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Special
Report

A Bumi Armada PSV takes shape at the Nam Cheong yard in Miri.
Photo: JONATHAN BOONZAIR

MALAYSIA OUT FROM UNDER THE RADAR

YARDS CAPITALISE ON THE BURGEONING OFFSHORE SECTOR WITH SPECULATIVE BUILDING OFTEN PART OF THE BUSINESS MODEL.



Malaysia is not well known for its shipbuilding activities but it has for the past couple of decades been developing a robust industry centred on oil and gas. The oil town of Miri on the island of Borneo has firmly become the centre of shipbuilding in Malaysia.

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CLOSE TO A DOZEN SHIPYARDS line the banks of the Batang Baram River, where they churn out numerous offshore vessels for both Malaysian and foreign customers.

A handful of shipyards elsewhere in Malaysia are also actively building for the offshore sector but not in the concentrated levels that can be found in Miri.

TradeWinds visited three of the larger shipyards in Miri. Their names, Shin Yang, Nam Cheong and Sealink, are quite familiar to any players in the Southeast Asian offshore scene and are becoming increasingly known to offshore companies further afield.

With the offshore sector still growing in leaps and bounds business at these yards remains brisk. In marked contrast to many commercial shipyards elsewhere in Asia, visitors to Miri's shipyards will find them a hive of activity.

It is difficult to judge just how busy the yards are by examining their orderbooks. The reason is that most of the newbuildings constructed in Malaysia are built on a speculative basis and sold off once they are close to completion. The yards refer to this as building to stock.

On the surface this would appear a risky business model but in reality it has served them very well until now. Leong Seng Kiat, executive director of Nam Cheong, happily points out that his yard has built 72 speculative vessels over the past five years. "All were sold by the time they were completed," he said.

OFF-THE-SHELF NEWBUILDINGS

Offshore players in Asia appear to show a strong preference for these off-the-shelf newbuildings that can be acquired at relatively short notice. One reason being that financing is difficult to come by until they have a firm contract in hand.

"In a way it is like yard financing," said Vincent Ling, executive director of Shin Yang Shipyard.

Building to stock requires the shipyards to keep a close eye on the offshore market and carefully study what requirements the industry will have two to three years ahead. Nam Cheong, for example, believes that in the future there will be strong demand for platform-supply vessels (PSVs) rather than the standard anchor-handling tugs (AHTs).

"There are a lot of AHTs in Asia but not many PSVs, where demand for the type is increasing," Leong explained.

MIRI'S SHIPBUILDERS ARE LIKELY TO MAINTAIN A BALANCE OF SHIPS THAT ARE BUILT TO ORDER AND BUILT FOR STOCK. CONTRACTED SHIPS PROVIDE A SOLID, SECURE ORDERBOOK, WHILE SPECULATIVE VESSELS PLUG GAPS AND KEEP YARDS WORKING AT HIGH CAPACITY.

YARDS AIM TO READ CUSTOMER REQUIREMENTS

Often shipyards have long-standing relationships with their clients and will build ships according to what they believe customers will require next. If, for example, a customer places an order for two ships and hints that it may require more of the same type, the yard may go ahead and begin construction of a third and hope the customer will pick up that vessel as well. Or the yard might start working on a vessel if it knows one of its clients is likely to win a contract requiring such a ship. If not required, these vessels will be sold to other owners who need a similar type of ship.

Speculative newbuildings by nature need to be fairly versatile vessels that can readily be used for whatever purpose the end user needs them for.

"We try to build vessels that are easily adaptable so that they can be modified cheaply," explained Sealink chief executive Yong Kiam Sam. Yong's company is also a sizeable offshore player so it builds vessels its chartering department believes it requires, although the company is happy to sell them on before or after delivery. Yard managers at Sealink concede that the vast majority of ships they build are sold on before delivery.

INCREASE IN BUILT-TO-ORDER VESSELS

As the shipyards in Miri build up a good reputation with offshore players, they are beginning to attract more build-to-order contracts from customers looking for very specific vessel designs. These built-to-order vessels are becoming an increasingly dominant part of the yards' orderbooks.

Shin Yang's Ling says the majority of vessels his yard constructs now are built to order rather than speculatively. "We prefer to get orders. Speculative ships require a lot of changes, which means more work for us," he explained. Shin Yang recently received an order for two supply vessels from a Bruneian owner.

Nam Cheong has also been getting more direct orders, the latest being a series of eight multipurpose support vessels from Bumi Armada, a contract that is valued at \$130m for the initial four ships. The remainder are option vessels.

