

Kim Heng Offshore & Marine

Ramping up for next growth phase

SINGAPORE | OFFSHORE MARINE | INITIATION

Rating: **Buy**

Kim Heng Offshore & Marine is an established integrated offshore & marine value chain services provider with customers from over 25 countries in the regions of Southeast Asia, Australasia, Middle East and Europe. Their activities are classified into two broad categories, namely (i) Offshore Rig Services and Supply Chain Management; and (ii) Vessel Sales and Newbuild.

Investment Merits

Asset light business with high returns and strong operating and free cash flow generation

Kim Heng's business model is **asset light** due its nature of being in the **services industry**. **Gross profit margins** and **net profit margins** are also **high**, resulting in **superior returns on equity** and **invested capital**. In our opinion, this can be attributed to cost management discipline and being an established "**all-in-one**" service provider to the **top rig owners**. Operating and free cash flows has been **robust** and **positive** since FY10, once the capex cycle is over, we expect it to expand rapidly, signaling a **good potential for increasing shareholder returns**.

High utilization rates and aging rig fleet a positive for Kim Heng

Rig **utilization** across the global fleet of semi-sub, drillships and jackups remain at a **high level**, especially so for drillships and jackups. **High oil prices** (>US\$100/barrel) are also keeping offshore activity levels buoyant. Above 40% of global jackups and close to 30% of global floaters are **above 30 years old**. The culmination of these factors would be **demand drivers for Kim Heng's repair and maintenance services and solutions**.

Re-rating catalyst with expansionary plans and potential turnkey projects

Kim Heng will be **enhancing their yard facilities** and **expanding their fleet** as they ramp up their capex with the IPO proceeds. Kim Heng has also indicated plans to **expand their subsea capabilities** and could **potentially acquire** a subsea service contractor. We are excited on the rollout of its expansion plans and 1 key re-rating catalyst would be how **accretive these plans and acquisitions are**.

Investment Action

Kim Heng has a proven track record and enjoys an established relationship with top names like Transocean, Seadrill, Noble, Saipem and McDermott. Current high utilization rates, increasing rig counts and aging global fleet bodes well for Kim Heng. **We initiate coverage on Kim Heng with a "Buy" rating based on our P/E valuation of 11X FY14 Earnings, in line with small/mid cap offshore and marine players, with a TP of S0.33.**

Key Financial Summary

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (SGD mn)	69	87	85	107	117
NPAT, adj. (SGD mn)	19	17	17	22	24
EPS, adj. (SGD cents)	3.40	3.10	3.10	3.09	3.40
P/E (X),adj.	n.m.	n.m.	n.m.	8.9	8.1
BVPS (SGD cents)	n.m.	n.m.	10.46	16.09	18.99
P/B (X)	n.m.	n.m.	n.m.	1.7	1.4
DPS (SGD cents)	n.m.	n.m.	0.50	0.50	0.50
Div. Yield (%)	n.m.	n.m.	n.m.	1.8%	1.8%

Source: Bloomberg, PSR est.

*Forward multiples and yields are based on current price and historical multiples and yields are based on historical prices

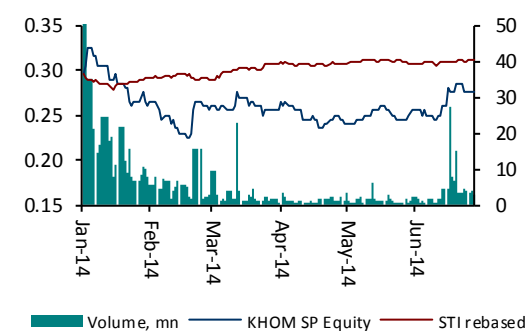
Target Price (SGD) 0.33
Forecast Dividend (SGD) 0.01
Closing Price (SGD) 0.28
Potential Upside 22.5%

Company Description

Kim Heng Offshore & Marine Holdings Limited offers rig management and supply base management services. The Company, through its subsidiaries, provides offshore rig, EPC and marine support services including freight forwarding, land and marine transport, general shipping, inventory management and warehouse storage. Kim Heng Offshore serves the oil and gas industry.

Company Data

Raw Beta (Past 2yrs weekly data)	NA
Market Cap. (USD mn / SGD mn)	157 / 195
3M Average Daily T/O (mn)	2.4
Closing Px in 52 week range	0.23 - 0.35



Major Shareholders (%)

1. Tan Thomas	42.14
2. Credence Partners Pte Ltd	17.61
3. Double Happiness Global Ltd	4.65

Valuation Method

P/E Multiple

Analyst

Benjamin Ong

benjaminongcw@phillip.com.sg

+65 65311535

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Company Background

Business Overview

Kim Heng Offshore & Marine Holdings Limited is an established integrated offshore and marine value chain services provider. It is strategically located in Singapore, which enjoys a sterling reputation of having one of the most thriving offshore & marine industry in the world. Kim Heng offers a one-stop comprehensive range of both products and services for the offshore & marine value chain. Their customer base stretches over 25 countries from Southeast Asia, Australasia, Middle East to Europe and this includes major offshore drilling contractors and support service providers like Transocean, Seadrill Limited, Noble Corporation, Shelf Drilling Holdings Ltd and Hydro Marine Services Inc.

Their activities can be classified into 2 main categories:

- Offshore Rig Services and Supply Chain Management
- Vessel Sales and Newbuild

For Offshore Rig Services, Kim Heng's service are mainly EPC (engineering, procurement and construction) projects like fabrications of sections of drilling rigs (drill-floor structures for jack-ups, columns fabrication for semi-submersibles etc), installation of production modules and systems, offshore platform and vessel re-activation and maintenance projects. These services are typically provided for regional rigs or rigs passing through Singapore. Revenue streams from these depend on the scale and complexity as well as the turn-around time. Billings are usually made in accordance with agreed milestones and duration of such projects are not long, typically ranging between a few weeks to a few months. Because of these factors, project values can vary considerably.

Supply Chain Management activities include rig towage, fleet chartering for marine installation and transportations, warehousing and supply of offshore consumables.

Vessel Sales and Newbuild typically comprise of purchases of vessels and refurbishment and on-sell to customers. They also have experience with newbuild of offshore supply vessels like pipe-laying barge, accommodation vessels etc but these are more opportunistic plays for Kim Heng.

Listing

Kim Heng was listed on SGX Catalist on 22 January 2014. It is currently headquartered in Singapore.

Figure 2: Business Outline

Business activity	Description
Offshore rig services	Construction and fabrication works of sections or components of drilling rigs & drillships
	Installation of offshore production modules and systems
	Afloat repairs, maintenance and refurbishment of offshore rigs, platforms & vessels
	Supply of offshore drilling and production equipment
Supply Chain Management	Provision of offshore supply vessels and heavy-lift equipment
	Provision of logistics, general shipping and crew management
Vessel Sales & Newbuild	Purchase and refurbishment of vessels for onselling
	Newbuilding of vessels

Source: Company, PSR

Investment merits

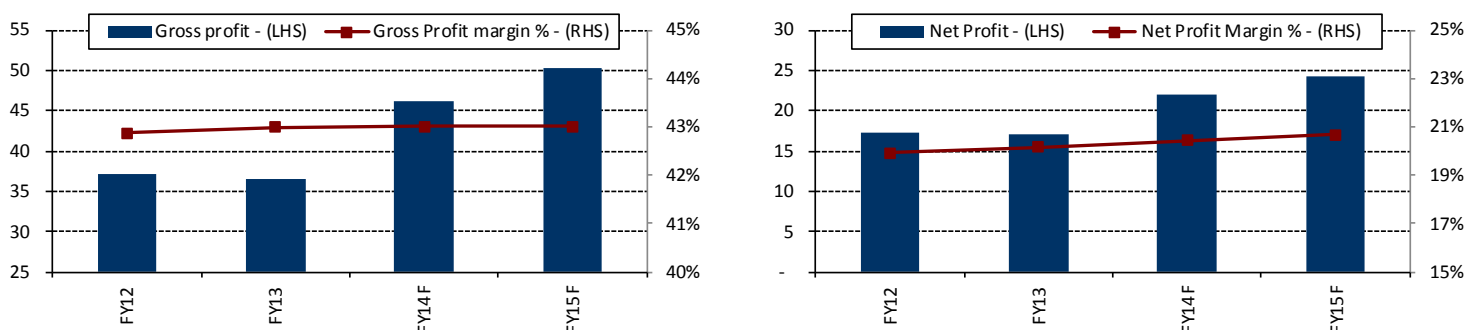
Asset light business with high returns and strong operating and free cash flow generation

Kim Heng’s business model is asset light due its nature of being in the services industry. Gross profit margins and net profit margins are also high, resulting in superior returns on equity and invested capital. In our opinion, this can be attributed to cost management discipline and being an established “all-in-one” service provider to the top rig owners. Their key assets are tugs and barges (some of which has already been fully depreciated) and also heavy lift equipment.

