

Mencast

PARTNER PERFECT

MENCAST HOLDINGS LTD. CORPORATE PRESENTATION

DATE : 9 JAN 2014
EVENT : RHB-OSK|DMG
ASEAN & HONG KONG
CORPORATE DAY



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- Operations Review
- Financial Review
 - FY2012 & 3Q FY2013

Corporate Video



Group Overview and Competitive Strengths

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Overview



3 Growth engines

- Offshore & Engineering
- Marine
- Energy



33

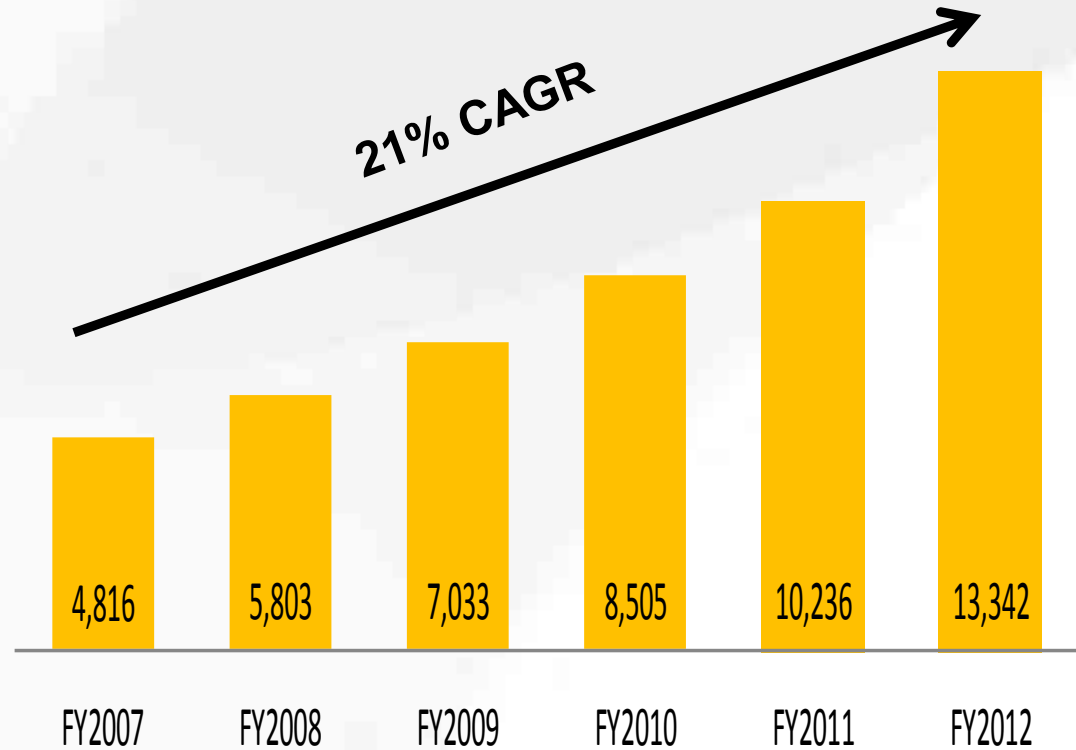
Year track record of excellence



700+

Employees

Net Profit (S\$'000)



Through leadership in Maintenance, Repair & Overhaul (“MRO”) to the Oil & Gas and Marine Industry, Mencast serves the Global Energy Cycle

Mencast serves the Global Energy Cycle



ENERGY CYCLE



Exploration



Remediation



Production



Maintenance



Distribution



Exploration & Production

*Offshore structure engineering and fabrication for exploration, production and seismic survey
Pressure vessels, tanks, skid plates and precision components
Rig positioning and thruster installation
Remote Operated Vehicles*

Distribution

*Manufacturing of sterngear systems and equipment for oil tankers
Piping systems and equipment for O&G industry*

