

Strategic Alliance with Becker Marine Systems


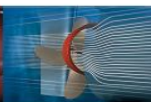



Strategic Alliance with Becker Marine Systems

becker marine systems

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Introducing the new Becker Mewis Duct®

The Mewis Duct® is a novel power-saving device developed for full-form slow-stroke ships that provide either significant fuel savings at a given speed or, alternatively, allow the vessel to travel faster at a given power level.

The Mewis Duct® consists of two strong fixed elements mounted on the vessel: a duct positioned ahead of the propeller together with an integrated system within. The duct straightens and accelerates the flow into the propeller and also provides a net ahead thrust. The fix system provides a parallel to the ship's wake which reduces losses in propeller slipstream, resulting in an increase in propeller thrust at given propulsive power. Both effects contribute to each other.

The achievable power savings from the Mewis Duct® are strongly dependent on propeller thrust loading, from 0% for small multi-purpose ships up to 9% for large tankers and bulk carriers. The power savings is virtually independent of ship draught and speed.

The Mewis Duct® is ideally suited to both new-build and retrofit applications (e.g. Tankers, Bulk carriers and MPV's).

- Fuel savings of up to 9%
- Low MCO₂ and CO₂ emission
- No moving parts

Mewis Duct® Intro

How does it work?

CO₂ savings

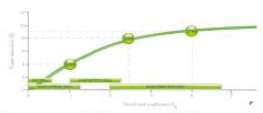
CO₂ savings Mewis Duct®
3,910 t

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Becker Agencies:
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**Loading Of Mewis Duct (Waterfront @ Mencast)
on 20/11/2010**



**Loading Of Mewis Duct (Waterfront @ Mencast)
on 20/11/2010**



Sterngear Services Expansion



Sterngear Services Expansion



Sterngear Services Expansion



Capability Expansion



Capability Expansion



Capability Expansion



Capability Expansion

Mud System for National Oilwell Varco



Capability Expansion

DUQM Drydock Gates



Capability Expansion

MARINE & OFFSHORE PROJECTS



**DESIGN,
FABRICATION &
INSTALL 2 UNITS
FLOATING GATES AT
DUQM PORT, OMAN**




**DRILLING
DERRICK
(Design,
Fabricate
& Install)**



2011 Outlook

Manufacturing	Services	Corporate
<ul style="list-style-type: none"> ➤ Returning market confidence ➤ S\$8.0 million order book as at 31 December 2010 ➤ Alliance with Becker could provide additional demand upside 	<ul style="list-style-type: none"> ➤ Growing momentum in 2011 ➤ New initiatives like fleet maintenance program provide steady source of demand ➤ MMRO 	<ul style="list-style-type: none"> ➤ Waterfront facility phased in from 2H 2011 ➤ Exploring other M&A (M&A of Top Great & Unidive group of companies) ➤ Success of Recon acquisition has put Mencast on people's radar as good company to work for



Investment Merits

- 6th year of sustained profit growth
- Well positioned to capture future growth opportunities
- Waterfront land is prized asset to begin contributing to MMRO in 2011
- ROE of 21% in FY2010
- Dividend yield of 3.0%

Acquisition of local marine maintenance, repair and overhaul (Marine MRO) company, Top Great group

Analyse This...
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Mencast Holdings

Load and ready

An earnings accretive deal

- **What happened?** Mencast has entered into a sale and purchase agreement to acquire a local marine maintenance, repair and overhaul (Marine MRO) company, Top Great group.
- **What we think.** Accretive acquisition from Mencast was one of the key catalysts we highlighted in a report 2 weeks ago. We see this acquisition (1) complementary to Mencast's business with added global exposure, Top Great Group serves a large group of customers in the employment, marine and oil & gas sectors from many countries, some of which include Singapore, Malaysia, Indonesia and the Middle East. (2) This is also an accretive acquisition and will quantum-jump the EBITDA profit Mencast used to see. The unaudited profit before income tax of the Top Great Group was \$54.7m in FY2010 with \$510.6m net asset value. The positive EPS impact on Mencast is clear to see below.

Company per Share (FY09)	Before the Proposed Acquisition	After the Proposed Acquisition
Market cap (MYR100M)	4.4m	12.6m
Weighted average no. of shares for FY2010 (MYR)	15,487	18,276
EPS per FY2010 cents	7.26	11.81

- **What you should do.** This stock is only at the growth stage, and has not scale the high wall of valuation (peers trading at in excess of 10x CY12 P/E). It will climb, and a further re-rating will propel the multiples further with an upgrade to maintained from its current board. Mencast has been listed on Catalyst for almost three years now. Earnings and target price upgrade. **Maintain BUY.** Taking into consideration of the new share dilution, FY11-13 EPS are adjusted down by between -3.6% to -9.6%. Target price, however, got lifted to \$50.70 (from \$50.60, pegged at 8x CY12 (from 8x previously), or around 15% discount to 2009 peers, as we deem fit to review the multiple with such accretive M&A. Target price offers a 60% upside from current level.

