

Issuer: CMC Infocomm Limited
Security: CMC Infocomm Limited

Meeting details:

Date: 26 Sep 2016

Time: 10:00AM

Venue: Albizia Room, Level 2, Jurong Country Club, 9 Science Centre Road, Singapore 609078

Company Description

CMC Infocomm Limited provides integrated communications solutions and services to communications network operators and communications network equipment vendors in Singapore, Thailand, and the Philippines. The company operates through four segments: In-Building Coverage, Outdoor Construction, Telecommunications Implementation, and Maintenance Services. The In-Building Coverage segment engages in the installation of indoor antennas and wiring in buildings; and provides site survey, radio frequency engineering, and procurement, propagation, and simulation of radio coverage using radio frequency design tools, as well as implementation, data collection, testing, and commissioning services. The Outdoor Construction segment is involved in the installation of radio equipment; mounting antennae on telecommunications towers; and installation of transmission poles on the roof tops of buildings and steel towers. This segment also offers site survey, design, construction planning, procurement, implementation, testing, and commissioning services. The Telecommunications Implementation segment engages in the installation of cables, antennas, transmission cabinets, radio base transceiver station cabinets, and radio components and modules on cellular sites, including on the roof tops of buildings and in green fields. This segment also provides site survey, preparation of technical proposals, implementation planning, procurement, testing, trouble-shooting, and commissioning services. The Maintenance Services segment offers corrective and preventive maintenance services to ensure network reliability and minimal network disruptions. CMC Infocomm Limited was incorporated in 2015 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?page=1&code=42F&lang=en-us)

1. In the Letter to shareholders (page 4 of the annual report), it was noted that CMC Infocomm has over 20 years of experience in the telecommunications industry and a robust track record of over 100 projects in Singapore, the Philippines and Thailand.

- Based on the “Summary of financial information” (on page 23 of the Offer document dated 31 July 2015), the company reported losses net of tax, attributable to owners of the company of (\$638k) in FY2012, (\$262k) in FY2013 and (\$668k) in FY2014.
- On page 11 of the annual report under “Financial highlights”, the losses attributable to owners of the company were (\$186k) in FY2015 and (\$1,497k) in FY2016. Even excluding the listing expenses of \$1.0 million in FY2016, the loss for FY2016 would still have been about (\$500k). Over the five-year period, the gross profit margin ranged from 22% to 26%.
- In the offer document (page 22), the directors believe the company’s competitive strengths include having an established track record and long standing relationships with reputable customers and suppliers, having an experienced team and operating in an industry with significant barriers to entry.
- **Shareholders would like to understand the key drivers of the industry and how management intends to capture more value for its shareholders. What are the concrete plans for CMC to turn profitable? What other value-add can CMC provide to distinguish itself from the competitors and thus command better margins?**

2. Revenue increased from \$16.3 million in FY2015 to \$18.2 million in FY2016, an increase of 12% (Financial highlights - page 11 of the annual report) while the group remains unprofitable (even adjusting for the one-off IPO expenses). One reason that contributed to the loss is the increase in employee benefits expense. Wages, salaries and allowances increased from \$1.3 million to \$2.4 million, an increase of 88%. This was the main contributor to the 80% increase in employee benefits expense. It was mentioned in the Letter to shareholder that the group “geared up by increasing our staff strength”. In the profit guidance announcement dated 17 December 2015, it was also noted that an “increase in overhead expenses mainly payroll expenses due to additional headcount to support the execution of the Group’s expansion plan into new and complementary businesses in Singapore and Malaysia”. **Could management update shareholders with more detail on the current staff strength, the staff profile and the geographical breakdown?** In the offer document, on the latest practicable date of 6 July 2015, CMC had a staff strength of 211 full-time employees. Shareholders can use the updated information as a proxy to the kind and level of activities of the group. **Also, can management share with shareholders more detail on the expansion plans and the complementary businesses in Singapore and Malaysia?**

3. On 27 July 2016, the company made an announcement on the proposed joint venture in the Philippines where “the Group’s wholly-owned subsidiary, CMC Communications (Philippines), Inc. (“CMCCP”) has entered into a shareholders agreement with Argosy Properties, Inc (“API”), pursuant to which the parties shall form a joint venture company (the “JVCo”) for the purposes of designing, developing, installing, implementing and maintaining telecommunications equipment and systems for commercial and industrial applications in the Philippines”. CMCCP would hold 40% of the initial issued share capital while API will hold 60%. The JVCo was formed because CMCCP is required to obtain a license from PCAB for its business activities. **Can management shed some light on the impact of this new development on the long term potential of the Philippines market for CMC? Also, can the board/management provide more clarity on the structure and on how the JVCo will operate?** Going forward, if the business activities were to be conducted under the JVCo, does it mean that the group only enjoys 40% of the economic benefits?