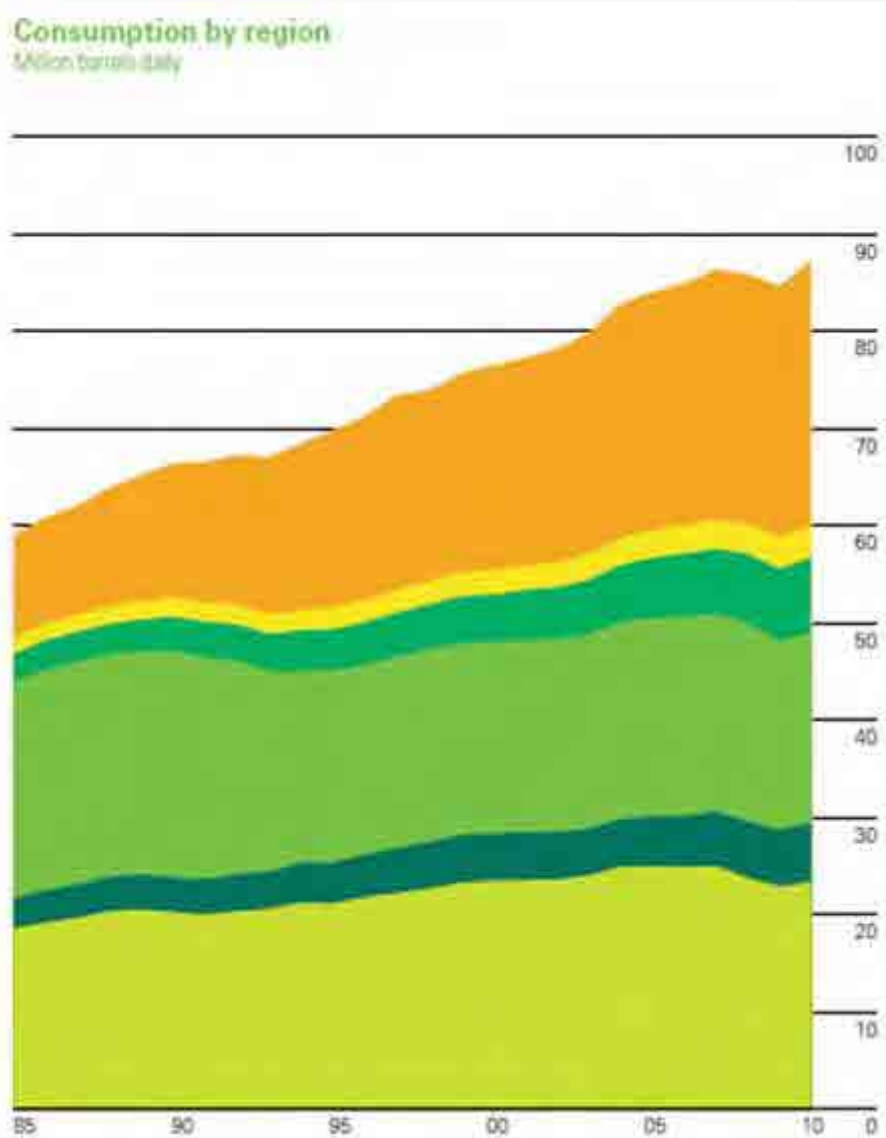
Refinery/ Maintenance

*Integrated MRO services for oil and gas and marine industry
Underwater, topside and offsite capabilities*

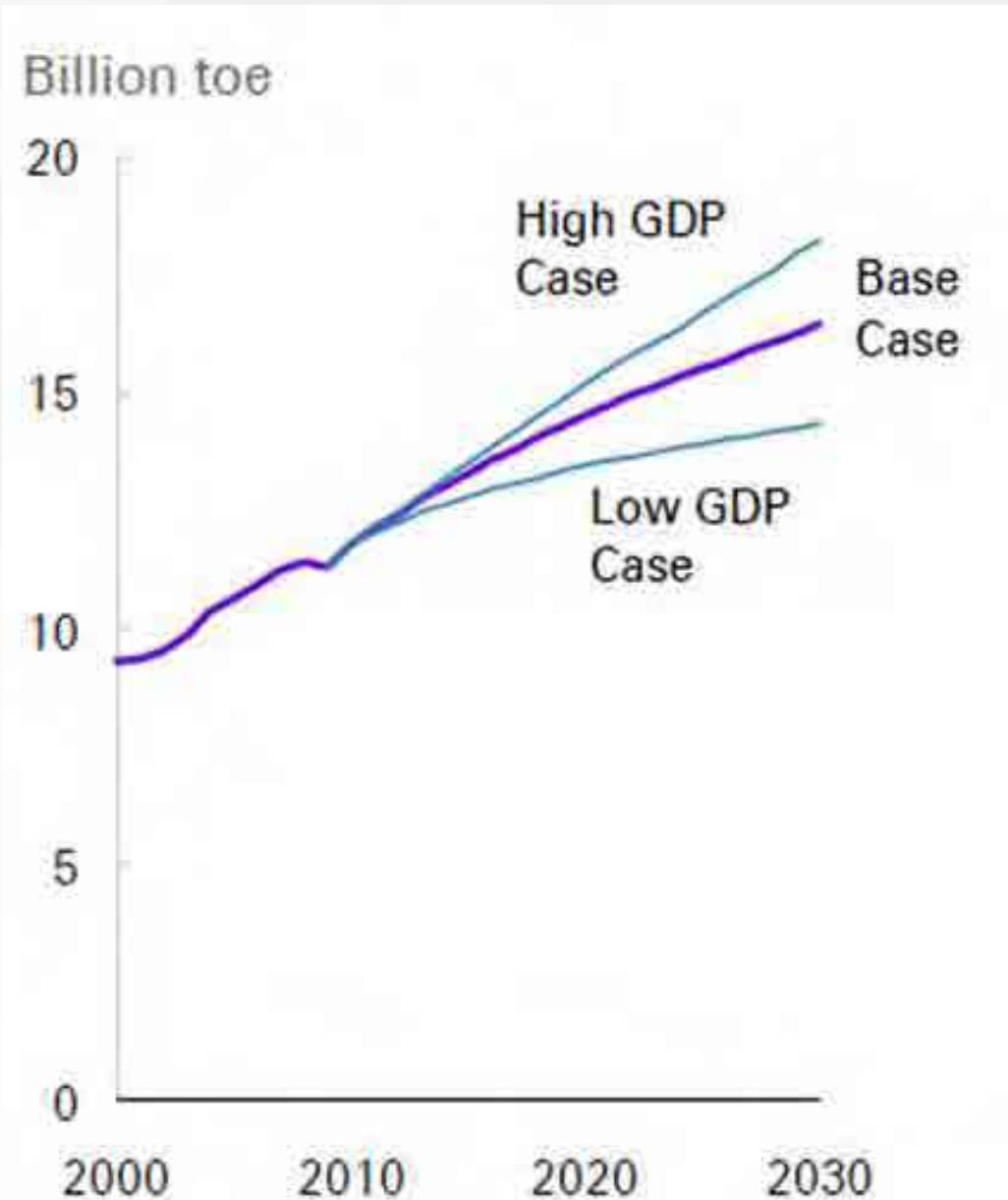
Environmental Remediation

*Cleaning, waste management and processing services
Carbon footprint management
Decommissioning*

