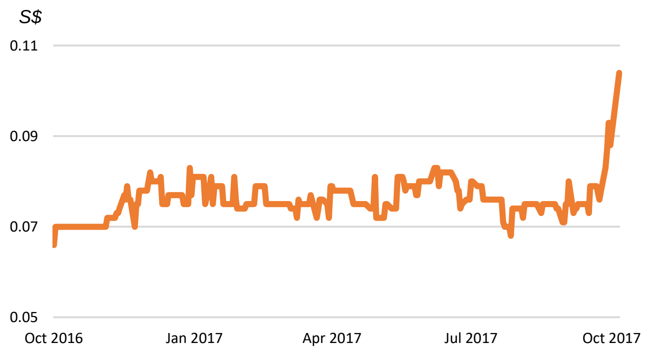
# Kim Heng Offshore & Marine Holdings Limited

Date: 2 November 2017

## Non Rated

**KHOM SP**

**Price: S$0.104** (as at 1st November 2017)




| Share price | 1M | 3M | 6M | 1Y |
|---|---|---|---|---|
| Kim Heng | 48.6% | 30.0% | 30.0% | 48.6% |
| Catalist Index | (2.4)% | (7.6)% | 10.1% | 8.7% |

| | |
|---|---|
| **Market capitalisation** | S$73.8 million |
| **Current price** | S$0.104 |
| **Shares outstanding** | 710,000,000 |
| **Free Float** | 24.1% |
| **Major shareholders** | Tan Keng Siong 42.69%<br>Credence Partners Pte Ltd* 17.61% |
| **Recommendation of other brokers** | N/A |

*Source: Company data, Bloomberg, SAC Advisors*

*Credence Capital Fund II (Cayman) Limited is a private equity investment fund managed by Credence Partners Pte. Ltd. on a discretionary basis in accordance with the operating and investment conditions and other terms of the management agreement under which Credence Partners Pte. Ltd. is appointed. The shareholders of Credence Partners Pte. Ltd. are Mr Tan Chow Boon, Mr Koh Boon Hwee and Mr Seow Kiat Wang who each have a shareholding of 33.33%. Mr Tan Chow Boon, Mr Koh Boon Hwee, Mr Seow Kiat Wang and Credence Partners Pte. Ltd. are deemed to be interested in all the shares held by Credence Capital Fund II (Cayman) Limited.


**Analyst**
Terence Chua +65 6221 5590
tchua@saccapital.com.sg


## Integrated O&M Value Chain Services Provider

**A leading offshore & marine value chain services provider**. Kim Heng Offshore & Marine Holdings Limited and together with its subsidiaries, ("**Kim Heng**", "**Company**" or the "**Group**") is an established integrated offshore and marine value chain services provider. The Group offers a one-stop comprehensive range of products and services that caters to different stages of offshore oil and gas projects from oil exploration to field development and oil production.

**Strong balance sheet strength with ample dry powder for acquisitions.** The Company's prudent management of their balance sheet have seen them maintain a net debt to equity of 21.3% in their latest financial quarter 2QFY18. The Company also has about S$7 million in IPO proceeds that have not been utilised. The Group has also secured a long-term 5-year vessel loan of S$5 million which they secured from United Overseas Bank ("**UOB**") and will be available to be drawn down in 3QFY18. These moves ensure that the Group remains in a favourable position to take advantage of good opportunities that come their way.

**Established brand name and management team.** The Group has a track record of over 40 years and an experienced management team. This was demonstrated by the strategic decision undertaken by management in 2014 to prudently manage their cash resources when they anticipated that the market would correct as it was flushed with an oversupply of assets. Management had taken the active decision to avoid over-leveraging their balance sheet despite many of their peers taking on additional debt to invest.

**Key risks:** (i) Dependent on the state of the offshore oil & gas ("**O&G**") industry.

## Key Historical Financials

| Year ended December (S$'000) | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|
| **Revenue** | 86,728 | 84,813 | 77,978 | 51,757 | 31,364 |
| **% Growth** | N/A | (2.2%) | (8.1%) | (33.6%) | (39.4%) |
| **Gross profit** | 31,177 | 36,454 | 26,964 | 13,550 | 8,403 |
| **Gross profit margin** | 42.9% | 43.0% | 34.6% | 26.2% | 26.8% |
| **Profit/(loss) before tax** | 21,102 | 20,346 | 5,814 | (4,722) | (17,814) |
| **Profit/(loss) before tax margin** | 24.3% | 24.0% | 7.5% | (9.1%) | (56.8%) |
| **Profit/(loss) attributable to owners** | 17,285 | 17,093 | 5,617 | (4,934) | (17,828) |
| **EPS/(LPS) (Singapore cents)** | 3.1 | 3.1 | 0.8 | (0.7) | (2.5) |
| **P/E (x)** | 4.3 | 4.3 | 13.1 | N/A | N/A |
| **P/B (x)** | 1.7 | 1.3 | 0.8 | 0.8 | 0.8 |
| **Net Debt/Equity** | 40.6% | 8.1% | Net cash | Net cash | 5.4% |

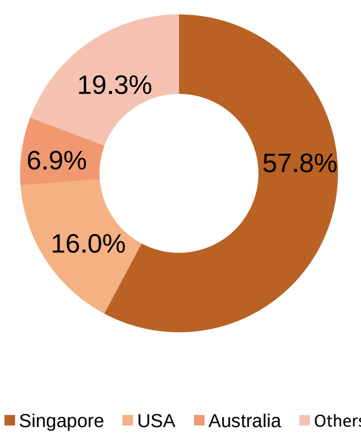
*^EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding*

## Investment Highlights

**Business Overview:**

Kim Heng is an established integrated offshore and marine value chain services provider. Strategically based in Singapore, the Group offers a one-stop comprehensive range of products and services that caters to different stages of offshore oil and gas projects from oil exploration to field development and oil production. Kim Heng has built its brand over the years and has established relationships with world renowned customers from over 25 countries in the regions of Southeast Asia, USA, Latin America, Australasia, Middle East and Europe.

**Revenue Geographical Breakdown (FY2016)**




*Source: Company data, SAC Advisors*

**A leading offshore & marine value chain services provider**. Kim Heng is an established integrated offshore and marine value chain services provider. The Group offers a one-stop comprehensive range of products and services that caters to different stages of offshore oil and gas projects from oil exploration to field development and oil production.