Miri's shipbuilders are likely to maintain a balance of ships that are built to order and built for stock. Contracted ships provide a solid, secure orderbook, while speculative vessels plug gaps and keep yards working at high capacity. Their combined output will continue to see Malaysian shipbuilding on the radar, at least where offshore shipping is concerned.

MALAYSIA

TARGETTING MARKET FOR SMALLER VESSELS

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LOCATION PRECLUDES THE MIRI YARDS FROM GOING BIGGER WHILE STATE SUPPORT FOR A RIVER-DEEPENING PROJECT IS PROVING ELUSIVE.

MALAYSIAN SHIPBUILDERS have successfully established a strong shipbuilding centre on the banks of the Batang Baram River near the town of Miri but this location will always preclude them from constructing the increasingly larger ships that the offshore industry is demanding today.

The river's 3.5-metre draught restriction confines order-books to smaller offshore vessels used in shallow-water sectors.

The Malaysian government has from time to time hinted that it may deepen the river but none of the shipyard executives TradeWinds spoke with are holding their breath.

"If and when it does go ahead, it will likely be more of a private sector project," explained Vincent Ling, executive director of Shin Yang Shipyard.

SHALLOW-WATER ADVANTAGE

The yards do not appear unduly worried about the restrictive situation. They point out that while there is much talk about the increasing demand for large, deepwater vessels, there are still plenty of opportunities for builders of smaller, shallow-water ships.

It helps that the majority of the offshore oilfields in Southeast Asia are located in shallow waters.

"The oil and gas sector in Southeast Asia is very robust. Demand for offshore vessels is strong and Petronas and Shell tenders next year will require a lot more vessels," explained Ling.

Other recent developments in Southeast Asia's oil-and-gas sector will continue to keep yards busy. Vessels equipped with dynamic positioning are becoming the norm for most charter contracts, a move that is expected to prompt the clearout of much of the older shallow-water tonnage in the region. Replacements will have to be built.

REGIONAL GOVERNMENT WEIGHS IN

The Bruneian government is pushing for greater local participation in its offshore oilfields, which will likely result in the

“Yong Kiam Sam: So long as there is an offshore oil-and-gas industry in Southeast Asia, there will be shipbuilders in Miri.”

Sealink chief executive Yong Kiam Sam.
Photo: JONATHAN BOONZAIR



establishment of local offshore players with their own fleets.

Sealink chief executive Yong Kiam Sam sums up the bullish feeling expressed by the Malaysian shipbuilders TradeWinds spoke to. "As long as there is an offshore oil-and-gas industry in Southeast Asia, there will be shipbuilders in Miri," he said.

Yong, like his peers at other yards, considers the lack of government supporting infrastructure as the biggest challenge Miri's shipbuilders face.

Although shipyards have been in existence there for some time, there has been little in the way of supporting industries. Almost everything, from the steel plates to the equipment used on the vessels, has to be imported.

Also lacking are local engineers and naval architects, which means yards frequently have to subcontract technological design functions to specialised companies.

"That is a challenge for us to become mainstream shipbuilders but it doesn't mean we can't build good ships," said Leong Seng Kiat, executive director of Nam Cheong.

Shin Yang's Ling says his yard sources most of its equipment from Singapore and abroad. "It is not too big a problem getting things in from Singapore. Although we do have a lack of specialised parts supplies, the problem is not insurmountable," he said.

THREAT FROM CHINESE RIVALS

Also of increasing concern is the drive by Chinese shipbuilders to get in on the offshore game.

Ling admits that Shin Yang has been forced to lower its prices to match those of the Chinese shipyards but he expects the situation to be temporary.

"Malaysia has steady labour costs as compared to China. I expect that in three to five years labour in Malaysia will be cheaper than in China," he said.

Nam Cheong's Leong is less concerned about Chinese price competition. He believes it is difficult for the Chinese yards to compete on price with sophisticated vessels where the equipment costs are much higher than the costs of the vessel itself. "It is with the mid-range vessels, where the labour and steel components are the major costs, that Malaysia has difficulty competing with the Chinese on price," he said.

Sealink's Yong points out that Malaysian shipyards have shorter delivery times than their Chinese counterparts and the mobilisation costs for an owner are cheaper in Miri than in China. "Everything is a trade-off. It all equals out in the end," he added.

As the shipbuilding industry in Miri and elsewhere in Malaysia continues to develop, many of the challenges they face today will likely be resolved. A supporting infrastructure will eventually develop and professionals can be trained up.

Despite the challenges, the mood at the yards remains bullish. Leong sums it up succinctly. "We [the yards] are all busy, we are making money. We can compete on price and our performance is good. I guess we must have done something right," he concluded.