We expect gross profit margins to hold up well at 43% due to their track record with the oil and gas players and similarly for their net profit margins. We also note the potential for margin expansion should they undertake urgent servicing needs in which they are able to command a higher pricing. Returns on equity and invested capital has also been observed to be superior and this will trend downwards from FY14 onwards in line with the IPO proceeds from this year.

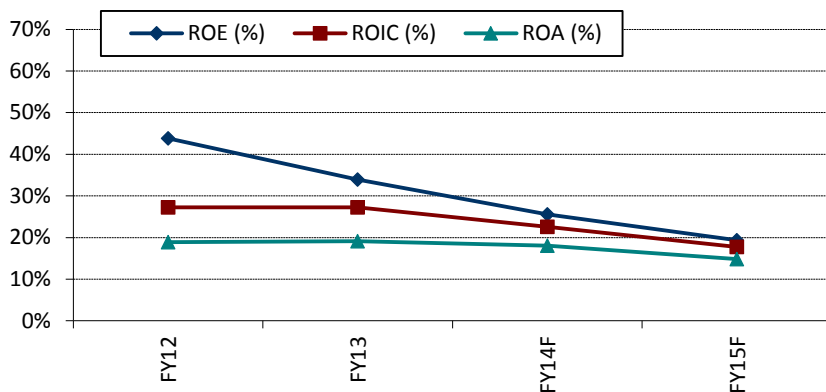
Operating and free cash flows has been robust and positive since FY10, the first released statement. Free cash flows across the next 2 years should decrease in line with their plans for expansion but once the capex cycle is over, we expect it to expand rapidly, signaling a good potential for increasing shareholder returns.

Fig : High gross profit margins and net margins



Source: Company Data, PSR

Fig: Strong returns on equity and capital

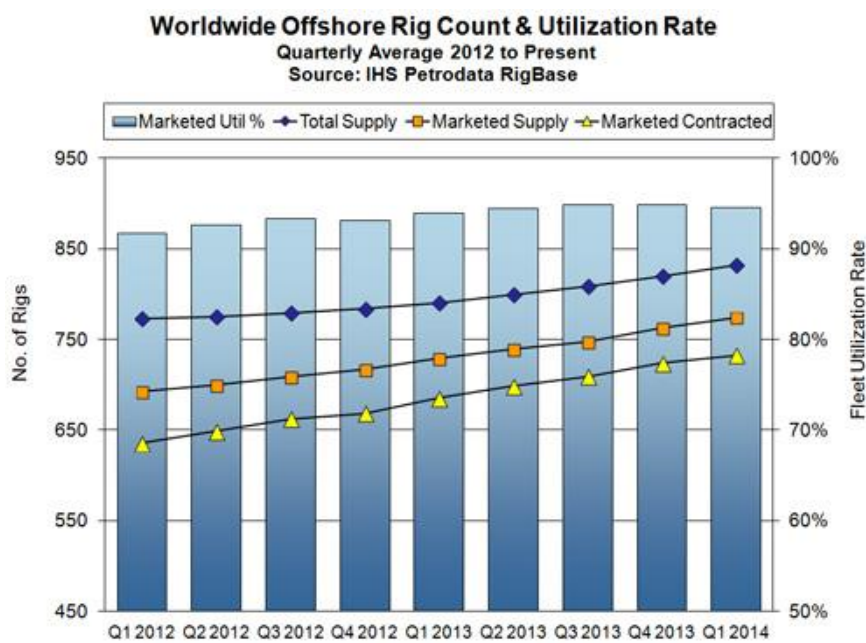


Source: Company Data, PSR estimates

High utilization rates and aging rig fleet a positive for Kim Heng

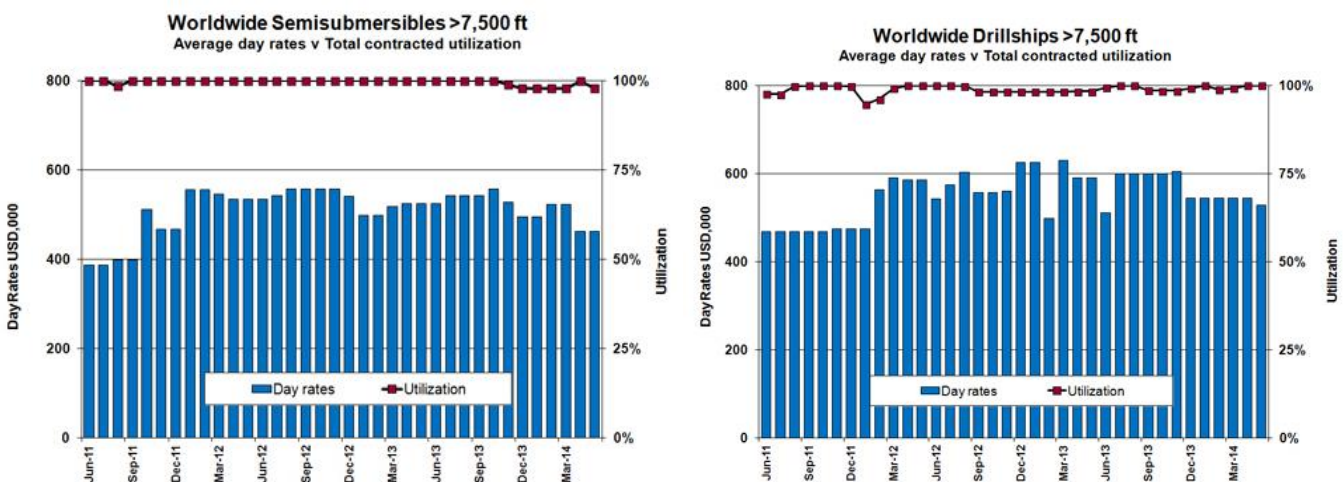
We like Kim Heng for its stable play in the offshore & marine segment due its nature of being a solution provider which involves repair and maintenance, in comparison to rig builders and operators. Rig utilization across the global fleet of semi-subs, drillships and jackups remain at a high level, especially so for drillships and jackups. High oil prices (>US\$100/barrel) are also keeping offshore activity levels buoyant. If we examine the global fleet age profile, above 40% of jackups and close to 30% of floaters are above 30 years old. As utilization rates still remain high, we think the rig replacement cycle might not kick in yet older units might not yet be scrapped and repairs and maintenance work will be crucial for these older rigs. Therefore, all these factors would be demand drivers for Kim Heng’s repair and maintenance services and solutions.

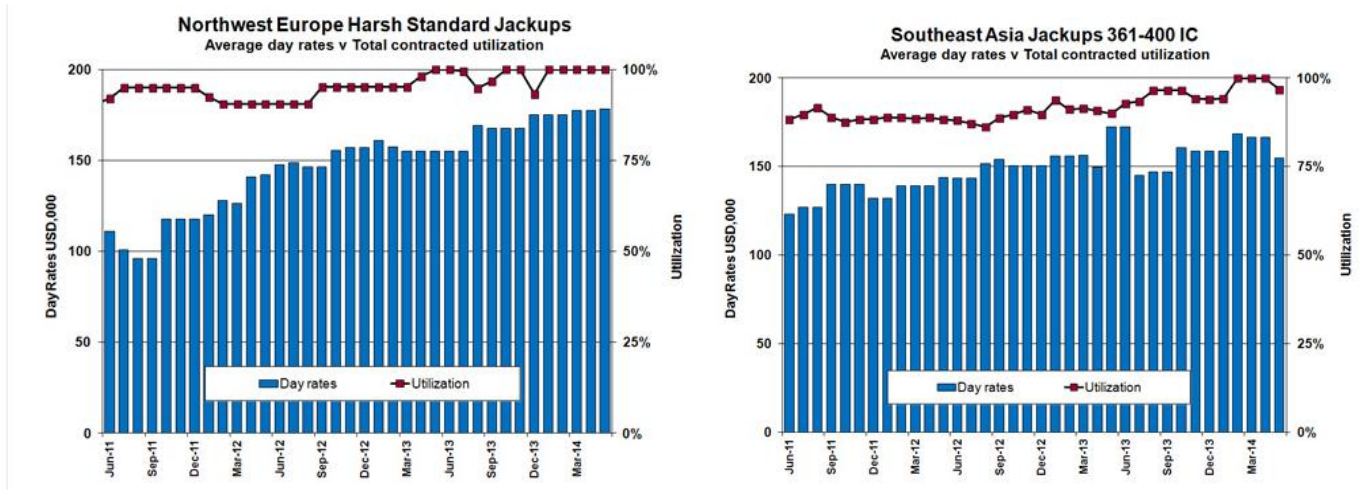
Fig: Rig counts and utilization rates remain high