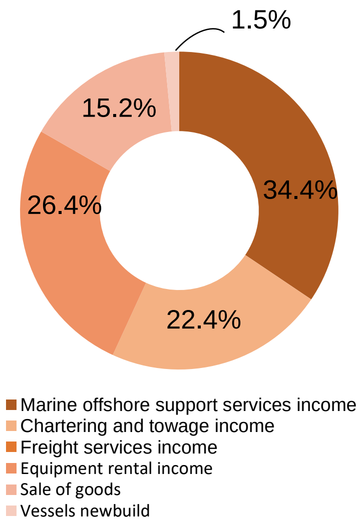
The Group's operations are primarily located in Singapore, with two shipyards strategically located at 9 Pandan Crescent and 48 Penjuru Road. The shipyards, with a combined waterfront of 205 metres, enable Kim Heng to carry out a multitude of services, including offshore rig repair, maintenance and refurbishment, fabrication, vessel newbuilding as well as painting and blasting works. As a one stop solutions provider, the group has a fleet of quality cranes which consists of crawler cranes, lorry cranes and mobile cranes for both sale and rent. It also provides other services such as maintenance, trading and sale of heavy equipment.

The Company also recently moved into their headquarters to their new 4-storey office/warehouse building at 48 Penjuru Road to take advantage of the extended waterfront lease. Their yards combined waterfront of 205 metres at 9 Pandan Crescent and 48 Penjuru Road enable them to carry out afloat repairs, fabrication newbuild, painting and blasting works.

**Strong balance sheet strength with ample dry powder for acquisitions.** The Company's prudent management of their balance sheet have seen them maintain a net debt to equity of 21.3% in their latest financial quarter 2QFY18. The Company also has about S$7 million in IPO proceeds that have not been utilised. The Group has also secured a long-term 5-year vessel loan of S$5 million which they secured from UOB and will be available to be drawn down in 3QFY18. These moves ensure that the Group remains in a favourable position to take advantage of good opportunities that come their way. We saw this when they acquired three 130-ton bollard vessels in August this year at a steep discount in a bank sale.

**Established brand name and management team.** The Group has a track record of over 40 years and an experienced management team. This was demonstrated by the strategic decision undertaken by management in 2014 to prudently manage their cash resources when they anticipated that the market would correct as it was flushed with an oversupply of assets. Management had taken the active decision to avoid over-leveraging their balance sheet despite many of their peers taking on additional debt to invest. The Group is now exploring strategic growth plans and acquisitions that will help complement their existing business offerings.

**Revenue Breakdown (FY2016)**




*Source: Company data, SAC Advisors*

**Freight services income did not contribute any revenue in FY16, this segment contributed 0.1% to total revenue in FY15.*

# Company Background

- With over 40 years of experience, Kim Heng Offshore & Marine Holdings Limited is an established integrated offshore and marine value chain services provider. Strategically located in Singapore, the Group offers a one-stop comprehensive range of products and services that caters to different stages of offshore oil and gas projects from oil exploration to field development and oil production.

- The Group's operations are primarily located in Singapore, with two shipyards strategically located at 9 Padan Crescent and 48 Penjuru Road. The shipyards, with a combined waterfront of 205 metres, enable Kim Heng to carry out a multitude of services, including offshore rig repair, maintenance and refurbishment, fabrication, vessel newbuilding as well as painting and blasting works.

- Kim Heng has built its brand over the years and has established relationships with world renowned customers from over 25 countries in the regions of Southeast Asia, USA, Latin America, Australasia, Middle East and Europe.

- Their core business can be categorised into three business segments:

(a) Offshore Rig services;

(b) Supply Chain management; and

(c) Heavy Equipment Sale and Rental.

# Business segments

### Offshore Rig Services

Construction and fabrication works of sections or components of drilling rigs and drillships.

Installation of offshore production modules and systems.

Afloat repairs, maintenance and refurbishment of offshore rigs platforms & vessels.

### Supply Chain management

Provision of logistics, general shipping and crew management.

Provision of offshore supply vessels and heavy-lift equipment.

### Heavy Equipment Sale & Rental

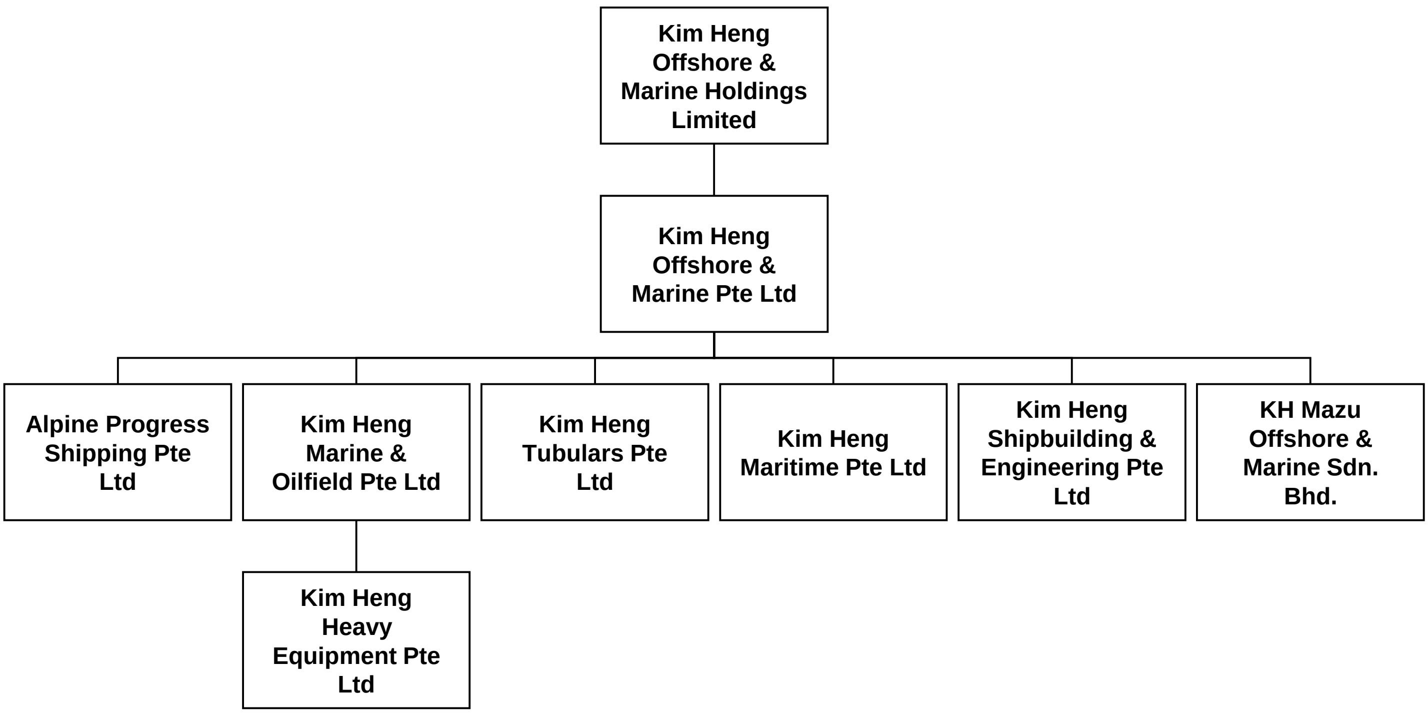
Leasing, sale, maintenance, import and export of heavy equipment.

