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Shareholder rumblings in Paramount

BY SIOW CHEN MING

The normally mundane Paramount Corp Bhd saw some unusual events last week.

Its CEO of nine months, Chan Say Yeong, suddenly resigned last Monday, just two days before an extraordinary general meeting.

Then, during the EGM on Wednesday, the board withdrew resolutions pertaining to the award of free shares to executive deputy chairman Datuk Teo Chiang Quan and Chan.

The resolutions were part of a proposed long-term incentive plan (LTIP) for the executive directors and staff of Paramount as well as its subsidiaries.

Under the plan, new shares of up to 10% of the company's issued capital will be given free to them if they meet certain performance benchmarks.

Sources say Paramount's second largest shareholder, Banting Hock Hin Estate Co, was not in favour of the LTIP as it could potentially dilute its 16.3% stake in the property firm.

The privately owned outfit became a

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MMHE's de Soras cleans up the yard

Malaysia Marine and Heavy Engineering Holdings has one of the region's biggest fabrication yards at its disposal, yet it has failed to deliver since it was listed in 2010. But managing director Dominique de Soras says the group has reined in excesses and is poised for an uplift. See our Cover Story on Pages 70 to 72.

COVER STORY

A wind of change blows through MMHE

BY KAMARUL AZHAR

When Dominique de Soras took the helm at Malaysia Marine and Heavy Engineering Holdings Bhd (MMHE) in February 2011, he found that the oil and gas industry fabricator was dealing with more than 200 external parties, which was bleeding it dry.

It was a cumbersome and not very transparent process that was creating losses for the company even though it had a healthy flow of orders from parent company Petroliam Nasional Bhd (Petronas).

"Between 50% and 70% of the cost structure was tied to parties outside the organisation ... to subcontractors and vendors," says the former president of Technip's subsea division, who felt this could be reduced by improving and rationalising the subcontractor base.

"The more we looked at it, the more the supply chain management seemed heavy, cumbersome and not very transparent. There was room for a huge number of potential improvements, which we then decided to do. One was to rationalise the number of parties we were dealing with."

Realising that MMHE would continue to be a sluggish giant if something was not done to address the inefficiencies, de Soras wielded the axe and restructured the supply chain and subcontractor list.

Last month, MMHE signed long-term agreements with five key contractors on the provision of structural fabrication services and long-term price agreements with 19 vendors on the supply of structure, piping and electrical and instrumentation materials.

Under the agreements, the suppliers have to fulfil MMHE's strict assessment criteria, such as value-added services, work execution, timeliness and compliance with operational health, safety and environmental management standards.

The company, which owns one of the largest fabrication yards in the region, is expected to forge more such strategic partnerships over the coming months.

According to de Soras, the partnerships will enable MMHE to source parts and services at the best costs and quality.

"The idea was to see if we could have something a bit more coherent to optimise our cost base because for me it is of no value to have hundreds of different subcontractors that offer similar services," he remarks.

"We are not perfect yet, but at least we have a better understanding with the subcontractors." — de Soras

While the framework agreements were signed only last month, de Soras had started the transformation process about a year ago. And MMHE is already seeing the results of his initiatives. It has managed to save about 20% of the average prices obtained in the past by selecting its subcontractors and vendors.

"This shows that the way we were contracting before was probably not at optimum level. We are not perfect yet, but at least we have a better understanding with the subcontractors," says de Soras.

Depleting order book

The move to restructure MMHE's cost base and rationalise its vendor universe comes amid the group's inability to secure

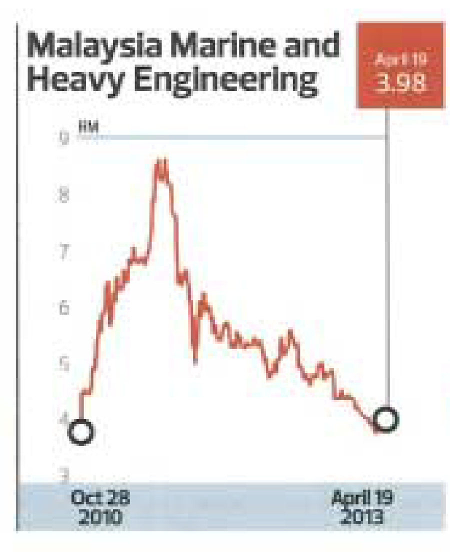
CONTINUES ON PAGE 72

MMHE estimated order book, June 2010 — Feb 2013 (RM bn)

CIMB, COMPANY REPORTS

Malaysia Marine and Heavy Engineering

April 19 3.98



Stock still has no appeal for investors

BY KATHY FONG

Although the share price of Malaysia Marine Heavy Engineering Holdings Bhd (MMHE) has halved from its peak of RM8.52 in June 2011, investment analysts do not see the stock as a good bargain, at least not for now.