Source: IHS Petrodata

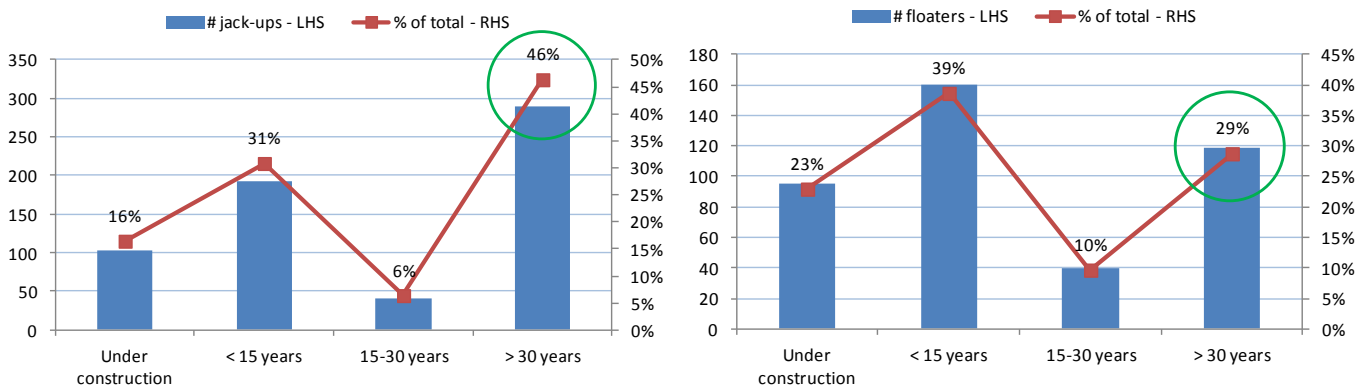
Fig: Utilization rates especially strong for drillships and jackups





Source: IHS Petrodata

Fig: Global fleet age profile for jackups and floaters



Source: Riglogix, PSR

Re-rating catalyst with expansionary plans and potential turnkey projects

Kim Heng will be enhancing their yard facilities and expanding their fleet as they ramp up their capex with the IPO proceeds. These enhancements may include setting up of a new fabrication and engineering workshop, construction of quayside jetty and wharf improvements. This means increased capacity for taking on more projects. In addition, Kim Heng has also expanded their fleet by adding 3 tugs (Ocean Tugs), 5 barges and 3 diving support vessels this year, which we believe will aid in strengthening their capability to offer more services. Kim Heng has also indicated plans to expand their subsea capabilities and could potentially acquire a subsea service contractor. Currently, they are already offering maintenance services for subsea equipment like risers which are performed in their yards. We are excited on the rollout of its expansion plans and 1 key re-rating catalyst would be how accretive these plans and acquisitions are. By freeing up some bottlenecks and their strong balance sheet, Kim Heng could potentially undertake turnkey projects such as rig conversions which we understand to be of very high contractual value, translating to bottomline growth and an earnings upgrade.

Forecasts and valuation

Revenue and earnings forecasted to grow 27%/9% and 28%/10% amount in FY14/FY15

There are 2 main business segments for Kim Heng, namely:

- Offshore Rig Services and Supply Chain Management
- Vessel Sales and Newbuild

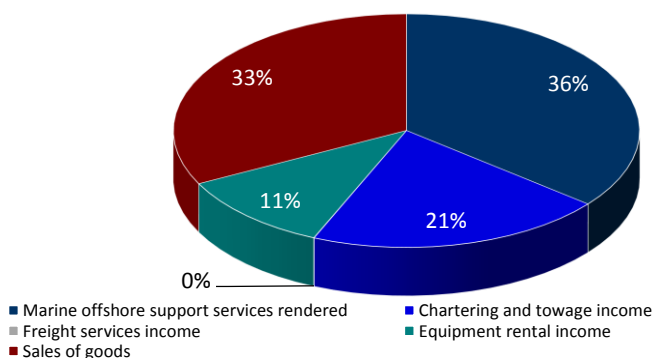
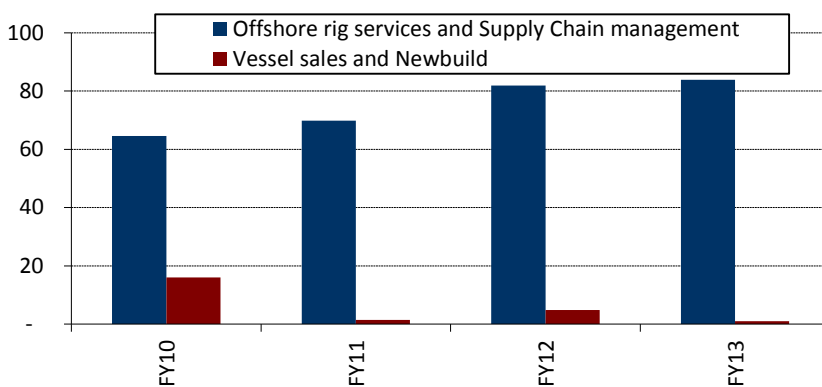
For Vessel Sales and Newbuild, management has indicated that this is more of an opportunistic business which has poor order visibility. We have therefore forecasted a nominal revenue amount of S\$1m for FY14 and FY15, but we have adjusted it accordingly for FY14 to account for the S\$4.7m of 2 vessel sales in May. The core business of Kim Heng, the Offshore Rig Services and Supply Chain Management, has been growing year on year since FY2010. Total revenue dipped in FY11 and FY13 was largely attributed to the decreased contribution from Vessel sales and newbuild. We estimate ~20% of Offshore Rig Services and Supply Chain Management revenue contribution is by the chartering and towage business which falls under the Supply Chain Management arm. Therefore, ~80% is derived from the offshore rig services activities which is largely dependent on the number of rigs that Kim Heng services. Out of the 68 rigs that they serviced in FY13, management shared that there are 3 tiers of value per rig serviced:

Fig : Breakdown of rigs serviced

Breakdown for number of rigs serviced	FY13
Tier 1: >\$5m	3
Tier 2: \$1m-\$5m	12
Tier 3: >\$1m	53

Source: Company, PSR

Fig : Revenue by Segment (SGD mn) and % split for Offshore rig services and Supply Chain management

