

Issuer: Hupsteel Limited
Security: Hupsteel Limited

Meeting details:

Date: 22 Oct 2016

Time: 11:00H

Venue: 116 Neythal Road Singapore 628603

Company Description:

HUPSteel Limited trades in industrial steel products in Singapore, Malaysia, other Southeast Asian countries, and internationally. The company offers carbon steel products, including pipes, high pressure fittings, butt weld fittings, and flanges; stainless steel products comprising seamless pipes, butt weld fittings, stainless steel flanges, and forge steel fittings; and general hardware products, which include sealants, PU foams, adhesives, slotted angles, welding electrodes, aerosol spray paints, and apartment locks. It also provides structural steel products, such as mild steel plates, high tensile steel plates, mild steel ship plates, boiler plates, mild steel chequered plates, mild steel and high universal beams, sheet piles, bulb flats, channel bars, equal and unequal angle bars, inverted angle bars, flat bars, square bars, round bars, cold formed hollow sections, lipped channels, circular hot finished sections, and square and rectangular hot finished sections that are used in the construction of ships, bridges, buildings, underground tunnels, and other infrastructure works. In addition, the company offers multi-tier, pallet racking, mezzanine, drive-in, cantilever, boltless, and customized storage systems; and value added services, such as machining, threading, sandblasting, etc. Further, it provides racking and logistics services; and rents properties. The company serves oil and gas, chemical and petrochemical, energy, infrastructure, marine, engineering, and other industries. HUPSteel Limited was founded in 1945 and is headquartered in Singapore.

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

1. In the Chairman’s message, the Chairman highlighted that the group is facing a “turbulent market of declining demand and slow global economic growth” (page 8 of the annual report). Total revenue has fallen yearly from \$147 million in 2013 to \$56 million in 2016. Net profit attributable to shareholders has dropped from \$2.5 million in 2013 to a loss of \$19.1 million in 2016.

	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
Revenue	147,057	117,289	84,386	56,370
Net profit attributable to shareholders	2,538	3,551	(7,951)	(19,094)

(Source: Hupsteel annual reports)

Even as revenue has dropped by two thirds in three years and the group suffering from low sales volume and large losses, shareholders do not have the assurance that management has taken pro-active actions during this “crisis”. From the Chairman’s statement, the only “painful action” mentioned was to “write down its inventories to prevailing market rates and made adequate provisions against doubtful debts as many of its customers were involved in the marine, oil & gas sectors”. These steps would be deemed necessary under the current accounting standards and should not be seen as measures taken by the board/management. While most other listed companies affected by the oil & gas downturn have gone into survival mode, it appears that it is “business as usual” at Hupsteel.

	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
Total employee compensation	7,800	8,462	7,519	7,809
Key management personnel compensation	2,633	2,687	2,562	2,883
Total compensation to directors	1,711	1,792	1,519	1,774

(Source: Hupsteel annual reports)

Over the same period, total employee compensation, key management personnel compensation and total compensation to directors stayed largely flat. Dividends to shareholders were cut from 5 cents to 0.5 cents in 2015, and to 1 cent (proposed) this year. Shareholders suffered a 90% decrease in dividends along with capital losses.

Can management let shareholders know the pro-active measures they have taken over the past three years to improve sales or to improve margin? How are they pro-actively generating value for shareholders? Other listed companies have rationalised their manpower, initiated productivity improvement programmes, carried out restructuring etc. Based on the information in the annual report, it appears that it is still “business as usual” at Hupsteel. **What guidance has the board given to the group to encourage and motivate them to be pro-active and think out of the box in this downturn? In the view of the board, is the management team agile enough to adapt and take the group through this severe downturn?**

The Chairman has cited the strong balance sheet and “a good balance of cash” (page 9). **Has the strong balance sheet given management a false sense of security that the company will regain its former glory when the industry recovers? Should the group trim its high level of cash (including liquidating its available-for-sale financial assets) and give shareholders a special dividend?** Perhaps a leaner capital structure will encourage and motivate management to drive more value creation. Modern finance theory suggests that with the possible but low risk of bankruptcy, management will be motivated to work harder and be pushed to generate value to ensure the group’s survival. **Would the board comment on this?**

2. As at 30 June 2016, the fair value of investment properties is \$79,600,000 as determined by independent professional valuers based on the properties’ highest-and-best-use using the Market Comparison Method (page 65).

Can management confirm that the group lost about \$0.835 million (page 90 – Segment information) in the property investment segment? If so, shareholders would like to know if the group has the necessary professionals with the relevant real estate experience to properly manage its investment portfolio to generate value for shareholders?

Related to the first question on the adaptability and agility: Since the redevelopment of 6 Kim Chuan was announced on 19 April 2013, and having obtained its Temporary Occupation Permit on 24 August 2015, the new building has been left vacant for over 14 months. Chairman, in his FY2014 statement, said that “It is likely to be a gem in the making!” **Can management share the concrete steps taken to either sell or rent out the building? Given the long lead time during the construction phase, please provide shareholders with detail on the efforts to market the property in the past two years.**

3. Could the nominating committee provide an update on the group’s succession plan? The newly appointed Co-CEO has been a director of the company since 1983 and has been the Deputy Managing Director since 1994. **What would necessitate such a long handing-over period since that the newly appointed Co-CEO has been with the company since 1983?**

Also, can the remuneration committee explain the “Other benefits” component that makes up 17-33% of the executive directors’ total remuneration package?

In addition, Mr Lim Boh Chuan’s remuneration has increased from \$250,001 – \$500,000 in 2015 to \$500,001 – \$600,000 in 2016. **Even with the expanded scope of responsibilities following his appointment as Co-CEO, did the remuneration committee offer Mr Lim a more generous remuneration package with a base pay that is in the \$500,001 – \$600,000 band even without any variable component? Can the remuneration committee justify this given that the company has reported huge losses in the past two years and the Chairman has said that “the Group does not expect any pickup in demand for its steel products in the new financial year”? Could the remuneration committee have structured the package more prudently to reduce the base salary and introduce a progressive pay structure?**