Wide range of equipment and machineries including crawler, lorry and mobile cranes.

# Corporate Structure

## History

Kim Heng was first founded by Mr Tan Eng Hai in 1968 and was incorporated on 29 April 2013 in Singapore under the Companies Act as a private company limited by shares, under the name "Namilton Pte. Ltd." Pursuant to the Restructuring Exercise, which was completed on 22 May 2013, the Company became an investment holding company. On 27 December 2013, the name was changed to "Kim Heng Offshore & Marine Holdings Limited" in connection with the conversion of the Company to a public company limited by shares.




*Source: Company data, SAC Advisors*

## Subsidiaries

The principal activities of the subsidiaries are as follows:

a) Kim Heng Offshore & Marine Pte Ltd (formerly known as Kim Heng Holdings Pte Ltd): Investment holding

b) Alpine Progress Shipping Pte Ltd: Vessel chartering and provision of port operating services

c) Kim Heng Marine & Oilfield Pte Ltd: Chartering, freight, servicing and repair of vessels, provision of services of marine engineers, consultants, sub-contractors and labour supply

## Corporate Structure

d) Kim Heng Heavy Equipment Pte Ltd: Lease, sale, repair and maintenance and after sale services of cranes and industrial equipments

e) Kim Heng Tubulars Pte Ltd: Trading in drill pipes and related drilling materials, provision of services and rental of marine equipment

f) Kim Heng Maritime Pte Ltd: Vessel chartering and provision of port operation services

f) Kim Heng Shipbuilding & Engineering Pte. Ltd.: Offshore engineering, shipbuilding and fabrication services

g) KH Mazu Offshore & Marine Sdn Bhd: Repairing and/or docking of ships and other kinds of vessels, supply chain and crew management, heavylift equipment, rental and investment holding

## Corporate Developments

In 2006, amidst rising demand from the shipbuilding industry, Kim Heng Shipbuilding & Engineering Pte Ltd was incorporated to undertake shipbuilding projects. They also increased rig fabrication activities by fabricating blocks for the construction of semisubmersible rigs, jack-up rigs and drilling rigs for Keppel FELS.

In 2008, they completed their first retrofitting of a pipelaying barge, Jascon 25.

In early 2009, they completed and delivered their first accommodation and pipelay barge, the Aussie 1. It is capable of supporting offshore activities for oil & gas exploration and was the first accommodation and pipelay barge built by the Group to be registered and flagged in Australia.

In early 2010, they completed and delivered their second accommodation and pipelay barge, the McDermott LB32 to Hydro Marine Services, Inc. (a subsidiary of McDermott International, Inc).

In May 2013, they completed a re-activation and refurbishment project on a jack-up rig, Randolph Yost, for Shelf Drilling Holdings Ltd. This project was significant as the Randolph Yost was the first jack-up rig to be brought into their shipyard.

In 2014, they were listed on the Catalist Board of the Singapore Exchange Securities Trading Limited.

In 2015, Kim Heng Heavy Equipment Pte Ltd was incorporated to extend into sale, rental, leasing, repair and maintenance of industrial machinery and equipment. Also, KH Mazu Offshore & Marine Sdn. Bhd. was incorporated to undertake repair and docking of vessels, supply chain and crew management and heavy-lift equipment rental.

## Industry Overview

Oil prices weakness has continued to weigh on the oil & gas players, on the back of lower demand for services and equipment by oil majors. For this reason, the road to recovery depends on the origin of cash flows into the oil & gas value chain – which is, the oil prices and oil majors' capex. Higher cash flows from upstream players will then render higher revenue for downstream players like Kim Heng.

**Demand/Supply Balance until 4Q18**


*Source: IEA*

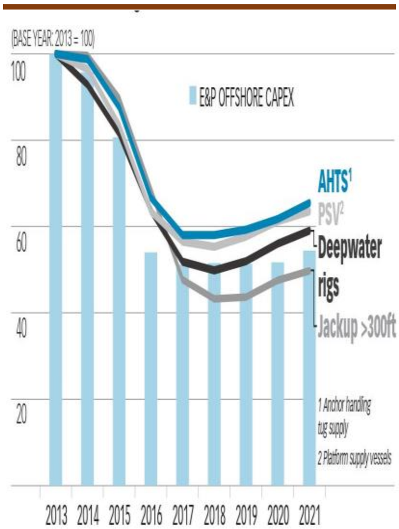
### Gradual recovery in global oil prices

Global oil prices are likely to continue to emerge from its upheaval, boosted by strong commitments to oil production cuts, and gradual improvements in the supply-demand dynamics.

Per International Energy Agency ("**IEA**"), total stocks for the whole of 2017 will fall by 0.3 mb/d assuming a constant OPEC crude oil production of 32.7 mb/d. Coupled with encouraging demand side fundamentals, this should result in a higher oil price at the end of 2017. For 2018, stocks for each quarter will be roughly balanced, aside from a build of up to 0.8 mb/d in the first quarter - assuming unchanged OPEC production, and normal weather conditions. This overhang will hold prices generally stable, before investment slump and strong demand from developing countries push the market into supply deficit after 2020.

In all, the oil prices should remain largely constant in 2018, owing to slow inventory drawdown from the overhang. Thereafter, the inventory drawdown trend should gather speed as deferred upstream projects since 2015 leads to a tighter oil market. As such, higher prices should be expected after 2020.

**E&P Offshore Capex Utilisation of Select Rigs/Vessel Classes Worldwide**



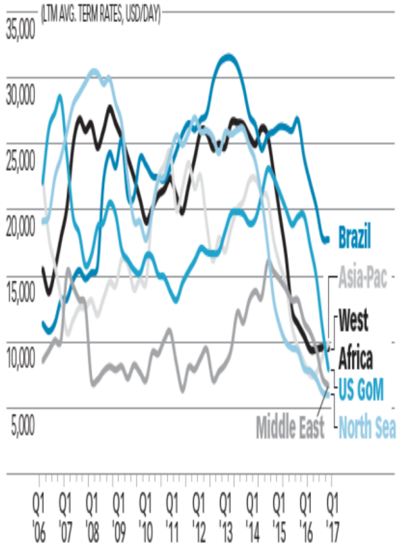

*Source: IHS Markit, The Business Times*

### Rising E&P offshore capex

For oil majors, a rebound in capex budgets is not likely in the near term, until market rebalancing pushes oil prices well above today's level, inciting increases for offshore deepwater projects. While the recent stabilisation of oil prices in the US$50/bbl range, with the rediscovery of coping with US$50/bbl crude, has brought much needed visibility for oil majors to revisit deferred exploration and production (E&P) projects, oil prices are still at beyond 50% discount from its peak. For this reason, strong fiscal discipline remains a high priority when sanctioning projects in 2018. Not to mention, despite the increasing volume of enquiry for offshore drilling campaigns in the Asia Pacific, these are for campaigns from 2018 through to 2020.

