

Nordic Group Limited

FY2016 Results Briefing

8 March 2017

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- 1. Financial Review**
- 2. Business Outlook**
- 3. Investment Merits**

Highlights

- **Earnings increase 21% to S\$12.7 million in FY2016**
- **2% increase in revenue to S\$81.9 million in FY2016 despite facing headwinds in the marine, oil & gas industry**
- **14% increase in Gross Profit to S\$25.5 million in FY2016**
- **Outstanding project based order book stood at S\$21.6 million**

Financial Review

Financial Highlights

S\$'000	Unaudited 4Q2016	Unaudited 4Q2015	Change (%)	Unaudited FY2016	Audited FY2015	Change (%)
Revenue	18,909	21,108	(10)	81,921	80,491	2
Gross Profit	5,644	6,705	(8)	25,523	22,441	14
Gross Profit Margin	29.8%	31.8%	-2.0 ppts	31.2%	27.9%	3.3 ppts
Net Profit after Tax	3,816	3,318	15	12,683	10,505	21
Net Profit Margin	20.2%	15.7%	4.5 ppts	15.5%	13.1%	2.4 ppts
EBITDA	4,930	5,168	(5)	18,328	16,196	13
EPS (cents)*	1.0	0.8	25	3.2	2.6	23

*Computed based on weighted average number of 393,656,000 ordinary shares for 4Q2016 and 393,969,000 ordinary shares for FY2016 (4Q2015: 396,927,000; FY2015: 399,205,000)

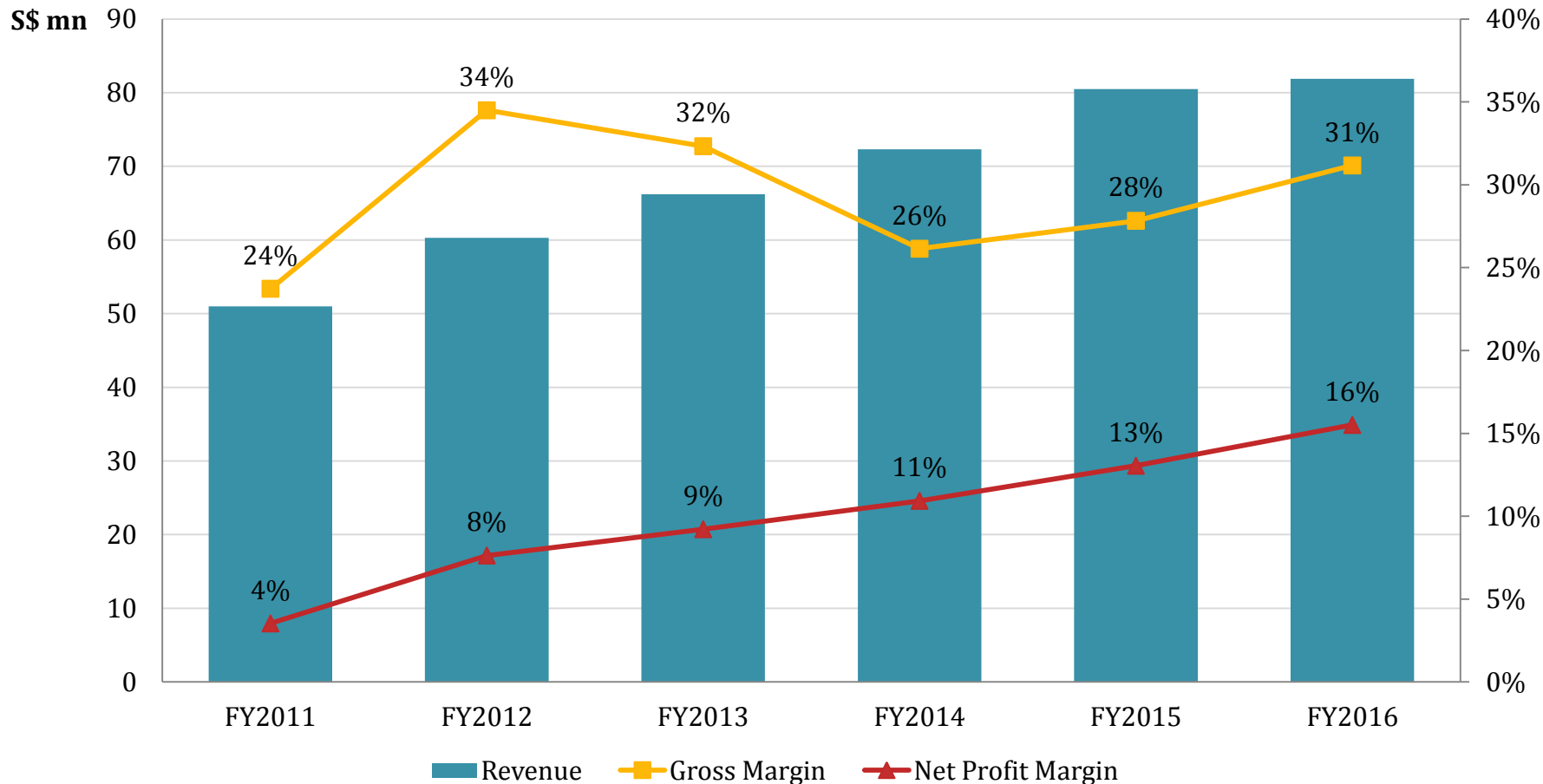
Financial Review

Revenue breakdown by segment

S\$'000	Unaudited 4Q2016	Unaudited 4Q2015	Change (%)	Unaudited FY2016	Audited FY2015	Change (%)
Project Services	13,292	13,713	(3)	60,453	58,844	3
Maintenance Services	5,617	7,395	(24)	21,468	21,647	(1)
Total	18,909	21,108	(10)	81,921	80,491	2