Sustained Energy Demand Growth



Source: BP Statistical Review of World Energy, June 2012

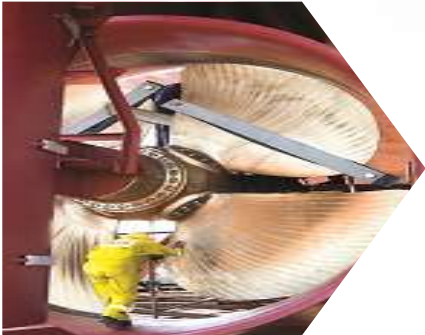


Business Divisions: Primed for Growth

Offshore and Engineering



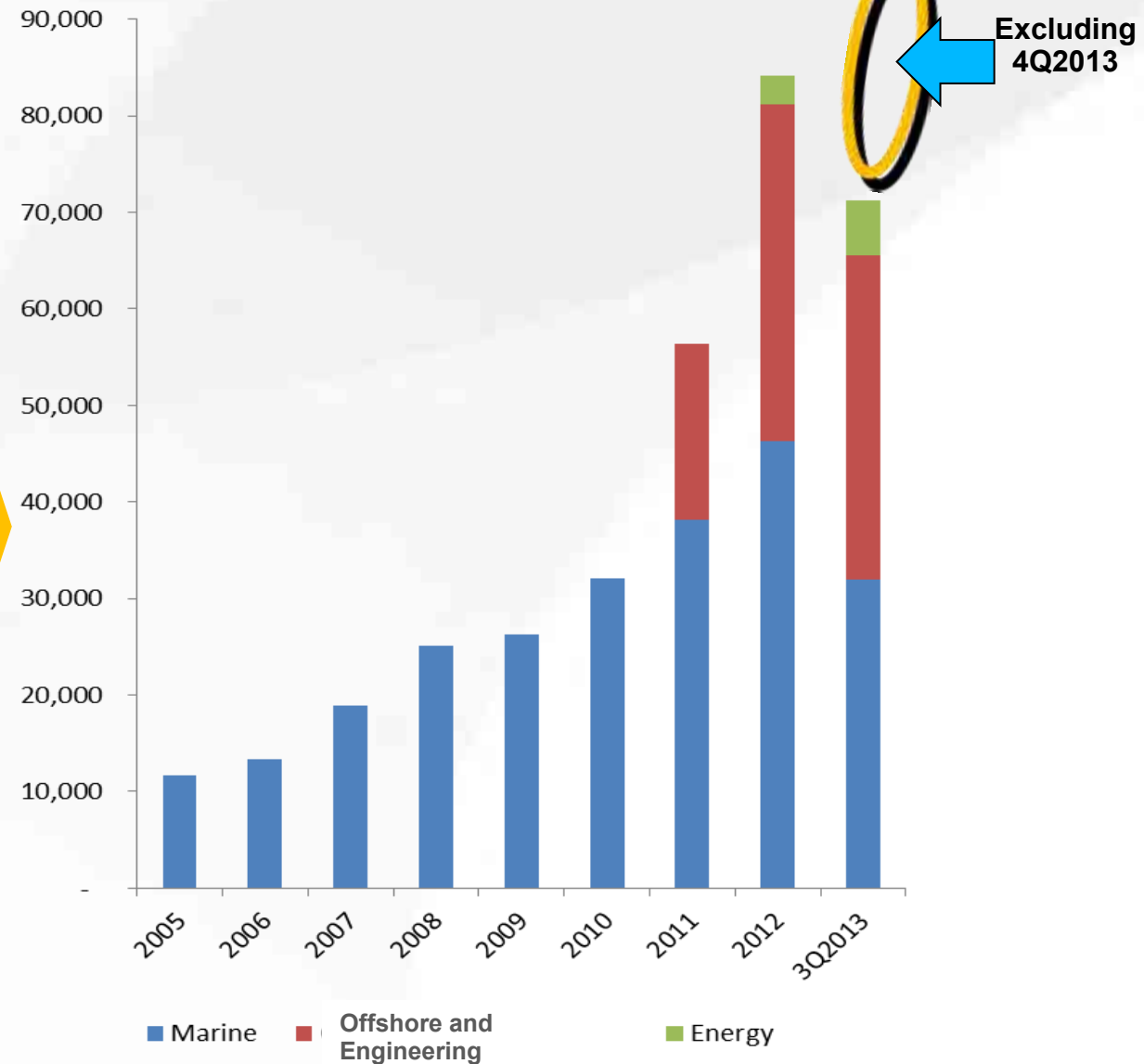
Marine



Energy



Revenue by Segments (S\$'000)



Key Customers

Strong relationships with the customers have allowed Mencast to secure contracts averaging 3 to 5 years.

Supporting Partners Across Offshore, Marine and Oil & Gas Sectors

Offshore & Engineering



Marine



Energy Services



Roadmap: One Billion Market Cap.

KEY DRIVERS

Revenue Growth

Strong demand for MRO from Singapore and new markets.
US\$2 billion revenue potential from identified markets.

