CORPORATE

Beng Kuang Marine aspires to be the next Labroy Marine

| BY GOOLA WARDEN |

Chua says shipyards controlled by Singapore companies have a reputation for high quality

Chua Meng Hua, the eldest of four brothers who own and run Main-board-listed Beng Kuang Marine, has a clear aspiration. “My dream is to become like Labroy Marine,” he says. “It’s a very beautiful story.”

Labroy Marine, which operated shipyards and owned a fleet of vessels, held a 38% stake in Beng Kuang. As the offshore and marine sectors took off five years ago, Labroy Marine quickly expanded, taking on bigger and more complex projects. Eventually, the company undertook to build a series of four jack-up rigs. Then, two years ago, at the top of the market, Labroy Marine’s founder and chairman Tan Boy Tee sold out to Drydock World SE Asia, which eventually took the whole company private, resulting in Drydocks’ owning a major stake in Beng Kuang Marine – 43% at last count.

Now, Chua and his brothers – who hold 33% of the company – want to follow in Labroy Marine’s footsteps by building up its shipyard operations into a major money-spinner. “Beng Kuang’s style is quite similar to Labroy’s style,”says Alan Yong, an executive director at Beng Kuang and former chief former financial officer at Labroy. For instance, the company is expanding its shipyard in Batam, where Labroy Marine once operated. Labroy started with a 19ha yard in Nanindah, which is now 57ha in size.

In 2007, Beng Kuang acqueired a 32.8ha yard with a 350m waterfront in Kabil, Batam. Yong compares it to Graha, a Labroy Marine yard that now belongs to Drydock. Graha was originally 40ha but has been expanded to its current 52ha. “If you look at GRaha, they are able to do six rigs and they can do more, actually. For a 32ha yard, generally, to achieve $250 million a year in revenue with differenttype of vessels is possible,” Yong says.

Beng Kuang started out providing corrosion preventions treatment for offshore and other vessels before it branched into infrastructure engineering work with the acquisition of its yard. It also supplies and distributes personal protective equipment, hydraulic hoses, and blasting and painting equipment. Yong is betting that the company’s shipyard will drive its growth in the future. In 1H2009, this division’s revenue rose 59% y-o-y to $31.4 million. “For this year, we’ve used only 20% of the capacity,” he says, adding that revenues from this division could be as high as $75 million for the full year in 2010, as more orders are taken on.

The company’s other two divisions aren’t performing as well, though. Revenue from corrosion prevention work slipped 5.4% to $32.79 million in 1H2009, while its supply and distribution business saw sales fall by 14.8% to $12.27 million. But Yong is optimistic that they will continue to be decent revenue generators. “Along with corrosion prevention and our shipyard, we could easily do $100 million in revenues” he says. All in, Beng Kuang Marine’s total revenue for 1H2009 climbed 11% to $76.47 million, while its earnings were up to 2% to %5.4 million.

BLOOMBERG

With the expansion of its shipyard operations, Beng Kuang’s gearing ratio has been rising, from just 32% in 2006 to 85% as at June. In September, the company raised $8.55 million through a placement of $38 million shares at 22.5 cents apiece. Yong says some of the proceeds will be invested in the Kabil yard, on which Beng Kuang has already spent $15 million. The rest will be used to repay debt and fund working capital.

Is Beng Kuang expanding at the wrong time, though? Aren’t orders for new vessels and offshore rigs drying up? Won’t its expansion into shipyard create tension with customers of its corrosion-prevention business such as Keppel Corp and Sembcorp Marine? What competitive advantage does Beng Kuang have in operating a shipyard?

As Chua sees it, shipyards controlled by Singapore companies have a reputation for high quality. And, the yards in Batam stand to benefit from a likely continued flow of contracts. “We are open to [building part of] oil rigs, FPSOs [floating production, stora
ge and offloading vessels],
ship repair and new builds,” he says. Indeed, the extensive amount of space available in Batam is giving Singapore-based companies like Beng Kuang the ability to expand. He adds: “The [Kabil] yard, at 32ha, is the same size as Keppel Tuas.”

He doubts that tension will arise between the company and major customers of its corrosion-prevention business. “If customers cannot come to Batam or Singapore, it’s a loss to everybody,” he says. “It’s a healthy competition. From the past until now, it has never happened that you close a shipyard due to competition.”

Last Friday, Beng Kuang’s Kabil yard delivered its first vessel, a 260-man accommodation and pipe-laying barge called the Leighton Eclipse. The contract size was $21 million and awarded to Beng Kuang by Leighton Contractors. The project included the construction of a vessel deckhouse, fabrication, installation, testing and commissioning work. Other projects secured for the Batam yard include ship repair services for Posh Maritime Fleet Services, which was completed earlier this year, and a piping fabrication project for Punj Lloyd targeted for completion early next year. Yong declines, how-ever, to reveal the size of the order book.

Shares in Beng Kuang are up 300% this year and the company now has a market value of about $145 million. That’s a fraction of the $2.4 billion that Drydocks paid to buy control of Labroy Marine from its founder Tan and take the company private. “He made the right move,” Chua says, with admiration. Perhaps, one day, Chua and his brothers will be on the receiving end of a similar offer. E