

# Kim Heng Ltd

30 March 2022

## Non-Rated

<b>BBG</b>	KHOM SP
<b>Market cap</b>	S\$54.5 mil
<b>Price (29 Mar 2022)</b>	S\$0.088
<b>52-week range</b>	S\$0.027 – S\$0.123
<b>Target Price</b>	Non-rated
<b>Shares Outstanding</b>	707.8 mil
<b>Free Float</b>	42.2 %
<b>Major Shareholder</b>	KH Group Holdings Pte. Ltd. (40.1%) Credence Capital Fund II (Cayman) Limited (17.7%)

<b>P/BV (12/21)</b>	1.2x
<b>Net Debt to EBITDA (12/21)</b>	7.1x

Source: Company data, Bloomberg, SAC Capital

## Analyst:

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## Supportive oil price environment

FY21 revenue improved 68% yoy to \$63.2m as all segments except equipment rental showed improvement. Chartering and towage is the largest contributor. The segment revenue jumped +172% yoy to S\$29.4m and represented 47% of total revenue, up from 29% in FY20. The increase is underpinned by higher charter rates and utilization rate. Although net loss widened to S\$5.9m (+12% yoy), EBITDA has jumped 7.7x yoy to S\$5.4m.

There is more headroom for charter income to grow. Geopolitical conflict between Russia and Ukraine further tightens oil supply in the market and supports higher oil prices. These are positive catalysts for more offshore production activities which translates to higher day rates for vessel charter. Margin is expected to expand further as well following higher utilization of its fleet.

As part of its efforts to grow in the renewable space, Kim Heng has secured installation works (wind turbine parts) for an onshore windfarm project in South Vietnam late 2021. Consideration comes in the form of monthly project milestone of US\$0.24m (~S\$0.33m) for a period of 30 months starting Nov 21. Separately, the Group has also completed its cable laying works for Yunlin offshore windfarm project in Taiwan. Vessels serving the project are currently off-charter and stationed in Taiwan. There is no work at the moment given the off peak season. The next season will start in 2Q CY22, pending the Group securing new projects.

Kim Heng is in a net current liability position of S\$8.5m. Net gearing ratio is at 70%. Being in a capital intensive industry, the Group uses mainly loans to fund its CAPEX requirements. Management is closely monitoring its loans. Kim Heng is trading at an EV/EBITDA of 18.6x.

FY ended 31 Dec	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue (S\$'mil)	27.4	38.1	58.1	37.6	63.2
EBIT (S\$'m)	(13.4)	(11.1)	(4.7)	(6.9)	(1.8)
Net loss (S\$'m)	(15.3)	(13.5)	(7.8)	(5.3)	(5.9)
EPS (S cents)	-2.2	-1.9	-1.1	-0.7	-0.8
Dividend per share (S cents)	0.07	-	-	-	-
Net cash / (debt)	(25.0)	(32.9)	(25.6)	(35.5)	(38.6)
<b>Valuation</b>					
EBIT margin (%)	-49.0	-29.3	-8.1	-18.4	-2.9
ROIC (%)	-11.1	-13.7	-2.8	-7.1	-5.7
EV/EBITDA (x)	n.m.	n.m.	20.5	156.1	18.6
P/E (x)	-4.1	-4.6	-8.0	-11.8	-10.6
Dividend yield (%)	0.7	-	-	-	-

## P&L statement

YE 31 Dec	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>S\$m</b>					
<b>Revenue</b>	<b>27.4</b>	<b>38.1</b>	<b>58.1</b>	<b>37.6</b>	<b>63.2</b>
Cost of sales	(22.0)	(32.7)	(42.5)	(30.2)	(47.2)
<b>Gross profit</b>	<b>5.5</b>	<b>5.4</b>	<b>15.6</b>	<b>7.4</b>	<b>16.0</b>
Other income	2.4	1.2	0.7	3.1	1.5
Distribution	(0.8)	(1.1)	(1.1)	(1.0)	(0.8)
Administrative	(12.2)	(12.3)	(12.0)	(11.4)	(13.0)
Other expenses	(8.3)	(4.4)	(8.0)	(5.0)	(5.5)
<b>EBIT</b>	<b>(13.4)</b>	<b>(11.1)</b>	<b>(4.7)</b>	<b>(6.9)</b>	<b>(1.8)</b>
Finance expense	(0.9)	(1.4)	(2.0)	(1.8)	(1.8)
<b>Profit before tax</b>	<b>(14.3)</b>	<b>(12.6)</b>	<b>(6.7)</b>	<b>(8.7)</b>	<b>(3.6)</b>
Income tax (expense) / benefit	(1.0)	(0.9)	(0.2)	1.5	(1.5)
<b>Minority Interests</b>	<b>0.0</b>	<b>0.0</b>	<b>0.8</b>	<b>(1.9)</b>	<b>0.8</b>
<b>PATMI</b>	<b>(15.3)</b>	<b>(13.5)</b>	<b>(7.8)</b>	<b>(5.3)</b>	<b>(5.9)</b>

