

LOGISTICS REPORT

Singapore's Temasek Makes Takeover Offer for Offshore Rig Builder Keppel

State-run investor will look to merge the business with Sembcorp Marine to match global shipyard consolidation



Temasek already owns nearly 21% of Keppel, a maker of offshore rigs. PHOTO: EDGAR SU/REUTERS

By Costas Paris

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Singapore's Temasek Holdings made a \$2.9 billion offer for majority control of Keppel Corp. , and the sovereign-wealth fund plans to merge the shipyard with rival Sembcorp Marine Ltd. in response to consolidation in the ship construction sector in South Korea and China, people familiar with the matter said.

The move would mark the biggest action in the maritime business for Temasek, which has a \$230 billion portfolio that includes shipping, airlines, real estate, energy and bank investments, since it sold Singapore flag carrier Neptune Orient Lines to French operator CMA CGM SA for \$2.4 billion in 2015.

Keppel and Sembcorp Marine both specialize in building offshore rigs. That business has foundered in recent years as a surge in shale oil production in the U.S. has made it difficult for offshore oil explorers to compete.

Temasek already owns nearly 21% of Keppel, which also counts private-equity groups BlackRock Inc. and Vanguard Group as investors. The offer made Monday at 7.35 Singapore dollars (\$5.40) a share is a 26% premium to Keppel's S\$5.84 closing price last Friday and would boost Temasek's holding to 51%.

"Offshore drilling is looking up, but it needs investment," said a person involved in the matter, who asked not to be named because they weren't authorized to talk to the media. "There are no decisions yet, but the plan is to look into a merger with Sembcorp Marine following extensive yard consolidation in China and Korea. But if it doesn't

work, Sembcorp Marine may be privatized."

Other options may be examined aside from privatization, another person said.

Temasek owns 49.5% of Sembcorp Industries Ltd., a global business including logistics warehouses, infrastructure, energy generation and utilities whose holdings include Sembcorp Marine.

Sembcorp Marine's market value before the offer stood at around \$2.1 billion and Keppel's at \$7.9 billion.

"The partial offer reflects our view that there's inherent long-term value in Keppel's businesses, notwithstanding the challenges presented by the current business and economic outlook," Tan Chong Lee, president of Temasek International, said in a statement.

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Temasek said it made the offer through its wholly owned subsidiary Kyanite Investment Holdings, which will undertake a comprehensive review of Keppel's businesses and balance sheet.

Keppel last week reported third-quarter net profit of \$110.7 million, a 30% decline from the same period last year.

Temasek's move comes after Keppel and Sembcorp Marine reached long-awaited settlements with Brazilian offshore driller Sete Brasil in early October over a combined 13 rigs under construction worth billions of dollars. Sete stopped making payments on the rigs in November 2014 and filed for bankruptcy protection in 2016.

"Now the path is clear, we will look to make Keppel one of Singapore's best performers again," the second person close to the matter said. "If we are to compete in shipbuilding, we have to take the giants in Korea and China head on."

China and South Korea, the world's two biggest shipbuilders, both are in the process of merging their biggest yards. The combination of China State Shipbuilding Corp. and China Shipbuilding Industry Corp. will create a single entity with more than \$110 billion in assets, and South Korea's Hyundai Heavy Industries Co. would have more than \$30 billion in assets after its takeover of Daewoo Shipbuilding & Marine Engineering Co.

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