

Issuer: Kim Heng Offshore & Marine Holdings Limited

Security: Kim Heng Offshore & Marine Holdings Limited

Meeting details:

Date: 23 April 2018

Time: 9.30 a.m.

Venue: The Chevrons, Sunflower Room 1 & 2, Level 1, 48 Boon Lay Way, Singapore 609961

Company Description

Kim Heng Offshore & Marine Holdings Limited, an investment holding company, provides integrated offshore and marine value chain services in Singapore and internationally. The company operates through two segments, Offshore Rig Services and Supply Chain Management, and Vessel Sales and Newbuild. It offers offshore rig services, including construction and fabrication works of sections or components of drilling rigs and drill ships; installation of offshore production modules and systems; afloat repairs, maintenance, and refurbishment of offshore rigs, platforms, and vessels; and supply of offshore drilling and production equipment. The company also provides supply chain management services, such as provision of offshore supply vessels and heavy-lift equipment; and provision of logistics, general shipping, and crew management. In addition, it offers marine support vessel chartering/trading services; and preset mooring services and mooring equipment, as well as shipbuilding and repair services. Further, the company provides marine salvage and oil-spill response services comprising oil spill management; emergency salvage response; oil spill response and pollution control; towage and anchor handling; underwater services consisting of seabed surveys; and wreck removal, slug disposal, and tank cleaning. Additionally, it engages in the provision of marine engineering, consulting, sub-contracting, and labor supply services; operation of ports; trading of drill pipes and related drilling materials; rental of marine equipment; offshore engineering; and lease, sale, rental, repair, maintenance, and after sale service of cranes and industrial equipment. The company operates a fleet of 12 tugs and 33 barges, which include accommodation and crane barges. Kim Heng Offshore & Marine Holdings Limited was founded in 1968 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5G2)

1. In the Chairman's Message, it was highlighted that even with \$40 million raised from the IPO in January 2014, the group adopted a prudent approach to preserve cash reserves when it was easier to invest aggressively into assets at overly inflated prices. By avoiding a herd mentality and refraining from chasing high asset prices with the capital available, the group avoided the worst of the crisis and remained prudent with sufficient cash on hand to sustain through the downturn.

Since July 2017, the group has been putting its financial strength to use with the purchase of three anchor handling tugs (AHTS) of 10,800 horsepower in July 2017 and another 6,000 horsepower AHTS in February 2018 at distressed prices.

- (i) **Given that the Chairman has said that the group will continue to expand its fleet prudently to achieve economies of scale, can management help shareholders understand what is the fleet size that would allow the group to operate efficiently?**
- (ii) **How much more capital will the group invest to expand its fleet?**

With total equity slipping to \$76.2 million and total borrowings increasing to \$29.4 million as at 31 December 2017, the group's debt to equity ratio has increased from 0.27 a year ago to 0.39 as at the end of the financial year. Cash and cash equivalents have dropped from \$20.0 million to \$4.4 million.

- (iii) **Has the board set a limit to the amount of leverage?**
- (iv) **What are the risks to the financial health of the group if the anticipated recovery falters or is slower than projected?**

2. Would the board/management provide better clarity to shareholders on the following operational/financial matters of the group? Specifically:

- (i) **Impairment loss on vessel:** The group recognised impairment loss on vessels of \$7.1 million in FY2016 and a further \$112,000 in FY2017. **Can management help shareholders understand the utilisation rate of the vessels? How many vessels in the group's fleet were impaired? Please provide a breakdown of the impairment by vessel.**
- (ii) **Impairment loss on machinery and equipment:** The impairment loss on machinery and equipment was \$1.1 million in FY2016 and \$3.5 million in FY2017. **Do these relate to the impairment loss on the group's cranes? What is the utilisation rate of the cranes?**
- (iii) **Cost management:** In the Operations & Financial Review, it was said that the group focused on cost cutting measures and succeeded in reducing the Selling, General and Administration expenses by 11.5% (page 16). In FY2017, revenue dropped by 12.5% to \$27.4 million. **What are management's plans to further improve its cost efficiency?**

3. Based on the disclosure of remuneration in the Corporate Governance Report, the table showing the remuneration of directors is reproduced as follows:

Details of the remuneration of the Directors and key management personnel of the Group for FY2017 are set out below:

Directors	Breakdown of Remuneration in Percentage (%)					
	Fees (%)	Salary (%)	Benefits-in-kind (%)	Variable Bonus* (%)	Total (%)	
Tan Keng Siong Thomas	–	91	2	7	100	Band C
Yeo Seh Hong ⁽¹⁾	–	88	5	7	100	Band B
Douglas Owen Chester ⁽²⁾	100	–	–	–	100	Band A
Ong Sie Hou Raymond	100	–	–	–	100	Band A
Ho Boon Chuan Wilson	100	–	–	–	100	Band A
Tan Chow Boon	100	–	–	–	100	Band A

*One-off discretionary variable bonus

Band A: Compensation from S\$250,000 and below per annum

Band B: Compensation from S\$250,001 to S\$500,000 per annum

Band C: Compensation from S\$500,001 and above per annum

(Source: Company annual report)

The company further disclosed that:

To maintain confidentiality on the remuneration policies of the Company, the Board is of the view that it is in the best interests of the Company to keep the disclosure of remuneration of each individual Director and key management personnel in salary bands.

- (i) **What deliberations did the board have when it considered whether or not to disclose the remuneration of directors as recommended by the 2012 Code of Corporate Governance?**
- (ii) **Would the board and the remuneration committee (RC) help shareholders understand why it had not disclosed the upper bound of Band C and had stated it as “S\$500,001 and above per annum”?**

In Note 26 (page 109 – Related party: Key management personnel compensation), the amount paid to directors of the company is shown to be \$2.396 million, as follows:

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors are considered as key management personnel of the Group.

The key management personnel compensation comprises:

	Group	
	2017 \$'000	2016 \$'000
Short term employee benefits	2,313	2,746
Contributions to defined contribution plans	83	110
	<u>2,396</u>	<u>2,856</u>

(Source: Company annual report)

Given that the non-executive directors received about \$208,000, the balance of \$2.188 million is split between the 2 executive directors. As such, the remuneration of Mr Tan Keng Siong Thomas could be estimated to be between \$1.688 million and \$1.938 million.

- (iii) **To improve the transparency on remuneration matters, would the RC minimally disclose the remuneration of all directors in meaningful bands of \$250,000 or less?**