

ShawKwei eyes returns from Gaylin in 5 years

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PRIVATE equity (PE) firm ShawKwei & Partners expects its equity investment in Gaylin to generate positive returns in the next five years.

Founder and managing director of ShawKwei & Partners, Kyle Shaw, told The Business Times that the S\$68 million the firm parted with for a 76 per cent controlling stake in Gaylin represents its first foray into the oil and gas-related sectors.

Mr Shaw explained that ShawKwei generally observes a five-year time horizon for its investments. Additionally, the PE firm is confident that Gaylin - as an offshore and marine (O&M)-focused entity now - will be able to repay its existing bank loans within the next three years.

ShawKwei on Tuesday completed the equity infusion and debt restructuring for Gaylin. Besides receiving S\$68 million of fresh equity, Gaylin also won backing from its four key bank lenders - UOB, OCBC, CIMB and RHB - towards pushing out repayment of S\$64 million of loans by a couple of years. Excluded from the debt restructuring is a S\$5 million Spring Singapore-backed loan that the O&M group has repaid with support from ShawKwei.

Post-debt restructuring, Gaylin has over S\$70 million of cash, less than S\$70 million bank debt and net asset value of S\$160 million.

Mr Shaw pointed out that Gaylin does not need any more equity injections. Instead, the O&M group, with its strengthened balance sheet, can explore acquisitions of "complementary products or services" to bolster its topline and bottomline performances.

That said, the PE firm has bought into the O&M group because the former considered the latter as having a sound, existing business. Gaylin may have posted losses for seven quarters in a row now, but the group, like many others in the beleaguered O&M sector, has been a victim of a multi-year downturn. Demand for its products has been relatively soft and having maintained certain inventory levels, Gaylin ran into liquidity problems, or what Mr Shaw described as "mismatching of debts against illiquid assets".

The founder of ShawKwei pointed out that the PE firm is looking to inject more than just equity into Gaylin. The aim is also to enhance key business functions - accounting systems, communication and marketing, to name a few. Mr Shaw explained that Gaylin could benefit, for instance, from streamlining its branding across 10 international locations in Asia, the Middle East and Europe. His view builds on the fact that Gaylin stands to lean on its strong branding as a "world-class engineering and services business".

Gaylin was founded by Desmond Teo and his brothers in 1974. On Tuesday, the O&M group announced that Mr Teo has stepped down as CEO and will assume the new role as adviser to chairman. The founding family has retained equity interest of 14 per cent in Gaylin.

The group also witnessed the addition of two senior executives with effect from Tuesday.

James Parsons has been appointed global managing director. Prior to Gaylin, he had held senior executive positions including with Wilhelmsen Group and Swire Group, two heavyweights with significant shipping or O&M exposure. Victoria Yong, formerly the chief financial officer of Catalyst-listed Katrina Group, is now Gaylin's senior vice-president of finance.

ShawKwei is not ruling out more acquisitions in the O&G-related space, whether through Gaylin or as stand-alone transactions. The investment in Gaylin accounts for less than 10 per cent of ShawKwei's portfolio. Mr Shaw said that the firm is more interested in "service-focused companies" rather than "asset-heavy companies".