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# Deep relationships are supporting Boustead's order book amid pandemic

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**The conglomerate is also taking advantage of the crisis to build demand for geographic information technology.**

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THE Covid-19 pandemic has disrupted the energy and real estate businesses of Boustead Singapore, as it sends oil prices crashing and brings construction work to a standstill.

Even the opportunities created for the group's geospatial arm Esri Singapore come with a caveat. Demand has surged for the geographic information system (GIS) software it distributes, which is being used to map Covid-19 cases and monitor crowd density. But revenue gains have been limited as the company is distributing the software and providing services free of charge to many users under its principal's Disaster Response Programme (DRP).

Travel restrictions have made doing business and finding new work challenging too, said chairman and group chief executive Wong Fong Fui.

"Our businesses are very global; and without travelling, we're not going to have business," he said.

"Fortunately, for (the energy and geospatial) businesses, we've been in the business for a long time, so our relationship with the various clients, businesses, agents and so forth have long been established. For the time being, we can ride on this connectivity that we've built up in the past and continue to do business."

### **Building on past performance**

Established in 1828, Boustead Singapore is among Singapore's oldest conglomerates.

It has gone through several identity changes, but is currently made up of four divisions. The energy engineering division provides technologies and solutions to the oil and gas, petrochemical, and energy industries. The real estate division – parked under the mainboard-listed Boustead Projects – designs, builds and develops business parks and industrial

developments. The geospatial division delivers GIS solutions for smart mapping. And the healthcare division provides medical solutions addressing age-related problems.

Last month, Boustead reported its financial results for FY2020 ended March 31. Revenue was up 54 per cent year on year to S\$726.6 million. Net profit was down 5 per cent on the absence of a S\$5.9 million pre-tax gain in the previous year as well as gross margin pressure and other losses. Excluding the impairment losses and aforementioned gain, however, the group's net profit would have increased 34 per cent.

The results announcement was followed by a nearly 7 per cent jump in Boustead's share price the next day. The price had fallen from S\$0.715 to S\$0.67 in a Singapore market bloodbath on March 9, and touched a low of S\$0.56 soon after. Buoyed by the positive results, it has since recovered and closed at S\$0.72 last Friday.

Although new business has been difficult to come by, Mr Wong is feeling confident given the group's sizeable order book backlog of S\$775 million. Boustead also has a net cash position of S\$162.7 million, which compares favourably with its market cap of S\$350.7 million.

Boustead's order books have been built up through steady work over the past several years, particularly in the energy division. Since the start of the oil and gas recession in 2014, it has been seeking out direct contracts with end-users, rather than relying on new build projects for which it supplies equipment to main contractors.

Deputy group CEO Wong Yu Loon, who is the son of Mr Wong, shared that the company has been taking on smaller contracts. One example is conducting feasibility studies for end users such as oil refineries. Based on its recommendations for optimising operations and reducing emissions, clients may go on to purchase heater systems, waste heat recovery units and steam generators from Boustead.

The contracts are generally smaller in value than the work obtained through main contractors and require a larger salesforce to secure, Mr Wong Yu Loon said.

"It's not as easy because it requires boots on the ground, knocking on people's doors. We are working to set up a sales infrastructure to do that."

But the elder Mr Wong said the efforts have paid off. "Our pipeline is steadier and the margin is a lot better. We are riding on that momentum. So even though we had another oil price crash recently due to the pandemic, the order book is strong enough to see us through this period."

### **Domestic difficulties**

Boustead Projects, meanwhile, reported an 82 per cent increase in revenue for FY2020 – to a new high of S\$426.2 million.

But the pandemic has heavily impacted the construction industry's foreign workforce, and Boustead Projects faced a labour shortage when it tried to resume work last month.

There is hope that this will be resolved soon, as the number of new Covid-19 cases among migrant workers has been falling steadily and the Singapore government expects to allow the majority of workers to return to work by end-August.

Mr Wong nevertheless cautioned: "That doesn't mean that we will be able to restore to original strength. That will take some time; my guess is probably till the end of the year."

On the bright side, Boustead Projects has not experienced many rental payment issues at its industrial properties. These are mostly single-tenanted and occupied by reputable multinational corporations.

The board and management of Boustead Projects are also actively looking into unlocking the value of its leasehold portfolio, which comprised 22 properties and 351,000 square metres in gross floor area with a market valuation of more than S\$932 million at the end of FY2020.

When asked about the possibility of listing the portfolio as a real estate investment trust (Reit), Mr Wong said some of the properties in the portfolio are not yet ready to be included in a Reit listing and the company does not want to rush into such a move without sufficient scale.

"Obviously, we are keen to recycle the capital, but there are other means as well, not

necessarily as a Reit. That's (just) one of the possibilities."

### **New opportunities**

During the pandemic, Esri Singapore has been busy servicing the numerous government and healthcare agencies that use its GIS software to manage natural disasters and disease outbreaks. The company has distributed the software in South Asia for 40 years, and many of the government agencies, including some in Singapore, are existing paying clients.

Over 156 organisations have joined the DRP, which is available globally to help countries and institutions manage disasters such as earthquakes, floods and wildfires.

Esri Singapore hopes that its work in the programme will raise awareness of the technology's potential to address various complex problems.

Said Mr Wong Yu Loon: "(Our DRP work) is not paid but we're trying to create an impact through adoption of our technology, create brand mindshare. Whether it leads to more business is a secondary consideration, but we are hopeful that it will lead to more paid licences and more paid work."

### **Eyes on the future**

While Boustead's position is secure for the next one to two years, project cancellations are inevitable if the pandemic situation does not improve. Extended lockdowns across the world will be "disastrous in the long run", causing demand and consumption to nosedive, Mr Wong said.

"If this carries on long enough, the world economy will be worse than any of the recessions you can ever think of ... This is compounded by world trade decoupling, isolation, protectionism," he said. "Decoupling between US and China is ongoing, accelerated as you can see every day. The situation is looking worse and worse, and not only for Singapore per se. These are global problems."

None of Boustead's businesses have carried out any retrenchments so far, and Mr Wong does not anticipate needing to do so for at least the next one year.

"Ours is a people business ... a technology expertise business. The people we have are important, and they are very much our assets," he said. "In difficult times, we didn't lay off the core team in oil and gas. That's the reason why we are able to recover."