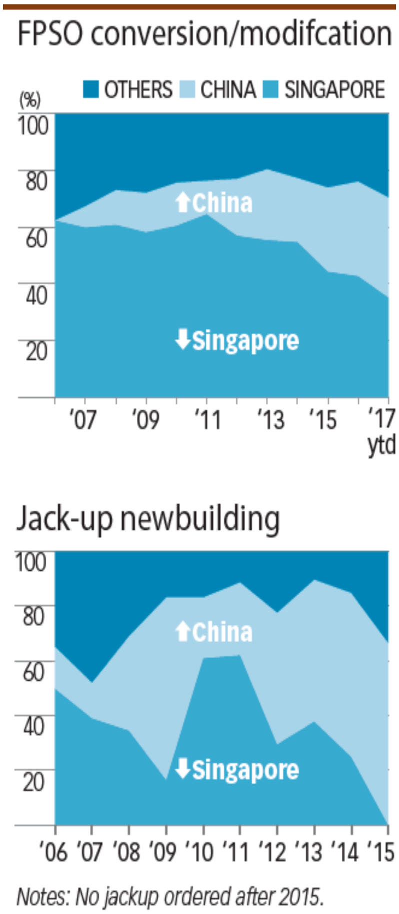
# Industry Overview

**Global Day Rate Term**




*Source: IHS Markit, The Business Times*

**Order Book for FSPO and Jack-up Rig**




*Source: IHS Markit, The Business Times*

## Improving rigs/vessel utilisation and day rates

That being said, the increase in drilling activity would accelerate demand for offshore services players' products and services in the longer term. The rig/vessel utilisation rate, which measures the number of active rigs/vessel as a percentage of the total number of rigs/vessel, serves as a leading indicator of demand and activity in the offshore services sector. A high utilization rate indicates narrowing supply-demand gap and leads to correspondingly higher day rate – the daily amount a drilling contractor receives from an oil company for functioning a drilling rig, or vice versa.

Meanwhile, offshore services players are likely to face ongoing rig/vessel utilisation rate and day rate pressures. What is imperilling recovery is the current excess capacity problem, which weighs on day rate when bidding for work. Nevertheless, a look at the capex trends will reveal that a potential recovery in the rig/vessel utilization rate, and subsequently day rate would only be in the longer term at best. Furthermore, per market intelligence group IHS Markit, any recovery in rig/vessel utilization rate and day rate would be range-bound instead of an immediate rebound to pre-crash levels.

## Competitive landscape

Poor market conditions associated with low oil prices have intensified competition for work amongst existing offshore services players in Singapore. Making matters worse is the growing global competition for FPSO (floating production, storage and offloading vessel) conversion and modification and jack-up rig building contracts, especially from China, which has pushed day rate downwards. The depressed day rate means that the offshore services major players' (e.g. Keppel Corp, Sembcorp Marine, Vallianz Holdings) market position in Singapore are unlikely to be jeopardized by new entrants; also, they are likely to be bettered positioned to ride out the crisis over the smaller players, due to their stronger financial resources and economies of scale.

Not to mention, the market is typified by strong buyer (E&P companies) power given the depressed oil prices and resulting smaller number of potential buyer with less willingness to pay high prices for the offshore services. Consequently, offshore service players have to compete via their expertise and service quality for projects.

# Industry Overview

## Importance of financial strength

As mentioned earlier, the competitive day rate means that many offshore services players are operating below breakeven levels. Coupled with the high debt levels faced in this capital-intensive industry, several distressed offshore services players (e.g. Swiber Holdings and Ezra Holdings) have already entered into the stage of debt restructuring/bankruptcies. As such, the financial strength of the offshore services players is of particular importance in this anaemic operating environment.

We arrived at this conclusion when we compare Kim Heng to the rest of their peers, and see their cash management and leverage as being more superior vis-à-vis that of their peers.

| | Market Cap (SGD m) | Cash Flow from Operation (SGD m) | | Net Debt/Equity (%) | | P/B Ratio (x) | |
|---|---|---|---|---|---|---|---|
| | | FY15 | FY16 | FY15 | FY16 | FY15 | FY16 |
| Keppel Corp Ltd | 13,523.8 | (435.0) | 733.7 | 51.5 | 54.3 | 1.06 | 0.90 |
| Sembcorp Marine Ltd | 3,866.0 | (989.1) | 568.5 | 103.3 | 112.7 | 1.46 | 1.13 |
| Nordic Group Ltd | 214.3 | 8.4 | 12.4 | (5.7) | (6.4) | 1.26 | 1.47 |
| Mermaid Maritime PCL | 193.6 | 28.3 | 77.5 | 15.6 | (0.06) | 0.46 | 0.43 |
| KrisEnergy Ltd | 154.5 | 4.5 | (27.1) | 55.6 | 143.8 | 0.35 | 0.74 |
| Dyna-Mac Holdings Ltd | 131.0 | 52.6 | 28.9 | (0.7) | (20.6) | 0.85 | 1.02 |
| Pacific Radiance Ltd | 74.9 | 27.5 | (60.8) | 85.6 | 160.5 | 0.38 | 0.24 |
| Vallianz Holdings Ltd | 62.7 | (26.2) | (37.6) | 126.0 | 72.8 | 0.51 | 0.55 |
| Falcon Energy Group Ltd | 55.7 | 64.4 | 148.3 | 79.1 | 51.9 | 0.59 | 0.36 |
| AusGroup Ltd | 48.2 | (13.7) | 1.7 | 63.8 | N/A | 0.59 | N/A |
| SBI Offshore Ltd | 20.5 | 0.01 | (2.7) | (67.8) | (76.6) | 1.29 | 0.76 |
| Loyz Energy Ltd | 18.5 | 7.3 | (0.8) | 51.4 | 119.1 | 1.51 | 0.68 |
| IEV Holdings Ltd | 15.7 | 6.1 | 4.4 | (10.3) | (13.2) | 0.38 | 0.60 |
| Magnus Energy Group Ltd | 11.3 | 2.4 | (3.4) | (28.9) | (13.7) | 0.21 | 0.23 |
| NauticAWT Ltd | 11.3 | (5.6) | 2.3 | 34.8 | 67.7 | 4.52 | N/A |
| KTL Global Ltd | 10.1 | (2.0) | 14.1 | 74.5 | 108.4 | 0.88 | 0.39 |
| **Average** | **1,150.8** | **N/A** | **N/A** | **90.5** | **60.9** | **1.02** | **0.63** |
| | | | | | | | |
| **Kim Heng** | **62.5** | **2.1** | **2.0** | **(10.0)** | **5.4** | **0.82** | **0.81** |