Margins

Subject to market conditions, the Group targets long term net margin of over 10%

Market Multiple

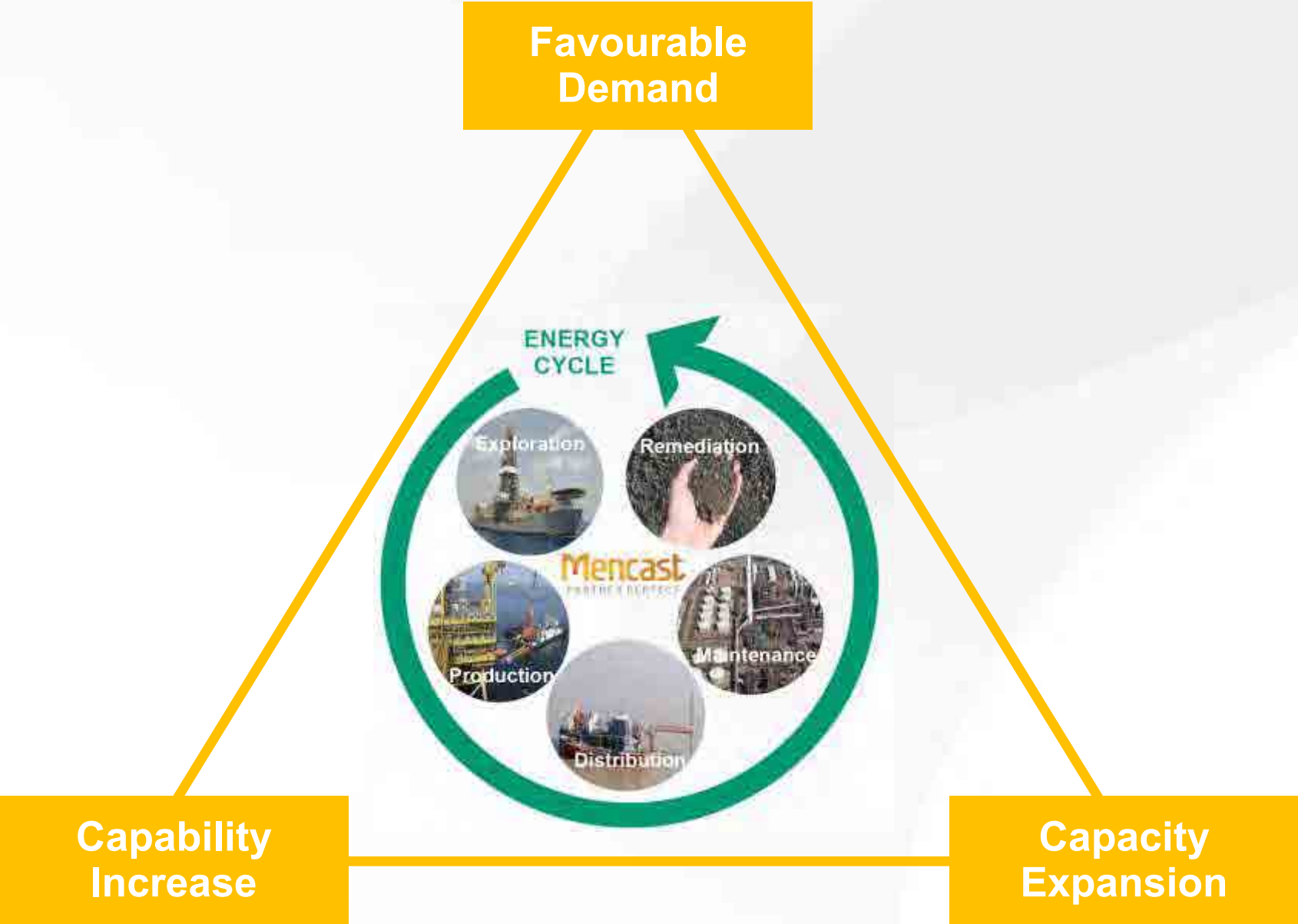
Sustain growth record and increase ROCE-WACC
\$13.3m

M&A

Potential accelerator



Primed for High Quality Growth





Operations Review

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An aerial view of an offshore oil rig under construction. The rig's yellow steel structure is partially completed, with multiple levels of decks and walkways. A large red crane is mounted on a barge in the water, positioned to lift a large red component into the rig. The water is a dark blue-grey color. In the background, a large concrete pier or platform is visible. The image is overlaid with a red and yellow graphic design.

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OFFSHORE & ENGINEERING

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42B Penjurong Road



5 Axis Milling Centre



CNC Vertical Lathe Machine

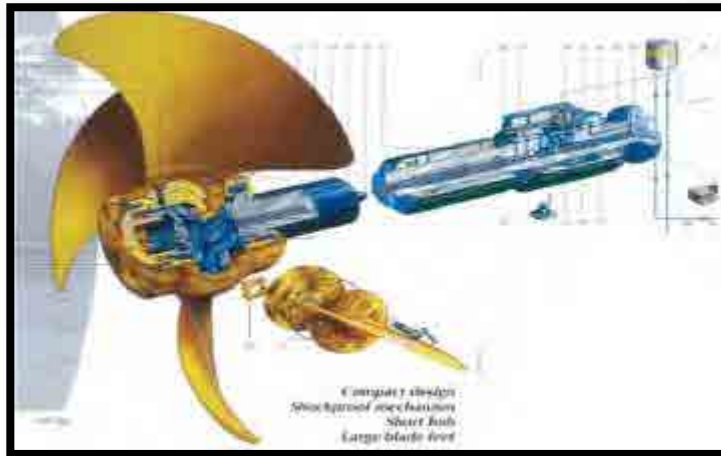


CNC Horizontal Turn-Mill Machine



CNC Horizontal Milling Centre

MARINE







An aerial photograph of an industrial facility, likely a refinery or chemical plant. The image shows several large white cylindrical storage tanks in the upper left, a complex network of pipes and walkways in the center, and a large red vessel or barge in the lower right. The background is a solid teal color.