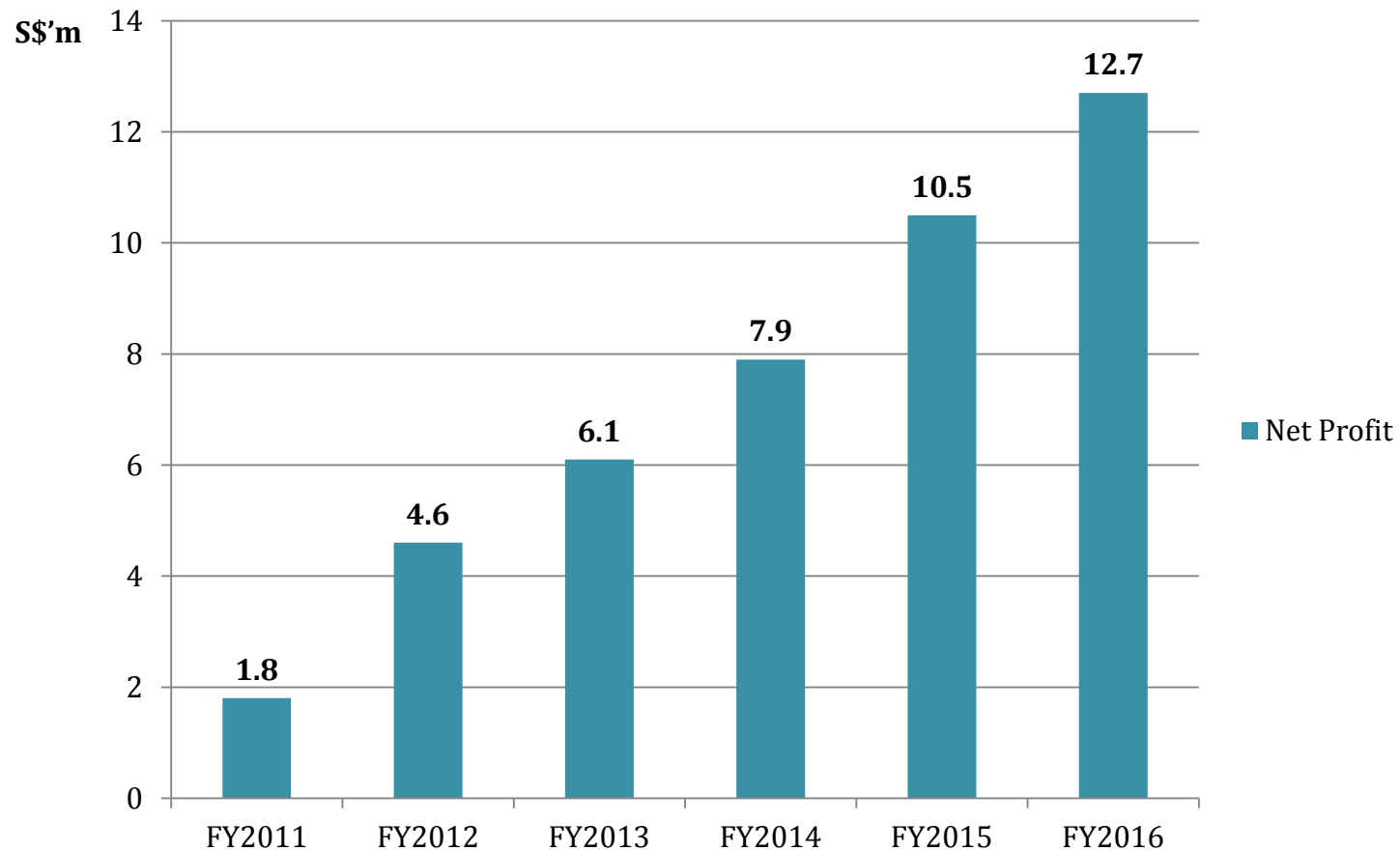
Financial Review

Revenue and Profit Margin



Financial Review

Net Profit



Financial Review

Balance Sheet Highlights

S\$'000	Unaudited as at 31 December 2016	Audited as at 31 December 2015
Current Assets	72,411	71,455
Non-current Assets	39,451	40,955
Current Liabilities	37,297	40,941
Non-current Liabilities	7,824	12,129
Total Equity ^[1]	66,804	59,380
Cash and Cash Equivalents	32,325	35,566
Net Asset Value per share (cents) ^[2]	17.0	15.0

^[1] Total Equity includes minority interest

^[2] Computed based on 393,175,000 ordinary shares (31 Dec 2015: 395,331,000 ordinary shares)