*Source: Bloomberg, SAC Advisors*

# Financial Summary

## Revenue model

- Their activities can be broadly categorised into two business segments:

(a) Offshore Rig Services and Supply Chain Management: The services recognized by them under the Offshore Rig Services and Supply Chain Management segment comprise mainly EPC projects for the offshore O&G sector and the provision of vessels and related logistics services. Their Offshore Rig services typically include the construction and fabrication of sections of drilling rigs (such as jack-up rigs, tender rigs, semi-submersibles and drillships), installation of offshore production modules and systems, as well as offshore platform and vessel re-activation and maintenance projects. They also provide Offshore Supply Chain Management services to the offshore and marine industry, which includes, inter alia, rig towage, chartering of our fleet for marine installation and transportation purposes, inventory management, warehousing, supply of offshore consumables and expedited delivery services.

In relation to their offshore rig and EPC support services, they provide a range of bundled engineering, procurement, construction, and related support services to offshore EPCIC players and drilling contractors. Revenue derived from such services are generally dependent upon the scale and complexity of the project or service performed and is recognised in accordance with the agreed stage of completion, which is assessed by reference to a survey of work performed and agreement with customers. Billings are generally made in accordance with agreed milestones. The duration of such projects may range from between a few weeks to a few months.

In relation to their general shipping and crew management services, they handle the inward and outward clearance of rigs and vessels and provide general crew management services, such as immigration clearance and travel management. Revenue is recognised upon rendering of services and billings are made upon the completion of the provision of services.

This segment accounted for 98.5% of total FY16 revenue.

| Revenue Breakdown | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|
| Offshore Rig Services | 94.4% | 98.9% | 88.9% | 85.9% | 98.5% |
| Vessel Sales and Newbuild | 5.6% | 1.1% | 11.1% | 14.1% | 1.5% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: Company data, SAC Advisors*

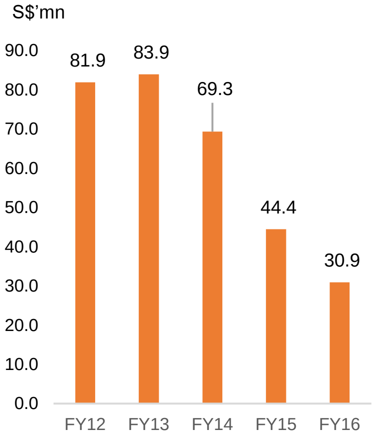
**Offshore Rig Services**

*Source: Company data*

**Supply Chain Management**

*Source: Company data*

**Offshore Rig Services and Supply Chain Management**




*Source: Company data, SAC Advisors*

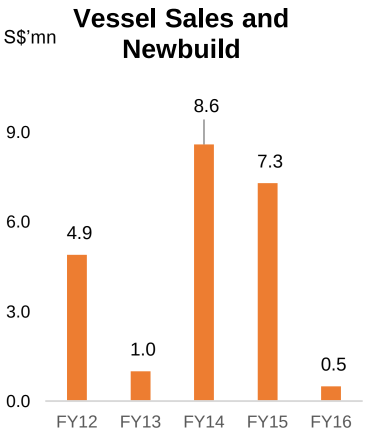
# Financial Summary

## Revenue model

(b) Vessel Sales and Newbuild: Comprises the purchase of vessels from vessel owners, which they subsequently refurbish and on-sell to customers.

Such activities are typically undertaken according to orders placed by their customers. They may also from time to time undertake such acquisitions and refurbishment of vessels in anticipation of market demand. They are also engaged in the newbuild of offshore vessels, which they typically undertake according to orders placed by customers. From time to time, they may also embark on newbuild of offshore supply vessels, such as, pipe-laying barges, accommodation vessels, tugs and barges, in anticipation of project demands for subsequent chartering or sales.

Revenue from vessel sales is recognised upon delivery of the vessels in which the significant risks and rewards of ownership of the vessel have been transferred to the buyer. Generally, the Group requires the customers to make a down payment and the balance upon acceptance and delivery of the vessels. Revenue from vessel sales may also include vessels which the Group had intended to be built for internal use, which were subsequently sold to buyers within 12 months of its completion. Whereas revenue from newbuilds are recognised based on stage of completion of the vessels and billings are made generally in accordance with agreed milestones.




*Source: Company data, SAC Advisors*

**Kim Heng OSV 1**

*Source: Company data*

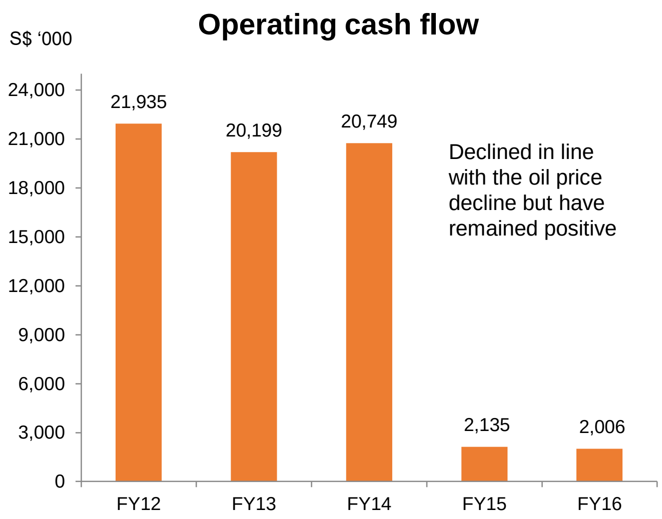
**Kim Heng OSV 3**

*Source: Company data*

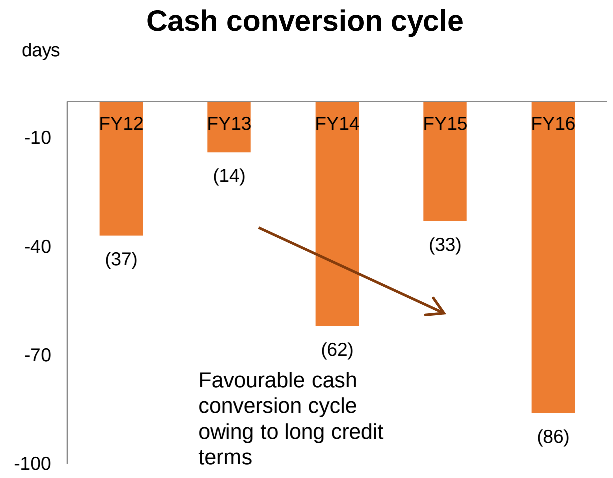
# Financial Summary

## Sound balance sheet and cash flow

Based on their latest HY17 results, they have a debt to equity and net debt to equity ratio of 30.9% and 21.3% respectively. And while operating cash flow has been declining in recent years due to the collapse in oil prices, operating cash flow has remained positive in FY16.