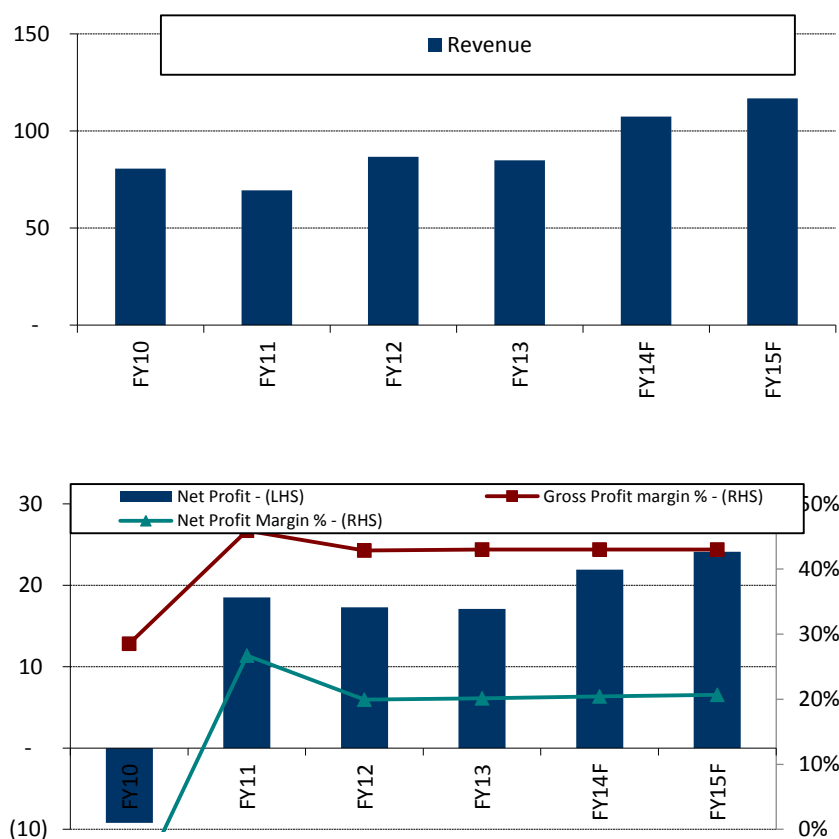


Source: Company Data, PSR

We have forecasted for the total rig serviced to increase by 3/8 (5%/10%) for FY14 and FY15 as they should be able take on more projects after they embark on their expansionary plans and in pace with increasing rig counts, high utilization rates and aging global fleet. We have also factored in higher average revenue per rig serviced for FY14 and FY15 as they continue to pursue higher value contracts. For the Supply Chain Management arm, we estimate that it will grow in line with that of Offshore Rig Services. The current orderbook is estimated at S\$40m with about 3-6 months of visibility.

In our view, Kim Heng has been disciplined in cost management where gross profit margins and net profit margins are largely unchanged at ~43% and ~20% respectively. We expect this trend to continue going forward into FY14 and FY15 with possibilities of margin expansion. Net loss in FY10 was due to inventory writedown which was reversed in 2013, impairment of receivables and from the Vessel Sales and Newbuild segment as revenue could not yet be recognised (% of completion). Kim Heng now holds minimal inventory and vessel newbuilds are opportunistic in nature for them.

Fig: Forecasted Revenue and Net Profit (SGD mn)



Source: Company Data, PSR

Valuation

We initiate coverage on Kim Heng Offshore & Marine with a “Buy” Rating based on our P/E valuation of 11X FY14 P/E which we derive a target price of S\$0.33.

The valuation multiple ascribed is in-line with the industry average for small/mid cap offshore & marine players. Kim Heng has long history of over 40 years with an established clientele base and is poised to ride on rising rig count and offshore activities. Returns on equity, asset and invested capital is also superior as we had discussed in our investment merits with strong free cash flow generation once their capex cycle is over. Growth profile for the current core business is also robust and top and bottom line is expected to grow over FY14 and FY15. Key re-rating catalysts would be how accretive their acquisitions and expansionary plans are and capturing of large value turnkey projects. We note that orderbook visibility is low (3-6 months), trading liquidity is also low along with a relatively small market capitalization. Kim Heng is also currently trading at a discount of ~10% to its peers like MTQ Corp and Mencast Holdings.

Fig : P/E Valuation matrix and Comparables

P/E Valuation

	7.00	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00
0.0279	0.20	0.22	0.25	0.28	0.31	0.33	0.36	0.39	0.42
0.0280	0.20	0.22	0.25	0.28	0.31	0.34	0.36	0.39	0.42
0.0281	0.20	0.22	0.25	0.28	0.31	0.34	0.36	0.39	0.42
0.0282	0.20	0.23	0.25	0.28	0.31	0.34	0.37	0.39	0.42
0.0302	0.21	0.24	0.27	0.30	0.33	0.36	0.39	0.42	0.45
0.0304	0.21	0.24	0.27	0.30	0.33	0.36	0.39	0.43	0.46
0.0308	0.22	0.25	0.28	0.31	0.34	0.37	0.40	0.43	0.46
0.0312	0.22	0.25	0.28	0.31	0.34	0.37	0.41	0.44	0.47
0.0316	0.22	0.25	0.28	0.32	0.35	0.38	0.41	0.44	0.47

Company	BBG Ticker	Market Cap. (SGD m)	Last Price (SGD)	P/BV (X)	P/E (X) TTM	FWD P/E (X)	ROE (%)	ROA (%)	Div yield (%)
Large-cap Singapore									
Keppel Corp Ltd	KEP SP EQUITY	19,712	10.85	1.97	10.7	11.5	18.6	6.1	3.98
Sembcorp Marine Ltd	SMM SP EQUITY	8,503	4.07	3.04	15.2	13.3	21.0	8.2	3.54
Cosco Corp Sg. Ltd	COS SP EQUITY	1,579	0.71	1.20	47.3	23.5	2.5	0.4	1.99
Yangzijiang Shipbuilding	YZJSGD SP EQUITY	4,062	1.06	1.10	6.4	7.4	18.3	7.7	4.00
Average					19.9	13.9			
Small or Mid-cap Singapore									
Ezion Holdings Ltd	EZI SP EQUITY	2,762	2.10	2.69	12.1	7.7	24.3	8.5	0.06
Ezra Holdings Ltd	EZRA SP EQUITY	1,135	1.16	0.90	20.6	12.0	4.5	1.4	0.32
Nam Cheong Ltd	NCL SP EQUITY	975	0.47	2.49	10.4	8.1	27.3	13.2	2.43
Pacific Radiance Ltd	PACRA SP EQUITY	1,031	1.42	2.21	14.7	10.1	19.6	8.6	1.57
Mencast Holdings Ltd	MCAST SP EQUITY	184	0.52	1.73	11.7	7.4	16.1	7.3	2.91
MTQ Corp Ltd	MTQ SP EQUITY	269	1.77	2.13	11.6	8.2	22.2	10.5	2.49
ASL Marine Holdings Ltd	ASL SP EQUITY	285	0.68	0.70	7.1	10.1	11.3	4.1	2.94
Marco Polo Marine Ltd	MPM SP EQUITY	121	0.36	0.75	6.4	5.6	13.8	6.5	3.38
Swiber Holdings Ltd	SWIB SP EQUITY	328	0.54	0.49	2.9	10.0	19.8	4.5	4.64
Triyards Holdings Ltd	ETL SP EQUITY	201	0.68	1.05	4.1	5.6	23.3	8.7	2.92
Vard Holdings Ltd	VARD SP EQUITY	1,280	1.09	1.70	23.9	8.5	7.3	1.8	2.67
Average					11.4	8.5			
Kim Heng O&M	KHOM SP EQUITY	195	0.28	n.m	8.9	8.3	43.8	18.9	1.82

Source: Bloomberg, PSR estimates

Key Risks

Dependency on key management staff

Kim Heng's business and success can be substantially attributed to the services of key management like Chairman and CEO, Thomas Tan (also the largest stakeholder), Executive Director and COO, Yeo Seh Hong and other executive officers. The loss of services of one of these key management personnel might affect the business of Kim Heng, considering the client relationship and strategy formulating held by them.

Renewal of lease over yard facilities

Kim Heng currently has 2 yard facilities: 9 Pandan Crescent and 48 Penjuru Road in Singapore, which are both leased from JTC. The lease over 9 Pandan Crescent expires on 31 Dec 2015 and they are currently in negotiations with JTC over the lease renewal. As for the yard at 48 Penjuru Road, their licence can be converted into a 30-year lease (till 2036) if they had made investments of S\$19.3m on the property from Nov 2006. However, they had only made ~S\$8.7m and they are currently negotiating for a time extension from JTC to make the fixed investments. Based on the fixed investments they made so far, JTC may offer them a reduced lease term till 2019. If Kim Heng does not secure their yard facilities, it will adversely affect the business operations and financial performance.

Competitive industry

Kim Heng faces competition from shipyards in Singapore and other countries like Indonesia, Malaysia and China. Competitors, especially those in foreign territory, may be operating with lower costs and thus partake in price competitions as they are able to absorb lower margins. In our forecasts, we also mentioned that their financial performance is dependent on the number of rigs passing through Singapore or regional waters and the number of rigs serviced a year. Therefore, if rig owners or operators choose to service their rigs in other countries, the loss of market share might impact their revenue and earnings.