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ENERGY SERVICES

ENERGY SERVICES



Mencast serves the Global Energy Cycle



Accreditations and Certifications

Mencast MARINE



Mencast OFFSHORE & ENGINEERING



Mencast ENERGY SERVICES





Financial Review - FY2012 & 3Q FY2013

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Group's Financial Performance – FY2012 & 3Q FY2013

S\$'000	Audited			Unaudited		
	FY 2012	FY 2011	Change (%)	3Q FY 2013	3Q FY 2012	Change (%)
Revenue	84,086	56,358	49.2	71,238	56,324	26.5
Gross Profit	26,492	22,543	17.5	23,432	18,260	28.3
<i>Gross Margin</i>	31.5%	40.0%	-	32.9%	32.4%	-
Other Gains - net	4,266	374	n.m	661	1,199	-44.9
Finance Expenses	1,272	783	62.5	1,125	879	28.0
Total Expenses	17,712	12,442	42.4	14,177	10,706	32.4
Operating Profit	14,318	11,258	27.2	11,041	9,632	14.6
<i>Operating Margin</i>	17.0%	20.0%	-	15.5%	17.1%	-
EBITDA	18,982	14,089	34.7	15,298	12,884	18.7
<i>EBITDA Margin</i>	22.6%	25.0%	-	21.5%	22.9%	-
Profit before Tax	13,046	10,488	24.4	9,916	8,753	13.3
Net Profit	13,342	10,236	30.3	9,483	8,196	15.7
<i>Net Margin</i>	15.9%	18.2%	-	13.3%	14.6%	-

Capacity expansion in booming market drove:

- Record revenue and net profit in FY2012
- 16% growth in NPAT in 3Q FY2013

Group's Financial Position

S\$'000	Change (%)	30 Sep 2013	31 Dec 2012	31 Dec 2011
Total Assets	36.9	267,129	195,146	137,225
Total Liabilities	59.2	166,880	104,824	80,067
Total Debt *	110.4	127,436	60,575	39,343
Net Debt**	89.3	77,347	40,859	29,892
Total Equity ***	11.0	100,249	90,322	57,158
Gearing Ratio (Total Debt / Total Equity)	-	1.27x	0.67x	0.69x
Net Gearing Ratio (Net Debt / Total Equity)	-	0.77x	0.45x	0.52x
Net Gearing Ratio (adjusted for the effect of unrecognised fair values of properties) ****	-	0.56x	0.33x	0.52x

