

Beng Kuang Marine (BKM SP)

2H likely to be stronger

BUY

Share Price	SGD 0.24
12m Price Target	SGD 0.29 (+25%)
Previous Price Target	SGD 0.47

Maintain BUY with a lower TP of SGD0.29

BKM's 1H24 revenue increased 88% YoY to SGD59.9m. PATMI also surged, to SGD8.38m from a loss a year ago. The profit includes a one-off gain of SGD5.53m from the second partial land sale in 1H24. Core earnings of SGD3m came in below our expectation due to much higher than expected admin expenses, which surged 72% YoY to SGD11m. We cut our FY24/25E PATMI forecasts by 18% and 9%, also assuming full conversion of the 3 warrants for 10 existing shares. Our TP is lowered to SGD0.29 from SGD0.47, based on an unchanged 9x FY24E P/E. Maintain BUY as we remain bullish on the FPSO upcycle as well as a stronger 2H24E, coupled with a further potential Batam land sale..

Robust FPSO-related activities boost 1H24 revenue

BKM's 1H24 revenue surged 88% YoY to SGD59.5m, mainly due to the strong performance by its 51%-owned subsidiary ASOM, which boosted IE's organic revenue by 142% YoY in 1H24. We expect 2H24E to likely replicate or perform even better than 1H24 due to the robust tailwind in the FPSO sector. However, much higher than expected admin expenses hampered operating margins but we believe this will improve going forward.

Bonus warrants of 3 for every 10 shares held

BKM proposed a 3-year warrant on the basis of 3 bonus warrants for every 10 existing ordinary shares held with the right to subscribe at SGD0.22/share, exercisable 6 months from the date of listing of the warrants and expiring 36 months from the same date. Total net proceeds could amount to SGD13.02m.

Upside capped due to dilution

While we remain bullish on the FPSO market and ASOM as it recorded a strong performance, the warrants dilution has put a cap on its share price upside for 2024. However, we will review its cost control and core earnings performance going forward and make any necessary adjustments. Risks to our BUY call include economic recession, lower oil price leading in slower O&G activities, rising labour costs

Company Description

Beng Kuang Marine engages in the provision of corrosion prevention services relating to repair of ships, tankers, and other ocean-going vessels.

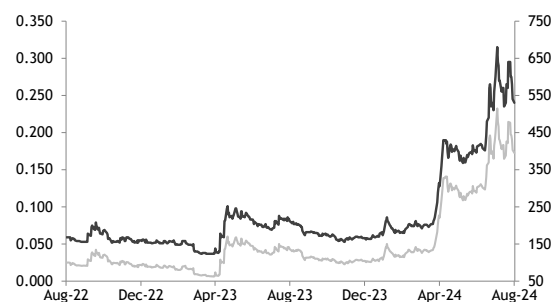
Statistics

52w high/low (SGD)	0.32/0.05
3m avg turnover (USDm)	0.8
Free float (%)	67.9
Issued shares (m)	259
Market capitalisation	SGD62.2M USD47M

Major shareholders:

Chan Kwan Bian	13.7%
GINKO-AGT GLOBAL G FUND	7.1%
Yong Jiunn Run	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(13)	35	196
Relative to index (%)	(12)	31	188

Source: FactSet

Abbreviations explained

FSPO - Floating production storage and offloading
FSO - Floating storage and offloading
IE - Infrastructure Engineering

Details of other companies in this report

ASOM - Asian Sealand Offshore & Marine (51%-owned private subsidiary)

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	59	79	108	137	157
EBITDA	(10)	3	17	29	34
Core net profit	(22)	3	8	12	14
Core EPS (cts)	(11.0)	1.7	3.2	4.7	5.4
Core EPS growth (%)	nm	nm	88.9	43.4	16.0
Net DPS (cts)	0.0	0.0	0.6	0.9	1.1
Core P/E (x)	nm	3.7	7.4	5.2	4.4
P/BV (x)	1.8	1.3	6.5	6.5	6.5
Net dividend yield (%)	0.0	0.0	2.7	3.9	4.5
ROAA (%)	(31.9)	5.7	12.7	16.2	16.8
EV/EBITDA (x)	nm	5.0	2.8	0.7	nm
Net gearing (%) (incl perps)	311.1	16.5	net cash	net cash	net cash
Consensus net profit	-	-	10	13	15
MIBG vs. Consensus (%)	-	-	(18.4)	(9.4)	(9.2)

