CORPORATE

Beng Kuang eyes more marine engineering jobs with new Batam yard

BY MICHELLE TEO

After working in yards owned by major shipbuilders here for almost 20 years, Beng Kuang Marine's own 32.8ha waterfront shipyard in Batam is now open for business. While it may not seem like the best time to be expanding, given the gloomy outlook on the shipping sector, executive director Chua Meng Hua says the company is laying the foundation for bigger things. "It's a dream for Beng Kuang to become Labroy [marine]," Chua says, referring to the shipbuilder who was the first major shareholder in Beng Kuang and was last year bought over by Dubai Drydocks World.

Besides tripling Beng Kuang's capacity and quadrupling its fabrication capabilities, the Kabil Timur yard – as big as 35 football fields and can hold up to four rigs at one time – allow it to take on larger and more complex projects.

Chua says having new yard space now is an advantage. "Everybody is full except us," he points out, referring to the main yards here. This means ship owners who want to avoid a long wait to have fabrication work done on their vessels may just dock at Kabil Timur.

Shipyard drive growth

Sure enough, Beng Kuang secured a record $21 million contract at end-September to fabricate accommodation modules for a pipe-laying barge under a subsidiary of Australian contractor Leighton Holdings. The work comes under Beng Kuang's infrastructure engineering services, currently the second-biggest contributor to turnover. The division brought in $9.69 million revenue for 3 QFY2008, nearly 71% more than 3QFY2007.

Beng Kuang is working to make infrastructure engineering the key income generator with the new yard, as the company looks to move beyond its long-time mainstay of corrosion prevention services for the marine and offshore oil and gas (O&G) industry. For 3QFY2008 ended Sep 30, this business brought in $15 million in revenue, 81.3% more than the same quarter last year, and nearly half of total turnover. The company says it has enough corrosion prevention contracts – from ships to oil rigs – to keep it occupied for the next five years.

However, officials at Beng Kuang see little opportunity ahead to grow the corrosion prevention services business or expand its margins in a big way. "Corrosion prevention is a standard price, and revenue cannot be increased in leaps and bounds," financial controller William Lee says.



In contrast, the $21 million contract from Leighton, to be completed by august 2009, is already worth nearly • the revenue of the first nine months of the year from infrastructure engineering. "The new growth for us would be our new shipyard," says company director Alan Yong, adding that Beng Kuang has projects lined up with key customers like shipbuilder Dubai Drydocks World and Indian engineering and construction firm Punj Lloyd.

With the marine industry heading into troubled waters, it is not likely to be all smooth sailing for Beng Kuang. Freight rates have plummeted as exports and trade have declined. "If freight rates are depressed over a protracted period, some [ship] owners may defer maintenance," observes one analyst from a local brokerage. He adds that while the offshore sector is still slightly more resilient, "the market is scared that if oil prices fall further, investment in O&G equipment will be cut back."

Beng Kuang officials acknowledge the risk of a downturn in the industry. "It's not just shipping itself, but the whole economic [situation]," Lee says. But the company isn't new to such problems. "For more than 20 years, we have gone through so many crises," Chua says, counting off his fingers the downturns in 1985 [Singapore's worst recession], 1997 [Asian financial crisis], 2003 [SARS outbreak]. "In 1985, Keppel Shipyard had a retrenchment exercise. In 2003, no ships docked here. But we have moved on."

Steady demand

Even with a downturn in the shipping sector, some analysts say demand for Beng Kuang's services could remain steady for as long as 18 months, because ships typically need to come in for repairs every 2 • years. "All our customers, the main shipyards, are still very strong and are able to withstand [the downturn]," Chua says.

The new yard sets Beng Kuang back some $1.87 million and with that the company's leverage has hit 0.945 times. But, it managed to generate $3.4 million in cash from its operating activities for 3Q alone, with revenue of $31.4 million, 49% higher y-o-y, and earnings of $1.5 million, 51% up y-o-y. Meanwhile, the company has about $10.2 million in cash and expects to roll over its $40.1 million unsecured debt due within a year.

Additionally, its directors say Beng Kuang has no problems securing payment for its work, since it collaborates with established yards and has close links with key players like Dubai Drydocks. Beng Kuang's current order book of about $36 million stretches up to 2010.

Looking ahead, the new yard should spur growth from next year. "Work is still coming in [for Beng Kuang], after the main contractor gets the contracts," notes SIAS Research analyst Koh Chin Lek. "While it may not be the best time to open the yard, compared to the last two years, orders at the yards are stretched up till 2011, 2012," he adds.



"The commencement of the new Batam yard will not only enable Beng Kuang to take on more and larger offshore oil and gas fabrication projects, but may also improve the group margins" and "with the new fabrication yard, they can move towards being a main contractor", he adds.

Koh is forecasting turnover and earnings in FY2008 of $134 million and $9.1 million, respectively. But he has cut his estimates for FY2009 because of the uncertain outlook. He is forcasting a 13.4% rise in turnover next year to $152 million, and a 7% increase in earnings to $9.8 million.

Beng Kuang's share price has dropped by about 57% since the beginning of this year, and its trading at about 3.5 times its current earnings. But, that steep decline hasn't shaken Beng Kuang's confidence in its growth plans. "Our path has been the same since day one," Chua says. "First we build the yard, then we get the orders."

E