## Balance Sheet

YE 31 Dec	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>S\$m</b>					
Cash and cash equivalents	4.4	5.0	3.1	6.2	8.3
Trade receivables	8.8	10.2	13.9	12.3	17.4
Inventories	0.2	0.2	0.2	0.5	0.2
Assets held for sale	11.7	3.8	27.8	5.7	1.0
<b>Total current assets</b>	<b>25.1</b>	<b>19.2</b>	<b>45.0</b>	<b>24.7</b>	<b>26.9</b>
PPE	99.4	102.5	62.4	88.7	92.1
ROU	0.0	0.0	8.4	9.0	13.4
Club membership	0.0	0.1	0.1	0.1	0.1
<b>Total non-current assets</b>	<b>99.4</b>	<b>102.5</b>	<b>70.9</b>	<b>97.7</b>	<b>105.6</b>
<b>Total assets</b>	<b>124.5</b>	<b>121.7</b>	<b>115.8</b>	<b>122.4</b>	<b>132.4</b>
Bank overdrafts	0.0	3.0	0.0	1.2	1.5
Loans and Borrowings	11.5	12.4	18.0	12.9	15.5
Lease liabilities	0.0	0.0	6.7	1.8	2.4
Trade payables	8.9	11.5	12.1	11.4	15.4
Current tax payable	0.5	0.2	0.2	0.1	0.5
<b>Total current liabilities</b>	<b>20.9</b>	<b>27.0</b>	<b>37.0</b>	<b>27.4</b>	<b>35.3</b>
Loans and Borrowings	17.9	22.5	10.7	27.6	29.8
Lease liabilities	0.0	0.0	2.8	6.5	10.0
Deferred tax liabilities	10.3	10.9	3.4	1.5	1.9
<b>Total non-current liabilities</b>	<b>28.2</b>	<b>33.4</b>	<b>16.9</b>	<b>35.7</b>	<b>41.7</b>
Share capital	74.4	74.4	74.4	74.4	74.4
Treasury capital	0.0	0.0	(0.1)	(0.1)	(0.2)
Reserves Retained earnings	(33.0)	(32.9)	(33.0)	(33.3)	(33.0)
33.9	19.9	19.7	14.5	8.6	
<b>Equity attributable to owners of the Company</b>	<b>75.3</b>	<b>61.3</b>	<b>61.1</b>	<b>55.4</b>	<b>49.8</b>
<b>NCI</b>	<b>0.0</b>	<b>0.0</b>	<b>0.8</b>	<b>4.0</b>	<b>5.6</b>
<b>Total equity</b>	<b>75.3</b>	<b>61.3</b>	<b>61.9</b>	<b>59.4</b>	<b>55.4</b>

## Ratio

YE 31 Dec	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>S\$m</b>					
<b>Profitability (%)</b>					
Gross profit/(loss) margin	20%	14%	27%	20%	25%
Profit/(loss) before tax margin	-52%	-33%	-12%	-23%	-6%
<b>Liquidity (x)</b>					
Current ratio	1.2	0.7	1.2	0.9	0.8
Quick ratio	1.2	0.7	1.2	0.9	0.8
Interest coverage ratio	-15.3	-7.7	-2.3	-3.9	-1.0
Net Debt to Equity (%)	33%	54%	41%	60%	70%
<b>Valuation (x)</b>					
P/E	-4.1	-4.6	-8.0	-11.8	-10.6
P/B	0.8	1.0	1.0	1.1	1.2
EV/EBITDA	-13.9	-22.3	20.5	156.1	18.6

### Cash Conversion Cycle

Trade receivable days	116	98	87	120	101
Inventory days	3	2	2	6	2
Trade payable days	148	128	104	138	120
CCC days	-29	-28	-15	-12	-17

## Cash Flow Statement

YE 31 Dec	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>S\$m</b>					
<b>Profit/(Loss) before tax</b>	<b>-14.3</b>	<b>-12.6</b>	<b>-6.7</b>	<b>-8.7</b>	<b>-3.6</b>
Depreciation of PPE	7.1	6.9	7.2	5.7	7.2
Depreciation of ROU	0.0	0.0	1.8	1.8	0.0
Others	3.0	-0.1	3.8	2.5	-0.1
Interest income	-0.1	0.0	0.0	0.0	0.0
Interest expense	0.9	1.4	2.0	1.8	1.8
<b>Operating profit before WC changes</b>	<b>-3.4</b>	<b>-4.4</b>	<b>8.1</b>	<b>3.1</b>	<b>5.3</b>
Change in inventories	0.4	0.0	-0.1	-0.2	0.3
Change in trade receivables	-1.3	-1.3	-3.7	0.2	-2.7
Changes in trade payables	-0.9	1.5	0.6	0.6	1.5
<b>Cash from operations</b>	<b>-5.1</b>	<b>-4.2</b>	<b>5.0</b>	<b>3.6</b>	<b>4.4</b>
Income tax paid	-0.5	-0.6	-0.1	0.0	-0.7
<b>Net cash generated from operating activities</b>	<b>-5.6</b>	<b>-4.8</b>	<b>4.9</b>	<b>3.6</b>	<b>3.7</b>
Acquisition of PPE and ROU	-13.2	-3.9	-1.2	-10.7	0.0
Others	2.8	2.9	5.8	5.6	3.3
<b>Net cash from investing activities</b>	<b>-10.4</b>	<b>-1.1</b>	<b>4.5</b>	<b>-5.1</b>	<b>3.3</b>
<b>Free Cash flow</b>	<b>-16.0</b>	<b>-5.9</b>	<b>9.5</b>	<b>-1.5</b>	<b>7.0</b>
Proceeds from term loans	12.5	11.0	1.5	5.6	5.4
Others	-9.1	-7.2	-9.8	-2.3	-11.1
<b>Net cash from financing activities</b>	<b>3.4</b>	<b>3.8</b>	<b>-8.3</b>	<b>3.3</b>	<b>-5.7</b>
<b>Net increase in cash and cash equivalents</b>	<b>-12.6</b>	<b>-2.1</b>	<b>1.2</b>	<b>1.8</b>	<b>1.4</b>
Cash balance at beginning of year	16.4	3.7	1.7	2.8	4.5
Effects of exchange rate fluctuations	0.0	0.0	-0.1	-0.1	0.3
<b>Cash balance at end of year</b>	<b>3.7</b>	<b>1.7</b>	<b>2.8</b>	<b>4.5</b>	<b>6.2</b>

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