

Issuer: LTC Corporation Limited
Security: LTC Corporation Limited

Meeting details:

Date: 27 Oct 2016

Time: 09:30AM

Venue: The Conference Room, 10 Arumugam Road, #10-00 LTC Building A, Singapore 409957

Company Description

LTC Corporation Limited, an investment holding company, engages in the property investment, property development, and steel trading and fabrication in Singapore and Malaysia. It operates through Steel Trading, Property Development, and Property Rental segments. The Steel Trading segment supplies steel reinforcement bars for building construction and civil works, as well as provides services to cut, bend, or assemble the rebars to customer requirements. The Property Development segment builds and sells residential, commercial, and industrial properties. The Property Rental segment owns, manages, and leases industrial and commercial properties. LTC Corporation Limited also imports, exports, and distributes steel and iron products, as well as operates as a commission agent and general merchant. The company was formerly known as Lion Teck Chiang Limited and changed its name to LTC Corporation Limited in October 2014. LTC Corporation Limited was incorporated in 1964 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=L17)

Q1. In November 2015, the Group completed the acquisition of a 50% interest in USP Equity Sdn. Bhd. (which owns a 90% interest in Sogo (K.L.) Department Store Sdn. Bhd.). The rationale given for the acquisition was to “generate additional income streams and diversify its asset and revenue base. Brick and mortar retail face extraordinary threats from e-commerce and online shopping. With no obvious synergy to the group’s other businesses, the group acquired 50% interest in USP for a total consideration of \$23.1 million, paying a provisional goodwill amount of \$10.5 million (until the Purchase Price Allocation is finalized in November 2016).

- a) **Can the board share in greater detail the degree and extent of its deliberation and due diligence through before it approved the acquisition?**

When the acquisition of USP was considered, the net profit attributable was \$3.1 million (as disclosed in the circular dated 29 July 2015). The group is paying an estimated price-earnings ratio of more than 15x for a retail business. Since the completion of the acquisition of the retail business in November 2015, the Retail Operations contributed \$0.5m to the bottom-line of the Group for the 8 months ending FY2016 (page 5 of the annual report).

- b) **Has the JV performed up to the board/management’s expectation? Since the acquisition was completed in November 2015 (11 months ago), what are the new insights gleaned about the retail business?**

If the group diversifies into new businesses purely for the sake of diversification, especially into areas where it has neither the expertise nor the experience to value-add, **then shareholders would like the board to re-examine its capital structure so as to maximise value for all shareholders.**

Q2. The steel trading segment incurred a loss. Steel turnover decreased by \$43.3m from \$136.2 million to \$92.9 million due to lower steel prices and tonnage delivered. Net operating profit for steel decreased from a profit of \$2.4 million in 2015 to a loss of (\$2.5) million in 2016. As recently as 2014, net operating profit for steel was \$11.4 million.

- a) **Can management explain in greater detail what are the particular challenges in the past two years?**
 b) **The volatility of steel prices was cited in the Chairman’s statement as a reason for the poor performance. What are the pro-active measures that group can take to mitigate such risks?**
 c) **The group has also entered into variable-price contracts (“VPC”) with its customers. What is management doing to make sure that these will not become onerous contracts as steel prices drop? Should the group reduce the VPC exposure?**

Q3. The three independent directors were appointed to the board in 1986, 1997 and 1998. Globally, many traditional industries are being challenged as the business environment evolves at an alarming rate. Digital disruption continues to upend many industries, especially retail, where the group had just acquired a joint venture stake. **Can the board tell shareholders about its renewal plans?** New directors with the relevant experience and competencies (such retail/e-commerce) can help the group to relook its strategy and refresh its products and services.