MMHE is one of the few oil and gas stocks that are not riding the rally on Bursa Malaysia. While some of its peers have climbed steadily over the past year, MMHE has declined 9.5% on concerns over poor earnings visibility.

The general perception is that the group, which owns the biggest fabrication yard in the region, has disappointed the investing fraternity in terms of project execution and replenishment of order book.

"MMHE's order book was at RM6 billion when it was doing the IPO in (October 2010) ... look at its order book now, it is just half the size," says an analyst who tracks the company.

The order book stands at RM3 billion, which includes the US$755 million Malikai project secured in February.

The deepwater project was awarded to a 50:50 joint venture between MMHE and Technip with the Malaysian company's portion being about RM1.2 billion. The work includes the construction of a tension-leg platform (TLP) to be installed in Sarawak's Malikai deepwater oilfield.

However, the award of such a huge project did not stem the fall in MMHE's share price. Indeed, the stock fell to a new low of RM3.77 last month as MMHE was expected to land the job and the fact was factored into the share price.

"This major project (Malikai) win is positive, but MMHE has to pick up the pace in securing new jobs to remove order book risks that still cloud its earnings visibility," says CIMB Research in a February report.

"MMHE needs to win and deliver more projects to ensure sustained earnings growth and excite the market after the project delays and provisions in FY2012 ended Dec 31," the research house adds.

In FY2012, MMHE's net profit contracted to RM243.19 million or 15.1 sen per share from RM334.2 million or 20.9 sen per share. Revenue was higher at RM3.329 billion against RM3.06 billion the year before.

In the financial year, the group enjoyed deferred tax credit of RM35.9 million and a provision writeback of RM16 million.

Its cash-rich balance sheet enabled MMHE to declare a single-tier dividend of 10 sen per share in FY2012, just like in FY2011. It is sitting on a cash pile of RM890.28 million or cash per share of roughly 55 sen and zero borrowings.

MMHE's initial public offering (IPO) was well received in 2010 as it came after a long dry spell of new heavyweight listings on the stock exchange. Its institutional portion was priced at RM3.80 and its retail portion at RM3.50.

The stock marched to a high of RM8.52 after it made its debut on Bursa Malaysia. The strong buying interest was due to many

CONTINUES ON PAGE 72

'We are walking the talk'

MMHE managing director Dominique de Soras talks to Kamarul Azhar and Kathy Fong about the group's restructuring

Can you tell us about MMHE's transformation strategy?

When I came in, one of my first assignments was to see how we could make the organisation more cost-effective and competitive. When you realise that you are spending 50% to 70% (of costs) outside your business, then you know the cost element can be optimised.

So now, we have done it, we have a small number of subcontractors and we have signed price agreements with the vendors. Having a panel of subcontractors makes our lives easier in the sense that when you need a service you know where you can get it. So the deal is already there, the contract is in place, the terms are in place, so it makes the process much quicker, far more transparent than before and, hopefully, it is a cost-effective solution.

Will MMHE's legacy issues in terms of job delivery and escalation of costs be addressed by the framework agreement?

Yes, but I won't say the problems will be eradicated. This is a journey. We have launched the code of business ethics with Petronas, which, to me, goes hand in hand with the framework agreement. I don't want to dwell on what was happening before, but clearly the way some of the businesses were handled was not proficient. Again, by selecting the number of partners and reducing the number of parties you deal with, you reduce the risks associated with integrity, wrongful discounting and so on. Second, by entering into partnerships, you have better control of your schedules and costs.

The investment community's general perception of MMHE is that it has not been getting contracts fast enough since it was listed. What is your view?