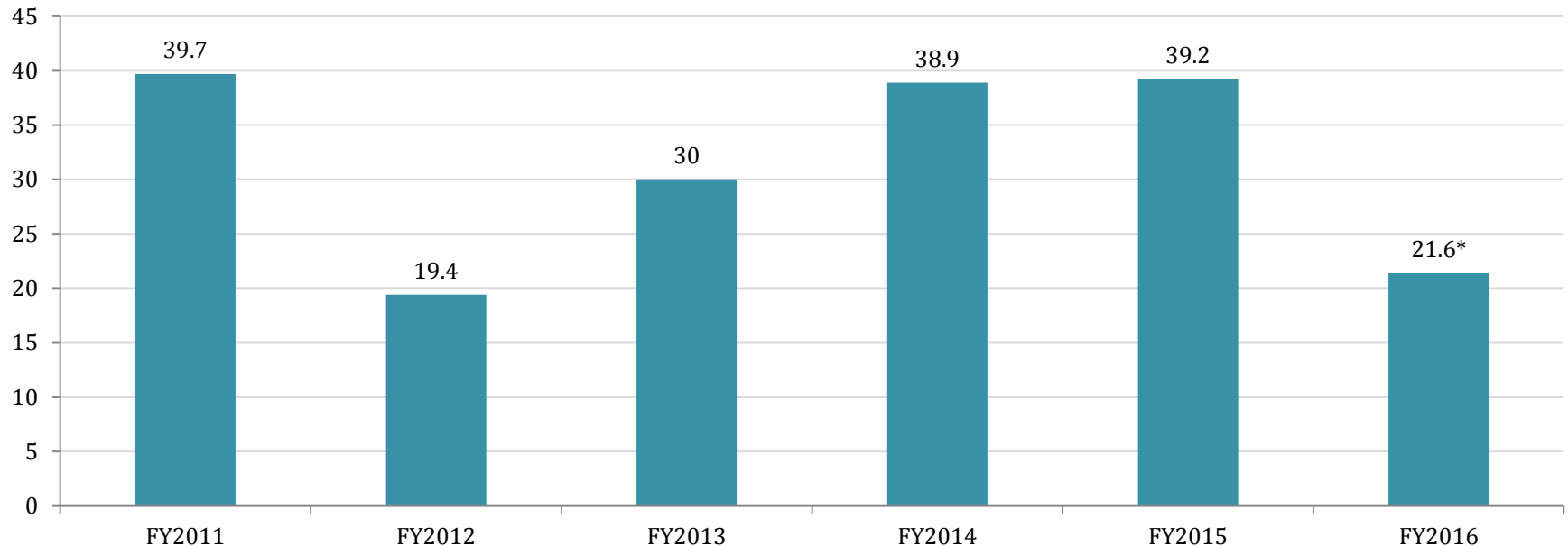
Balance Sheet Highlights

	As at end of				
S\$'000	FY2012	FY2013	FY2014	FY2015	FY2016
Total Borrowings	26,834	21,539	25,320	32,155	28,085
Cash and Cash Equivalents	23,965	14,852	32,799	35,566	32,325
Total Equity	40,703	46,190	53,291	59,380	66,804
Net Gearing Ratio*	7%	14%	-14%**	-6%**	-7%**

* Computed based on Total Borrowings (excluding finance lease) less Cash and Cash Equivalents / Total Equity

** Negative due to the Group being in a Net Cash position

Order Book Summary



Note:

The order book summary does not include maintenance contracts from Scaffolding Services and Insulation services which are typically contracted over a 2-year period at unit rates and therefore do not have a contract value upfront.

*As of 31 January 2017

Financial Review

Recent Contract Winning Momentum

Feb 9, 2017 - Total value: S\$7.7m

- NSZ & ASZ: machining and mechanical assembly for several repeat and new customers
- AEA & AEO : insulation works for repeat customers
- MHS : capital and ad-hoc projects with repeat customers
- AEA & MHS : renewed maintenance contracts with several repeat customers

Nov 10, 2016 - Total value: S\$2.6m

- NFC : supply of valve remote control and tank gauging systems for a repeat customer
- AEA : insulation, painting and fabrication facilities for repeat customers
- AEO : fabrication, supply and installation of insulation works for a repeat customer

Sep 15, 2016 - Total value: S\$4.8m

- NFC : supply of anti-heeling systems, valve remote control and tank gauging systems and alarm & monitoring systems with 2 repeat customers
- MHS : ad-hoc projects with various repeat customers

Jul 06, 2016 - Total value: S\$4.2m

- NFC : supply of valve remote control and tank gauging systems for a new customer
- AEA: supply of labour to carry out insulation works at an oil major's refinery
- MHS & AEA: maintenance contracts with a repeat customer from the process industry

NFC : Nordic Flow Control Pte Ltd

AEA : Austin Energy (Asia) Pte Ltd

NSZ: Nordic Flow Control (Suzhou) Co., Ltd

MHS: Multiheight Scaffolding Pte Ltd

AEO: Austin Energy Offshore Pte Ltd

ASZ: Avitools (Suzhou) Co., Ltd

Financial Review

Recent Contract Winning Momentum

Apr 25, 2016 - Total value: S\$7.2m

- NFC : conversion contracts from a repeat customer for the supply, installation flushing and commissioning of tubing for remote control valves, water ballast tank level tubing, gas sampling and oxygen analyzer
- NFC: several contracts from one of the largest China shipyard listed on the Singapore Stock Exchange for new-build vessels
- MHS, AEA & AEO: capital and maintenance contracts with repeat customers from the oil and gas, pharmaceutical and process industries

Mar 28, 2016 - Total value: S\$36.5m

- AEA: supply of labour and materials for piping and equipment insulation
- NFC & AEA: renewal of maintenance contracts with repeat customers
- MHS: renewal of maintenance contract for an initial period of 3 years with an option for 2-year extension

Feb 19, 2016 - Total value: S\$2.5m

- MHS : maintenance contract from repeat customer to cover new gas facility
- AEA: supply of materials to new customer
- AEO: provide labour and materials to perform acoustic piping insulation works for a repeat customer

