapore into a centre of excellence focused on high-value-added, specialised projects and modules; and
- Generating greater economies of scale and developing more rigorous project execution capabilities.

The Combined Entity will create greater value for all stakeholders. As a single organisation, the collective workforce will benefit from expanded opportunities for career development and growth in the areas of renewables, new energy and cleaner O&M solutions. It will also strengthen Singapore’s position as both a maritime and offshore and marine hub.

Details of the Proposed Combination

Sembcorp Marine will undergo an internal restructuring exercise via a scheme of arrangement, whereby shareholders of Sembcorp Marine will exchange their shares in Sembcorp Marine for shares in the Combined Entity on a one-for-one basis, and Sembcorp Marine will transfer its listing status on the Mainboard of the Singapore Exchange to the Combined Entity. Upon completion, shareholders of Sembcorp Marine will hold the same number of shares in the Combined Entity as they hold in Sembcorp Marine. Sembcorp Marine will become a wholly-owned subsidiary of the Combined Entity. The Sembcorp Marine Scheme will not be conditional on the approval of the Keppel O&M Scheme.

Through a second scheme of arrangement, the Combined Entity will be combined with Keppel O&M, excluding (i) Keppel O&M legacy rigs and associated receivables, which will be sold to a separate Asset Co and (ii) certain out-of-scope assets comprising mainly Keppel O&M's interests in Floatel International Ltd and Dyna-Mac Holdings Ltd, which will be retained by Keppel.

Immediately prior to the completion of the Proposed Combination, Keppel O&M will pay S\$500 million in cash to settle outstanding interest and make a partial redemption of certain perpetual securities previously issued to Keppel.

To finance this cash component, Keppel O&M has entered into a commitment letter with DBS Bank Ltd. for financing arrangements of up to S\$500 million, subject to the satisfaction of the terms and conditions contained in the commitment letter. Keppel O&M reserves the right to explore alternative financing options to settle such outstanding interest and make such partial redemption of certain perpetual securities previously issued to Keppel, leading up to the completion of the Proposed Combination.

Pursuant to the Proposed Combination, and as consideration for its combination with Keppel O&M, the Combined Entity will issue new shares to Keppel and its shareholders representing 56% of the shares in the Combined Entity on a post-issue basis. Keppel will distribute 46% of the Combined Entity's shares in-specie to its shareholders, upon completion of the Proposed Combination, and retain a 10% stake (the "**Retained Stake**") in the Combined Entity.

The Retained Stake will be placed in a segregated account to fund claims, if any, relating to certain identified contingent liabilities for a period of up to 48 months from the completion of the Proposed Combination. This segregated account will be managed by an independent third party who will have authority to monetise the Retained Stake based on pre-defined parameters.

The Combined Entity has agreed to indemnify Keppel for certain identified contingent liabilities for a period of up to 24 months from the completion of the Proposed Combination.

Other Concurrent Agreements

Concurrent with the Proposed Combination, Keppel has entered into a definitive agreement with Baluran Limited ("**Baluran**") and Kyanite Investment Holdings Pte Ltd ("**Kyanite**"), an indirect wholly-owned subsidiary of Temasek, for the sale of Keppel O&M's legacy rigs and associated receivables to a new and separate entity ("**Asset Co**") (the "**Asset Co Transaction**"). Baluran is indirectly wholly-owned by ASM Connaught House Fund V ("**CHF5**"). CHF5 is managed by Argyle Street Management Limited, and has TIH Investment Management Pte Ltd, a wholly-owned subsidiary of Mainboard-listed TIH Limited, as its investment advisor.

As consideration for the sale of the legacy rigs and associated receivables to Asset Co, Keppel will receive a combination of ordinary shares, vendor notes and perpetual securities issued by Asset Co. Keppel, Baluran and Kyanite will hold stakes of 10.0%, 74.9% and 15.1% respectively in Asset Co.

Separately, Asset Co and Keppel O&M will enter into a master services agreement under which the Combined Entity, through Keppel O&M, will provide construction, berthing and maintenance, and other associated services for the legacy rigs held by Asset Co for an initial period of 10 years.

In addition, Keppel and the Combined Entity will continue to explore opportunities for future collaboration in areas such as floating data centres and floating infrastructure solutions.

Timing and Approvals

Sembcorp Marine will be seeking its shareholders' approval for the Sembcorp Marine Scheme (including the one-for-one share exchange and transfer of Sembcorp Marine's listing status to the Combined Entity) and the Keppel O&M Scheme (for the Proposed Combination with Keppel O&M). If Sembcorp Marine's shareholders approve the Sembcorp Marine Scheme, the one-for-one share exchange and transfer of listing status to the Combined Entity will proceed even if the Keppel O&M Scheme is not approved. The extraordinary general

meeting for Sembcorp Marine's shareholders to vote on these matters is expected to be convened in the fourth quarter of 2022.

Keppel will also be seeking its shareholders' approval for the Proposed Combination, the Asset Co Transaction and the in-specie distribution of shares in the Combined Entity that Keppel receives. The approvals are inter-conditional upon each other. The extraordinary general meeting for Keppel shareholders to vote on these three matters is expected to be held in the fourth quarter of 2022.

Temasek, which is a controlling shareholder of both Keppel and Sembcorp Marine, will abstain from voting in all the resolutions relating to the above.

The Proposed Combination is also subject to other customary closing conditions and approvals.

Further details on the Proposed Combination can be found in Keppel and Sembcorp Marine's announcements, which are available on www.sgx.com and on the companies' respective websites.

Financial Advisors

J.P. Morgan (S.E.A.) Limited is the Sole Financial Advisor to Keppel. Credit Suisse (Singapore) Limited is the Sole Financial Advisor to Sembcorp Marine.

- End -

^[1] Based on 17,131,025,958 Sembcorp Marine shares held by Startree Investments Pte. Ltd., an indirect wholly-owned subsidiary of Temasek, and 371,408,292 Keppel shares held directly by Temasek as at the date of this press release. This figure excludes interests held by Temasek's independently-managed portfolio companies.

^[2] According to market research for 2021 to 2030 by a leading global management consultancy.

About Keppel Corporation

Keppel Corporation is one of Singapore's flagship multinational companies with a global footprint in more than 20 countries. Keppel provides solutions for sustainable urbanisation, focusing on four key areas comprising energy & environment, urban development, connectivity and asset management. With sustainability at the core of its strategy, Keppel harnesses the strengths and expertise of its business units to develop, operate and maintain real assets, which provide diverse solutions that are good for the planet, for people and for the Company.

About Sembcorp Marine

Sembcorp Marine provides innovative engineering solutions to the global offshore, marine and energy industries. 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. Sembcorp Marine's solutions focus on the following areas: Renewables, Process, Gas, Ocean Living and Advanced Drilling Rigs.

Sembcorp Marine's customers include major energy companies, owners of floating production units, shipping companies and cruise and ferry operators. They are supported by four commercial units: Rigs & Floaters; Repairs & Upgrades; Offshore Platforms and Specialised Shipbuilding.

Discover more at www.sembmarine.com.

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