Contractor CCM to raise $41 mil to fund property development ventures

| BY FRANKIE HO |

Four months after injecting $3 million into CCM Group and becoming its second-biggest shareholder, investment banker-turned-property developer Chan Heng Fai is preparing to take the Catalist-listed construction firm into the real estate development and investment business. To fund the move, he is helping the company raise as much as $41 million by issuing an avalanche of bonds and warrants that can be converted into CCM shares.

Chan, 68, a Hong Kong-born Singapore citizen, owns 20.5% of CCM. He tells *The Edge Singapore* that the company will initially pursue low-risk and small development projects. "To start off, we will mostly participate in other people's projects. We will take stakes of 5% to 10%, depending on the size of the development." These projects could be mass-market private residential developments as well as HDB apartments.

While the slew of cooling measures over the last few years may now be affecting demand for high-end private homes, the mass market, including the rental market, is still "very healthy", Chan says, citing recent record bids from developers for some executive condominium sites. And, given his extensive business connections, bigger developers would be "totally open" to working with CCM, he adds.

On its own, the company could also develop landed homes, such as semi-detached properties and terraced houses, says Chan. "How much risk are you looking at in building a small semi-D home? The risk is very low. Landed homes still carry the lowest risks."

Chan, who is also deputy managing director of **SingHaiyi Group**, formerly SingXpress Land, expects to be actively involved in CCM's proposed new business, right down to designing the look and feel of every residential unit. "If you have a good design, the product will sell at a premium. If you look at all my projects in SingHaiyi, I'm the concept designer for every single one of them. I've probably studied about 2,000 houses around the world. They are very suitable for Singapore."


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The move into property development, to be funded by a $41 million cash call designed by Chan (left) and Teh (right), could well be the lifeline needed to resuscitate CCM, which Liew (centre) founded in 2001

Piggyback warrants

CCM plans to raise $5 million from the sale of exchangeable notes and an additional $36 million from the conversion of bonus warrants that it is proposing to issue. The warrant issue is unique in the way it is structured and could well be the first of its kind for a Singapore-listed company. "It's a very American structure," Chan says.

Shareholders of CCM will get 10 bonus warrants for every CCM share they hold. Each warrant, which can be traded on the Singapore Exchange, entitles the holder to subscribe for one new share at a price of one cent. On top of that, if the bonus warrant is exercised, the investor will also get what CCM calls a piggyback warrant for free. This piggyback warrant can be converted into another new share at an exercise price of 1.1 cents. Unlike the bonus warrants, the piggyback warrants will not be tradable.

So, for every 1,000 CCM shares an individual holds, he will get 10,000 bonus warrants. If he exercises all the warrants, he will have 10,000 new CCM shares as well as 10,000 piggyback warrants, which entitle him to subscribe for another 10,000 new shares. All in, CCM will issue up to 1.71 billion bonus warrants; if they are exercised, the company will issue up to 1.71 billion piggyback warrants.

"I've done this very successfully on Wall experience in helping companies raise funds from selling piggyback warrants. "The beauty of this is there is no dilution to shareholders.

"A rights issue is too dilutive for existing shareholders. If a guy has no money [and doesn't take up his entitlement], he's diluted. I've been an investment banker for a long time, almost 20 years. I think mostly from the angle of an investor first, how it would benefit the investor."

Exchangeable notes

The exchangeable notes will be denominated in units of $250,000 each. They have a three-year maturity period and can each be exchanged for 2.5 million new CCM shares at a price of 10 cents apiece. Alternatively, the notes can be converted into shares of CCM's newly incorporated property development arm, CCM Property. While the idea of holding shares in CCM Property — a privately held business entity with a paid-up capital of $1 and no track record — may sound illogical now, the group says there is a reason for giving investors this option.

"We expect to enlarge the capital base of CCM Property once it is fully operational. We have considered wanting the flexibility of a spin-off in the interest of enhancing shareholder value,

but only if CCM Property is ready, shareholders like it and the numbers are meaningful," says Teh Wing Kwan, who helped Chan put together the entire fundraising exercise. Teh, 41, is a non-executive director of CCM and also chief financial officer of Mainboard-listed furniture group **Koda**.