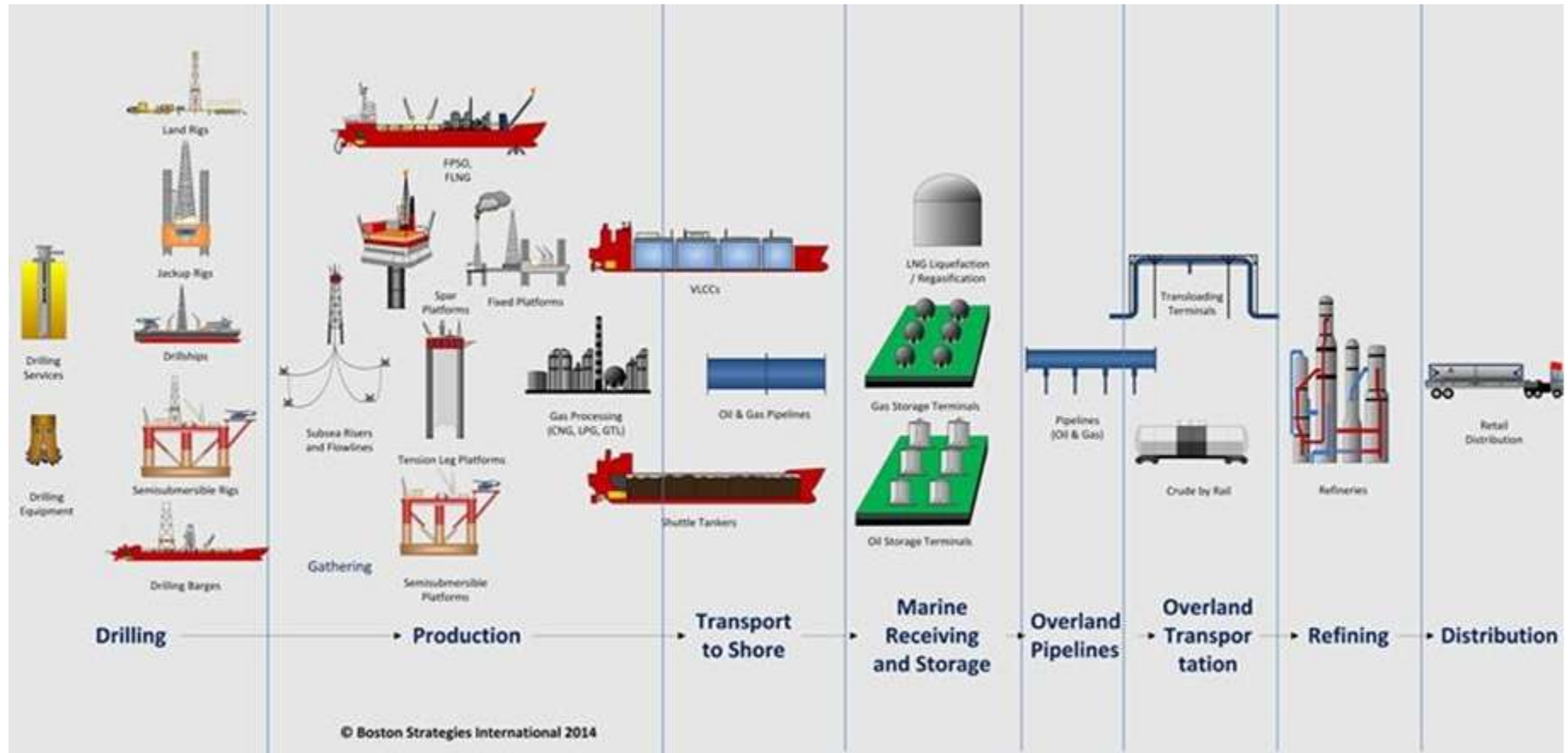
Jan 12, 2016 - Total value: S\$7.7m

- MHS & AEA: renewed maintenance contracts with several repeat customers - comprising of oil majors in the petrochemical industry and a global healthcare company in the pharmaceutical industry



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Business Outlook – Upstream Oil & Gas Remains Challenging



Upstream

- Nordic Flow Control
- Multiheight
- Austin Energy
- Avitools

Downstream

- Nordic Flow Control
- Multiheight
- Austin Energy



Source: Brent Crude 5-Year Chart, Bloomberg, 2 March 2017

	31/1/2017	31/8/2016
Global	1918	1547
OPEC	415	404
Asia	518	194

Source: Baker Hughes Oil Rig Count, Bloomberg, 2 March 2017

Upstream Oil & Gas Outlook

- Brent crude oil prices have started to recover from a 5-year low of US\$27.88 on 20 January 2016 to US\$55.97 on 2 March 2017 due to the OPEC production cut in November 2016
- As a result, global total number of rigs has also increased – although still 14% lower than in August 2015
- Oil majors are expected to increase their demand for maintenance services as more rigs are in operation

Business Outlook



Source: EIA, World liquid fuels production and consumption balance, 7 February 2017

	2018E	2017E
EIA Forecast	US\$ 57/bbl	US\$ 55/bbl
Consensus Oil Price Forecast	US\$ 65/bbl	US\$ 56/bbl