- *Total Debt is calculated as current and non-current borrowings.*

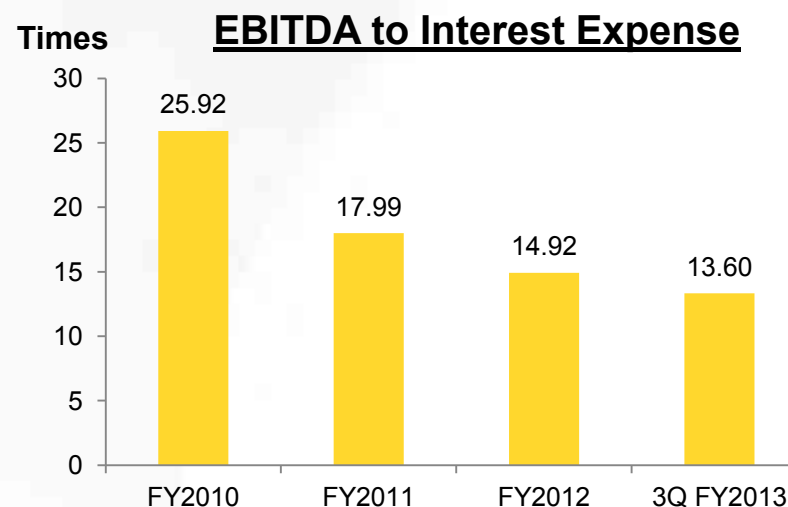
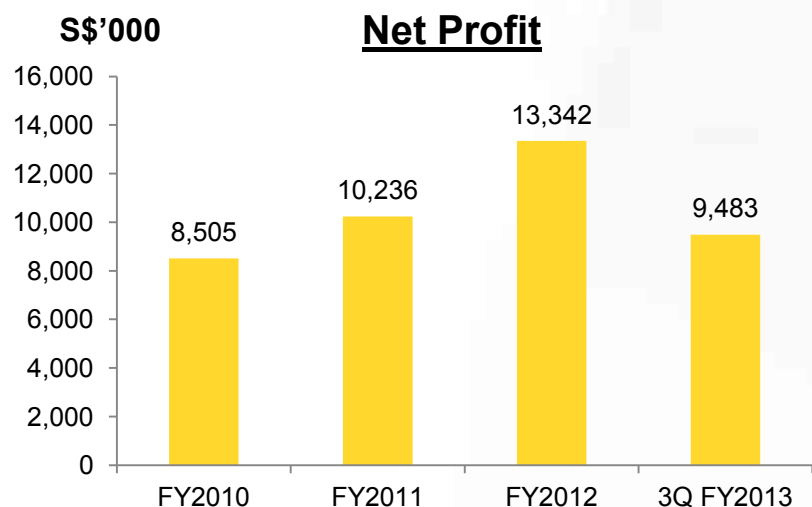
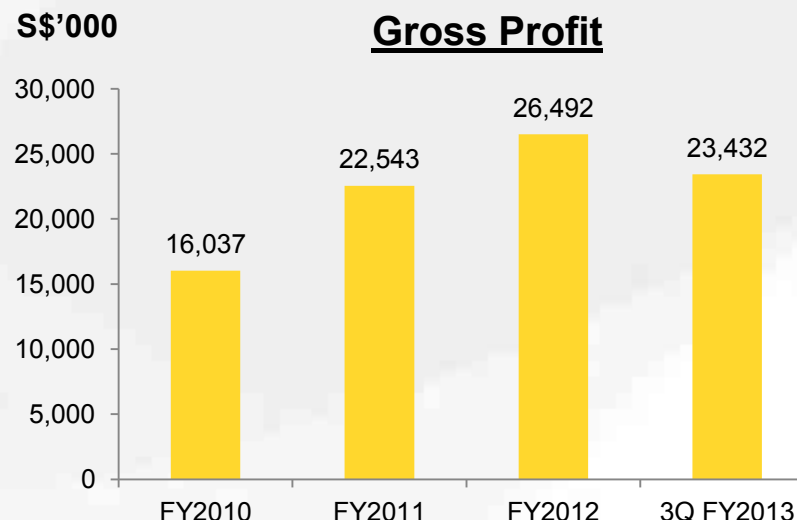
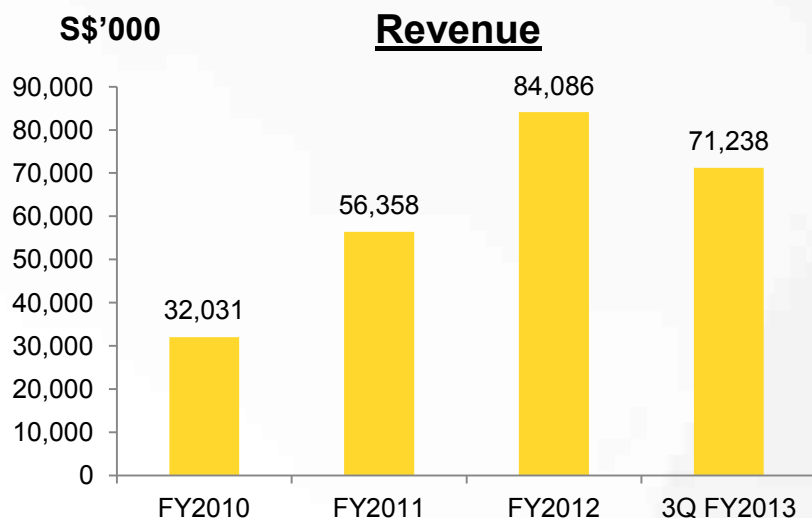
** *Net Debt is calculated as current and non-current borrowings minus cash and cash equivalents.*

*** *Total Equity includes share capital, reserves and non-controlling interests.*

**** *The Group's seven properties are carried at in the books \$56.0m. In FY2013, the Group engaged third-party valuers to carry out a valuation of the Group's properties. This determined a market value of \$94.0m, a revaluation surplus of \$38.0m.*