Dependency on foreign labour

Kim Heng is reliant on foreign labour due to a lack of skilled local workers and lower costs of foreign labour. About ~77% of their employees are foreigners currently and foreign labour costs form up ~4-6% of total costs for Kim Heng. From our channel checks, this is a common risk faced by the offshore rig services sector where for example, there is a dearth of domestic welders so players seek skilled foreign labour instead. As a result, Kim Heng is susceptible to tightening foreign labour policies by the Singapore government such as increase in levies, qualifying salary criteria and reduction in the Dependency Ratio Ceiling. These might drive up labour costs and compress margins.

Low orderbook visibility

Due to the nature of their project-based business and quick turnaround time per project (a few weeks to a few months), it is no surprise that rolling orderbook visibility is only 3-6 months. Even though master service agreements may have been signed with their key customers, project orders are still placed on an "ad-hoc" basis. There might be near-term volatility or lumpiness in their revenue if contracts do not flow in for a brief period due to market conditions or drastic falls in utilization rates. We note that orders from their key customers are high in frequency and often on an urgent basis that requires a quick turnaround, Kim Heng is able to command higher margins on their projects.

Appendix A – Competitive Strengths

Offering a comprehensive range of services and products in the offshore O&G and marine industry

Kim Heng offers their customers a comprehensive range of services and products along the offshore O&G and marine value chain. This encompasses offshore rig-related services and supply chain management services, as well as vessel sales and newbuild services. Their engineering capabilities and experience in the construction of oil rig components, specialized accommodation and pipe laying barges position them as a fully-integrated service provider to the regional offshore O&G and marine industries.

Established track record

Over the last 40 years, Kim Heng has established a reputation as a reliable and responsive service provider in Offshore Rig Services and Supply Chain Management services, as well as Vessels Sales and Newbuild. This is achieved through their consistent and timely delivery of quality products and services that adhere to quality control standards prescribed by international professional bodies and institutions. Many of their customers are repeat customers and continue to appoint us to provide services and products.

Licensed waterfront shipyard facilities

Kim Heng's business requires the availability of waterfront shipyard facilities which are currently in short supply in land-scarce Singapore. Their two waterfront licensed shipyards have a 137 metre and 68 metre waterfront respectively, and are equipped with workshop and open yard space of more than 50,000 square metres engaging in new construction, fabrication, maintenance and afloat repairs. They have the capability to accommodate offshore vessels, jack-up rigs and drillships of up to approximately 7 metres draft at zero tide for repair, maintenance and refurbishment works in our shipyards.

Production and warehouse facilities and heavy-lift equipment meet the needs of our customers

Kim Heng currently has production and warehouse facilities and open yards with quay sites for the berthing of vessels. With their comprehensive fleet of tugs, barges and heavy-lift equipment such as cranes, forklifts, specialist tools, welding and testing equipment, prime movers, trailers and lowbeds, they are a one-stop service provider for the offshore O&G and marine industry. Their waterfront access, experienced staff and range of vessels and equipment allow them to perform offshore salvage operations in the region at short notice.

Well-established business relationships with our customers and suppliers

Kim Heng has developed long-standing relationships with many of our customers and suppliers, some of which have spanned over 30 years. They have also established a proven track record of providing reliable services to their customers which include some of the world's largest oil majors, offshore drilling contractors and offshore support service providers. These include companies such as Transocean, Sapura Kencana, Saipem, Noble Drilling and McDermott. Some of their customers have also established or are establishing framework agreements with Kim Heng which increase the chances of securing future projects with them.

Competent and experienced management team

Executive Chairman and CEO, Thomas Tan and Executive Director and COO, Yeo Seh Hong, have between them 70 years of experience in the offshore O&G and marine industries. They are supported by a dedicated, competent and experienced management team, who have over the years acquired technical know-how, in-depth knowledge and understanding of the offshore O&G and marine industry.

Experienced, trained and suitably certified workforce

Over the years, they have developed a team of skilled and professional workers who are well-trained and experienced in fabrication services, and in the operation of workshops, yards and waterfront facilities and equipment. Many of these workers are trained and certified in their respective roles such as in engineering, welding and steel fabrication work.

Appendix B – Yard facilities and supporting infrastructure

With a combined waterfront of 205 metres, Kim Heng’s shipyards at 9 Pandan Crescent and 48 Penjuru Road enable them to carry out afloat repairs, fabrication, newbuild, painting and blasting works. Yards and fabrication workshops are well-equipped with crawler, gantry and overhead travelling cranes, forklifts, prime movers, CNC cutting, welding and drilling machines

Penjuru Shipyard



Land Area: **19,512m²** Waterfront: **68m**

Pandan Shipyard



Land Area: **34,125m²** Waterfront: **137m**



Fleet of barges including flat top deck cargo barges, flat top ballastable deck cargo barges and crane barges fitted with side walls or stanchions

8 tugs / passenger launches ranging from 240 bhp to 3,200 bhp

28 barges ranging from 80ft to 300ft

Wide range of heavy-lift equipment

16 cranes ranging from 70 tonnes to 550 tonnes

15 trailers

6 prime movers

Forklifts, specialist tools, welding and testing equipment and low beds

Source: Company

Appendix C– Company History, Key Management and Reporting Structure

Year	Historical milestone
1968	Kim Heng Tugboat Company is founded by Mr Tan Eng Hai
1978	Corporatised itself through the incorporation of Kim Heng Marine Pte Ltd
1982	Expanded into repair and maintenance in the marine offshore industry
1986	Kim Heng Maritime Pte Ltd was set up to provide offshore maritime transportation service
1987	Engaged in supply base management, carried out loading and unloading activities for offshore vessels, rig agency work, and storage and maintenance of equipment related to O&G activities
1988	Ventured into repair and maintenance activities for offshore oil rigs at anchorage, including fabrication, installation and painting of steel structures, and the provision of specialised oil field equipment
1992	Changed name to Kim Heng Marine & Oilfield Pte Ltd to better reflect the offshore O&G and marine industries that it serves
1996	Embarked on rig fabrication activities with a project awarded by Transocean for fabrication and modification works to be carried out on a semi-submersible rig
1997	Incorporation of Kim Heng Tubulars Pte Ltd to expand into the rental and trading of oil field equipment and specialty steel tubular products to offshore O&G customers
2006	<ul style="list-style-type: none"> • Addition of Kim Heng Shipbuilding & Engineering Pte Ltd to undertake shipbuilding projects • Increased rig fabrication activities by fabricating blocks for the construction of semi-submersible rigs, jack-up rigs and drilling rigs
2008	Completed first retrofitting of a pipelaying barge, Jascon 25
2009	Constructed and delivered the first accommodation and pipelay barge, Aussie 1
2010	Constructed and delivered the second accommodation and pipelay barge, McDermott LB32
2013	Completed first re-activation and refurbishment of a jack-up rig, Randolph Yost, at Pandan Crescent Yard
2014	<ul style="list-style-type: none"> • Listed on the Catalist Board of the Singapore Exchange Securities Trading Limited • Planned expansion of yard facilities, vessel fleet and business & service offerings

Source: Company, PSR

THOMAS TAN

Executive Chairman & CEO

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

YEO SEH HONG

Executive Director & COO

Yeo Seh Hong is the Executive Director and COO. She first began her career with Kim Heng in 1988 and has, over the years, held various positions as materials manager, business development manager and general manager. She is currently responsible for overall operations, sales and marketing of products and services, developing and reviewing product specifications to meet market demand, preparing and submission of major tenders and commercial proposals for various scopes of services and overseeing the Kim Heng's activities to ensure continued compliance with safety requirements and ISO standards.

TAN KAH SENG

Chief Financial Officer

Mr Tan Kah Seng serves as the Chief Financial Officer and is responsible for overseeing the financial and management accounting, compliance and taxation matters of the Company. He joined in 2008 as Group Accountant before being promoted to Chief Financial Officer. Mr Tan Kah Seng has more than 15 years of experience in the accounting field and he is a member of the Chartered Certified Accountants (ACCA, UK), CA(Chartered Accountant, Malaysia) and a Chartered Accountant with the Institute of Singapore Chartered Accountants.