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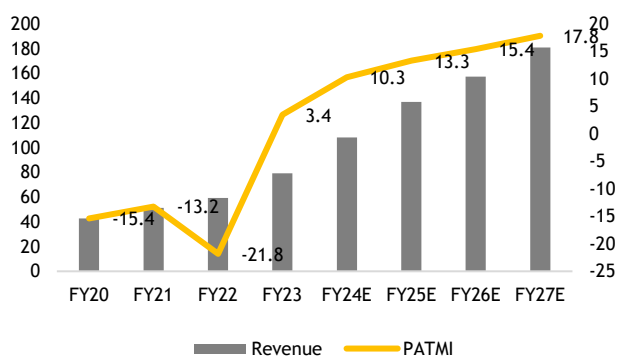
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OPPORTUNITY+

Value Proposition

- A key beneficiary of the robust FPSO market.
- Strong PATMI FY23-27E CAGR of 51%
- Surging demand for maintenance, repairs and FPSO extension of life services.
- Improving gross and net margins.
- Significantly undervalued at just 4.5x FY24E P/E.
- Batam shipyard sale could yield another SGD13.8m.
- Attractive dividends likely going forward.

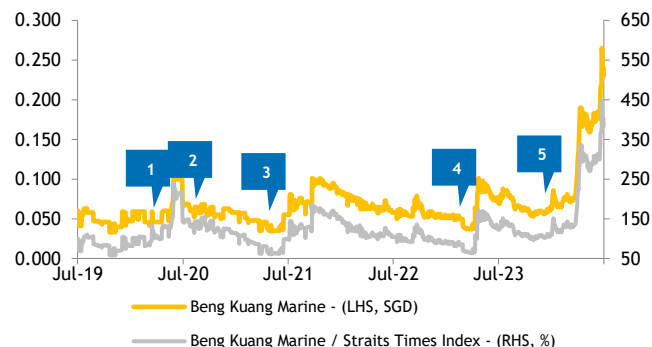
Revenue & PATMI



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



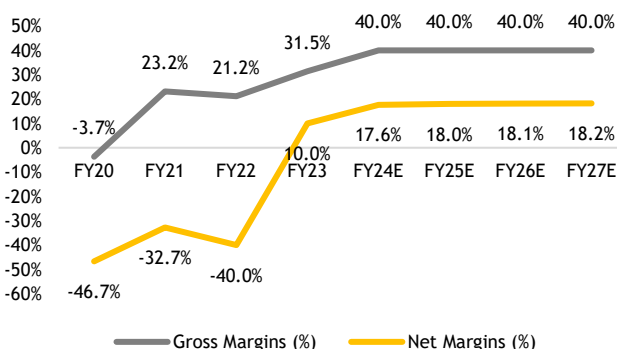
Source: Company, Maybank IBG Research

1. Placement done at SGD0.05 per share raising SGD3.35m.
2. Reported losses with outlook still cloudy.
3. Identified several assets for sale to pare down debt.
4. Announced sale of tugboat and Batam shipyard.
5. Reported 1Q24 company update which showed a jump in core profits.

Financial Metrics

- Revenue has doubled since FY20 and will likely continue to grow at a fast pace with the robust FPSO tailwind resulting in increased maintenance and services needed.
- Turned net cash after asset sales and continues to generate positive operating cashflow.
- Gross and net margins will continue to increase as it secures more vessels under care and demand for asset enhancement services increases.

Gross & Net Margins



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Strong PATMI FY23-27E CAGR of 51%.
- Potential yard sale of SGD13.8m.
- Riding the FPSO robust tailwind.
- Potentially branching into module fabrication could enable larger revenue recognition.
- Gross and net margins should continue to improve.

Downside

- Margins and profitability might be impacted if a recession occurs.
- A sharp drop in oil price could potentially affect its pipeline of jobs.
- Rising labour costs could impact margins.
- Declining FPSO activities will also impact profitability.

