

Select Catering leverages Ezra links to bag contracts with offshore sector players

BY JOAN NG |

Joerg Behrend knows exactly what those burly men working on oilrigs and ships really crave after months out at sea. "Food is one of the highlights of the day," he says. "They have steak for breakfast."

And, the chief operating officer at Nasdaq-listed **Select Catering Services** is now giving them what they want. On Nov 1, the company announced an agreement with Emas Offshore Construction and Production to provide offshore catering services for 350 crew members aboard a pipe laying and accommodation barge. Under

the agreement, Select will also provide general support services, which includes cleaning the rooms and doing the laundry.

That's a leap into a market that the company knew little about until recently. Select Catering mainly operates the cafeterias at large companies like **STATS ChipPAC** and Motorola Electronics,

and provides catering services for banquets and private functions. In fact, the move into the offshore sector probably wouldn't have happened were it not for the company's links to Lee Kian Soo, the founder of **Ezra Holdings**, one of the fastest growing charterers of vessels to the oil and gas industry. In June this year, Lee's privately held investment vehicle Jit Sun Investments bought 24.6% of the company from Alimento Holdings for an undisclosed price. Alimento is linked to Toh Soo Eng, a family friend of Vincent Tan, Select's managing director. Tan himself owns 26.5% of Select Catering.

Behrend met Lee's son Lionel — who is now the managing director of Ezra — through mutual friends, and the two hit it off immediately. The Lee family soon became interested in Select Catering, seeing it as a useful ally in the growth of its ship chartering business as well as a promising investment. "The F&B industry is one that could be further improved on," Lionel Lee tells *The Edge Singapore*. "We believe it's still got some legs to run, and that's an industry we want to be in." To help the company grow, the Lee family introduced it to several of its industry contacts. And, it was through these introductions that it eventually snared the contract with Emas Offshore Construction and Production.

While serving the offshore sector isn't an area in which Select Catering has any experience, Behrend already sees the potential. "You read about it almost every day in the papers," he says. "It's a big market." And, it could prove to be a more stable profit generator than the company's existing businesses. "The people are there 24 hours so it's not as erratic as a restaurant can be," Behrend says. "If you have a contract for three months, you know exactly how much money you have to spend, how much you'll earn, how much manpower you'll need."

Getting into hotels

Besides paving the way for Select Catering to move into this new market, the links to Ezra have also prompted the company to get into the hotel business. According to Behrend, Li-



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onel had complained about the lack of affordable accommodation for visitors in Singapore. "He was very frustrated because he had a lot of business people coming to Singapore but it was difficult to find a room," Behrend says. And, while Lionel was willing to invest in a new hotel, he feared that he didn't have the expertise to run it.

Behrend, however, had lots of hotel management experience, having been executive chef at several top hotels, including several Ritz-Carlton hotels around the world from 1995 to 2005 and The Oriental in Singapore until January this year. "He was very good at what he did," says Lionel of Behrend's credentials. Under a deal hammered out in June, the Lee family's investment company Jit Sun is building a boutique business class hotel at Hoe Chiang Road, in Tanjong Pagar, which Select Catering will lease and manage.

According to Behrend, approvals have been secured to construct a three-storey building with plans for a total of about 17 rooms. But the company has applied for approval to construct a 20-storey building. "We're doing the piling for 20 stories," Behrend says. The hotel will be an upmarket luxury hotel, and the company has already engaged Milan-based designer Sawaya & Moroni to design the concept and interior.

To reflect its diversification away from just providing catering services, Behrend says the company is working towards changing its corporate name to "probably something along the lines of Select Group."

Poor earnings record

Is Select Catering biting off more than it can chew by trying to run hotels? Or, will it prove to be a business that finally gets it noticed by investors? Certainly, the company has done little to impress the market since listing in 2004. In five out of the last six years, the company's net profit failed to rise above \$1 million. For the six months to June, the company reported a 20.7% decline in revenue to \$21.7 million, while profit fell 85.3% to \$88,000.

For his part, Behrend sees little risk in the hotel management deal it has worked out with the Lee family. "Jit Sun alone has enough clients coming to town to fill the hotel," he says. "And, location-wise, we are in a good place — between the Sentosa and the Marina Bay IRs." More generally, his efforts to transform Select Catering into a more upscale player across all its businesses should improve its profitability

over time. "I am not a friend of driving business by dropping prices, by undercutting somebody else and putting myself in jeopardy by going in with such low margins that at the end of the day I'm in a loss. I think that's the wrong way of doing quality business."

Walking through the company's headquarters at Senoko Crescent, the gradual changes in Select Catering's market positioning are already evident. Hanging on the walls are large colour photos of dainty hors d'oeuvres served in Chinese porcelain soup spoons and delicately decorated dishes, a far cry from the scene in a mess hall that one might normally associate with a company in the institutional

catering business. "This is an industry in which everything is about the price," Behrend says. "But when you compete on price, you can't buy premium products anymore, you can't hire the best talent, and the company margins are thin."

Luxury brand name

To reinforce its image as a premium player in the food business, Select Catering is mulling the idea of coming up with a luxury brand name, perhaps linked to the name of a restaurant to be opened on Hoe Chiang Road. The luxury brand name could then be used to cater for upscale functions, Behrend says, adding that

the brand will be to Select Catering what Lexus is to Toyota.

In the more immediate term, however, the somewhat less glamorous business of feeding workers in the offshore sector might be where the growth is, with the company likely to announce several more catering deals with business associates of Ezra and the Lee family. "We are certainly looking to give them more work," Lionel says. It's too soon to say how much these new catering deals will lift its flagging earnings, but with a market capitalisation of just over \$50 million, it won't take much to turn its shares into a more interesting prospect for investors. ■



Behrend, who has had more than a decade of management expertise at the Ritz-Carlton and The Oriental, volunteered his expertise