Corporate: KTL raises IPO funds for new plant and regional expansion
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Wilson Tan, 35, didnôt have much of a choice about going to work for his familyôs rigging equipment company after he left Santa Monica College in the US with a diploma in marketing some 10 years ago. As the eldest of four children, he was simply expected to come home and help grow the business of supplying heavy-duty ropes and fittings for lifting and mooring, which had grown over the generations out of a provision shop started by his great-grandfather. ñThe first few years were pretty hard,ò says Tan, now CEO of KTL Global Ltd. ñI had to start from scratch.ò

From the lowliest position of pounding the streets, selling equipment such as steel ropes to marine and construction companies, Tan climbed the ranks and eventually met the expectations of his family by assuming the mantle of leading the whole enterprise. Over the last three years, he has steered KTL towards the more lucrative business of supplying rigging equipment to the oil and gas sector, and more than doubled the companyôs net profit (excluding gains from a property sale). Last week, he completed an IPO of 40 million new shares and listed the company on the Mainboard.

Even Tanôs crowning achievement of taking his familyôs company public wasnôt easy, though. Amid heightened investor nervousness in the wake of slowing economic growth and the subprime mortgage bust in the US, KTLôs shares were priced to sell. At 28 cents each, they were priced at just eight times the companyôs earnings for FY to June 2007. In comparison, Sinwa Ltd, which supplies provisions and equipment to offshore companies, is trading at 11.9 times for the year to December 2007. Aqua-Terra Supply Co Ltd, which distributes a wide range of offshore products from valves to tools to safety equipment, is at a chunkier 13.2 times for the same year. Shares in KTL ended their first day of trading on Friday at 3 cents, a 17.9% premium to its IPO price.

Despite the difficulty in raising money now, Tan says he was eager to list quickly in view of the Singapore Exchangeôs changing listing rules that could see it favouring larger listings for the Mainboard and nudging smaller aspirants onto its new sponsor-supervised market called Catalist. He is also convinced that the offshore oil and gas industry will remain buoyant for the next five years, and didnôt want to risk any delays in raising funds to take advantage of growth opportunities.

KTL is building a new facility in Tuas, almost double the size of its old one in Changi. Just under a third of the $9.6 million in net funds raised from the IPO will go towards its new Tuas plant. Tan also wants to tap new hotspots outside Singapore and has opened branches in Vietnam and Dubai. Vietnam is fast emerging as a new plank for regional oil and gas activity, while the Middle East is poised to become the biggest shallow-water oil and gas market in the world by next year. Mark Beretta, sales and marketing director at KTL, says that in the 1½ years since venturing to Dubai, the company has doubled its sales in that region. ñI expect that to continue,ò he says.

Every vessel operating in the offshore oil and gas sector uses rigging equipment, including thick steel wires for towing, drilling and dredging purposes, synthetic ropes for mooring and towing, and slings for lifting huge oil and gas platforms. As oil has raced from US$40 ($58) a barrel to just under US$90 over the last three years, investments dollars have flowed into exploration and production. But being at the tail end of the chain, equipment suppliers like KTL have yet to feel the full force of this latest investment wave, says Beretta, who has been in the industry for 20 years. ñEven if oil falls to US$70, they wonôt switch off these investments,ò he adds.

Between FY2005 and FY2007, revenue from KTLôs offshore oil and gas division grew at a compounded annual rate of 37%, ahead of sales from its marine and construction industries division. The offshore oil and gas division accounted for two-thirds of sales in its last FY. Tan is keeping the focus firmly on this sector as gross profit margins, at 41% in FY2007, are almost double what they are in the marine industry. He also sees the divisionôs robust 30%-plus growth rate continuing. Key customers include McDermott, a leading player in offshore oil and gas construction, and Ezra Holdings, a local offshore support services company.

KTL has a market capitalisation of just $52.8 million, making it one of the smaller companies on the Mainboard. Still, the business has come a long way from the provision shop that Tanôs great grandfather set up in the early 1900s in Tanjong Rhu. In the 1960s, it diversified into exporting ship supplies such as engine spare parts and deck equipment to trading houses in Malaysia. Its big break came in the early 1980s, when it clinched deals to supply tools and equipment to oil tankers run by MNCs such as Chevron and ExxonMobil.

Since then, it has narrowed its niche to rigging equipment for the offshore oil and gas market, an area served by just five to seven players worldwide. Competitors include United Offshore Services of the Netherlands and, in Singapore, Franklin Offshore, which is understood to be seeking a listing. The Tan family retains a controlling 55% of the company post-IPO and Tanôs 61-year-old father is executive chairman. Tan says his father looks after the financial side of things these days. Apparently, he is satisfied to leave the companyôs thrust onto the public stage and into new and far-flung markets to his son, who once had to be prodded into the family enterprise.