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Rentals to the rescue for KTL

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Renting equipment to customers offsets shortfalls in other areas and lets KTL Global expand even in this recession, writes JESSICA YEO

KTL Global Ltd, which supplies rigging equipment mainly to the offshore oil & gas and marine industries, met the Asian financial crisis head-on in 1997, and is similarly gaining momentum in this global meltdown.

Chief executive Wilson Tan tells BT that the crisis more than a decade ago helped the company become what it is now.

'Critical decisions are all made during times of crisis,' he says.

During that crisis, KTL was a small family business facing financial difficulties. It had recently bought land in Changi, but the crisis caused a sharp fall in the property's value.

Although family savings were used to keep the business afloat, the company's safety line out of the downturn was focusing on a niche market.

'During that time, our products were quite diversified. It was very difficult for us to focus,' Mr Tan says. 'That was when we started to consolidate, sell the rest of our business and just focus on one area.'

Thus, the company decided to venture into the supply of rigging equipment to the offshore oil & gas industry, which now forms the core of its business.

Providing equipment for the oil & gas industry is a niche market as only a handful of companies can meet stringent safety standards while providing very big slings.

According to Mr Tan, everything changed for KTL around the 1970s, when his father clinched a contract from Caltex and Chevron Corporation.

This helped KTL slowly focus on the oil & gas industry, which is still providing the energy to move ahead now, even as the downturn causes demand and prices for energy to plummet.

'We don't know what's going to happen next, but what we see is that energy will always be there,' Mr Tan says.

Orders are not as high as before, and the company's general trading is affected, he adds.

However, there is a boon: KTL managed to enter the equipment rental sector, which yields higher margins.

'Suddenly, customers just came to us and said that instead of just buying, they want to rent on a project basis,' Mr Tan says.

The company foresees that the booming equipment rental sector which picked up last September will continue doing well, and hopefully offset any losses from other segments.

Mr Tan says that the equipment rental sector is a 'win-win situation' for KTL.

Previously, this was a tough market to enter, with low demand. However, the recession is increasing the demand for renting instead of buying, as it can help cut costs.

Companies rent equipment for projects that usually last about 4-6 months. This means that the same piece of equipment can be rented out at least twice a year.

'Clients pay less based on projects, and we get the slings back,' Mr Tan said.

Although the rental sector is 'not as easy' - due to greater responsibility, safety concerns and checks involved - Mr Tan says that 'at the end of the day, it is still worthwhile. As long as they rent it for a certain period of time, we get a fair bit of profit.'

Firm demand from the oil & gas sector boosted the company's revenue 37.7 per cent to \$37.4 million, with net profit rising 37.4 per cent to \$3 million in the first half of FY2009.

Despite rising sales year-on-year, KTL is cautious about the financial situation.

'March-to-September is the peak period in the industry,' Mr Tan says. 'Right now, we are still monitoring to see how the coming months will play out.'

KTL focuses on four business segments: offshore construction, support vessels, oil rigs, and general trading.

It operates in Singapore, South East Asia and the Middle East, with clients hailing from Asia and Europe.

It used to concentrate solely on buying and selling, but decided to pull ahead by designing and customising products for clients.

In addition to this, KTL offers value-added services such as re-testing, servicing and inspections to differentiate itself from competitors.

The company has 158 employees, most of whom are locals.

As KTL provides specialised products, Mr Tan says, it is hard to find employees, as most have to be trained for at least a year or two from scratch.

The company has thought of ways to beat the recession.

Mr Tan said **KTL Global** differentiates itself from other players in the rental business by offering inspection and maintenance packages, and it sends its employees all over the world to check and maintain equipment.

KTL is also continuing to expand, even during the downturn. 'We grow organically - the way we expand, we are not actually spending a lot of money,' Mr Tan says.

Expansion occurs within its current markets, so there is less cost incurred than venturing into new markets.

The company is looking to set up a base in the Middle East and a branch in Batam by the end of this year.

Its initial public offering in 2007 has helped in growth, with \$2.6 million going to the building of its new Tuas facility and one of the largest test-beds in the world.

Mr Tan says that this is able to test all of KTL's slings, chains and anchors.

'In the oil & gas industry, everything is urgent. If they want it, they want it immediately. The facility is able to help us fulfil the order faster and meet clients' deadlines.'

The company has continued to expand, with the most recent joint venture being KTL Logan.

'We decided to go into the winch business, because it helps the rope business,' Mr Tan says. 'It's complementary - ropes need winches to move.'

Even though there are many companies that build winches, Mr Tan says that making deep-water winches is a niche market, which the company is trying to focus on. 'We are still working on it, but we do see that this business can actually grow.'

Despite having expansion plans and a strong belief that the market is still good, Mr Tan says that KTL 'will rely on the energy sector to pull through the crisis'.

He adds: 'If we need to continue to have this type of profit, this is where our equipment rental has to come in - hopefully to offset the rest.'

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