TAN KENG HOE MELVIN

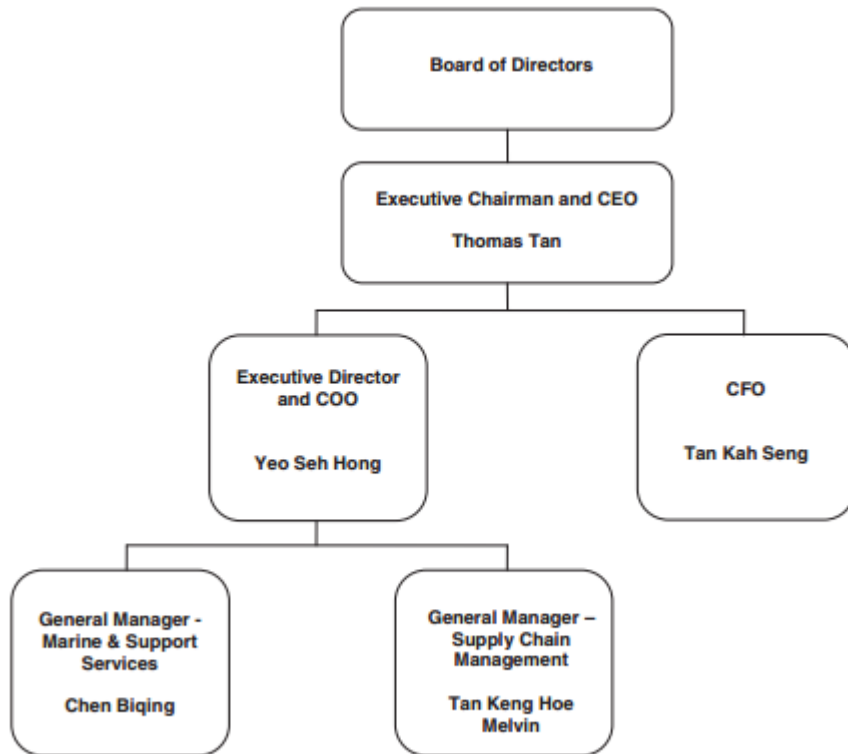
General Manager for Supply Chain Management

Mr Tan Keng Hoe Melvin serves as the General Manager for Supply Chain Management and is responsible for supervising and managing of materials & logistics of Kim Heng. His first stint with Kim Heng was from 1987 to 1997 where he last held the position of Manager of the Marine division. Mr Tan Keng Hoe Melvin proceeded to take on various logistical roles in leading companies in the Oil & Gas industry before rejoining in May 2010. He holds a diploma in Business Management from the University of Bradford.

CHEN BI QING

General Manager for Marine & Support Services

Ms Chen Bi Qing serves as the General Manager of Marine & Support Services of Kim Heng and oversees the marketing and operations for vessel movements. She began her career with Kim Heng Marine in September 2005 and presently serves as a director of Kim Heng Marine, Kim Heng Maritime and Kim Heng Shipbuilding. Ms Chen Bi Qing has experience and exposure both locally and in Australia's Offshore Oil & Gas industry and holds a Bachelor Degree of Business majoring in Maritime and Logistics Management from Australian Maritime College as well as a Diploma in Maritime Transportation Management from Singapore Maritime Academy.



Source: Company

Appendix D– Key Projects completed by Kim Heng and Examples

Type of Vessel/Project	Details	Year Completed
Semi-submersible	Chemical inspection, refurbishment of check valves, and the removal, inspection and installation of anchors, anchor chains and accessories	2013
Semi-submersible	Fabrication works, removal and installation of thrusters. Provide crew management, cargo clearance, loading services, and procurement of equipment and consumables for the rig	2013
Jack-up rig	Fabrication and supply of flare boom pedestal, heavy duty padeyes. Supplied manpower, barges & tugs, equipment for cleaning of spud can and rendered dry towing services	2013
Jack-up rig	Rig refurbishment services, modular fabrication and installation of various drilling equipment such as a chain hoist, rig floor tuggers, and a casing stabbing board	2013
Tender rigs	Afloat repairs, tank cleaning, heavy lifting of drilling equipment and storage and removal and transportation of cementing equipment	2013
FPSO	Fabrication works, crew management, cargo clearance, loading services, and procurement of equipment and consumables for the rig. Provided chartering of supply vessels, helicopter for crew change and arranged accommodation for crew	2013
Pipelay barge	Supply of 2,500 ton steel plates and lifting tools, fabrication of stinger access platform, jumper ramps, jumper linkages, welding portal structures and stinger interface ramps	2013
Semi-submersible	Chain removal, inspection and installation works, heavy lifting of lower marine riser package (“LMRP”) and blowout preventer (“BOP”) stack assembly and provision of crew accommodation services	2012
Drillship	Maintenance, inspection of risers and auxiliary lines, removal, refurbishment and installation of six azimuth thrusters at anchorage, and heavy lifting of LMRP and BOP stack assembly	2012
Drillship	Heavy lifting of LMRP and BOP stack assembly and the provision of general agency services	2011
Drillship	Heavy lifting operations for damaged riser gantry crane	2011
Container vessel	Heavy lifting and salvage operations to recover damaged containers following a collision at anchorage	2011
Marine civil construction	Chartering of marine vessels to support the erection of the Sentosa Boardwalk	2010
Power barge	Conversion of a 91 metre long and 5,000 tonne flat top barge into a high technology floating power barge with a capacity of 110 megawatts	2010
Semi-submersible	Fabrication and assembly of upper columns of the rig	2008&2009
Pipelay barge	Outfitting and installation of a 800 tonne capacity mast crane and commissioning of a 118 metre dynamic positioning 3 pipelay barge	2008
Jack-up rig	Fabrication and assembly of rig module and drill floor of the rig	2006

Customer/ Name of Vessel	Details	Year Completed
Hydro Marine Services, Inc. / McDermott LB32	Construction of a 111 metre pipe laying and accommodation barge, which has capacity to accommodate 292 men	2010
KPS Karadeniz Powership Co. Ltd / KPS1	Construction of a 91 metre long and 5000 tonne flat top barge which we subsequently converted into a power barge in 2010	2009&2010
Australian Portable Camps / Aussie 1	Construction of a 112 metre pipe laying and accommodation barge, which has capacity to accommodate 292 men	2009

Source: Company

We recently had a site visit to view Kim Heng's discharging operations for Polar Pioneer, Transocean Ltd's Semisub, onboard HLV Blue Marlin. Transocean's *Polar Pioneer* is a 3rd generation semi-submersible drilling rig. Built to work in harsh environments, Transocean Polar Pioneer is one of just a handful of rigs in the world to have an Acknowledgement of Compliance certification (AOC) from the Petroleum Safety Authority Norway (PSA), rated to drill in water depths of up to 1,600 ft and a maximum total drilling depth of approximately 25,000 ft.



Source: PSR

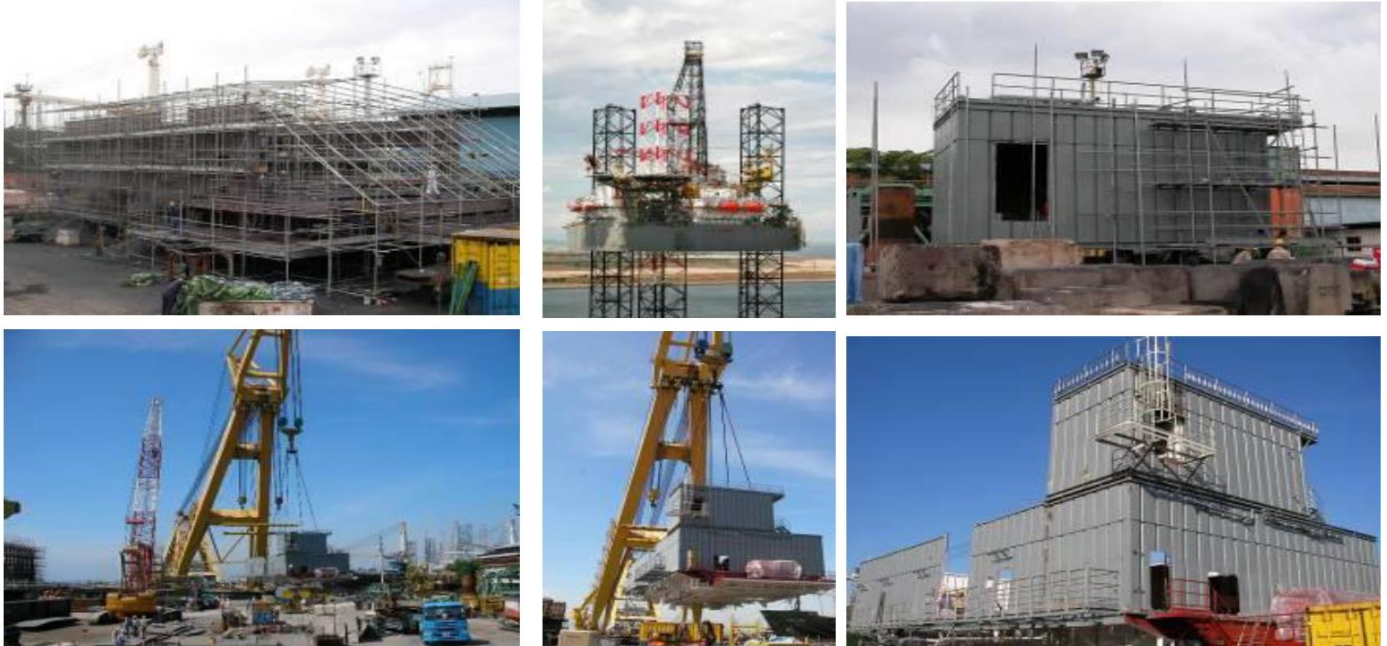
Reactivation of Drillship and Jackup Rig