The annual coupon on the exchangeable notes is 18%. This appears burdensome for a small company like CCM, but Chan feels the interest rate is fair. "You have to structure enough meat to entice investors. CCM is a small company. We are not **CapitaLand**, **City Developments** or Far East Organization. As the company gets bigger, it will issue notes with a much lower interest rate."

In any case, Chan says he has been able to deliver far higher returns for many of his own real estate projects. "I benchmark all my projects at an IRR [internal rate of return] of 25%. I have 10 years of track record in achieving that. In some cases, I've delivered 49% returns to investors who participated in my projects."

If all the warrants are exercised and the notes exchanged for shares, CCM's share base will swell from the current 171.2 million shares to 3.65 billion shares. That would boost its market value to about $440 million, based on its current share price of 12 cents, from $20 million at present. "We are setting the stage [for CCM] to become a big company," says Chan.

New lifeline

Joseph Liew, 43, founder, chairman and CEO of CCM, is eager for the plan to succeed. "Rather than be only a contractor, we are also moving forward as a developer. I think with Mr Chan's advice and network, this will be a good move," he says.

CCM has suffered several years of losses, of staff costs and related levies, came in at $6.1 million last year, more than its gross profit of $5.4 million. For 1HFY2013, admin costs rose 23% y-o-y to $3.2 million, leaving CCM with a net loss of slightly less than $70,000. As at June 30 this year, it was in a negative cash position of $6.7 million, mainly a result of an increase in payments due from customers for work already carried out but that had yet to be billed.

Liew, who owns 28.5% of CCM, was introduced to Chan by a broker in April this year. Shortly after that meeting, Chan invested $3 million in the company, giving him a 27.5% stake, which was reduced to 20.5% after CCM placed out new shares in June to raise $4 million. "I help to recapitalise small-cap companies. I help them grow. It's in my DNA," says Chan. "Right now, I am also mentoring four SMEs, unlisted, from various industries."

Even as he indulges himself in helping start-ups and revitalising ailing companies, Chan remains actively involved in Hong Kong-listed **Xpress Group**. He owns 45.6% of the Hong Kong-based real estate developer and manager, which has residential, commercial and hospitality properties in the Chinese special administrative region, Singapore and Japan. Interestingly, on Aug 9, Xpress announced in a filing with the Hong Kong stock exchange that it was studying the feasibility of a secondary listing in Singapore as it seeks to boost its public profile and potentially tap an additional capital market in Asia.

Pushing the envelope

Will Chan's involvement at CCM provide the company with a new lease of life? What are the risks? Should investors back its plans to raise funds and move into property development?

Several other Singapore-listed construction companies have already gone into property development, capitalising on rising home prices fuelled by ultra-low interest rates. Among them are **Lian Beng Group**, **KSH Holdings** and **BBR Holdings**. SingHaiyi itself was originally a provider of fit-outs for retail stores known as Futuristic Group, until Chan acquired control of it in 2003. The company subsequently moved into property development as SingXpress Land.

At one point, SingXpress pushed the envelope as residential property prices scaled into uncharted territory. Among other things, it was involved in the development of Pasir Ris One, an HDB property developed under the now discontinued DBSS scheme, as well as CityLife@ Tampines, an executive condo. CityLife made headlines late last year for including a 4,349 sq ft penthouse priced at an eye-popping $2.05 million, which sparked a debate about the fundamental purpose of HDB homes.

Now, as SingHaiyi, the company has ventured into investing in US properties, with the backing of investors including entrepreneur Gordon Tang and Neil Bush, a brother of former US president George W Bush. Its share price is up about 70% this year, giving it a market value of some $600 million.

CCM's shareholders will, no doubt, have SingHaiyi in mind when they vote on the construction company's diversification exercise and capital-raising plans at an EGM to be convened in due course. So far, investors seem to be reacting positively. The stock is up more than 40% since the exercise was made public on Aug 6, and about 20% higher since the beginning of the year. Whatever the case, the market is likely to hear more of Chan in the months ahead, with investors keeping their fingers crossed that