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# Prudent Beng Kuang

## Nande Khin looks at the marine services company's expansion plans

SESDAQ-LISTED marine services company Beng Kuang Marine is careful not bite off more than it can chew. Rather than rashly expanding into new geographically markets, the company wants to increase its market share in Indonesia and Malaysia through both organic means - building up capacity - and inorganic ways, meaning joint ventures and partnerships.

Referring to the foray into markets beyond Singapore, Malaysia and Indonesia, Chua Meng Hua, executive director of Beng Kuang, says: "We shouldn't just any how jump; it'd be very painful if we fall. We need a very good foundation first, before going further."

In order to strengthen its foundations, Beng Kuang has plan to get a new yard in Batam, Indonesia.

Last week, it announced that its wholly-owned Indonesian subsidiary, PT Nexus Engineering Indonesia, has already received in-principle approval to acquire a 30-year leasehold waterfront land of about 32.8ha in Batam for about $1.87 million from the local authority. This is four times the size of its present eight-hectare shipyard in Batam. The company also has a one-hectare yard in Singapore.

Mr Chua says that having a waterfront is the most important feature the company had been looking out for in a new yard. Having a waterfront in its new yard will enable Beng Kuang to be more efficient in handling large-scale projects, he says.

The company's existing Batam yard has no waterfront. This leads to difficulties when transporting large-scale projects, requiring Beng Kuang to break them down into smaller modules.

With higher efficiency arising from better facilities and increased capacity, Beng Kuang is looking to bring in more large-scale and turnkey infrastructure engineering(IE) projects, such as steel work modules for jack-up drilling rigs and conversion and upgrading of FPSO vessels.

The IE division is expected to be the key growth driver for the company, says Beng Kuang's financial controller William Lee.

For the financial year ended December 2006, revenue for the IE division grew the fastest, jumping more than 215 per cent from $5.1 million to $16.19 million.

Revenue for the corrosion prevention (CP) division declined by 4 per cent to $32.27 million, while that for the supply and distribution (SD) division rose 52.1 per cent to $22.09 million.

However, for the IE division still contribute the least -- 23 per cent -- to total revenue, although this is more than double FY 2005's 10 per cent.

The IE division's share of total revenue is expected to climb steadily upwards even as total revenue increases, says Mr Lee. "We think it can go up to one third (of total revenue) by the end of this financial year," he says.

But Mr Lee also explains that the growth of the IE division will also benefit the other two divisions, as there is synergy among all three businesses, allowing Beng Kuang to achieve operational efficiencies, cost savings and growth potential.

For example, the SD division, which supplies and distributes hardware equipment and tools such as safety helmets and boots, provides many of these products to Beng Kuang's CP and IE customers.

Also, the IE division taps on the services provided by the CP division such as blasting and spay-painting services to fulfill its own customers' requirements.

"Most of our customers require at least services from two of our divisions, but there are also customers like Labroy Marine, Pan-United and Keppel which require services from all three divisions," says Mr Chua.

And there are three industry trends that will drive the growth of all three divisions, Mr Lee says. Firstly, regional marine activities have been steadily growing, giving rise to the demand for more vessels as well as the maintenance and repair works of these vessels.

Shipyards have thus been seeing more orders for vessel construction. The International Marine Organization's 2010 deadline for phasing out single-hull oil tankers - rather than the previously proposed deadline of 2015 - will also drive up the demand for double-hull tankers.

In addition, with the Merchant Shipping Act put into effect, shipowners are required to carry out maintenance and repair works on their vessels every two and a half years. This is also expected to keep demand for Beng Kuang's services high.

Beng Kuang also expects to benefit from the outsourcing and sub-contracting of work by the major shipyards and rig-builders. "Big players can't do everything on their own, especially when they have to keep to a tight schedule for all these projects. So naturally, some of these activities would spill over to smaller players like us," Mr Lee says.

So far this year, Beng Kuang, in capitalizing on the opportunities available in the marine and offshore activities, has secured a couple of new multi-million dollar contracts with major industry players.

Its IE division won a US$5.85 million contract for the converting and upgrading an FPSO vessel, while its SD division won a $3.5 million contract to supply welding cables and other hardware products.

In keeping with prudent expansion plans, Beng Kuang is looking to work with incumbent players who already have market share and existing clients and expertise, in order to source for new contracts in markets such as in Indonesia and Malaysia.

It's better to cooperate than to compete," says Mr Chua.

The company is also hoping to secure more land-based projects such as maintenance and repair works for process plants (made of steel) in Malaysia.

Mr Chua says Beng Kuang should be able to maintain the momentum of new contracts this year. For FY2006, Beng Kuang achieved a record net profit of $3.8 million, an increase of 68 per cent from the year before. This was on the back of a 32 per cent growth in total revenue to $70.55 million.

Net profit margin improved from 4.3 per cent to 5.4 per cent. Net asset value per share increased from 16.19 cents in FY2005 to 18.87 cents in FY2006, while cash and bank balances stood at $10 million.

Beng Kuang's shares lost 0.5 cent to close at 62.5 cents yesterday.