Thruster Removal and Installation for Drillship



Fabrication of Drill Floor for Jackup Rig



Source: Company

Subsea equipment (Risers, BOP, LRMP stack) maintenance & refurbishment



Vessel Sales and Newbuild



Construction of McDermott LB32 pipelay barge



Retrofitting of Jascon 25 pipelay barge



Power Barge Conversion for KPS Alican Bey



Construction of APC Aussie I pipelay barge

Source: Company

Fig: Yearly Gross Profit (SGD mn) and Margins (%)

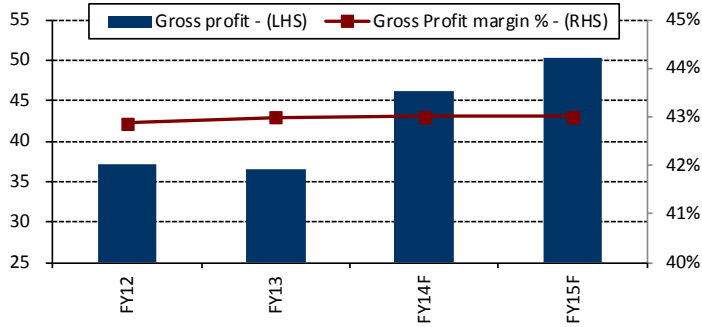


Fig: Yearly Net Profit (SGD mn) and Margins (%)

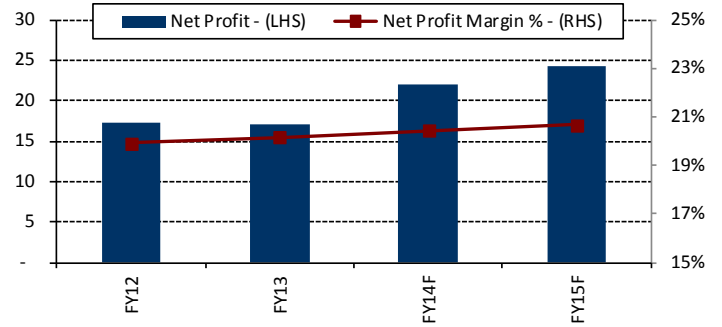


Fig: Yearly ROE, ROIC and ROA (%)

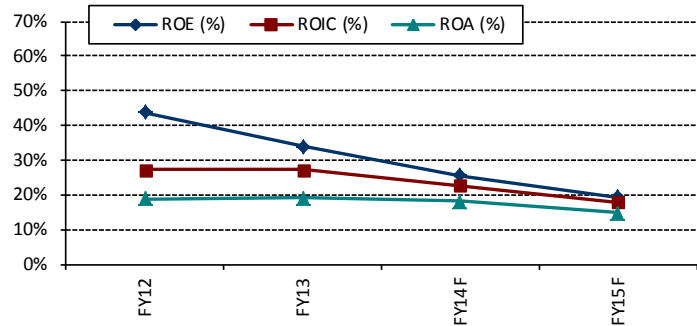


Fig: Yearly Revenue by business segment (SGD mn)

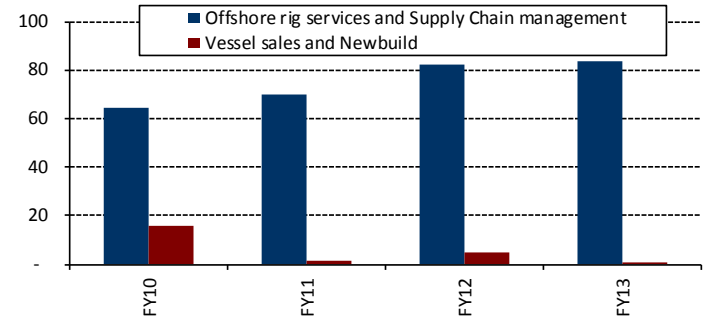


Fig: Revenue by Offshore rig services (%)

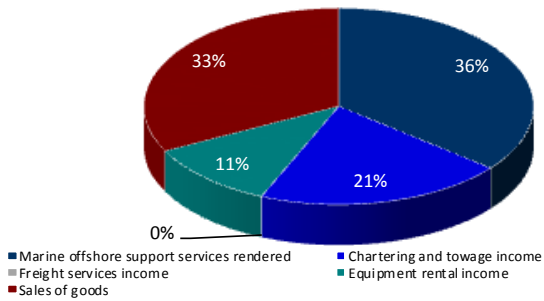


Fig: Revenue by geographical segment (%)

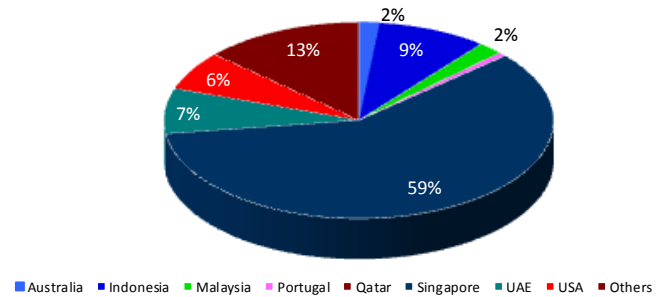


Fig: Yearly Revenue by year (SGD mn)

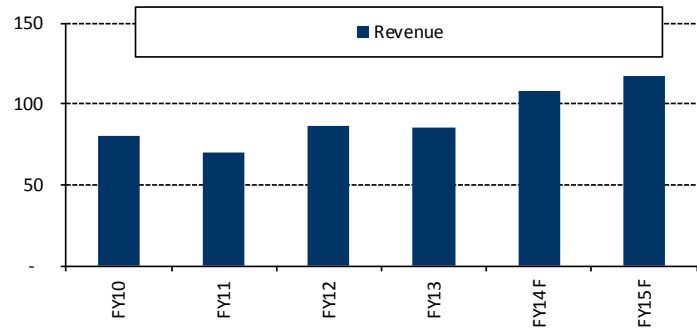
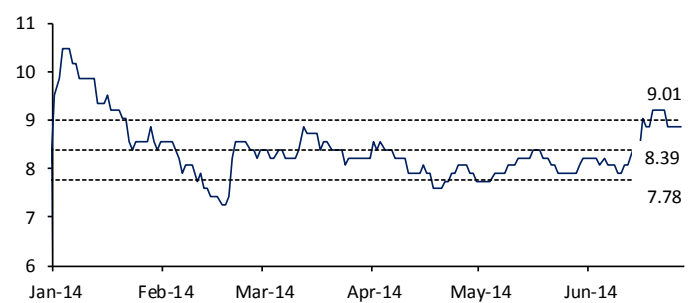


Fig: Historical 1/2Y PE



Source: Bloomberg, Company, PSR

For Financial Summary at the end of report

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Income Statement (SGD mn)					
Revenue	69	87	85	107	117
Cost of sales	(38)	(50)	(48)	(61)	(67)
Gross profit	32	37	36	46	50
Other operating (exp)/inc.	(8)	(15)	(15)	(19)	(21)
Depreciation of PPE	6	5	4	6	6
EBITDA	29	28	25	32	35
EBIT	18	20	20	26	28
Net finance exp.	(3)	(1)	(1)	(1)	(0)
Exceptionals	0	0	0	0	0
Profit before tax	21	21	20	26	29
Tax expense	(2)	(4)	(3)	(4)	(5)
Non-controlling interest	0	0	0	0	0
Net Profit, reported	19	17	17	22	24
Net Profit, adj.	19	17	17	22	24

