Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Beng Kuang Marine Limited

Security: Beng Kuang Marine Limited

Meeting details:
Date: 22 April 2019
Time: 11.00 a.m.
Venue: 55 Shipyard Road, Singapore 628141

Company Description

Beng Kuang Marine Limited, an investment holding company, provides infrastructure engineering and corrosion prevention services. Its Infrastructure Engineering segment provides shipbuilding and conversion, and offshore construction services; and turnkey engineering services, such as planning, project management, procurement, fabrication, corrosion prevention, testing, installation, and pre-commissioning of steel work modules and structures. This segment also offers in-situ offshore platform and support vessel repair, sandwich plate system overlay treatment, shop blasting and painting, and thermal spray coating services; manufactures and sells pedestal cranes, and marine and offshore deck equipment; and supplies ship spares. The company's Corrosion Prevention segment provides blasting and painting services as part of shipbuilding, conversion, and repair activities; processes and distributes copper slags; and rents machinery and equipment. Its Supply and Distribution segment supplies and distributes personal protective, blasting, welding, and painting equipment and accessories; and other general hardware products under the MASTER, PROMASTER, and SPLASH brands. The company's Shipping segment owns and charters livestock carriers; and tugs and barges transporting coal and building materials, as well as offers ship management services. It operates a fleet of 16 vessels. Its Others segment is involved in the provision of technological solutions for water and waste water treatment; solid waste management; and recovery of natural resources. The company also provides industrial and marine automation, freight transport, metalizing, and internal tank coating services; and supplies and distributes beverage products. It serves the marine, offshore oil and gas, construction, and other industries. The company has operations in Singapore, Indonesia, Australia, China, Canada, South Africa, Myanmar, and Malaysia. The company was founded in 1990 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BEZ)

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1. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

(i) **Asian Sealand Engineering Pte Ltd ("ASE"): With the proposed sale of ASE, how will the group's operations and service offering be affected? Would this be a set-back to the group's goal of being the "Preferred Partner" in providing total solutions for the marine, offshore and oil & gas industries?**

(ii) **Profit margin:** The group's decline in gross profit was attributed to the unfavourable settlement at lower profit margins of several Infrastructure Engineering (IE) and Corrosion Prevention (CP) projects. **Can management help shareholders understand the contracting and billing practices for its projects? Why are project sums "settled" presumably after the work is done? Are these fixed price tenders/bids? Does the group carry out substantial amounts of variation orders?** The "Completeness and accuracy of revenue recognition on infrastructure engineering and corrosion prevention services" is also a key audit matter highlighted by the independent auditor in their Report on the audit of the financial statements.

(iii) **Shipping division: Can management disclose the utilisation rate of its fleet? Is the group totally scaling back its tugs and barges operations and retaining just the livestock carriers?**

2. The "Credit loss allowance on trade receivables and contract assets" is a key audit matter (KAM) highlighted by the independent auditor in their Report on the audit of the financial statements (page 31).

Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 December 2018, trade receivables and contract assets amounted to $17.95 million and $5.42 million respectively. Trade receivables and contract assets are carried at amortised cost less appropriate allowance for credit losses.

A loss allowance of $1,534,636 (2017: $1,717,364) for trade receivables was recognised as at 31 December 2018.

In Note 30a (page 111 – Financial risk management: Credit risk: Trade receivables and contract assets), the company shows the loss rates used according to the business segment. The expected credit loss of the Infrastructure Engineering (IE) segment is shown below:

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The Group's and the Company's credit risk exposure in relation to trade receivables and contract assets under SFRS(I) 9 as at 31 December 2018 are set out in the provision matrix as follows:

	Not past due nor impaired $	Past due 0 to 30 days $	Past due 31 to 180 days $	Past due 181 to 365 days $	More than one year $	Total $
Group						
Infrastructure engineering						
Expected loss rate	0%	0%	0%	0%	29%	
Trade receivables	1,514,757	813,050	369,753	175,480	4,472,704	7,345,744
Contract assets	2,666,795	–	–	–	–	2,666,795
Loss allowance	–	–	–	–	1,323,035	1,323,035

(Source: Company annual report)

As seen from the table above, management does not expect any credit loss for trade receivables past due by less than one year. For trade receivables past due by more than one year, the expected loss rate from its IE customers is 29%.

The expected loss rates for trade receivables past due by more than a year for the IE, CP, Supply and distribution (SD) and shipping (SH) divisions are 29%, 33%, 12% and 0% respectively.

(i) Can management help shareholders understand the average historical loss rates for trade receivables past due by less than a year?

(ii) Is it prudent to have zero expected loss rate for trade receivables past due by less than a year? Has the audit committee reviewed the newly implemented expected credit losses model under SFRS(I) 9?

(iii) Would management confirm that the expected loss rate for trade receivables past due by more than 1 year from its shipping customers is zero? Has the group ever recognised any impairment and write-off from its shipping customers?

(iv) What are the efforts by management to improve the collection of its trade receivables?

3. On 5 June 2017, the company was placed in the SGX Watch List due to the Minimum Trading Price (MTP) Entry Criteria.

In August 2015, the company had carried out a share consolidation of four ordinary shares into one consolidated share so as to comply with the MTP requirement. As a result, the number of shares was reduced to 135,010,406 (consolidated) shares.

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However, due to the weak stock market sentiments which reflects the current state of the oil and gas sector, the company has failed to meet the MTP criteria. The company has a 6-month volume weighted average price of $0.058 as at 4 April 2019 and a market capitalisation of $7.43 million.

The company will have to meet the requirements of Rule 1314(2) of the Listing Manual within 36 months from 5 June 2017, failing which the Exchange would delist the company or suspend trading in the company's shares with a view to delisting the company.

Rule 1314(2) requires the company to achieve:
(a) a volume-weighted average price of at least $0.20; AND
(b) an average daily market capitalisation of S$40 million or more over the last 6 months.

(i) **Would the board update shareholders on the deliberations it has had with regard to exiting the watch-list?**

(ii) **What are the options available to the group given that it has 36 months from 5 June 2017 to meet the MTP exit criteria?**

(iii) **Given that the market capitalisation is now less than $8 million, how reasonable is it to expect the company to be able to meet the $40 million threshold?**

(iv) **Has the board/management evaluated the cost to the group as a result of it being watch-listed by the exchange?** For instance, the risk of being delisted would negatively impact the share price and this would make fund raising more difficult and more costly. In addition, the company's shares are no longer investable under CPF funds. There might also be reputational risks as suppliers and customers may be concerned with the company's status as a listed company when it is on the watch-list.