You can only capture what is available to you in the marketplace. I think we have captured one of the most challenging projects in Malaysia through the Malikai project. And, yes, it can be perceived as just another project. For us, it is not just another project; it is probably the most challenging now in Malaysia. It is directly from Shell, the first TLP in Malaysia, a significant achievement.

Was winning the Malikai project smooth for MMHE?

I don't know whether we won it smoothly or not, but definitely it is a trigger for us to do things better because we have our legacy issues like Gumusut, which is going to be loaded out in the next three weeks. It is one of the largest projects in the world. When you look at Gumusut-Kakap, it is not a straightforward project. It is very complicated and eventually it is done and will be delivered in a couple of weeks. For me, it is good that it was done eventually. We need to sometimes criticise ourselves, but we also need to look on the bright side. We did it and it was done here in Malaysia, and I tell you with a lot of effort by a lot of people. This needs to be recognised, irrespective of the delay.

So Malikai is different, we start on a different ground, more aggressive stand and I told my people this is a unique opportunity for us and we will do it in the most successful manner. For me, it is an important project because it is a kind of an honour for MMHE to say we can deliver this kind of project. Malikai is a milestone for MMHE and for our people.

You said there were legacy issues in the Gumusut-Kakap project ...

It is a bit of a sensitive topic. Not only sensitive, but also unfair for me to answer your question. I was not there. But I know what the market's perception of MMHE is on the integrity point of view, and the performance and delivery points of view. And again, I leave it to you to make your own assessment of what has been said. I know the perception is that we are not one of the best heavy engineering shipyards in the region. My point is that the past is the past. Now, my objective is to move forward to change this reputation and develop a different image of MMHE. But as you know, this will take a bit of time.

So far, how has the response from your own team been in regard to this house-cleaning process?

For me, the team from the top to the bottom, there is a large population with different motivation, different understanding and different perception. So this is why our transformation will take a bit of time because you can talk, but it is not enough to change the mindset of people by only talking. You need to deliver, to walk the talk and put in place new measures and show improvements. All of these are happening, we have a number of initiatives, we are walking the talk much more, we are taking care of the people in terms of their welfare, all of these we are currently doing.

Some of the people say everything was perfect before. So, why do you want to change things?

In a population of 4,000 people, you have a full range of opinions. Now, my job and that of the management team is to keep pushing and improving and the ones who are not convinced, if they don't appreciate it, fine, too bad for them. For me, if I want to improve the organisation, I want to count on people who are dedicated, who are committed to change. Those who don't want to change, fine, they can make their own choice on how to contribute to the transformation. ■

COVER STORY

'Not everyone is receptive to changes'

FROM PAGE 70

contracts fast despite having Petronas as its ultimate shareholder.

As it is 66.5%-owned by MISC Bhd, which in turn is a 62.7% subsidiary of Petronas, MMHE is expected by the investment fraternity to be favoured for oil and gas structural works even though it has been spun off.

But its order book has depleted since it was listed in October 2010. At the time, MMHE had RM6 billion of backorders.

A RM8 billion job awarded by Petronas to build facilities in Turkmenistan formed a large portion of its order book. MMHE was the lead contractor.

Now, its order book is down to about RM3 billion, comprising mainly a US$775 million (RM2.4 billion) contract that was awarded in February this year to construct a tension-leg platform for the Malikai deepwater project in Sarawak.

The MMHE today is a far cry from the entity that was hailed as an unpolished gem of the oil and gas sector when it went for listing in 2010.

A reason for MMHE's dull performance is the Turkmenistan project, the operating conditions of which were tough. "However, MMHE did not incur any losses," observes de Soras.

That may be so, but things have not been good for its bottom line with its net profit having halved since its listing in 2010. In FY2012 ended Dec 31, net profit was down to RM242 million from RM450.5 million in FY2010.

Industry executives say this is because MMHE was not managed very professionally before de Soras took over. "A lot of the subcontracts were awarded to those who were not competent enough to take them on," says an executive.

The Frenchman declines to comment on the way MMHE was run in the past, but he does acknowledge the market's negative perception of the organisation.

De Soras came on board the company after Technip bought a 8.5% stake in MMHE.

"The only way to change that [perception] is to execute projects in the best possible way, by instituting reforms in the group.