Finer details and rationale of the deal

- **Small price to pay for an accretive deal.** The aggregate consideration for the Proposed Acquisition will be \$504m, of which \$386m will be satisfied in cash and the balance \$118m will be satisfied by the allotment and issuance by the new ordinary shares via 3 payment tranches.
- **It is the current intention of Mencast to fund the cash component of the Purchase Consideration using the proceeds from the placement of new shares undertaken by the company in Nov 2010, existing cash resources and/or bank borrowings.**
- **\$84m prefer. warranty given.** The vendors jointly and severally warrant to the company that the Top Great Group shall achieve an aggregate audited net profit after tax of not less than \$58m within the 2-year period from 1 May 2011 to 31 April 2013.
- **In the event that the Top Great Group fails to achieve the profit warranty within the relevant period, the vendors shall pay to the company the shortfall. In the cash compensation, if any, shall be payable by the vendor to the company within six months from 31 April 2013.**

MCST EP BUY, TP \$50.70 Price @18/05/11: \$50.44
52-week range (SGD): 0.29 - 0.47
Market cap: \$376m

Why this deal? Mencast's current core business is in the marine MRO, focusing on high precision, time sensitive and mission critical work. The group is one of the leading players in the manufacturing and servicing of sterngear equipment and propellers segment of the Marine MRO industry, with both overseas and marine clients.

Synergies, attract and retain new clientele. The acquisition represents an opportunity for Mencast to leverage on the established client base, industry reputation and accretions developed by the Top Great Group over its three decades of operations, as well as increase its revenue base with a wider range of Marine MRO services. This would allow Mencast to create positive synergies, economies of scale and strengthen its value proposition to attract and retain new clientele.

Potential business opportunities overseas. We believe overseas ventures will serve to broaden and invigorate Mencast's income base and underpin longer term profitability. We think that with Top Great Group being integrated into Mencast, the group would eventually make its foray to overseas market, which would mean higher margins due to the higher premium that the group required for outside Singapore projects.

Other catalysts in play. Additionally, the group has in the past successfully added new revenue stream to its Marine MRO unit. We believe the alliance with Becker Marine Systems (German firms sterngear equipment manufacturer that control 70% of good market share) will see Mencast gaining a foothold in the Chinese, South Korean and Japanese markets, where the bigger ships are. It will quantum-jump those historical revenue and profit the group used to see.

Other positive developments to look out for. More tangible is the fact that the firm's expansion plans are near completion. By the end of 2011, its new seacrest property at Pulau Tekong, which is 3.5 times bigger than its existing plants combined, will be ready.


Financial analysis

	2009	2009	2009	2009	2009
Revenue (\$m)	209	228	421	572	888
EBITDA (\$m)	69	112	143	202	249
EBITDA margin (%)	33	49	34	35	28
Net profit (\$m)	11	33	51	65	82
Net profit (\$/m)	0.7	2.1	2.8	3.6	4.5
EPS (\$)	4.7	14	11	7.9	9.4
EPS growth (%)	+52%	+6%	+15%	+29%	+20%
P/E (x)	9.3	9.2	7.1	6.1	4.7
Cost EPS (\$)	4.7	5.4	6.0	7.9	9.4
Cost EPS growth (%)	+17%	+16%	+12%	+20%	+20%
Cost P/E (x)	9.3	9.2	7.3	5.6	4.7
PE Ratio (x)	4.6	5.4	6.1	7.5	9.4
FCF/E (\$)	5.6	6.2	7.3	5.6	4.7
Dividend (\$)	1.0	1.1	1.5	2.5	2.3
Dividend yield (%)	2.7%	2.7%	3.4%	4.4%	5.3%
P/E (x)	2.8	2.8	2.8	2.8	2.8
ROE (%)	25.7%	24.7%	25.2%	27.8%	23.2%
Net asset per share (\$)	12.1	10.4	11.8	12.8	14.0
EV/EBITDA (x)	8.0	7.3	6.3	4.1	3.1
EV/EBITDA (x)			-2.6%	-6.6%	-15.6%

Source: Research Company: CIMB Research

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Acquisition of local marine inspections, repairs and overhaul (Marine MRO) company, Unidive group



UOB Kay Hian
www.uobkayhian.com.sg

Money Talk
24 June 2011

Mencast Holdings Ltd
Charting course for explosive growth

Investment Highlights

Initiate coverage with a BUY and target price of \$50.59, representing a 35.6% upside from the current price. We like Mencast Holdings (Mencast) for its balanced strategy of diversifying into new engines for growth while strengthening its core competencies through synergistic acquisitions. We estimate a two-year EPS CAGR of 19.3% (2010-12*), driven by new revenue streams, capacity expansion and value-accretive acquisitions.


