Issuer: TEE International Limited

Security: TEE International Limited

Meeting details:
Date: 27 Sep 2016
Time: 14:30H
Venue: Albizia Room, Level 2, Jurong Country Club, 9 Science Centre Road, Singapore 609078

Company Description

TEE International Limited, together with its subsidiaries, engages in integrated engineering, real estate, and infrastructure businesses. The company's Engineering segment provides mechanical and electrical engineering services relating to large-scale and complex engineering, and infrastructure-related projects in the areas of plumbing and sanitary, fire protection, extra low voltage, integrated building management system, and plants and processes, as well as electrical, air conditioning, and mechanical ventilation. This segment is also involved in constructing commercial, industrial, and institutional buildings; converting existing buildings and facilities for new uses; offering turnkey approaches to the construction of infrastructure; and system development activities, including system definition, system deployment, and system development. Its Real Estate segment develops residential properties; invests in hotels and properties; and provides workers' accommodation services. The company's Infrastructure segment offers infrastructure solutions in the areas of water and energy related projects. The company has operations in Singapore, Thailand, Malaysia, Hong Kong, Australia, Brunei, New Zealand, the Philippines, China, Vietnam, and Macao. TEE International Limited was founded in 1980 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=M1Z)

1. **Shareholders would like to ask the board and management to provide more clarity on the performance of the Engineering and the Infrastructure segments.** Based on the revenue reported under the Segment Information (page 147 of the annual report), it showed that Engineering contributed $223 million in revenue. Because of the large figure of $48.3 million under "Elimination", the segmental profit for the year could not be estimated.

Nevertheless, based on TEE Land's reported profit attributable to owners of the company of $7.3 million, TEE International's ~63% share would be $4.6 million. As TEE International reported profit attributable to owners of the company of $8.4 million (page 9 of the annual report - "Group financial highlights"), the estimated profit from the Engineering segment is about $4 million (as the Infrastructure segment is loss making).

Profit attributable to: Owners of the Company	2016 $'000	2015 $'000
TEE International (Total)	8,404	11,133
TEE Land (Total)	7,331	11,086
TEE Land (~63% stake)	4,619	6,984
Group's Non Real Estate Profit	3,785	4,149

Based on the estimates, it would appear that the group's return from the core Engineering business less than 2% (4M/223M). The margins are razor thin and there is almost no buffer for error. **Can the board tell shareholders what are the financial targets for the Engineering segment?** In the Chairman's message (page 18), it was mentioned that the team did well to "secure new engineering contracts with a combined value of S$150 million" but there was no mention on margin or profit. **Shareholders would like to understand how management and the board are focused on creating shareholder value and not just on the top-line growth.**

Can management/board explain the potential of the Infrastructure segment to shareholders? External revenue has increased from $2.5 million in FY2013 to $3.0 million in FY2016 and it has been loss-making in all four years except for a small profit ($132k) in 2014. **What are the key drivers and how can the group grow this segment and turn it into a significant contributor?**

2. **Would the board or the Remuneration Committee (RC) provide clarity on the remuneration policy for key management and executive directors? What are the key performance indicators used in assessing the contribution of each individual?** The disclosure under Guideline 9.6 of the Corporate Governance Report (page 53) states that "variable component payouts depend on both the staff's individual performance and each company's performance within the Group". Based on the Directors' Remuneration (page 54), it is estimated that the three Executive directors received a combined $1.98 million for 2016 (vs $1.81 million in 2015). Specifically, two of the EDs also received bonuses which accounted for over 30% of the remuneration package (vs just 17-18% last year). In Note 5 (page 113 - Related Party Transactions), the total compensation of directors and key management personnel increased to $4.2 million to $3.7 million. This appears contradictory to the remuneration policy as the group's financial highlights showed a weaker performance in 2016. Other than increases in revenue and EBITDA, other key metrics for the groups appear to have weakened. From page 9 (page 9 - Group financial highlights), these include: Gross Profit, Gross Profit Margin, EBIT, Profit before tax, Profit, After-tax profit margin, Return on equity, Return on assets, Long-term debt to equity ratio, Interest cover and Earnings per share. **Can the RC explain this apparent discrepancy and assure shareholders that the group has a sound remuneration policy that motivates executive directors and key management personnel to ensure the long term growth of the group without excessive risk taking?**

3. The board has proposed a full year dividend of 0.18 Singapore cent per ordinary share, subjected to shareholders' approval. Together with the interim dividend of 0.15 Singapore cent, the gross dividend per share is 0.33 Singapore cents. This is a huge drop from previous years, both in absolute term and as a ratio. **While shareholders understand that the group does not have a formal dividend policy, can the board explain its recommendation to slash dividend from 2.5c to 0.33c?** Even after considering the group's operating results, financial position, capital expenditure and working capital requirements, this cut in dividend cannot be rationalised especially when the remuneration for Executive Directors and key management personnel has increased. Futhermore, the group's return on asset over the past four years averaged just 1%. If the group is gearing up to make a big investment in the same business that the group is currently engaged in, the risk-reward may not look attractive. Shareholders could be better served by returning excess capital to them and thereby allowing them to make their own capital allocation decisions.