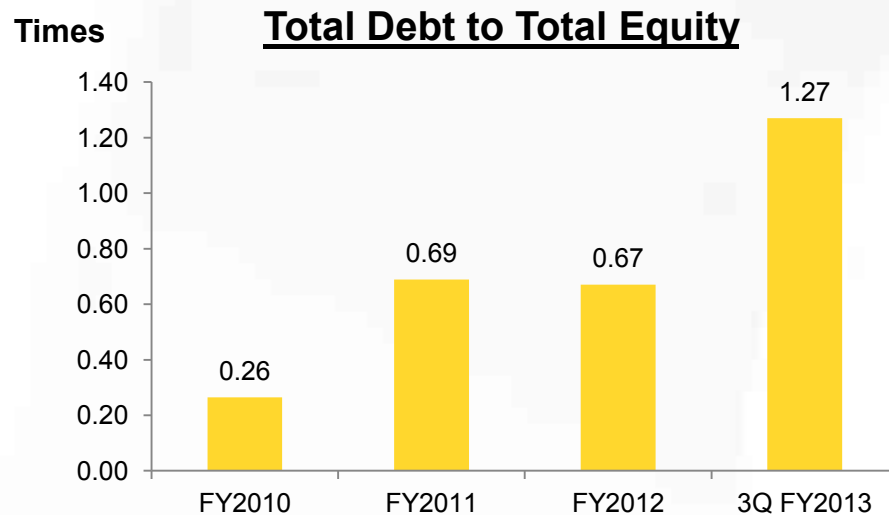
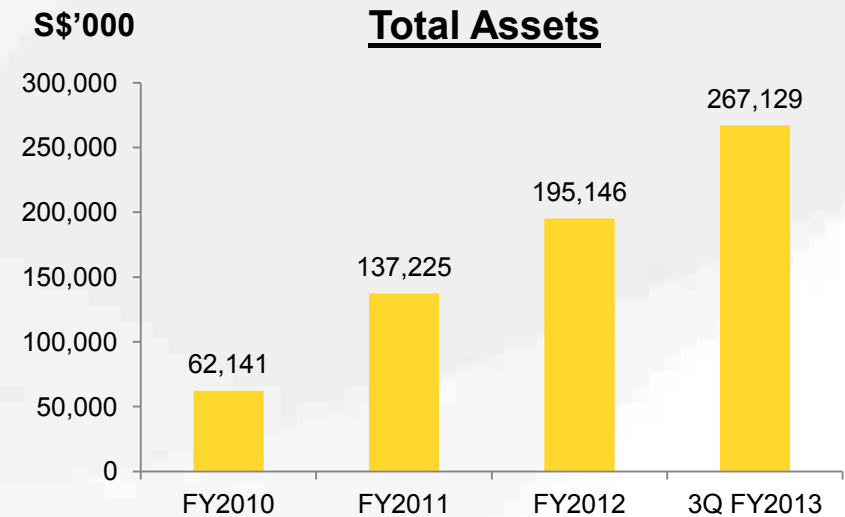
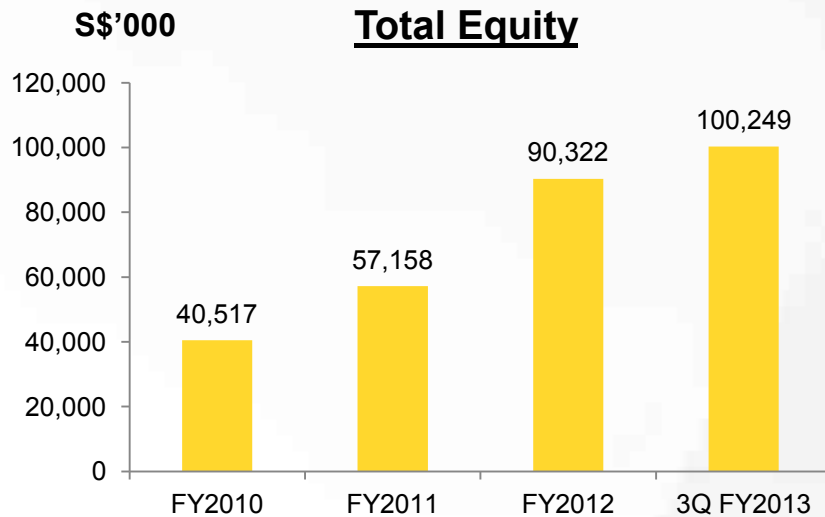
Group's Financial Performance

Strong and consistent growth in earnings



Group's Financial Position

Steady growth in equity base and asset size while maintaining low gearing.



Building a Strong Growth Platform

Strong Processes
and Management
Control Systems

Focus on
High Growth
Markets

Group Synergy
and Cost
Sharing

Diversified for
Increased Earnings
Quality



***Scalable Platform for High
and Sustainable Growth***

Mencast Holdings (MCA8T SP)

Energy & Petrochemicals – Oil & Gas Services

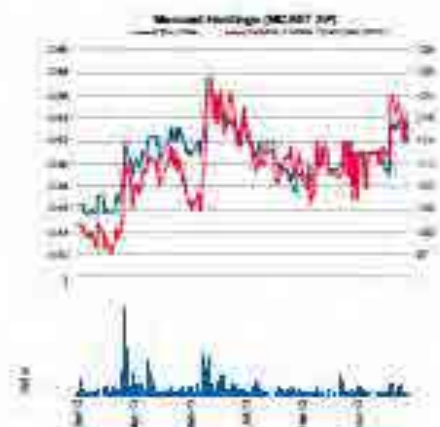
Market Cap: USD121m

Buy (Maintained)

Target Price: SGD0.74

Price: SGD0.52

Built To Last



Source: Bloomberg

Avg Turnover (SGD/USD)	0.02m/0.02m
Cops. Upside (%)	36.5
Upside (%)	41.0
52-wk Price Low/High (SGD)	0.46 - 0.59
Free Float (%)	100

Shareholders (%)	
Seo Soon Ngiew Glenide	21.6
Chua Kim Choo	0.5
Gay Choo Cheong	0.7

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Mencast is a maintenance-repair-overhaul (MRO) service provider to multiple points along the value chain of the oil & gas industry. Having delivered an earnings CAGR of 21% over the last 5 years, the company is targeting for similar growth through 2020. With its strong cash generation ability, the company remains on the lookout for acquisitions. Initiate coverage with BUY and SGD0.74 TP, based on 11x FY14F EPS.