Fig 1: Changes in our forecasts

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	108.1	108.1	0.0	136.8	136.8	0.0	157.3	157.3	0.0
Gross profit (SGDm)	43.3	43.3	0.0	54.7	54.7	0.0	62.9	62.9	0.0
EBIT (SGDm)	19.0	23.2	-18.3	27.2	30.0	-9.1	31.6	34.7	-9.1
EBITDA (SGDm)	16.7	21.0	-20.3	29.5	32.2	-8.5	33.8	36.9	-8.5
Core net profit (SGDm)	8.4	10.3	-18.3	12.1	13.3	-9.1	14.0	15.4	-9.1
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	40.0%	40.0%	0.0	40.0%	40.0%	0.0	40.0%	40.0%	0.0
Net Margin	7.8%	9.5%	-1.7	8.8%	9.7%	-0.9	8.9%	9.8%	-0.9

Source: Maybank IBG Research

Fig 2: 1H24 results

	1H24	1H23	YoY%
Revenue (SGDm)	59.9	31.9	88%
PATMI (SGDm)	8.6	(0.9)	NM
Core PATMI (SGDm)	3.036	(0.9)	NM

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	3.7	7.4	5.2	4.4
Core P/E (x)	nm	3.7	7.4	5.2	4.4
P/BV (x)	1.8	1.3	6.5	6.5	6.5
P/NTA (x)	2.2	1.1	5.2	5.2	5.2
Net dividend yield (%)	0.0	0.0	2.7	3.9	4.5
FCF yield (%)	106.5	3.2	43.8	68.0	65.6
EV/EBITDA (x)	nm	5.0	2.8	0.7	nm
EV/EBIT (x)	nm	2.6	2.4	0.8	nm
INCOME STATEMENT (SGD m)					
Revenue	59.1	79.2	108.1	136.8	157.3
EBITDA	(10.1)	3.4	16.7	29.5	33.8
Depreciation	6.6	3.0	2.3	(2.2)	(2.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(3.5)	6.4	19.0	27.2	31.6
Net interest income / (exp)	0.0	0.0	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(2.1)	4.4	0.0	0.0	0.0
Pretax profit	(5.5)	10.8	19.0	27.2	31.6
Income tax	(1.5)	(2.9)	(3.4)	(4.9)	(5.7)
Minorities	1.8	(4.5)	(7.2)	(10.3)	(11.9)
Discontinued operations	(16.6)	0.0	0.0	0.0	0.0
Reported net profit	(5.2)	3.4	8.4	12.1	14.0
Core net profit	(21.8)	3.4	8.4	12.1	14.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	6.7	12.2	32.5	57.1	82.1
Accounts receivable	17.6	21.8	29.8	37.7	43.4
Inventory	3.4	2.0	2.7	3.4	3.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	21.7	13.8	13.6	13.3	13.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	8.0	13.2	(9.2)	(31.9)	(55.5)
Total assets	57.4	63.0	69.4	79.7	87.1
ST interest bearing debt	17.2	12.6	12.6	12.6	12.6
Accounts payable	28.7	32.5	38.9	49.2	56.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	5.0	1.5	1.5	1.5	1.5
Other liabilities	1.0	4.0	4.0	4.0	4.0
Total Liabilities	52.4	51.1	57.5	67.8	75.2
Shareholders Equity	6.1	9.5	9.5	9.5	9.5
Minority Interest	(1.2)	2.3	2.3	2.3	2.3
Total shareholder equity	5.0	11.9	11.9	11.9	11.9
Total liabilities and equity	57.4	63.0	69.4	79.7	87.1
CASH FLOW (SGD m)					
Pretax profit	(5.5)	10.8	19.0	27.2	31.6
Depreciation & amortisation	(6.6)	(3.0)	(2.3)	2.2	2.2
Adj net interest (income)/exp	2.0	1.8	0.0	0.0	0.0
Change in working capital	3.4	(4.4)	13.6	17.5	12.5
Cash taxes paid	(0.8)	(0.7)	(3.4)	(4.9)	(5.7)
Other operating cash flow	8.4	0.0	0.0	0.0	0.0
Cash flow from operations	12.1	1.3	29.2	44.3	42.8
Capex	(0.5)	(0.9)	(2.0)	(2.0)	(2.0)
Free cash flow	11.7	0.4	27.2	42.3	40.8
Dividends paid	(1.6)	(1.0)	(1.7)	(2.4)	(2.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(5.7)	(8.7)	0.0	0.0	0.0
Other invest/financing cash flow	0.2	12.3	0.0	0.0	0.0
Effect of exch rate changes	(0.1)	(0.0)	0.0	0.0	0.0
Net cash flow	4.5	3.0	25.5	39.8	38.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.2	33.9	36.6	26.5	15.0
EBITDA growth	nm	nm	391.5	76.3	14.6
EBIT growth	nm	nm	194.6	43.4	16.0
Pretax growth	nm	nm	75.5	43.4	16.0
Reported net profit growth	nm	nm	145.5	43.4	16.0
Core net profit growth	nm	nm	145.5	43.4	16.0
Profitability ratios (%)					
EBITDA margin	nm	4.3	15.5	21.5	21.5
EBIT margin	nm	8.1	17.6	19.9	20.1
Pretax profit margin	nm	13.7	17.6	19.9	20.1
Payout ratio	0.0	0.0	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	nm	4.3	7.8	8.8	8.9
Revenue/Assets (x)	1.0	1.3	1.6	1.7	1.8
Assets/Equity (x)	9.3	6.6	7.3	8.4	9.1
ROAE (%)	na	na	na	na	na
ROAA (%)	(31.9)	5.7	12.7	16.2	16.8
Liquidity & Efficiency					
Cash conversion cycle	(93.9)	(95.6)	(99.2)	(90.9)	(94.9)
Days receivable outstanding	118.1	89.7	86.0	88.9	92.8
Days inventory outstanding	26.8	18.0	13.0	13.5	14.1
Days payables outstanding	238.8	203.3	198.2	193.3	201.8
Dividend cover (x)	nm	nm	5.0	5.0	5.0
Current ratio (x)	0.7	1.0	1.0	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.1	1.2	1.2	1.2	1.2
Net gearing (%) (incl perps)	311.1	16.5	net cash	net cash	net cash
Net gearing (%) (excl. perps)	311.1	16.5	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	nm	4.2	0.8	0.5	0.4
Capex/revenue (%)	0.8	1.2	1.8	1.5	1.3
Net debt/ (net cash)	15.5	2.0	(18.3)	(43.0)	(67.9)

