Issuer: Stamford Tyres Corporation Limited
Security: Stamford Tyres Corporation Ltd

Meeting details:

Date: 30 August 2016
Time: 15:00H
Venue: 19 Lok Yang Way, Singapore 628635

Company Description

Stamford Tyres Corporation Limited, an investment holding company, engages in the wholesale and retail of tires and wheels in South East Asia, North Asia, Africa, and internationally. The company offers tires for high performance cars, passenger cars, SUVs, light trucks, and truck radials; and radials for sports and passenger cars, light trucks, trucks, and bus radials, as well as for military, agriculture, and industrial solid tires. It also provides mining and logging tires for the mining industry; industrial and construction tires for use in skid steer, backhoes, and forklifts; and nylon bias tires for light truck, truck, agriculture, and earthmover applications. In addition, the company engages in the design and contract manufacturing of tires for proprietary brands, tire retreading, equipment trading, and servicing of motor vehicles; manufacture and sale of aluminum alloy wheels; and property holding activities. Further, the company distributes Falken, Dunlop, Continental, Maxam, and Toyo branded tires, as well as offers its proprietary brands, such as Sumo Firenza, Sumo Tire, and SSW wheels. Additionally, it operates a retail network in Singapore and Malaysia with Mega Marts and Tyre Marts outlets that offer a range of tires, wheels, batteries, car audio, and auto accessories, as well as workshop and tire services. Stamford Tyres Corporation Limited was incorporated in 1989 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S29)

1. The annual report is fairly comprehensive and shareholders appreciate the President's candour in the Letters to Shareholders (pages 2-3 in the annual report). Not only were achievements highlighted, the President explained the challenges well (tough market in South Africa) and this gives assurance to shareholders that management is on top of things. The Financial and Operations Review (pages 12-15) also provided shareholders updates on the performance of the different markets and ended with the group's focus to (i) be responsive to market's needs and trends, (ii) defend gross profit margin, (iii) drive organic revenue growth and (iv) contain operating costs and rationalise current assets.

a. **Can management provide details on how it intends to defend gross profit margin given that consumers may be more price conscious (especially if the economy is weaker) and intense price competition from other brands/distributors will make it hard for the group to maintain or increase the gross profit margin?** It is commendable that the group has managed to increase gross profit margin from 22.1% last year to 24.7% in FY16. **What would be management's target for gross profit margin for the next few years?**

b. In terms of driving organic topline growth, it is noted that group turnover dipped below $250 million in FY16 for the first time in a decade. Looking back to FY07, the group turnover has consistently been above $300 million, and peaked in FY12 at $340 million. Looking at the Segment information (page 110), revenue from all four geographical segments have dropped as well. **Would management like to elaborate on the plans to reverse this trend and help shareholders to understand if this is a result of a shrinking market or losing market share?**

c. The return on equity for the past two years has hovered around 2%, way below the norm of 8-13% (not including the crisis year of FY09). **Would the board/management comment if the economics of the business has altered significantly in the past two years and if management's expectations and projections have been reduced because of external/internal factors?**

2. For the two geographical segments Africa and Others, their revenue contributions are about 10% and 5% of total group turnever. However, the group has not been able to operate profitably in these two regions in the past 5 years. Africa as a developing region should have immense potential for the group. **However, considering that the turnaround has taken a long time, should management review the current strategy/business model and re-examine the key value drivers to operate profitably in Africa? Can the board share on the importance of these two segments relative to the group's overall growth strategy?**

3. Two independent directors have served on the board since 1994 and the third independent director has been on the board since 1998. Notwithstanding that the nomination committee considers all three long tenured directors independent, **what are the board's renewal plans?** New directors with the relevant skillsets and competencies can provide fresh input, help to formulate strategies and reinvigorate the company. As an example, former senior executives from big MNCs in global tyre/industrials/automotive supply chain with direct experience in Africa can probably provide a lot of insights when the board deliberates on Africa-specific matters (easier to think of it as another Mr Patrick Berriman with deep South African experience).