- **Recurring long-term business with growth.** While oil & gas capital spending can be volatile, operating expenditure (opex) is a necessity. Mencast, whose businesses tap into the apex streams of the international and national oil majors, recently won three-to-five-year contracts. Its new facilities at Penjuru Lane that will service drilling equipment will provide another highly-recurring income stream.
- **Highly-specialised businesses command high margins.** Mencast's business activities including diving, high-elevation rope access and sludge reclamation are highly technical in nature. As these cannot be easily replicated, this allows the group's three business segments to maintain gross margins ranging from 20% to >45%.
- **Clear roadmap for growth.** In his roadmap, Mencast executive chairman/CEO Mr Glenide Sim, who was the winner of Ernst & Young's 2013 Entrepreneur of the Year Award for Marine and Offshore, has set a "Big Hairy Audacious Goal" (BHAG) of exceeding SGD50m in bottomline by 2020. We see potential acquisitions in FY14F-15F speeding up this process, thus providing upside to our self-conservative estimate of only SGD40m for FY20F.
- **Strong cash generation to fuel valuation and dividend.** Mencast is one of the few companies with a negative cash conversion cycle, so it requires very little working capital. Our DCF value for the stock works out to SGD1.27 per share at a 10% WACC.
- **Long-term growth potential.** Initiate coverage with BUY, SGD0.74 TP. Mencast is well on the path of sustainable high growth and healthy cash flow. The stock's valuations are undemanding: at 8.1x/5.5x FY14/15F P/E's for 44%/25% core earnings growth. Our SGD0.74 TP is pegged to 11x FY14 EPS.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (SGDm)	56	64	66	122	143
Reported net profit (SGDm)	13.3	18.3	13.6	18.4	23.9
Recurring net profit (SGDm)	12.3	16.6	12.4	18.5	23.1
Recurring net profit growth (%)	20.4	3.9	21.0	40.0	30.2
Recurring EPS (SGD)	0.05	0.04	0.04	0.06	0.06
EPS (SGD)	0.07	0.07	0.07	0.09	0.08
Recurring P/E (x)	11.3	12.9	11.7	8.1	8.5
P/E (x)	7.8	7.86	7.82	7.80	8.15
ROCF (x)	15.6	10.5	21.4	5.5	4.4
Dividend yield (%)	1.6	1.8	5.2	5.2	3.8
EV/EBITDA (x)	10.8	12.0	10.4	8.1	6.0
Return on average equity (%)	14.0	16.1	14.7	18.1	16.2
Net debt to equity (%)	22.3	45.2	20.5	17.5	66.4
Dividend coverage EPS (x)			12.9	14.2	1.8

Mencast Holdings

Initiating Coverage
14 Jun 2013

Overweight

Current Price **S\$0.54**

Fair Value **S\$0.71**
Up / (downside) **31%**

Stock Statistics

Market cap **S\$157.7m**
52-low **S\$0.432**
52-high **S\$0.588**
Avg daily vol **90,120**
No of share **284.7m**
Free float **52%**

Key Indicators

ROE 13F **15.2%**
ROA 13F **7.3%**
P/BK **1.7x**
Net gearing **0.81x**

Major Shareholders

Glennle Sim **22.1%**
Chua Kim Choo **12.2%**

Historical Chart



Source: Bloomberg

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Full speed ahead on the growth lane

- Initiate coverage with an Overweight recommendation and a S\$0.71 fair value**, based on 10x PER FY14, (in line of its peers in the marine and offshore industry). This translates into potential upside of 31% from its current price. We believe its business model will benefit from 1) continued capex spending in the offshore O&G space 2) growth of Singapore as a marine and offshore repair and conversion hub 3) outsourcing trend by shipyards. The group has continued to expand its service offerings by acquiring 5 companies in the past 2 years, which are expected to give a boost to its plans to expand locally, in South East Asia and the Middle East.
- Expansion mode in full gear.** Mencast is a Singapore-based maintenance, repair and overhaul (MRO) service provider mainly for the marine and O&G industries. It operates from its new waterfront facilities in Tuas with an area of 51,535 sqm. The second phase of its new facilities will be completed in 2Q13 and is expected to boost capacity by around 50% yoy. It recently acquired another adjacent plot of land with an area of 15,091 sqm to be used for its offshore and training academy, and is expected to begin operations in FY15.
- MRO for the marine and offshore industry.** MRO activities are more synonymous with the aviation industry, where Singapore is a market leader in the region in that regards. The group is aiming to follow the same business model by providing all the services required from a single point of contact. We believe that its business model should be well received especially given the higher costs of labour here, where it is essential that companies focus on higher value services and benefits of economies of scale, which the company can provide with its new modern facilities, upgraded IT and sales systems and sharing of knowledge and expertise between its subsidiaries. We note that most of its competitors are smaller privately owned companies operating locally.
- Steady revenue from marine repair and engineering.** Singapore enjoys a world recognised status as a major ship repair and conversion centre thanks mainly to its thriving port, excellent local supply chain and skilled manpower. The country is a global leader in the building of jack-up rigs and conversion of floating production storage and offloading (FPSO) vessels, with their yards and operations here. The group counts many of these shipyards as its customer and we believe that Mencast can tap on these opportunities as it synergies its subsidiaries to be an integrated service provider.

Key Financial Data

(S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	56.4	84.1	100.9	116.0	133.4
Gross Profit	23.5	30.9	40.4	46.4	53.4
Net Profit	10.2	13.2	15.7	20.0	23.1
EPS (cents)	4.6	4.7	5.6	7.1	8.2
EPS growth (%)	6.9	1.1	19.4	27.0	15.4
PER (x)	12.1	12.0	10.1	7.9	6.9
NTA/share (cents)	8.4	15.9	20.0	25.9	32.9
DPS (cents)	0.8	1.0	1.2	1.2	1.2
Div Yield (%)	1.5	1.7	2.1	2.1	2.1

Source: Company, NRA Capital estimates

From 12 page report (14 June 2013):

“We expect the group to achieve an average net profit growth of 20% over the next three years.”

“Further successful integration will improve its advantages of economies of scale.

“31% upside from current price”

YTD 20% outperformance versus FT STI



THANK YOU!

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