"I know what the market's perception of MMHE is from the integrity point of view and the performance and delivery points of view. I know the perception is that we are not one of the best heavy engineering shipyards in the region. But the past is the past. Now, my objective is to change this reputation and develop a different image of MMHE."

While his intention to drive MMHE forward by implementing changes is clear, de Soras admits that not everyone in the company is receptive to his efforts. "However, MMHE cannot be dragged down by a few who don't understand the need for change."

To de Soras, there are enough reasons for the organisation to appreciate the fact that it cannot stick to the processes that have bled it out and tarnished its image.

"Now, my job and that of the management team is to keep pushing and improving. If the ones who are not convinced don't appreciate it, fine, too bad for them. If I want to improve the organisation, I want to count on people who are dedicated and committed to change."

Nevertheless, de Soras says the change process will take time to be fully accepted by the organisation. It will address some of the legacy issues plaguing MMHE, but it may not eradicate them just yet, he adds.

Saved by Malikai TLP job

Securing the Malikai project from Sabah Shell Ltd marked a turning point in MMHE's history for it entailed the construction of Malaysia's first tension-leg platform. The company won the project with its technical partner Technip SA of France.

Having learnt a bitter lesson from executing the Gumusut-Kakap floating production system, which was plagued by delays in delivery and ballooning costs, MMHE has had to put its best foot forward for the Malikai project.

"Malikai is different, we start on a different ground, on a more aggressive stand. I told my people this is a unique opportunity for us and we will do it in the most successful manner.

"It is an important project because it is a kind of honour for MMHE to say we can deliver this kind of project. Malikai is a milestone for MMHE and for our people," remarks de Soras.

Meantime, the company has bid for RM5 billion worth of jobs locally and internationally to expand its order book and improve earnings visibility. It may also bid for ExxonMobil's and Shell Malaysia's enhanced oil recovery contracts and the Carigali-Hess North Malay Basin gas project.

With the general election just round the corner, analysts expect major oil and gas projects to only be announced in the second half of the year. Until then, with no clear earnings visibility this year, MMHE's share price may continue to head downward, say analysts.

But de Soras believes his measures to cut costs and the Malikai project will put MMHE back on the radar screen of investors. But until the results of these initiatives are reflected in the company's books, de Soras will have to continue to clean up the yard. ■

Lack of efficiency a key weakness

FROM PAGE 71

fund managers perceiving MMHE as a good proxy for the oil and gas boom, considering its parent company was Petronas.

MISC Bhd holds 66.5% equity interest in MMHE while Technip and Lembaga Tabung Haji, which has been accumulating shares in recent weeks, own 8.5% and 5.39% respectively.

As some quarters put it, MMHE's weaknesses were exposed when it became a public-listed entity. At the same time, growing competition for fabrication jobs locally — with Petronas opening the door to more efficient and capable bidders — exposed the company's inefficiencies.

Efficiency is what investors find MMHE lacking. "MMHE is the largest fabrication yard in Malaysia and the only player able to accommodate deepwater platform fabrication. However, given pertinent delays and a sub-optimal yard configuration, the company is unable to accommodate new projects to pad its dwindling order book," says CLSA in a January note. The foreign stockbroker has a "sell" call on the stock.

Nonetheless, MMHE's partnership with Technip could improve its weak areas and broaden its presence in the international arena, say analysts.

The appointment of Dominique de Soras as its managing director and CEO is perceived as a bold step to clean up the company.

MMHE has also hired Mathis Bruneau, formerly from Technip's SPAR yard in Finland.

"We view the appointment positively. Hopefully, this will improve operations at MMHE's yard," says Hong Leong Investment Bank analyst Samsukri Glanville Mohamad.

Although de Soras has been running the company since February 2011, some critics say there have been no concrete results from its restructuring (see accompanying story).

"The intention [of restructuring] is good, but it is not easy to change people's mindsets and to instil a new corporate culture in a big organisation like MMHE," says an analyst. ■

Two resolutions withdrawn

FROM PAGE ONE

substantial shareholder after acquiring and converting warrants previously attached to a bond issued by the property firm many years ago.