“Vincent Ling: It is with the mid-range vessels, where the labour and steel components are the major costs, that Malaysia has difficulty competing with Chinese on price.”



Shin Yang Shipyard executive director Vincent Ling.
Photo: JONATHAN BOONZAIR



Steel-cutting underway at Nam Cheong Shipyard in Miri.

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THREE MALAYSIAN YARDS AT A GLANCE

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SEALINK INTERNATIONAL

Kuala Lumpur-listed offshore-vessel player **SEALINK INTERNATIONAL** made its move into shipbuilding in the late 1990s, initially to support its own offshore operations.

"We got into the shipbuilding game when we couldn't get the vessels we needed," explained chief executive Yong Kiam Sam.

Sealink has two shipyards near Miri. Its main facility on the Batang Baram River is capable of building anything from landing craft to sophisticated multipurpose offshore support vessels. Its smaller yard on the Miri River builds small tugs and anchor-handlers.

The shipbuilder constructs vessels mainly for Sealink's own requirements but it has numerous foreign customers from Asia, Europe, the Middle East and Australia.

Recently it branched out into the repair business, although at the time of writing, most of this work was on the Sealink offshore fleet.

NAM CHEONG LTD

Singapore-listed **NAM CHEONG** is one of Malaysia's most established shipyards. It started off building fishing boats four decades ago but is today regarded as the country's largest builder of offshore-support vessels (OSVs).

The company operates out of a modern facility on the Batang Baram River, where it builds anchor-handlers and platform-supply vessels (PSVs) on a speculative basis, while tackling other vessel types such as accommodation work barges and standby safety vessels if ordered directly by a customer.

PSVs currently make up 35% of Nam Cheong's orderbook and will account for 38% of its revenue in 2012.

The shipbuilder is now developing a new type of vessel that it calls the Asian Sea Truck. This is intended to be a fuel-efficient, high-cargo-capacity, low-frills supply vessel designed for Southeast Asia's offshore market.

"Southeast Asia does not need sophisticated multipurpose supply vessels with a lot of fancy equipment. What is important here is the cargo carrying capacity," executive director Leong Seng Kiat explained.

Nam Cheong does maintain a small fleet of offshore vessels. This currently consists of 10 small standby safety vessels that are chartered out to offshore operators.

Leong characterises Nam Cheong's shipowning activities as opportunistic. "We own ships that we believe will fill a need in the market. We don't want to compete against our customers, so we have no intention to build up a large fleet of the same type of ships they operate," he said.

Nam Cheong expects to complete a total of 21 vessels this year.

SHIN YANG SHIPYARD

Kuala Lumpur-listed **SHIN YANG SHIPYARD** started its shipbuilding activities in 1986, specialising in tugs and barges to support its own shipping operations.

It began targeting the offshore sector in 2004, when it constructed two anchor-handling tugs.

Today, Shin Yang has three facilities on the Batang Baram River. These yards build mostly to order and therefore, the company has perhaps the most varied orderbook of all the shipbuilders in Miri.

At the time of TradeWinds's visit to Miri in mid-August, Shin Yang was busy working on 17 vessels, including naval-training ships for a Middle Eastern nation, seismic support ships and chase vessels for an Irish concern, landing craft for Australian customers, along with accommodation-support vessels and harbour tugs for local clients.

The largest ship under construction at Shin Yang's facility was the last of a series of four 13,500-dwt general cargoships being built for Shinline, one of the Shin Yang Group's shipping companies.

"These vessels were conceived in 2007. We intended to construct them in China or Japan but none of the yards were interested in building such small ships back then," Shin Yang executive director Vincent Ling said.

Shin Yang decided to test its own shipbuilding capabilities by building the ships in Miri. To date they are the largest vessels built there.

While Shin Yang would be pleased if it were to receive more orders for general cargoships, Ling concedes that the newbuilding market for such tonnage is tough, especially since hungry yards in China are more than willing to build similar-size units at substantially cheaper prices.

Nevertheless, some Japanese owners have expressed interest, although this has yet to translate into any firm orders.

Expansion is still on the cards for Shin Yang, although not in Miri. The company has acquired a 240-acre plot of land in Tanjung Manis, situated further down the coast, where local authorities are keen to see a shipbuilding industry develop.

Ling says Shin Yang will not begin to build that facility until the newbuilding markets show significant signs of improvement.

Any such project will likely see Shin Yang bring in outside partners, as the size of the planned yard makes it too big for the company to develop on its own.



Miri yards
Sealink (top),
Nam Cheong
(above) and
Shin Yang
(below).

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