*Source: Company data, SAC Advisors*




*Source: Company data, SAC Advisors*

### Superior cash management profile

In our view, Kim Heng's working capital management is critical in positioning them to weather the current downcycle. This is because the Group has consistently managed a negative cash conversion cycle over the last five years, which is essentially an interest-free way to finance their operations by borrowing from their suppliers.

Despite reporting a larger net loss of S$17.8 million (included a non-cash impairment of S$8.3 million due to the decrease in carrying value of some assets), compared to the loss of S$4.9 million in FY2015, the Group has explored ways to improve cost efficiencies on the operating level and we have noticed that the Company has made some headway in this area with SG&A (selling, general and administrative) expenses falling 11.6% on a year-on-year basis.

The Group has recently secured a S$5 million five-year vessel loan from UOB and will be available for drawing down for working capital purposes from the third quarter of 2017.

## List of Vessels

| Barge Name | Power (BHP)* | Dimension (metres) | DWT (MT)** | Year built | Class |
|---|---|---|---|---|---|
| **OSV List** | | | | | |
| KIM HENG OSV 1 | 2,450 | 45.7 x 10.0 x 3.7 | - | 1985 | ABS |
| KIM HENG OSV 2 | 2,450 | 45,7 x 10.4 x 4.35 | - | 1985 | ABS |
| KIM HENG OSV 3 | 2,450 | 45.7 x 10.4 x 4.35 | - | 1985 | ABS |
| **Tug List** | | | | | |
| KIM HENG 3203 | 3,200 | 32.0 x 9.76 x 4.3 | - | 2009 | B.V |
| KIM HENG 2801 | 2,800 | 39.0 x 9.0 x 5.5 | - | 1982 | ABS |
| MAY 101 | 2,000 | 28.8 x 8.4 x 4.0 | - | 2002 | B.V |
| KIM HENG 1630 | 1,630 | 26.0 x 8.0 x 3.0 | - | 2013 | N.K |
| KIM HENG 1300 | 1,300 | 23.5 x 7.32 x 3.2 | - | 2012 | N.K |
| KIM HENG 1301 | 1,300 | 23.9 x 7.3 x 3.5 | - | 2014 | N.K |
| KIM HENG 1302 | 1,300 | 23.5 x7.31 x 3.2 | - | 2012 | N.K |
| KIM HENG 1230 | 1,230 | 23.9 x 7.3 x 3.5 | - | 2011 | B.V |
| PENGUIN SWIFT | 1,200 | 23.5 x 7.32 x 3.1 | - | 2008 | G.L |
| KIM HENG 21 | 700 | 17.15 x 4.88 x 2.2 | - | 1978 | I S CLASS |
| BRIDGEWATER | 670 | 30.48 x 7.32 x 3.2 | - | 1973 | G.L |
| MARCOM SUPPORT | 240 | 12.73 x 4.42 x 2.47 | - | 1977 | IS CLASS |
| **Barge List*** ** | | | | | |
| KIM HENG 330 | - | - | TBA | 2014 | ABS |
| QUEEN 101 | - | - | 7,700 | 2002 | Non-CI |
| KIM HENG 302 | - | - | TBA | 2014 | ABS |
| KIM HENG 288 | - | - | 5,800 | 2012 | BV |
| KIM HENG 55 | - | - | 5,400 | 2008 | G.L |
| KIM HENG 252 | - | - | 5,400 | 2014 | ABS |
| KIM HENG 253 | - | - | 5,400 | 2014 | ABS |

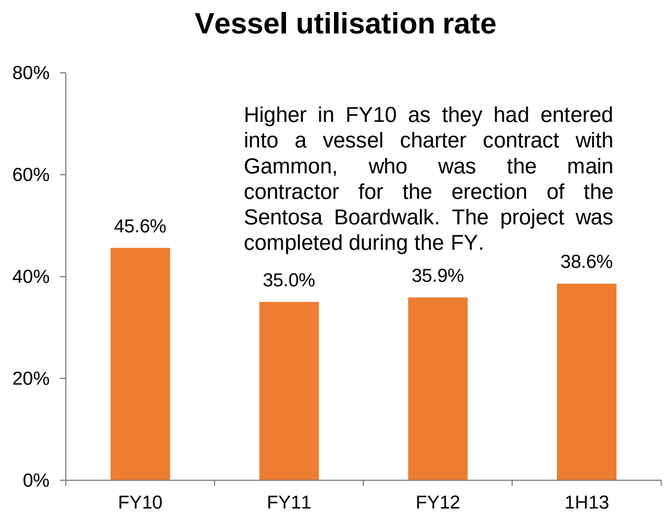
**BHP: Brake Horse Power*

***Deadweight ton*

****Selected Barges only, list not exhaustive*

## Vessel Utilisation Rate

Kim Heng does not track the use of their vessels which are used to support their internal operations, they are therefore not able to determine the utilisation rates of their vessels comprehensively and any attempt to calculate the utilisation rates for our vessels may not be reflective of the actual usage of their vessels.




*Source: Company data, SAC Advisors*

The table above sets out the utilisation of their vessels that are chartered out to third parties, and excludes those used for internal operations.

## Types of Projects Carried Out

As an integrated offshore and marine value chain services provider, the Group engages in a wide range of offshore services projects. We have listed a few of their projects below.

| Type of Project | Scope of work |
|---|---|
| Jack-up Rig (2013) | Rig refurbishment services, modular fabrication and installation of various drilling equipment such as a chain hoist, rig floor tuggers, and a casing stabbing board. |
| Semi-submersible Rig (2013) | Fabrication works, removal and installation of thrusters. Provision of crew management, cargo clearance, loading services, and procurement of equipment and consumables for the rig. |
| Tender Rig (2013) | Afloat repairs, tank cleaning, heavy lifting of drilling equipment and storage and removal and transportation of cementing equipment. |
| Drillships (2012) | Maintenance, inspection of risers and auxiliary lines, removal, refurbishment and installation of six azimuth thrusters at anchorage, and heavy lifting of lower marine riser package and blowout preventer stack assembly. |
| Pipelay Barge McDermott LB32 (2010) | Construction of a 111 metre pipe laying and accommodation barge, which has the capacity to accommodate 292 men. |

*Source: Company data, SAC Advisors*

## Management

**Mr. Thomas Tan** is the Executive Chairman and CEO of the Company. He currently serves as a director for all the companies within the Group. He joined the Group in 1978 as an apprentice and was involved in the operations department of the Group in the chartering of vessels, engaging in loading of steel structures, fabrication/installation of modules as well as in the ship supplies and chandelling business. He rose through the ranks over the years to head the marketing and operations department. From 1998 until present, he has been responsible for overall operations, sales and marketing activities, customer service, securing new projects and negotiating contracts for the Group.

