CORPORATE

King Wan eyes more business ventures as core trade struggles

| BY FRANKIE HO |

For a company in a business widely regarded as stodgy and run-of-the-mill, King Wan Corp has been nothing short of impressive lately — insofar as its share price is concerned. The stock has put on as much as 45% since March, when it hit a year-to-date low of 25.5 cents.

Many in the market have yet to warm up to the company, though, considering that the run-up, which pushed the shares to a 12-year high, was not accompanied by significant volumes. Still, a couple of corporate developments by King Wan in recent months are noteworthy.

For some years now, the group has been seeking growth by branching out into a variety of businesses, as its core trade of providing mechanical and electrical engineering services to the building and construction industry struggled to make headway amid increased competition and labour costs.

In the last few months, it reaffirmed its commitment to creating additional streams of income as it unveiled plans with two other companies to develop a 9,200-bed foreign-worker dormitory, one of the largest in Singapore. But what really got some investors turned on to the stock was the prospect of a special dividend, following the recent listing of a business partner in Thailand.

King Wan owns 3% of Thailand-listed **Kaset Thai International Sugar Corp** (KTIS), which made its trading debut on April 28. It received shares in Thailand's third-largest sugar producer in April as part-payment for the sale in 2012 of its 20% stakes in an ethanol producer and a pulp company to KTIS for THB1.22 billion ($47 million).

King Wan invested in the two Thai companies in 2004, and has received about $16 million in dividends from them over the years. KTIS is its joint-venture partner in both companies. King Wan will book a net profit of $24 million from the divestment and is open to selling its 3% stake in KTIS if the price is right.

Meanwhile, the search for more investment targets and business opportunities continues. "We are still very much focused on mechanical and electrical engineering. If we can find related businesses that can help us grow, we will invest in them," Chua Eng Eng, King Wan's managing director, tells *The Edge Singapore*.

Tough times

King Wan's mechanical and electrical engineering business, carried out only in Singapore, has had a rough ride since 1997, when the Asian financial crisis struck, she concedes. The company specialises in designing and installing electricity distribution, fire protection, alarm and air-conditioning systems. While there were periods when business was better, such as when the two integrated resorts were built, the going has generally not been easy, more so with the curbs on foreign labour in recent years.

"From our listing [in 2000] until 2005, before the government announced the building of the two casinos and allowed foreigners to become permanent residents with an investment of $1 million, the whole construction market was quite dead," recalls Chua, whose father, Chua Kim Hua, founded King Wan in 1977. He is still active in the company and is chairman of its board of directors.

"It was only in 2008 and 2009 that people said the construction industry should do well because of all the activities going on. We waited for about 10 years for people to want to know more about the market," she says.

Amid the challenges, bringing its core expertise abroad is not on its radar screen. "It's a bit difficult to expand our mechanical and electrical engineering business overseas because we would have to rely a lot on construction companies to bring us along," she says.

In essence, diversification is vital for King Wan to achieve meaningful growth and raise its profile among investors. "As a listed company, we have not been sexy to many people. Investors find it hard to estimate profits for construction companies. It takes a lot of effort, organisation and commitment to ensure that costs are controlled and assess whether margins for projects we get are lean or good. I can understand why investors have concerns," she says.

On a brighter note, King Wan does not need a lot of funds for its line of work, she points out. Indeed, the company has not tapped investors for cash since 2008. "Being in the mechanical and electrical engineering business, we don't need a lot of funding. Whatever we earn, we can invest. It makes sense, then, for us to go into businesses that can bring in better margins."

In FY2014 ended March, the company achieved a gross profit margin of 14%, down from 17% in the previous year. Revenue rose 44% to $95.4 million, but earnings slipped 4.5% to $6.7 million, as it sold its two Thai associates to KTIS.

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Heading to the seas

One of King Wan's newer businesses is vessel chartering. In January last year, its 30%-owned associate, Gold Hyacinth Development, bought a bulk carrier, which was deployed two months later under a time-charter contract. Gold Hyacinth is part-owned by the spouse and another daughter of King Wan's chairman, as well as other individual investors.

The operation is generating cash, although its contributions to King Wan's bottom line are negligible for now, according to Chua, who adds that it was not a business she was initially keen on. "The entire vessel chartering business then was really very bad, as the whole shipping industry was quite dead. When the proposal was sent to me, I was not interested. But before I reject something, I want to learn about it.

"I approached a few people who were familiar with the industry to help me look at the proposal and tell me why I should not invest in it. But when they looked at it, they said it was a very good vessel. It was like a BMW going for the price of a Toyota."

She promptly got her team knocking on doors to ask companies whether they would charter the vessel. "At the time, the people who owned vessels were not keen, as they had a lot of their own in their fleet. Although charter rates were low, it made more sense for them to use their own vessels."

They eventually found someone keen — ED&F Man, a London-based agricultural commodities trader. "We concluded that, as long as we had a charterer, our monthly payment [for the vessel] would be taken care of and cash flow from this business would still be positive," says Chua.

Piqued by the prospect of getting into the shipping business at a relatively low cost, she made plans to build up a fleet of four to five vessels, but they never took off. "We figured we could continue this business until there was an upturn in the industry. Unfortunately, after we bought this vessel, the market turned for the better and vessel prices moved up. So, we stopped at one."

Moving into the accommodation business

Chua is hoping for a better outcome for King Wan's investment in the foreign-worker accommodation business. The 9,200-bed dormitory, in Tuas, is slated to be completed by end-2015. The facility is being built by a consortium in which King Wan has a 19% stake. Its joint-venture partners are Mainboard-listed property and construction group **TA Corp** and SKM Development, a privately held investment holding company.

"In Singapore, we have to acknowledge that we cannot do without foreign workers. I think their living conditions will continue to improve. If the government comes up with more well-run dormitories, smaller players may not be able to last as long in business. So, this 20-year licence in Tuas to build and run the dormitory will be a good investment for us."

King Wan first branched out into other businesses in 2003, when it paid less than $700,000 for a 30% stake in a firm that distributes cables to companies in the offshore oil and gas industry. It sold the stake in 2011 for $9 million.

Development blues

Not all its investments have paid off, or paid off as handsomely, though. King Wan ventured into the property market in China's Dalian city in 2004 by taking a 35% stake in a real estate developer. The plan was to build a township with 3,000 apartments, terraced houses, hotels, schools and commercial buildings. Ten years on, apartment sales are slow, Chua concedes, thanks to a slew of property-cooling measures by the Chinese government.

"Although the Chinese government has recently been trying to relax rules on housing loans, it will still take a bit of time for people to adjust to this change. Sales have improved compared to last year, but they are still not as active as before."

King Wan's property development business in Singapore is "challenging" too, she adds. Its first condominium project, The Inspira at Robertson Quay, was fully sold nine months after the 120-unit development was launched in September 2006. But reception to its second and third projects has been less warm. "It will take a bit longer to sell. We just have to be patient."

Even as King Wan continues to search for more investment and business opportunities, its bread and butter will still be mechanical and electrical engineering, she says. Its order book stands at $153 million. The group will also remain a listed entity, even though it has not raised equity for more than five years in a row.

"As an engineering company, whether you are listed or not doesn't really matter. But when you invest, it helps our partners in their evaluation of us as a business. If we want to expand overseas, being a listed company helps as well because we are supposed to be more transparent." Chua's family owns about 29% of King Wan.

At its recent share price of 35 cents, King Wan trades at 18 times FY2014 earnings and offers a 5.7% dividend yield. ■