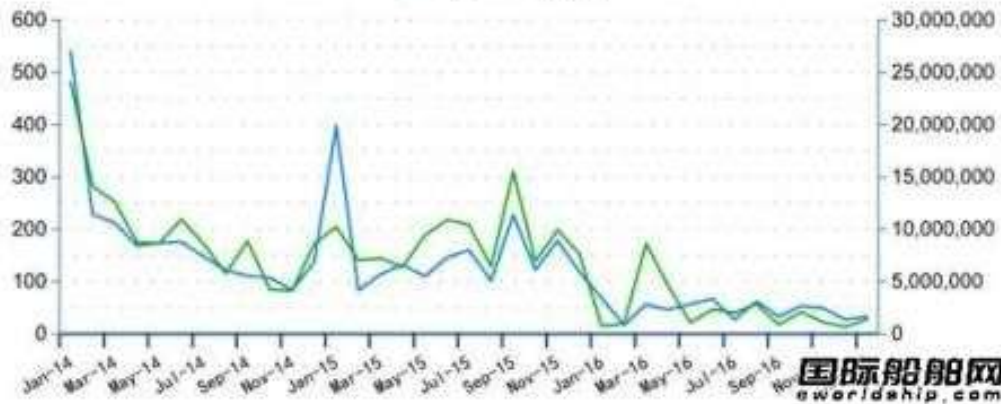
Source: EIA (February 2017), UOBKH (December 2016)

Forecasts Call For Crude Oil Recovery

- Early-2017 could see the oversupplied liquid fuels market tipping back into balance
- However, significant inventories remain, and oil prices are expected to recover gradually as a result
- As the supply glut situation alleviates, oil prices are expected to resume their climb towards more sustainable levels for upstream producers

Business Outlook

全球新签订单变化情况
— 艘 — 载重吨



Source: Global New Build Orders, E World Ship, 2 March 2017

Monthly	31/1/2017	31/1/2016
Total No. of New Build Orders	33	68

Marine & Shipbuilding Outlook

- Total number of new build orders continues to decline from early 2014 levels of approximately 500 vessels per month to 33 vessels per month in January 2017
- The total average DWT of new build vessels has also declined in the same period
- Nordic has diversified its businesses – contributions from the System Integration/ MRO & Trading business segment have fallen from 46% in FY2014 to 21% in FY2016

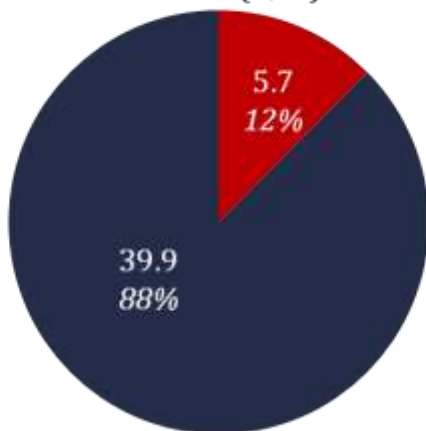
Business Outlook

- Our businesses serving largely the marine, oil and gas industries remain challenging. Amidst persistent weak oil prices, fluctuations in the exchange rate of the US dollar against the Singapore dollar and the contagion effect from the fallout of some of the local oil and gas players, growth is envisaged to be highly uncertain.
- However, we are optimistic with the **contract wins secured to date, the prudent cost and risk management initiatives** undertaken and the **opportunities for further M&A**, we will continue to deliver value to shareholders.

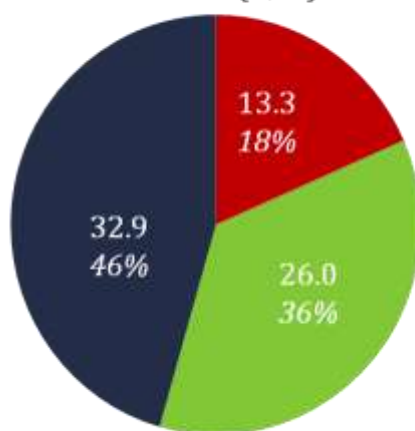
Diversified Model – Improved Earnings Quality

Revenue Contribution by Segment

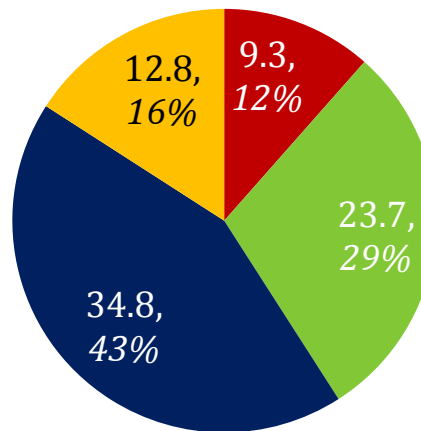
FY2010 (S\$'M)



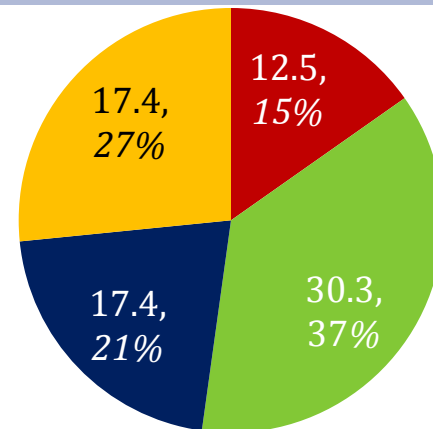
FY2014 (S\$'M)



FY2015 (S\$'M)



FY2016 (S\$'M)



- System Integration / MRO & Trading
- Scaffolding Services
- Insulation Services
- Precision Engineering

Acquisition of AE was completed on 2 Jun 2015.

Above chart represents AE's contribution from 2 Jun 2015 to 31 Dec 2015.

The acquisition of Multiheight in 2011 has effectively reduced industry-specific risk and supported the Group's consistent revenue growth.