**Ms. Yeo Seh Hong** is the Executive Director and COO of the Company, and was appointed to the Board on 26 December 2013. Prior to joining the Group, she was previously an inspection secretary with AMF Tuboscope Inc. from 1978 to 1985 where she was in charge of the preparation of customer's inspection reports and co-ordinating with the inspection manager on daily job assignments and assisting in sales enquiries. She is currently responsible for overall operations, sales and marketing of products and services, developing and reviewing product specifications to meet market demand, preparing for submissions of major tenders and commercial proposals for various scopes of services and overseeing the Group's activities to ensure continued compliance with safety requirements and ISO standards.

**Mr. Tan Keng Hoe Melvin** is the Commercial and Operations Director of the Group and is responsible for overseeing the business and commercial aspects of the Group. His first stint with the Group was from 1987 to 1997 where he last held the position of Manager of the Marine division. He proceeded to take on various logistical roles in leading companies in the Oil & Gas industry before rejoining the Group in May 2010. He holds a diploma in Business Management from the University of Bradford.

# Future Plans and Growth Strategy

**Taking advantage of distressed investment opportunities**
Kim Heng's prudent management of their balance sheet allowed them to avoid the use of excessive leverage before the oil price crisis and preserved their cash for this downturn. We think this allows them to take advantage of distressed investment opportunities that come their way as was the case when they acquired three vessels at a steep discount at a bank auction two months ago.

The Group had invested in the three vessels in a bank sale of the pledged assets of the distressed Swiber Holdings for US$9.6 million. According to management, the Group stands to recoup their investments if each of the three anchor handling tug supply vessels it acquired at a bank auction were put out to work for 270 days. According to management, one of the three vessels have already been mobilised for salvage work in the region, and there have been enquiries made on the other two vessels.

Moving forward, we expect that management will continue to take advantage of distressed investment opportunities that come their way. We expect that these will be investments that can improve their overall margins and broaden their service offerings. We also expect cost rationalisation to continue as the Group positions itself for the protracted O&M downturn.

# Key Risks

**Dependent on the state of the offshore O&G industry**
A significant portion of their customers are operating in the global offshore O&G industry. Accordingly, their business and financial performance are dependent on the level of activity and capital expenditure in, the offshore exploration, development and production of oil and natural gas. Such activities and level of capital expenditure are significantly affected by fluctuations in oil and natural gas prices, as well as expectations of changes in these prices in the future.

## Dividend Policy

Whilst the Company does not have any fixed dividend policy, they have maintained their dividend distribution of 0.3 and 0.1 Singapore cents for FY15 and FY16, representing a dividend yield of 3.4% and 1.1% respectively despite suffering a loss for both years due to the downturn.

## Recent corporate developments

### Purchased three 130-ton Bollard Vessels at US$9.6 million

Kim Heng is positioning itself for the upturn by capitalising on the attractive valuations of three 130-ton Bollard Pull Anchor Handling Tug/Supply ("**AHTS**") Vessels for a total consideration of US$9.6 million. The ABS Class 130 ton Bollard Pull Vessels, each measuring 70.0 metres by 16.8 metres by 7.5 metres with a gross weight of approximately 812 tons, are targeted to be used to perform tow services for the clients' jack-up rigs and salvage operations. The Group also aims to deploy the vessels for long term charters as and when opportunities arise. The maintenance and upkeep of the vessels will be kept at a minimum as they can be held at the Group's own yard.

Previously valued at approximately US$33.0 million per vessel, the downturn of the oil and gas industry has enabled the Group to acquire these assets at extremely low valuations. As part of the Group's effort to prepare for the eventual expected industry upturn, it is pursuing strategic transactions that complement its existing business.

## Income Statement (S$'000)

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | FY12 | FY13 | FY14 | FY15 | FY16 |
| **Revenue** | **86,728** | **84,813** | **77,978** | **51,757** | **31,364** |
| Less: Cost of sales | (49,551) | (48,359) | (51,014) | (38,207) | (22,961) |
| **Gross Profit** | **37,177** | **36,454** | **26,964** | **13,550** | **8,403** |
| Other income | 2,232 | 842 | 2,448 | 3,060 | 766 |
| Distribution expenses | (1,579) | (1,601) | (1,985) | (1,950) | (1,056) |
| Administrative expenses | (13,128) | (16,258) | (16,617) | (14,647) | (13,622) |
| Other expenses | (2,149) | 1,631 | (4,574) | (4,225) | (11,448) |
| **Results from operating activities** | **22,553** | **21,068** | **6,236** | **(4,212)** | **(16,957)** |
| Finance costs | (1,451) | (722) | (422) | (510) | (857) |
| Tax expense | (3,817) | (3,253) | (197) | (212) | (14) |
| **Profit/(Loss) for the year** | **17,285** | **17,093** | **5,617** | **(4,934)** | **(17,828)** |
| **Profit/(Loss) attributable to owners of company** | **17,285** | **17,093** | **5,617** | **(4,934)** | **(17,828)** |
| **Earnings/(Loss) per share:** | | | | | |
| -Basic (SG cents) | **3.1** | **3.1** | **0.8** | **(0.7)** | **(2.5)** |
| -Diluted (SG cents) | **3.1** | **3.1** | **0.8** | **(0.7)** | **(2.5)** |

## Cash Flow Statement (S$'000)

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | FY12 | FY13 | FY14 | FY15 | FY16 |
| **Profit/(Loss) before tax** | **21,102** | **20,346** | **5,814** | **(4,722)** | **(17,814)** |
| Depreciation & amortisation | 5,050 | 4,427 | 4,031 | 4,457 | 5,013 |
| Change in working capital | (2,018) | (4,808) | 15,156 | 3,641 | 6,130 |
| Others | (2,109) | 234 | (4,252) | (1,241) | 8,677 |
| **Net Cash from/ (used in) operations** | **21,935** | **20,199** | **20,749** | **2,135** | **2,066** |
| Purchase of PPE | (2,771) | (3,111) | (7,720) | (14,051) | (5,228) |
| Others | 6,887 | 7,070 | 4,601 | 4,454 | 762 |
| **Net Cash from/(used in)/ from investing** | **4,116** | **3,959** | **(3,119)** | **(9,597)** | **(4,466)** |
| Net increase in equity | - | - | 38,445 | - | - |
| Net increase in debt | (6,297) | (7,701) | (3,557) | (3,025) | (3,779) |
| Others | (20,176) | (11,877) | (6,131) | (6,421) | (9,497) |
| **Net Cash from/(used in) financing** | **(26,473)** | **(19,578)** | **28,757** | **(9,446)** | **(13,276)** |