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Per share data (SGD cents)					
EPS, reported	3.40	3.10	3.10	3.09	3.40
EPS, adj.	3.40	3.10	3.10	3.09	3.40
DPS	n.m.	n.m.	0.50	0.50	0.50
BVPS	n.m.	n.m.	10.46	16.09	18.99

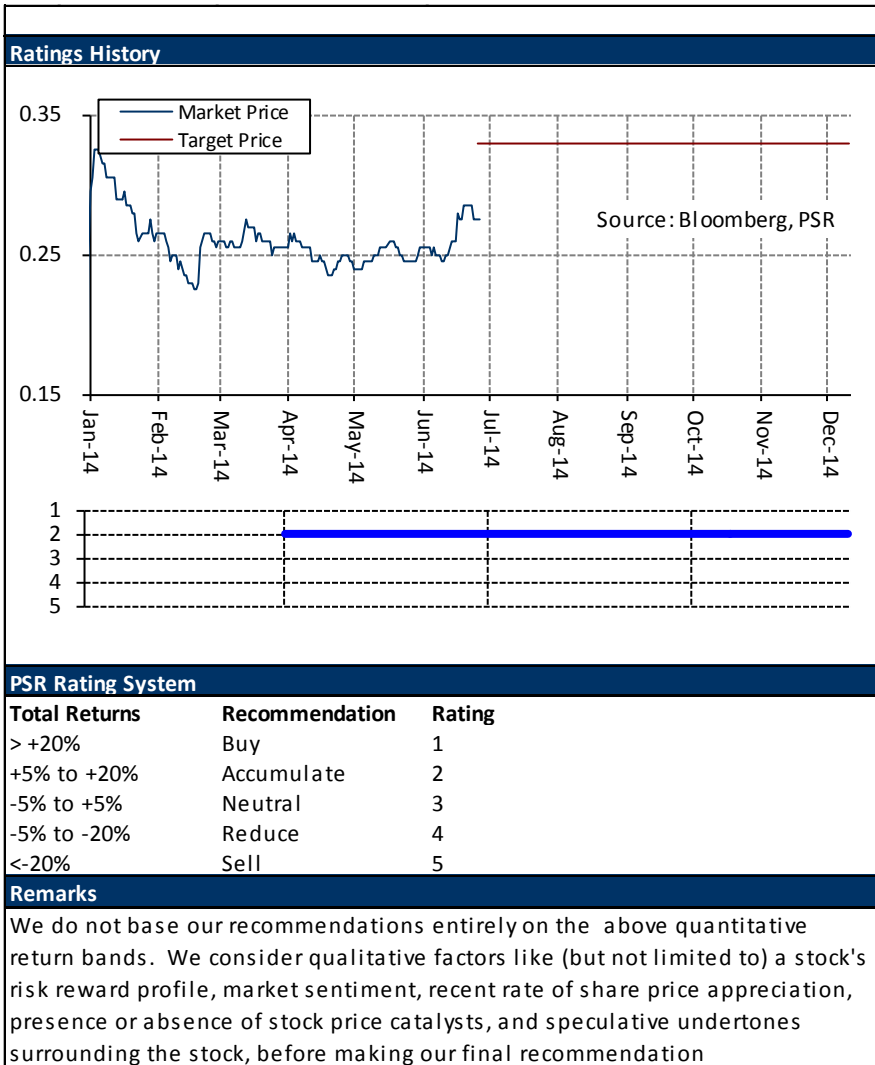
FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Cashflow Statements (SGD mn)					
CFO					
PBT	21	21	20	26	29
Adjustments	(1)	5	5	6	6
WCC Changes	(16)	(3)	(5)	(1)	(3)
Tax paid	0	(1)	(1)	(4)	(5)
Net cash from ops	4	22	20	27	28
CFI					
Capex	(3)	(3)	(3)	(20)	(20)
Others investing cashflows	27	7	7	2	(2)
Net cash from investments	25	4	4	(18)	(22)
CFF					
Dividends paid	(0)	(12)	(5)	(4)	(4)
Interest paid	(3)	(1)	(1)	(1)	(0)
Change in debt	(26)	(13)	(14)	(3)	-
Share issuance	-	-	-	38	-
Other financing cashflows	2	(0)	(0)	(2)	(2)
Net cash from financing	(27)	(26)	(20)	29	(6)
Net change in CCE	1	(0)	5	38	(0)
CCE at beginning of year	(3)	(2)	(2)	2	40
CCE at end of the year	(2)	(2)	2	40	40

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Balance Sheet (USD mn)					
Non-current assets					
Property, plant and equipment	67	61	58	78	98
Others	0	0	0	0	0
Total non-current assets	67	61	58	78	98
Current assets					
Inventories	3	1	1	1	1
Trade and other receivables	24	24	28	32	35
Cash and cash equivalents	1	1	4	40	40
Others	0	0	0	0	0
Total current assets	29	26	34	73	76
Total Assets	96	87	92	151	174
Non-current liabilities					
Loans and borrowings	15	6	4	5	5
Deferred tax liabilities	4	6	6	6	6
Total non-current liabilities	19	12	10	11	11
Current liabilities					
Loans and borrowings	15	6	4	5	5
Trade and other payables	27	18	17	21	23
Current tax payable	0	1	3	4	5
Total current liabilities	42	31	25	26	28
Total liabilities	60	43	34	37	39
Shareholders' Equity	36	43	58	114	135
Minority Interests	-	-	-	-	-
Total Equity	36	43	58	114	135

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	n.m.	n.m.	n.m.	8.9	8.1
P/B (X), adj.	n.m.	n.m.	n.m.	1.7	1.4
EV/EBITDA (X), adj.	n.m.	n.m.	n.m.	6.6	6.1
Dividend Yield (%)	n.m.	n.m.	n.m.	1.8%	1.8%
Growth & Margins (%)					
Growth					
Revenue	-13.9%	25.0%	-2.2%	26.7%	8.7%
EBITDA	nm	-5.8%	-7.6%	26.7%	8.7%
Net Income, adj.	nm	-6.7%	-1.1%	28.4%	10.0%
Margins					
Gross Profit margin	45.9%	42.9%	43.0%	43.0%	43.0%
EBITDA margin	42.2%	31.8%	30.1%	30.1%	30.1%
EBIT margin	26.2%	22.7%	23.1%	23.8%	24.4%
Net Profit Margin	26.7%	19.9%	20.2%	20.4%	20.7%
Key Ratios					
ROE (%)	68.0%	43.8%	33.9%	25.6%	19.4%
ROA (%)	18.0%	18.9%	19.1%	18.0%	14.9%
ROIC (%)	22.9%	27.3%	27.2%	22.6%	17.7%
Div. Payout ratio (%)	n.m.	n.m.	16.1%	16.2%	14.7%
Net Gearing (X)	0.8	0.3	0.1	n.m.	n.m.

Source: Company Data, PSR est

*Forward multiples and yields aer based on current price and historical yields are based on historical prices



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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information (Singapore Research Team)			
Management			
Chan Wai Chee (CEO, Research - Special Opportunities)	+65 6531 1231	General Enquiries	
Joshua Tan (Head, Research - Equities & Macro)	+65 6531 1249	Research Assistant	+65 6531 1240
Equities Macro		Market Analyst Equities	
Joshua Tan	+65 6531 1249	Kenneth Koh	+65 6531 1791
Soh Lin Sin	+65 6531 1516		
Finance		Real Estate	
Benjamin Ong	+65 6531 1535	Caroline Tay	+65 6531 1792
Telecoms		Transport	
Colin Tan	+65 6531 1221	Richard Leow, CFTE	+65 6531 1735

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

INDIA

PhillipCapital (India) Private Limited
No. 1, C-Block, 2nd Floor, Modern Center, Jacob
Circle, K. K. Marg, Mahalaxmi Mumbai 400011
Tel: (9122) 2300 2999
Fax: (9122) 6667 9955
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
No 10, Prince Alfred Tower,
Alfred House Gardens,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
Website: www.ashaphillip.net/home.htm