

Issuer: KSH Holdings Limited

Security: KSH Holdings Limited

Meeting details:

Date: 28 July 2017

Time: 9.30 a.m.

Venue: 60 Eu Tong Sen Street, Furama City Centre, Ballroom 1, Level 5, Singapore 059804

Company Description

KSH Holdings Limited, an investment holding company, primarily operates as a construction contractor for public and private sectors. The company operates through Construction, and Property Development and Management segments. It constructs residential, commercial, industrial, and institutional projects, including residences, integrated complexes, community buildings, cultural centers, sport center buildings, and steel structures. The company is also involved in the investment, development, sale, rental, and management of real estate properties. It has operations in Singapore, Malaysia, and the People's Republic of China. The company was incorporated in 1979 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=ERO)

Q1. The group’s vision is “To be a leader in building construction services in Singapore and a sizeable investor in property development in the region” (page 1 of the annual report). The group has a well-established construction business and acts as the main contractor for both the Public and Private Construction Sectors in Singapore, and the Private Sector in Malaysia.

	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000
Construction Revenue (External sales)	145,361	206,279	285,677	239,911	239,182	193,596
Segment Profit/(loss) before taxation	18,425	20,828	20,102	17,475	26,623	34,284

(Source: Company annual reports)

The revenue from the construction segment dipped slightly in 2017 but over the past 6 years, the growth and sustainability of the construction revenue and segment profit have been impressive given the competition in Singapore.

- a) **Can management provide better visibility to shareholders into the longer-term sustainability and profitability of the construction segment?**

The order books as at the end of the last 3 financial years are \$420 million (2015), \$223 million (2016) and \$340 million (2017).

- b) **Is the drop in construction revenue in 2017 a temporary blip (perhaps due to the timing of projects)?**
- c) **How does the group maintain its competitiveness and profitability in face of intense competition, especially from the foreign construction companies?**
- d) **The group has plans to invest \$5-\$8 million for a fabrication plant. How advanced is the group in using Prefabricated Bathroom Unit and/or Prefabricated Prefinished Volumetric Construction methods which are being promoted by the Building and Construction Authority?**

Q2. As highlighted in the “Message from Executive Chairman and Managing Director” (page 7), the group’s “22.5%-owned Gaobeidian township project has received considerable interest recently arising from an announcement in April 2017 by the PRC Government on the establishment of the Xiongan New Special Economic Zone ... The consortium is pending relevant approvals for the launch of 3,008 residential units for sale in the second half of 2017, as part of the 5,540 residential units and 27,500 square metres of commercial space approved for Phase 1.”

- a) **Can the company let shareholders know how the group’s 22.5% stake in the Gaobeidian township project is accounted for in the balance sheet?**
- b) **Given that the company has a 22.5% stake, how much oversight, influence and control does the company have in driving the development of the township?**
- c) **For such a big and high-profile project, the execution risks are high. What experience does the group have in managing projects this size? What is the group’s strategy to manage and reduce the execution risk?**
- d) **The details of Phase 1 of Gaobeidian were included in the 2017 annual report for the first time. Can management provide a holistic overview of the development plans of the township? Based on the land size of 8,000 mu (approximately 5.3 million sqm), has management (together with its consortium partners) mapped out the development plan for the entire township?**

Q3. As disclosed in Note 6 (page 88 – Interests in Associates), the group has made good investments through its associates over the years. The current carrying amount of the group’s associates exceeds \$156 million.

Some of the group’s investments (through its associates) are shown in the table below. These are small stakes into diverse associates with different assets spread across different regions.

Associate/Project	Stake	Region/Details
Glenthorne (LUMA Concept Hotel)	10%	London, UK
Mixed-use development	10%	Sapporo, Japan
Fairmont (192-room hotel)	15%	Leeds, UK
LGB-NB	15%	Vietnam Project

(Source: Company annual report)

The company has disclosed in the “Financial and Operations Review” (page 14) that:

“During the year, the Group has further expanded its footprint overseas alongside its strategic partners who possess rich network and experience in the respective markets. Working with these reputable and experienced partners allows the Group to take on varied projects to maximise returns on its financial resources.

In line with the Group’s strategy to strengthen its recurring income streams, these assets overseas are either primed for high yields upon development, or are operating assets that are immediately revenue-accretive to strengthen the Group’s recurring income streams”.

- a) **Given that there are many investments of about 10-15%, how much oversight and influence does the group get?**
- b) **How does the group ensure that the projects are properly managed?** This is especially important if the partners are all new to a particular city/market/asset class.
- c) **With a 10-15% stake, if and when the group decides to exit any particular investment, are there provisions in the shareholder/partnership agreement to facilitate that?**