The acquisition of Austin Energy in 2015 has further diversified the Group's revenue stream and stimulated revenue growth.

SI Expansion into Other Industries

We offer a holistic and comprehensive suite of integrated solutions in areas of Flow, Navigation, and Automation, customised to cater to various industries' needs.

FLOW SYSTEMS



Valve Remote Control System



Tank Gauging System



Water Ingress Detection System



Anti-Heeling System

AUTOMATION SYSTEMS



Integrated Monitoring, Alarm and Control System



Close Circuit Television



Fuel Efficiency System



Loading Computer



Hull Deflection System



Integrated Remote Monitoring and Diagnosis System

NAVIGATION SYSTEMS



Electronic Chart Display and Information System



Decision Support Tool for Collision Avoidance



Voyage Data Recorder



Bridge Alert Management System



Coming System



Dynamic Positioning System



Navigation Light Panel

SERVICES



Enclosure Customisation with Control



Maintenance, Repair, Overhaul (MRO) & Trading



Engineering, Project Management, Procurement, Installation and Commissioning (EPIC) services for Vessel/ Platform Conversion and Upgrade



Software Engineering

SI Expansion into Other Industries

Leveraging existing competencies to gain foothold in other industries

Industry	Solutions
Oil & Gas Petrochemical	<ul style="list-style-type: none"> • Flow System • Engineering, Procurement, Installation, Commissioning (EPIC) • Maintenance, Repair and Overhaul (MRO)
Marine & Shipbuilding	<ul style="list-style-type: none"> • Flow, Automation, and Navigation Systems • Engineering, Procurement, Installation, Commissioning (EPIC) • Maintenance, Repair and Overhaul (MRO) • Enclosure Customisation with Control
Water Treatment Waste Water	<ul style="list-style-type: none"> • Flow System
Commercial Facilities	<ul style="list-style-type: none"> • Factory automation • Enclosure Customisation with Control

SI Expansion into Other Industries

Provision of automation solutions for commercial facilities, utilising existing expertise in automation software.

Completed projects include:



**Changi Airport
Cargo Terminals**



**Ng Teng Fong General Hospital,
Jurong Community Hospital**



**GCP Applied Technologies
(formerly known as W.R. Grace)**



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Highlight of Investment Merits

Established Market Player

Strong track record, performing above industry average

Established Management with Proven Track Record

Management with keen foresight and proven track record of:

- Leading the Group to achieve consistent performance despite market volatilities
- Ensuring successful acquisition and smooth integration of Multiheight
- Successful acquisition of Austin Energy that has proven to enhance Group earnings

Healthy Order Book

Order book of approximately S\$21.6 million on hand, excluding scaffolding and insulation unit rate maintenance contracts

Improved Dividend Payout

- Half-yearly dividend payout from FY15 onwards
- **40%** dividend payout policy
- Total dividend for FY16: 1.26 cents

Improved Earnings Quality

Volatile project earnings supplemented by more stable recurring maintenance income from Scaffolding Services and Insulation Services



Nordic's Share Buyback

Share Buyback Mandate* approved on 29 April 15 – EGM
(renewed on 27 April 2016 – AGM):

MONTH OF ACQUISITION	QUANTITY	CUMULATIVE VOLUME	CUMULATIVE % OF TOTAL NO OF ISSUED SHARES **
<i>Share Buyback by way of Market Acquisition</i>			
January 2016	479,000	5,148,200	1.29
March 2016	352,000	5,500,200	1.37
April 2016	397,500	5,897,700	1.47
May 2016	275,100	6,172,800	1.54
June 2016	95,000	6,267,800	1.57
July 2016	117,000	6,384,800	1.60
August 2016	20,000	6,404,800	1.60
September 2016	119,500	6,524,300	1.63
October 2016	211,300	6,735,600	1.68
November 2016	8,000	6,743,600	1.69
December 2016	81,000	6,824,600	1.71
VOLUME WEIGHTED AVERAGE PRICE		S\$0.195	

Source : SGX Announcement

* Up to a maximum of 40 million shares being 10% of total issued shares

** Total no of issued shares of 400,000,000 (including treasury shares).

Directors' Share Purchases

09 November 2010 – IPO :

Director	No. of shares held	% shareholdings
Chang Yeh Hong	200,480,625	50.12%
Eric Lin Choon Hin	43,500,000	10.88%
Dorcas Teo Ling Ling	29,000,000	7.25%
	272,980,625	68.25%

31 December 2016 :

Director	No. of shares held	% shareholdings *
Chang Yeh Hong	210,417,625	53.52%
Eric Lin Choon Hin	44,050,000	11.20%
Dorcas Teo Ling Ling	31,640,000	8.05%
	286,107,625	72.75%

