Scomi

MEDIA COVERAGE

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Light at the end of the tunnel for Scomi Engineering?

BY **JOSE BARROCK**

Scomi Engineering Bhd CEO Kanesan Veluppillai believes the rail and fleet management service provider has put the worst behind it, having turned in its first profit in five financial years.

"We have graduated from the school of hard knocks to where we are now. We intend to stay in the black and grow ... the worst is behind us," he tells *The Edge* in an exclusive interview.

Kanesan's excitement has not rubbed off on the market yet, though.

SEB's shares, which have slid 20% over the past six weeks, closed at a five-year low of 28 sen last Wednesday. This was despite the company reporting a net profit of RM378,000 in its unaudited accounts for the year ended March 31, 2015 (FY2015) — a vast improvement from the RM37.76 million net loss the year before.

Prevailing uncertainties also mean investors are harder to woo and the positive factors aside, there is still reason to be cautious about SEB.

For one, its short-term borrowings escalated from RM473.96 million to RM504.08 million year on year and together with long-term borrowings of RM7.25 million, its debt-to-equity ratio stood at 1.9 times. This excluded some RM326.62 million in payables. In addition, receivables, deposits and prepayments jumped 38% y-o-y to RM870.83 million, which was more than three times its annual revenue in FY2015.

Having been in the red for five financial years, SEB (fundamental: 0.15; valuation 0.9) had accumulated losses of RM135.5 million as at March 31. Nonetheless, its shareholders' funds were in a positive position.

It is worth noting that the company's unaudited net profit was thanks to RM2.43 million of tax credit compared with RM3.11 million of tax expenses the year before.

On a brighter note, losses suffered by its core rail business are down significantly y-o-y, from RM30.63 million in FY2014 to RM199,000, although FY2015 revenue was only up 0.6% to RM238.32 million.

While these numbers seem daunting, Kanesan explains that in the early days, SEB was slated to bag several projects at home, such as the Penang Monorail and similarly large and lucrative contracts in other cities, but none of them materialised.

"So, we had to go international but there was a price to pay — tuition fees. We went to India, we went to Brazil, both tough markets with currency fluctuations, but our funding structure was short-term project financing, which was a mismatch.

"What we have done from last year until now is internal operational restructuring ... we are restructuring the company to ensure we don't make the same mistakes. In the last five years, we have grown from a company that built the monorail in Malaysia to a company that delivered and is running a monorail system now," he says.

PATRICK GOH/THE EDGE

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SEB a different animal?

In India, SEB in partnership with Larsen & Toubro was awarded a RM1.8 billion contract to develop the 19.5km monorail project in Mumbai, which links Wadala Depot to Chembur in Mumbai. In Sao Paulo, Brazil, together with Andrade Gutierrez, CR Almeida and Montagens e Projetos Especiais, the company was awarded a turnkey contract to build the RM2.6 billion, 14.3km Line 17 monorail.

The Mumbai monorail commenced operations in February last year while Line 17 in Sao Paulo will start operations next year.

According to Kanesan, in the past, SEB's manufacturing and project operations came under one outfit, which meant that it would only be paid once the entire system was operating, irrespective of when the cars were delivered.

"What we are doing now is decoupling. The funding structure was linked, so we may deliver the car, but the civil structure delay would impact payments, so our cash flow got into problems. [Now], there is a 180° degree turnaround of the structure. In Brazil, our clients have agreed that they will pay us when the car is ready ... this is a significant change for the company," he says.

CONTINUES ON PAGE 36

Order book stands at RM1.6 billion

FROM PAGE 24

SEB's existing contracts apart, it has proposed a monorail in Putrajaya, one in Colombo, Sri Lanka, and another in Istanbul, Turkey. This is a US$130 million job that could turn into a U$500 million contract, among others.

The company's order book stands at about RM1.6 billion at present while its tender book for the next 5 to 10 years amounts to between RM15 billion and RM20 billion. Kanesan says he would be comfortable with an order book of about RM4 billion, which he hopes to achieve over the next three years — in other words, one deal a year.

"We compete against Hitachi and Bombardier, which are multi-billion-dollar companies. In the last five years, we have executed four projects while Bombardier won one in Brazil. But Hitachi has not won any in the last four years internationally.

"We started Malaysia with 3,200 passengers per hour per day (PPHPD), Mumbai with 7,000 PPHPD. Then, Kuala Lumpur doubled from 3,200 to 6,400 PPHPD with the four-car train ... and from there we catapulted to 36,000 PPHPD with a driverless system.

"This technology takes 15 to 20 years for companies with lots of money but we were able to do it in six to seven years," Kanesan says.

He adds that SEB's other earnings stream — commercial vehicles — has caught on too. The company has won large contracts to export buses to the UK, Hong Kong and Singapore. It also leases out buses to Melaka and maintains them for a fee.

Yet another income stream — a new one for SEB — is operations and maintenance (O&M), which it just began and which will ensure recurring income.

The notes accompanying SEB's financial results for FY2015 reveal that the commercial vehicle business suffered a marginal loss of RM397,000 on revenue of RM46.4 million. "We are changing the organisation and growing the business ... we have come out of the difficult part," Kanesan says.

Scomi Group Bhd, which owns 72% of SEB, fell off the radar screen of investors in 2009, after former premier Tun Abdullah Ahmad Badawi stepped down. His son Datuk Kamaluddin Abdullah is a substantial shareholder of Scomi Group (fundamental: 0.80; valuation: 1.50) with an 11.1% stake but is not involved in the running of the company or its units. ■