Leveraging on the global leader in marine systems. Last year, Mencast forged an alliance with Becker Marine Systems (Becker) to be the preferred Asian manufacturer for Becker's hugely popular rudder trunk and Mevis Duct, which are products integral to ship manoeuvring and fuel efficiency. With the large number of upcoming deliveries expected from North Asian shipyards, we expect that Mencast will see explosive order growth for these products. We forecast orders for 30 Mevis Ducts and 20 rudder trunks amounting to a whopping \$58.0m in 2012, a sharp increase from \$31.0m in 2010 and worth as much as Mencast's entire outstanding orderbook.

Riding on the surge in jack-up rig orders. In our view, Mencast is a key beneficiary of increased offshore capital spending and the recent surge in rig orders, with the group being a niche manufacturer of the cantilever skid plate used in jack-up rigs. We believe that Mencast is the sole supplier to Kappel Corp (Kappel) for this key component, and expect contract wins worth \$50.4m, \$51.4m and \$53.2m from 2011-12 based on Kappel's delivery schedule for 30 jack-up rigs on its orderbook.

Moving up the value chain to serve larger, more complex vessels. Mencast remains on track to expand its waterfront facility at Tanjung Perahu Road to 40,000sqm by end-11, which will be four times the size of its existing workshop. The new facility will allow Mencast to service sterngear equipment for vessels up to 100,000dwt, a quantum leap from the group's current capability to accommodate vessels as large as 50,000dwt. In addition, Mencast will also gain the capability to manufacture higher value propellers and shafts for vessels up to 50,000dwt, from 35,000dwt currently. We expect the expanded facility to add \$54.2m in annual revenue when it is completed in end-11.

Value-accretive acquisitions to propel Mencast to new heights. Mencast recently announced the proposed acquisition of Top Great (TG) and Unidive (UD), which are in the business of marine and offshore maintenance repair and overhaul (MRO). We view these as strategically prudent acquisitions in-line with Mencast's vision of expanding its services capability. In addition, the proposed acquisitions will allow the group to: a) gain advanced steel welding capability given the complex steel work required to fabricate Mevis Ducts and b) expand its regional footprint to key markets Malaysia, Indonesia and the Middle East through TG's presence in these regions. We expect the acquisitions to contribute \$56.9m to our FY12F net profit forecast of \$316.2m. Strategic value-accretive acquisitions will continue to be a key pillar of growth for the group in the future.

Technical View



Price action appears to be on a long term uptrend, consolidating on weak trading volume. Support and resistance are at \$50.42 and \$50.47 respectively.

Financials

FY11 Dec (\$m)	2008	2009	2010	2011F	2012F
Net turnover	25.1	26.3	32.0	46.3	61.2
Gross profit	11.3	12.4	16.0	21.2	28.0
EBITDA	6.4	7.4	8.4	11.1	15.7
EBIT	7.3	9.1	10.2	14.3	19.9
Net profit	5.6	7.0	8.5	11.1	15.2
Adj. EPS (5 cent)	4.2	4.7	5.4	7.8	10.7
P/E (x)	10.2	5.2	8.1	7.5	5.7
P/BV (x)	3.1	2.4	1.9	1.4	1.2
EV/EBITDA	11.1	6.7	8.7	6.2	5.8
Dividend yield (%)	3.2	2.3	2.5	3.0	4.4
Net profit margin (%)	23.2	26.8	26.5	23.9	24.2
Net gearing (%)	(18.0)	(6.9)	(2.2)	1.1	(4.8)
Interest cover (x)	61.7	37.4	21.9	22.1	24.7
ROE (%)	34.0	28.8	24.7	20.7	22.7
Consensus P/E				11.3	10.2
UBS/HSBC (x)				1.0	1.1

Price Comparison

Company	Ticker	Price (\$)	MR Cap (\$Bn)	PE	PB	P11F	P12F	P12F	P12F
ASL MARINE	ASL SP	0.295	251.1	8.2	7.0	0.4			
AWA-BUSCO	AWA SP	0.375	482.8	7.3	6.7	0.8			
MARCOPOLO	PM SP	0.275	127.8	7.5	5.5	0.3			
DTTL	DTM SP	0.105	35.2	4.6	7.6	0.6			
UNIDIVE	UNID SP	0.435	74.2	7.6	6.7	0.3			
MENCAST	MEN SP	35.2	74.2	7.6	6.7	0.3			

Company Background

Mencast is a marine equipment and services provider specialising in sterngear equipment and services. The group has two business segments:

- Sterngear manufacturing** - Manufactures propellers, propeller shafts, stern tubes, rudder, rudder stock, port nozzles, marine bearing and bronze sleeves for new-builds.
- Sterngear services** - Provides sterngear services, such as the repair and reconditioning of sterngear equipment for existing vessels.

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THANK YOU!

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