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TITLE : Riding on partnerships

COMPANY : Scomi Engineering Bhd

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Riding on partnerships

EXPANSION MODE: Scomi Engineering upbeat on growth prospects

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AFTER turning around from RM39 million in losses to a RM400,000 profit, Scomi Engineering Sdn Bhd is confident of its growth trajectory for this year.

Its president Rohaida Ali Badaruddin said the company has pre-qualified for its joint-venture rail projects in Malaysia, Brazil and India.

"After turning around the company, we have decided to work towards product extension and expansion without major investments by venturing into LRT and MRT partnerships.

"In order to grow our business and profitability, we will build the rail transportation system and our current achievable target is 60 per cent local content to put us in the forefront of the industry.

"With our combined tender book

of RM5 billion for monorail and RM8 billion for metro rail, we have made ourselves ready and available to carry out the projects," she said after the company's annual general meeting, here, yesterday.

"The key risk is forex, but with a partner like Skoda, we are able to mitigate, assemble locally while having a natural hedge against the currency risk.

"With this partnership, we can control technology as well with our partner as these are long-term things such as maintenance, key components and availability of parts as it is a 30-year project.

"Railway and metro is a national industry as it provides employment to many and a benefit to the country," she said, adding that forex challenges are not new to Scomi Engineering.

"We are quite experienced in handling currency fluctuations as we went through it when India's currency devalued ... and it has made us more aware on how to

structure projects.

She revealed that the group's order book to run the monorail project stands at RML3 billion.

In a separate AGM, Scomi Oiltools Sdn Bhd market units president Wan Ruzlan Iskandar said delays and project cancellations by major oil and gas players have resulted in a group-wide cost-cutting and budget rationalisations in many of the industries' service providers, including Scomi Energy Services Bhd.

It recently initiated a voluntary separation scheme exercise in addition to other cost optimisation measures throughout the group.

"Currently, market slowdown is seen in Malaysia and Australia but in terms of revenue generation, it is not dependent on Malaysia and certain markets are still active, such as the Middle Eastern countries. Therefore, we will shift our focus to locations with better activity levels," said Wan Ruzlan.

Malaysia makes up 20 per cent of its total revenue, after Indonesia at



Scomi Engineering president **Rohaida Ali Badaruddin** (right) and CEO **Kanesan Veluppillai** after the AGM yesterday. Pic by Halim Salleh

25 per cent, as the single largest market for Scomi Energy while the rest are contributed by Thailand, Myanmar and Australia.

The company is still confident on remaining profitable this year but expects lower revenue compared to last year.

"However, our order book of US\$1.3 billion (RM5.6 billion) should keep us busy for the next three years, at least.

"We will also be continuously bidding. We have our own products, so this sets us apart from our competitors," he said.



MEDIA COVERAGE

MEDIA : The Edge Markets	TITLE : Weak ringgit no cause of concern to rail-hungry Scomi Engineering
COMPANY : Scomi Engineering Bhd	DATE : 8 September 2015

Weak ringgit no cause of concern to rail-hungry Scomi Engineering

KUALA LUMPUR (Sept 7): Scomi Engineering Bhd (SEB) said the weakening ringgit is not a cause for concern to the company as it has faced currency devaluation problems before during the height of the 2008 global financial crisis and learnt much from it.

Hence, SEB (fundamental: 0.15; valuation: 0.9) chief executive officer Kanesan Velupillai characterised the latest rounds of currency devaluations recently as not a “new problem”, especially in light of the company’s future projects, from which they will receive payment in US dollars.

“In terms of our future projects, we are paid in US dollars. So we already have a natural hedge. To us, this (currency devaluation) is not a problem. This is a problem we have faced in 2008, for example during the Indian currency devaluation.

“So, we are quite experienced in handling [such] currency fluctuations,” said Kanesan.

Additionally, SEB has, in recent years, stopped sourcing for the bulk of their materials and components outside the market they service, but to source them locally instead.

“We only have about three to four Malaysians in our India operations. The rest of our staff, 300 to 400 of them, are Indian nationals. Facing currency devaluation (in the past) has made us more aware about how to structure our projects as we go forward,” Kanesan explained.

This policy is reflected in their plans to have 60% local content for the new Bandar Utama-Klang light rail transit line (LRT3) and the Sungai Buloh-Serdang-Putrajaya mass rapid transit (MRT2) — two projects which it is bidding for in partnership with Czech transportation company, Skoda Transportation.

For both projects, the Malaysian government has only mandated for at least 30% local content.

Construction work for the 36km LRT3 is slated to begin in 2016 and is expected to be completed in 2020.

The MRT2, meanwhile, is expected to be up for tender by year-end and the contract awarded by the first or second quarter of 2016, with Phase 1 ready by May 2021 and Phase 2 by July 2022.

Kanesan said he is confident about the Scomi-Skoda partnership despite the current risks of market volatility. The partnership was announced a week ago, under which they intend to participate in the global LRT and MRT projects.

Besides the LRT3, MRT2 and another LRT project in Penang here, the Scomi-Skoda partnership will also be tendering for four other similar projects in India, three in Indonesia and another one in Bangkok.

“It is important to note that we will not be heavily investing in the new projects. It will require the same skillset and the same plant building for the MRT and the LRT. It’s a product extension and enlargement without major investment.

"We have the capacity, the people, the talent and we have done our risk assessments as well. The risk will be the same as running any other project, though the key risk is the forex (foreign exchange). However, with our partner Skoda, I believe we will be able to mitigate and assemble (our parts) locally.

"This gives us a natural hedge against currency (volatility) and this natural hedge is something we can pass on to the project," said Kanesan.