

Kim Heng Ltd

16 September 2022

HOLD

BBG	KHOM SP
Market cap	S\$62.8m
Price (16 Sep 2022)	S\$0.089
52-week range	S\$0.048 – S\$0.119
Target Price	S\$0.1016
Shares Outstanding	705.9m
Free Float	42.3%
Major Shareholders	Thomas Tan (40.0%) Hildrics Capital (17.7%)
P/BV (06/22)	1.1x
Net Debt to EBITDA (06/22)	4.6x (annualized)

Source: Company data, Bloomberg, SAC Capital

Offshore expertise bolsters windfarm contract wins

Higher energy prices have rejuvenated offshore drilling activities, and the companies that provide offshore O&G support services. Rig utilization rose 5.7% pt yoy to 71.4% in Aug 2022. Time charter rates for AHTS has risen by 46.6% yoy in Aug 2022 to US\$34,300/day, according to Shipping Intelligence Network. Kim Heng, whose core expertise lies in offshore fabrication, maintenance and installation, booked 65.1% higher EBITDA to S\$4m in 1H22, with strong order flows at its 2 shipyards in Singapore.

The company is also harnessing its offshore expertise to build a presence in offshore windfarm projects. Since 2019, it has broadened its scope of work to include integrated Horizontal Directional Drilling (HDD) for cable laying, offshore substation and wind turbine assembly work. The contracts secured thus far are concentrated in Taiwan and Vietnam. It has entered into a 1-year non-binding MOU with Crowley Wind Services Inc to co-operate in offshore windfarm cable laying installation projects across the east coast of the US. The renewable segment contributed S\$17.9m, or 28.3% of FY21 revenue, but these contracts are lumpy in terms of execution and milestone completions.

We project Kim Heng to turn around from FY22E on the back of the improving operating landscape. 1H22 net profit also benefitted from S\$6.1m gain from asset divestments. Its fleet of 10 offshore support vessels are able to be deployed on O&G projects as well as windfarm projects. Utilization and charter hire rates have risen. Crude price is likely to hover at current level, which is still 70% above 2019's average, and will underpin the O&G support services sector.

A block of 125m shares changed hands in June 2022. Credence Capital Fund II (Cayman) Ltd divested its entire holdings to Hildrics Capital Private Limited at 10.5 cents/share. Our DCF-derived target price is 10.16 cents/share (COE: 10.0%). We recommend a HOLD.

Analyst

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YE 31 Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	58.1	37.6	63.2	70.3	79.9
EBIT	(4.7)	(6.9)	(1.7)	8.7	3.9
Net profit	(7.8)	(5.3)	(5.8)	7.9	1.2
EPS (S cents)	(1.1)	(0.7)	(0.8)	1.1	0.2
DPS (S cents)	-	-	-	-	-
Net cash / (debt)	(19.8)	(32.8)	(37.0)	(32.5)	(30.5)
Valuation					
EBIT margin (%)	(8.1)	(18.4)	(2.7)	12.3	4.9
ROIC (%)	(8.0)	(7.3)	(5.7)	11.3	4.1
EV/EBITDA (x)	11.2	-	21.6	9.7	8.2
P/E (x)	(8.1)	(12.0)	(10.9)	8.0	51.4
Dividend yield (%)	-	-	-	-	-

Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	37.6	63.2	70.3	79.9
Cost of sales	(22.7)	(39.9)	(42.2)	(47.9)
Gross profit	15.0	23.3	28.1	31.9
Other income	0.4	0.7	1.0	1.0
Operating expenses	(15.4)	(19.4)	(19.3)	(21.5)
EBITDA	0.0	4.6	9.8	11.4
Depreciation	(7.6)	(7.2)	(7.3)	(7.5)
Government grant	2.7	0.8	-	-
Exceptional items	(2.0)	0.1	6.1	-
EBIT	(6.9)	(1.7)	8.7	3.9
Finance costs	(1.8)	(1.8)	(2.6)	(2.7)
Pretax profit	(8.7)	(3.5)	6.1	1.2
Tax expense	1.5	(1.5)	-	-
Minority interests	2.9	(0.8)	1.8	-
Net profit	(5.3)	(5.8)	7.9	1.2

Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
PPE	88.7	92.1	85.4	81.9
ROU Assets	9.0	13.4	12.6	11.6
Club membership	0.1	0.1	0.1	0.1
Non-current assets	97.7	105.6	98.0	93.5
Inventories	0.5	0.2	1.7	2.0
Trade receivables	12.3	17.4	24.6	28.0
Assets held for sale	5.7	1.0	1.0	1.0
Cash	6.2	8.3	14.6	19.1
Current assets	24.7	26.9	41.9	50.0
Total assets	122.4	132.4	139.9	143.5
Liabilities				
Financial liabilities	(14.1)	(17.0)	(17.0)	(17.0)
Trade payables	(11.4)	(15.4)	(17.3)	(19.7)
Lease liabilities	(1.8)	(2.4)	(2.4)	(2.4)
Tax provisions	(0.1)	(0.5)	-	-
Current liabilities				
Other financial liabilities	(27.6)	(29.8)	(29.8)	(29.8)
Lease liabilities	(6.5)	(10.0)	(10.0)	(10.0)
Deferred tax	(1.5)	(1.9)	(1.9)	(1.9)
Non-current liabilities	(35.7)	(41.7)	(41.7)	(41.7)
Net assets	59.4	55.4	61.5	62.7
Equity				
Share capital	74.4	74.4	74.4	74.4
Other reserves	(33.4)	(33.2)	(33.2)	(33.2)
Retained earnings	14.5	8.6	16.4	17.6
	55.4	49.8	57.7	58.9
Minority interests	4.0	5.6	3.8	3.8
Total equity	59.4	55.4	61.5	62.7

Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	(8.7)	(3.5)	6.1	1.2
Depreciation	7.6	7.2	7.3	7.5
Associates & JV	-	-	-	-
Net finance expense	1.8	1.8	2.6	2.7
Non-fund items	2.5	(0.1)	(6.1)	-
Working capital changes	0.6	(1.0)	(6.8)	(1.2)
Interest paid	(1.8)	(1.8)	(2.6)	(2.7)
Associates' dividends	-	-	-	-
Tax paid	-	(0.7)	(0.5)	-
Operating cash flow	1.8	2.0	(0.1)	7.4
Capex	(11.0)	(8.7)	(3.0)	(3.0)
Net investments	-	-	-	-
Fixed assets disposal	4.6	12.2	9.5	-
Others	1.3	(0.1)	-	-
Investing cash flow	(5.1)	3.4	6.5	(3.0)
Free cash flow	(3.3)	5.4	6.3	4.4
Dividend paid	-	-	-	-
Borrowings	(0.2)	(4.5)	-	-
Equity	5.3	0.7	-	-
Financing cash flow	5.1	(3.8)	-	-
Net change	1.8	1.5	6.3	4.4

Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	39.8	36.8	40.0	40.0
EBIT margin	(18.4)	(2.7)	12.3	4.9
Liquidity (x)				
Current ratio	0.9	0.8	1.1	1.3
Net Debt/EBITDA	781.0	8.0	3.3	2.7
Interest coverage ratio	-	2.5	3.8	4.2
Net Debt to Equity	0.6	0.7	0.5	0.5
Valuation (x)				
P/E	(12.0)	(10.9)	8.0	51.4
P/B	1.1	1.3	1.1	1.1
EV/EBITDA	-	21.6	9.7	8.2
Cash Conversion Cycle				
Trade receivable days	119	111	128	128
Inventory days	7	2	15	15
Trade payable days	183	141	150	150

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