## Balance Sheet (S$'000)

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | FY12 | FY13 | FY14 | FY15 | FY16 |
| **As at 31 Dec** | | | | | |
| Property, plant and equipment | 60,604 | 57,779 | 63,206 | 84,004 | 108,385 |
| Club memberships | 44 | 44 | 89 | 46 | 46 |
| **Total non-current assets** | **60,648** | **57,823** | **63,295** | **84,050** | **108,431** |
| Inventories | 1,443 | 691 | 2,232 | 779 | 630 |
| Trade and other receivables | 23,585 | 28,187 | 14,625 | 15,509 | 7,830 |
| Cash and cash equivalents | 1,114 | 3,504 | 49,894 | 32,804 | 20,089 |
| Other assets | 0 | 1,792 | 0 | 0 | 0 |
| **Total current assets** | **26,142** | **34,174** | **66,751** | **49,092** | **28,549** |
| **Total assets** | **86,790** | **91,997** | **130,046** | **133,142** | **136,980** |
| Share capital | 3,370 | 36,133 | 74,409 | 74,409 | 74,409 |
| Reserves | (235) | (32,949) | (32,740) | (32,945) | (11,004) |
| Accumulated profits | 40,226 | 54,316 | 56,383 | 47,899 | 27,941 |
| **Equity attributable to owners of the Company** | **43,361** | **57,500** | **98,052** | **89,813** | **91,346** |
| Loans and borrowings | 6,126 | 3,991 | 4,730 | 16,239 | 17,553 |
| Deferred tax liabilities | 5,872 | 5,872 | 5,843 | 5,889 | 10,286 |
| **Non-current liabilities** | **11,998** | **9,893** | **10,573** | **22,128** | **27,839** |
| Loans and borrowings | 12,605 | 4,192 | 3,397 | 7,615 | 7,474 |
| Trade and other payables | 18,062 | 17,149 | 17,814 | 13,284 | 10,279 |
| Other current liabilities | 764 | 3,293 | 210 | 302 | 42 |
| **Current liabilities** | **31,431** | **24,634** | **21,421** | **21,201** | **17,795** |
| Total liabilities | 43,429 | 34,497 | 31,994 | 43,329 | 45,634 |
| **Total equity and liabilities** | **86,790** | **91,997** | **130,046** | **133,142** | **136,980** |

## Ratios

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | FY12 | FY13 | FY14 | FY15 | FY16 |
| **Profitability (%)** | | | | | |
| Gross profit margin | 42.9% | 43.0% | 34.6% | 26.2% | 26.8% |
| Profit/(loss) before tax margin | 24.3% | 24.0% | 7.5% | (9.1%) | (56.8%) |
| Profit/(loss) after tax margin | 19.9% | 20.2% | 7.2% | (9.5%) | (56.8%) |
| **Liquidity (x)** | | | | | |
| Current ratio | 0.8 | 1.4 | 3.1 | 2.3 | 1.6 |
| Quick ratio | 0.8 | 1.4 | 3.0 | 2.3 | 1.6 |
| Interest coverage ratio | 15.5 | 29.2 | 14.8 | N/A | N/A |
| Net Debt to Equity | 40.6% | 8.1% | Net cash | Net cash | 5.4% |
| **Valuation (x)** | | | | | |
| P/S | 0.9 | 0.9 | 0.9 | 1.4 | 2.4 |
| P/E | 4.3 | 4.3 | 13.1 | N/A | N/A |
| Core P/E at target price | N/A | N/A | N/A | N/A | N/A |
| P/B | 1.4 | 1.1 | 0.6 | 0.7 | 0.7 |
| P/NTA | N/A | N/A | N/A | N/A | N/A |
| **Cash Conversion Cycle** | | | | | |
| Net trade receivable days | 85 | 111 | 50 | 86 | 68 |
| Inventory days | 11 | 5 | 16 | 7 | 10 |
| Trade payable days | 133 | 129 | 127 | 127 | 163 |
| CCC days | (37) | (14) | (62) | (33) | (86) |
| **Returns** | | | | | |
| Return on equity | N/A | 33.9% | 7.2% | N/A | N/A |
| Return on capital employed | N/A | 20.8% | 3.1% | N/A | N/A |
| Dividend payout ratio | N/A | 27.8% | 63.2% | N/A | N/A |

*n.m.: not meaningful*

## DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Advisors Private Limited ("**SAC Advisors**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore. SAC Advisors is a wholly-owned subsidiary of SAC Capital Private Limited ("**SAC Capital**") which is also a capital markets services licensee.

This report has been prepared for the purpose of general circulation. In the preparation of this report, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

This report is confidential and is meant only for the consumption of targeted persons. The information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Advisors. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

While SAC Advisors has exercised reasonable care to ensure that the facts stated herein are accurate, SAC Advisors makes no representation as to the accuracy or completeness of such information and SAC Advisors accepts no liability whatsoever for any loss or damage arising from the use of or reliance of the information herein.

SAC Advisors, SAC Capital and their associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance related services for the company whose securities are covered in the report. SAC Advisors and its related companies may from time to time perform advisory services, or solicit such advisory service from the entity mentioned in this report ("**Other Services**"). However, the research professionals involved in the preparation of this report have not and will not participate in the solicitation of such business. This report is therefore classified as a non-independent report.

As of the date of this report, SAC Advisors and its associates, including SAC Capital, do not have proprietary positions in Kim Heng Offshore & Marine Holdings Limited, except for:

| **Party** | **Quantum of position** |
|---|---|
| Nil | Nil |

As of the date of this report, SAC Advisors and its associates, including SAC Capital, do not have any business relations with Kim Heng Offshore & Marine Holdings within the past 12 months, except for:

| **Company** | **Nature of business relation** | **Date of business relation** |
|---|---|---|
| Kim Heng Offshore & Marine Holdings Limited | Continuing Sponsor | Ongoing |

As of the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

| Analyst name | Quantum of position |
|---|---|
| Nil | Nil |

**ANALYST CERTIFICATION/REGULATION AC**

As noted above, research analyst(s) of SAC Advisors who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Advisors or SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.