** Based on total no. of issued shares (400m) excluding Treasury Shares held (6.8m) as of 31 December 2016.*

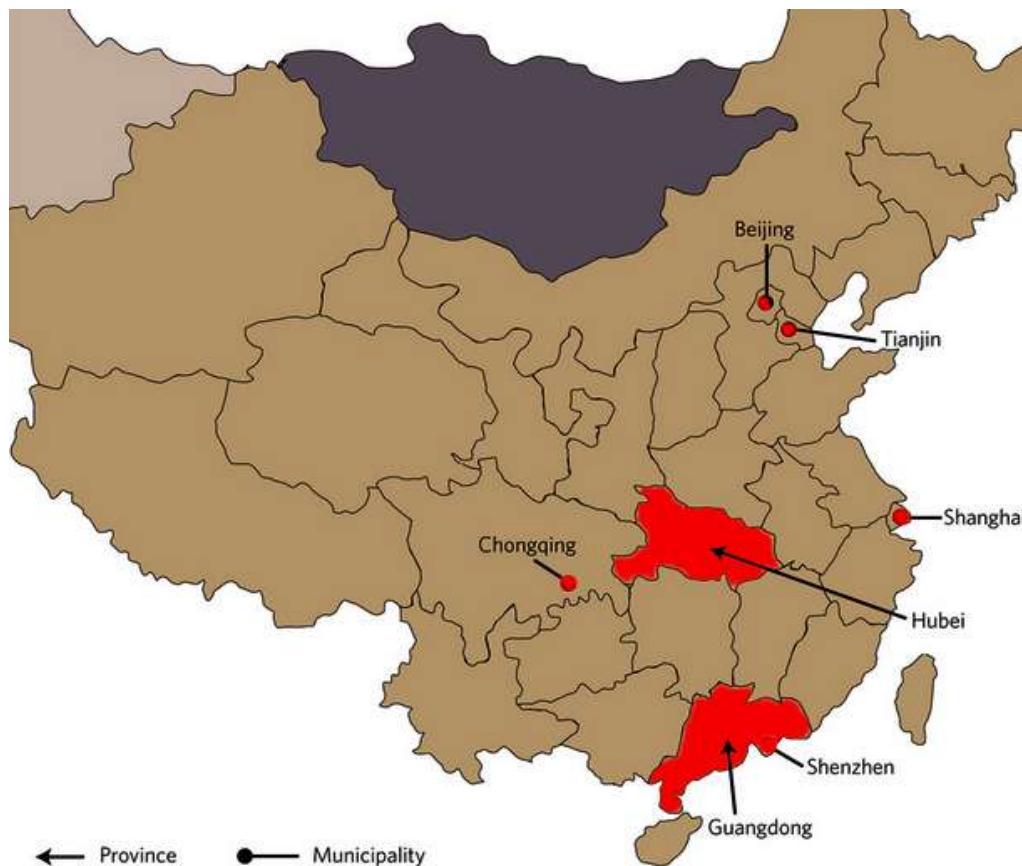
Dividend Payout

Payment date	Financial Year	Final / Interim / Special	Amount (\$) per share	Payout ratio
After AGM	2016	Final	0.0073	40%
Sep 2, 2016	2016	Interim	0.0054	
May, 13 2016	2015	Final	0.0065	
Sep 8, 2015	2015	Interim	0.004	
May 21, 2015	2014	Special	0.0025	25%
May 21, 2015	2014	Final	0.0025	
May 15, 2014	2013	Final	0.0025	16%
May 15, 2013	2012	Final	0.0025	22%
May 21, 2012	2011	Final	0.0025	56%
May 16, 2011	2010	Final	0.0053	30%
Total			0.0410	

Early access structure – China's Carbon Market

8 March 2017

CARBON PILOT SCHEMES IN CHINA



Pilot Schemes: National Development and Reform Commission (NDRC) announced the setting up of the 7 pilot schemes in China in 2011.

Timeline: The pilot phase is from 2013 to 2017. This provides valuable experience to the establishment of the National Emissions Trading System (ETS).

Pilot scheme coverage: 1.1 billion tons

Coverage: 38% - 60% of city/provincial emissions

Offset market: Chinese Certified Emissions Reduction (CCER); these offsets originate from projects in China and it is in addition to the local allowance units available

NATIONAL EMISSIONS TRADING SCHEME

- The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change dealing with greenhouse gases emissions mitigation, adaptation and finance starting in the year 2020. The Agreement was effective on 4 November 2016 and China was a party to the Agreement since then.¹
- 25 September 2015, President Xi Jinping stated in a U.S.-China Joint Statement that **China plans to start in 2017 its National ETS**, covering key industry sectors such as iron and steel, power generation, chemicals, building materials, paper-making, and non-ferrous metals.²
- NDRC has commenced the design of the National ETS. Provincial and local Development and Reform Commissions (DRCs) have completed emissions data collection.

¹ <http://www.en.m.wikipedia.org>

² <https://www.whitehouse.gov/the-press-office/2015/09/25/us-china-joint-presidential-statement-climate-change>

NATIONAL EMISSIONS TRADING SCHEME

- National ETS is expected to commence in the second-half of 2017
- Covers the entire China, estimated to enroll 8,000 – 10,000 companies
- Enrolled sectors: Power, Steel, Cement, Chemical, Aviation
- China will have the world's largest ETS starting 2017, covering approximately 3 – 4 billion tonnes of emissions annually

Emissions coverage

3 – 4 billion yuan per year

Spot market

1.2 – 8 billion yuan per year

Futures market

60 – 400 billion yuan per year

Source: NDRC presentations

EARLY ACCESS STRUCTURE

Overview:

