

CCM ropes in SingHaiyi's Chan as strategic investor to drive business

[BY FRANKIE HO]

Joseph Liew, chairman and CEO of CCM Group, figures he is something of an expert in the field of construction. Yet, his track record in ensuring his company has sufficient financing for its projects is another matter altogether. "When I see a project, I can tell straightaway how best to build it and how long it will take to do so. But when it comes to raising funds from the market, I'm completely clueless," the founder of the Catalyst-listed construction firm tells *The Edge Singapore*.

Last year, CCM generated revenue of \$53.9 million, up 18%, but still incurred a loss of \$1.9 million, albeit smaller than the \$3.8 million loss in 2011. It saw a net cash outflow of \$8.2 million from operations, which it attributed to an increase in trade receivables and progress billings, as well as a prepayment of a loan. The company ended the year with almost \$12 million in debt, about three times more than the \$4.2 million debt it had at end-2011.

While CCM's trade receivables are generally on 30- to 60-day terms, it has taken the firm a longer time to get paid in recent years, partly because the projects it has taken on are larger in scale and more complex. Another challenge is higher operating and building-material costs as a result of rising levies on foreign workers and increasing demand for construction services.



Liew does not rule out the possibility of CCM working with SingHaiyi and adding property development to its construction business

Now, an investor has stepped in to provide CCM with much needed cash and perhaps steer it in a more exciting direction. On April 15, the company said Chan Heng Fai, an old hand in real estate and corporate restructuring, had bought 35 million new shares at 8.6 cents apiece, or a total of \$3 million, which it plans to use as working capital.

The investment, which Chan made through his privately held vehicle Hengfai Strategic Investment, gives him a 27.5% stake in the enlarged company and comes with the promise of two seats on CCM's six-member board. Liew and his family now hold a stake of about 42.8% in CCM's enlarged share base, down from 58% before Chan appeared on the scene.

Hong Kong-born Chan is the deputy managing director of SingHaiyi Group, formerly known as SingXpress Land. He is also chairman of Xpress Group, a Hong Kong-listed property developer, and former chairman of Hong Kong-listed China Gas Holdings, which used to be a struggling fashion retailer but is now a leading gas supplier in China after he restructured the company.

Last month, Chan also acquired 24.6 million shares in Jubilee Industries Holdings, formerly called JIJ Holdings, which makes plastic injection moulds. The shares, which represent a 19.9% stake in Jubilee, were acquired from the company's co-founder Chua Kim Guan. Chua stepped down as chairman in 2010 after iPhone maker Apple filed a civil suit against one of Jubilee's former employees for alleged offences that included wire fraud and money laundering.

'Big help' to CCM

Liew, 42, says he became acquainted with Chan three years ago but had never discussed an investment in CCM until very recently. "We have had some communication over the years but it wasn't very close. I approached him only about a week before the announcement. He found the chemistry was right," Liew says.

Chan declines to comment for this story, only saying in a statement issued by CCM that he sees "tremendous potential" in the construction firm. Liew is also tight-lipped about what Chan

has in store. "At this moment, I cannot reveal his plans for CCM. But he will definitely be a big help, with his strong network and finance knowledge. We hope to make use of his experience to improve our company's profile."

Liew does not rule out the possibility of CCM working with SingHaiyi, which prides itself on Chan's so-called investment banking approach to property development. This essentially involves SingHaiyi seeking out sites for development, setting commercial parameters such as the level of debt or equity required for the project, and roping in investors or joint-venture partners. In fact, Liew says CCM may add property development to its construction business with Chan's help, following in the footsteps of companies such as Lian Beng Group, KSH Holdings and BBR Holdings.

Biggest challenge remains

The emergence of Chan as a financier of CCM won't directly help it overcome the challenges it faces in its construction business though. Notably, with the government allowing fewer foreigners from working in Singapore as it seeks to get companies to be more productive, business owners from various industries have been hit by higher staff costs. Last year, CCM's wage bill went up some 30%, according to Liew. CCM has about 240 construction workers and another 120 engineers, supervisors and office staff.

"The foreign-worker levy in the past was between \$80 and \$220 a month. Now, it's more

than \$400," Liew laments. Recruiting and retaining skilled workers is also a problem, he adds. "Right now, the market rate for a supervisor is \$3,000 to \$4,000 a month, compared with \$2,000 or less in the past." Even several of his senior staff, including his general manager and finance controller, have left the company for better offers in the last couple of years.

"Things are quite costly now because of the regulatory changes. We will have to factor in higher costs for new projects that we tender," he concedes. "For ongoing projects, we can't pass on the higher costs because we are locked in." Getting more of his workers to multitask is another way to manage costs, al-

though rising prices of building materials are also a growing challenge, he says. CCM gets its materials from suppliers such as BRC Asia, Pan-United Corp and YTL.

Liew has faced his share of rough patches and downturns since getting into the construction business back in 1992. He survived them all and managed to strike out on his own by setting up CCM in 2001. Now, in the face of possibly the biggest challenge he has faced, he is hopeful of turning CCM around and growing the business. "We will still go for government projects. There are a lot of HDB projects coming up," he says. "I believe the company will definitely grow, working with Chan." ■

Chan's investment in CCM has spurred trading of shares of the construction firm. The stock jumped more than a third to 12.2 cents in the two days since the April 15 announcement. Still, it remains well below its IPO price of 20 cents, a level it has not closed above since August 2011. CCM listed in July 2010 but never really gained a broad investor following. In 2010, the last financial year it was in the black, the company reported earnings of less than \$1 million. At 12.2 cents, CCM's market value is about \$11.3 million.

Liew is hoping for a fresh start with Chan on board. "Have more faith in CCM," he says. The proceeds from the placement, he says, "will last us for some time" and help tide the company over while it gets its cash flow running again. CCM has an existing order book of about \$210 million, which will keep it busy for several years. Most of its projects involve building HDB flats and carrying out upgrading and maintenance work for town councils.

By the end of the year, Liew expects CCM to obtain A1 certification from the Building and Construction Authority of Singapore (BCA), the highest certification for a contractor, which will allow his company to take on projects of unlimited value, including rail-line work. CCM currently has A2 certification, which excludes it from bidding for MRT and LRT projects, according to him.

In the meantime, CCM may also venture abroad using Chan's overseas connections, Liew says. CCM sought to venture into China in 2011. It June that year, it inked a memorandum of understanding with the government of Dalian county in Chongqing to develop a resort on a 700ha site in four phases lasting up to five years. The total investment cost was RMB1.6 billion (\$320 million). But the plan never took off following the high-profile ouster of Bo Xilai as Communist party chief of Chongqing early last year.

It tried again to get into China last year by offering to form a joint venture with a private investment holding firm to buy two commercial and hotel buildings in Beijing for a total of RMB60 million. However, Liew shelved the plan as he was concerned about possible regulatory changes in the real estate market with a new Chinese leadership in place.

CCM even considered getting into an entirely different business at one point. Last December, it sought to acquire a company with concessions in Canada to explore for and produce oil and gas. The deal, which was subsequently called off, was to have been funded by shares and would have resulted in a reverse takeover of CCM.