Banting Hock Hin is not related to Teo, who is Paramount's largest shareholder with a 27.62% stake. The company also does not have representatives on Paramount's board and hence was not consulted on the LTIP.

Sources say Banting Hock Hin had made known its intention before the EGM that it wanted a poll to be conducted on the three resolutions to be tabled at the EGM instead of a show of hands.

All three resolutions pertained to the LTIP.

It is believed that Teo would not have been able to vote on two of the three resolutions as he is an interested party, leaving Banting Hock Hin with the edge by virtue of its shareholding.

Sources say this could be one of the reasons Chan, a professional manager formerly with the CapitaLand group, offered his resignation ahead of the EGM.

The award of shares to Chan would amount to a 1.5% stake in Paramount and be worth about RM8 million at current market prices. He declined to comment on matters related to his resignation.

Meeting with reporters after the EGM, Teo said there was no conflict between management and Chan, who had met the media last month to explain his plans for Paramount.

According to an announcement to Bursa Malaysia last Monday, Paramount described Chan's resignation as a "mutual agreement to part ways" and that the company respected his decision to pursue other interests.

At the meeting, shareholders who were present and who have a total stake of 70.21% supported the first resolution pertaining to the establishment of the LTIP to incentivise the staff as well as executive directors of Paramount and its subsidiaries.

However, shareholders holding a joint stake of 29.79% voted against it.

Meanwhile, the second and third resolutions pertaining to the award of up to 10% of the new shares available under the LTIP to Teo and up to 15% of the new shares to Chan were "withdrawn with the consensus of the shareholders at the EGM", Paramount announced to Bursa Malaysia on Wednesday evening.

The withdrawal of the resolution concerning Chan was presumably because he had resigned from the company.

For the resolution pertaining to Teo, the withdrawal could be seen as a good gesture by the executive deputy chairman, given that he is already Paramount's largest shareholder.

Teo had assumed the role of interim group CEO until Paramount found a candidate to fill the post. According to management, the executive search process will include talents from both outside and within the group.

The unexpected twist at Paramount's EGM shows not all shareholders readily agree to the award of free shares under the LTIP as they would in an Employees Share Option Scheme, where staff would have to pay for the shares.

"The concept of awarding free shares to directors and staff is still new in Malaysia. While shareholders may be more willing to support such a plan in an institutionalised, professionally run company, they need more convincing when a family-owned firm is doing it," says a market observer. ■

All bidders, except 1MDB, propose new sites

FROM PAGE 16

"From the list of shortlisted bidders, you will find that four are on greenfield sites and one on brownfield, and clearly the RFQ (request for qualification) has indicated that 3B bidders must propose greenfield sites," says an industry player referring to 1MDB's proposed site in Jimah.

1MDB and the EC declined to respond to questions on the former's proposed site for Project 3A and 3B.

Compared with other players who have proposed greenfield sites, the industry player says that 1MDB, which is controlled by the federal government, will have an edge in being able to leverage off the existing infrastructure of the 1,400MW Jimah Power Station and not having to build new ones.

All the other players have proposed new sites.

Even Tenaga, which could have named a site where it has an existing coal-fired power plant has proposed a new site in Tanjung Hantu, Sungai Perak, with the injection point in Terong Bruas. For the project, Tenaga will be teaming up with Global Power Ventures Sdn Bhd and China National Machinery Import & Export Corp.

Soon-to-be-listed Malakoff has teamed up with Japan's Sumitomo Corp. The joint venture has proposed Pulau Carey, Selangor, as the site using Olak Lempit as the injection point. Malakoff also has an existing 2,100MW coal-fired plant in Tanjung Bin.

Meanwhile, YTL Power, which has partnered with Ranhill Power Sdn Bhd, has proposed Tanjung Tohor, Johor, as the site for the plant. YTL Power will be particularly keen to bag the job as its current power purchase agreements (PPA) are due to expire in 2015 and have not been renewed. Notably, the group does not have much experience with coal-fired plants since its plants are gas-fired.

For now, the five bidders will be keenly awaiting the release of the request for proposal (RFP) document by the EC on April 23, which will detail the more technical requirements of Project 3B. The document could potentially have a big influence on the direction the tender takes.

Industry players along the whole supply chain are also watching closely as it could determine if they will be allowed to participate in the project at all. ■

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