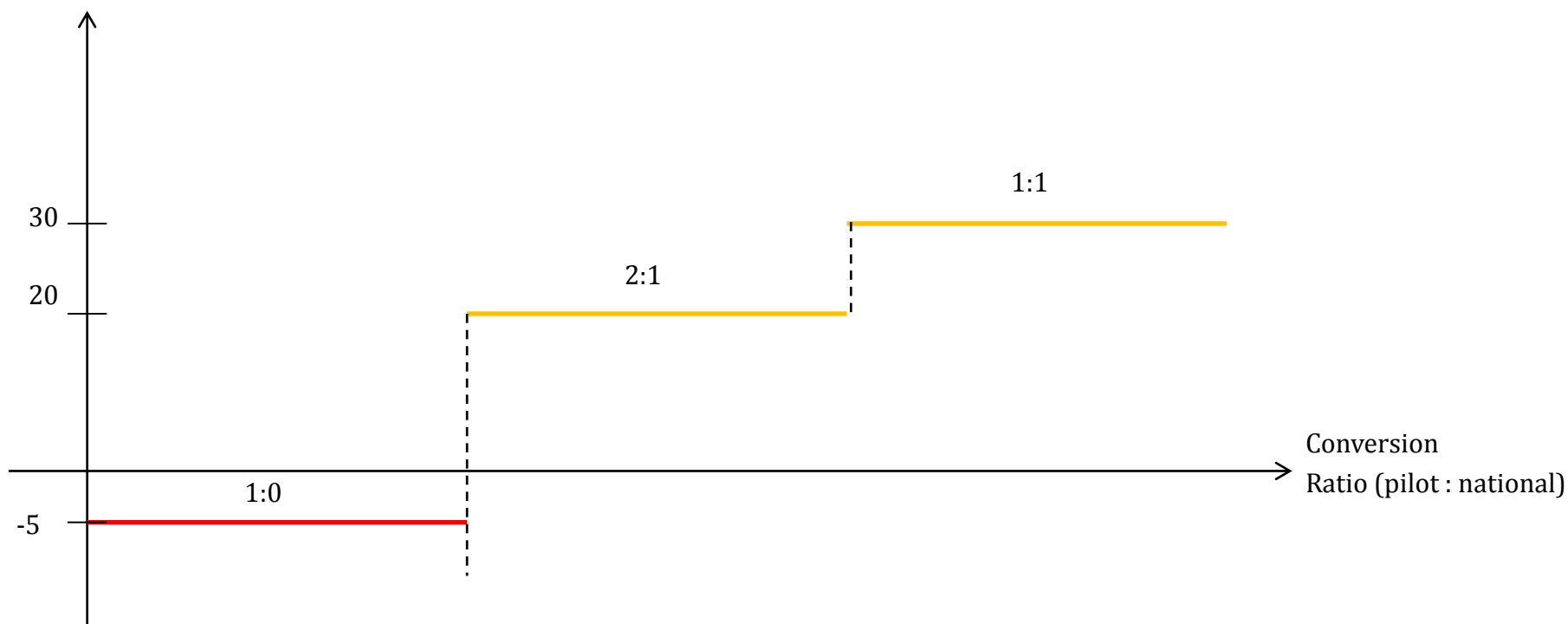
- A prepaid forward structure where Nordic can have an early access into the Chinese carbon market
- High barriers to entry for Nordic as we need an entity in China, register with the various Exchanges, language barrier, etc.
- Pre-paid forwards - Guangdong pilot allowances (GDEA) and Shanghai pilot allowances (SHEA); both forwards will automatically sell allowances when sell price limits are reached
- Potential upside for Nordic if pilot allowances are convertible to National allowances

POTENTIAL BENEFIT

- The conversion ratio of pilot allowances to national allowances has not been announced by the NDRC. The announcement of a conversion ratio should result in price volatility.
- Although the NDRC has not announced the conversion ratio, there are some comments made by experts in the Chinese carbon market:
 1. A reasonable conversion rate is needed
 - Hong Jianwu, director in the Guangdong DRC's climate change department, said for the pilot allowances, especially for the pilots that have held auctions and where compliance companies and investors have paid a relatively high price for the pilot allowances, a reasonable conversion rate (from pilot to national) is needed, the best is if the conversion rate is 1:1.
 - Source: [Propose a reasonable conversion rate](#) (Interview with Hong Jianwu)
 2. Propose that pilot allowances can still be used in the National scheme
 - Zhang Xin, deputy director and researcher for National Center for Climate Change Strategy and International Cooperation, proposed that pilot allowances to be continued to be used in the National ETS. He further added that CCERs could act as the 'currency' to transit from pilot phase to national phase.
 - Source: [Pilot allowances to stay?](#) (Article written by Zhang Xin)

PAYOFF DIAGRAM

- Below are the assumptions for the payoff diagram:
 - Pilot allowances do not trade above CNY30 and become converted into national allowances
 - Purchase price of SHEA/GDEA is CNY10 / tonne
 - Conversion rates (pilot : national) are – 1:0, 2:1, 1:1
 - Simple average price of allowance in the National ETS from conversion to 30 June 2018 is CNY40 per tonne (as per ICIS' forecast)



KEY RISKS OF STRUCTURE

- **Foreign Currency Risk**
 - the underlying GDEA, SHEA and National allowances are based in CNY
- **Price Risk**
 - Guaranteed sale of national allowances by counterparty at floating prices. This ensures that Nordic enjoys the potential upside of a high National allowance price
 - Guaranteed floor price per ton where Nordic will sell back to counterparty on 30 June 2018 if average price of national allowances are trading below this floor price
 - Guaranteed that Nordic will sell 50% of the volumes traded on-screen above the exit price levels (set by Nordic) over the life of the contract before conversion to National Allowances. This will ensure that Nordic locks in a portion of the sell price at higher levels.
- **Market Risk**
- **Event Risk**
 - If the National Scheme is not implemented, there will be an unfavorable impact on the return of the investment. Guaranteed purchase of balance pilot allowances at 50% of entry prices if there is no conversion (refer to slide 7)

Thank You

For more information, please contact

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