Source: Company; Maybank IBG Research

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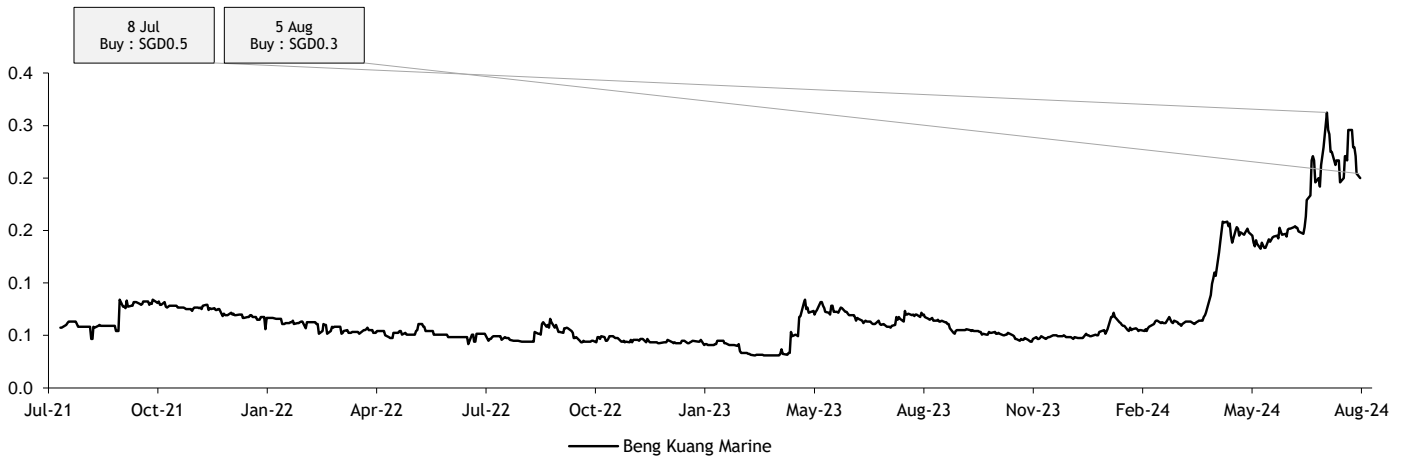
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Historical recommendations and target price: Beng Kuang Marine (BKM SP)



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