Issuer: CosmoSteel Holdings Limited
Security: CosmoSteel Holdings Limited

Meeting details:

Date: 25 January 2017

Time: 10:00H

Venue: Raffles Country Club, 450 Jalan Ahmad Ibrahim, Singapore 639932

Company Description

CosmoSteel Holdings Limited, together with its subsidiaries, engages in sourcing, supplying, selling, and distributing piping system components. The company operates through Energy, Marine, Trading, and Others segments. Its products include pipes, flanges, tubings, forged and outlet fittings, and buttwelding fittings, as well as other structural products. The company also offers product customization services to modify the size and thread dimensions of its products for specific engineering and fabrication designs; validation and testing services; expedited delivery services; and project management services, as well as inventory management services. It serves the customers in energy, marine, manufacturing, and other industries, as well as traders. The company primarily operates in Singapore, the Middle East, Europe, Brunei, Vietnam, Indonesia, Malaysia, Thailand, Japan, Australia, China, and the Philippines. CosmoSteel Holdings Limited was founded in 1984 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B9S)

Q1. Revenue for FY2016 dropped from $109.9 million to $68.8 million in FY2016, a drop of 37%. Gross profit margin improved by 3.9 percentage points to 21.7% in FY2016 from 17.8% in FY2015. This was attributed to the group's stringent cost management and the reduction in value-added services requests by its customers.

a) **What are the measures the group has taken to manage its costs? Can the company quantify the impact of its cost-cutting measures?**

b) **Improvement in profit margin was attributed to a reduction in the value-added services requests by its customers. Does it mean that the group offers its value-added services at below costs?**

From the Operating and Financial Review (page 30 of the annual report), it is disclosed that revenue from clients in the Energy sector dropped 52% to $40.2 million although there were increases in revenue from clients in the Marine (10.7%) and Others (19.8%) sectors.

c) **What were the reasons for the better performance in the Marine and Others segments?**

d) **Similarly, revenue from Europe and Malaysia increased 220% and 120% respectively. Can the company let shareholders know if the revenue increases came from new clients or from existing clients? How sustainable is the heightened demand from Europe and Malaysia?**

e) **How much visibility is there into the sales performance?**

Q2. In Note 13 (Property, Plant and Equipment – page 93), it was disclosed that:

> *On 29 May 2014, a subsidiary accepted a letter of offer issued by JTC Corporation to extend the lease term for 90 Second Lok Yang Road for a further term of 13.3 years from 16 March 2019. As consideration for the extension, the subsidiary is required to satisfy certain investment criteria with a minimal investment amount of $11,830,000 within three years.*

a) **Is the three years deadline from the date of acceptance of the Letter of offer issued by JTC Corporation, i.e. three years from 29 May 2014?**

b) **Has the company met the minimal investment amount of $11,830,000?**

c) **If not, what is the shortfall amount and can the subsidiary make the necessary investment amount to meet the criteria as stated in the Letter of offer by JTC Corporation?**

Q3. In Note 6 (Other gains and (other losses) – page 87), the group showed the following allowances and reversals:

	2016 $'000	2015 $'000
(Allowance) reversal for slow-moving inventories and decline in net realisable values	**(5,826)**	**654**
Reversal (allowance) for inventories written off	**1,668**	**(737)**

a) **What is the group's policy with regard to making allowances to slow-moving inventories?** In 2016, the group has made allowances of ($5.8) million but had also recognised $1.7 million in reversal for inventories written off in prior years.

b) **How conservative is the company to provide an allowance of ($5.8) million in 2016? Does the group expect more allowances for slow-moving inventories in the next financial year?**

c) As the inventory is expanded from over 20,000 to more than 25,000 line items, there will be a higher risk of stock obsolescence. The group has instituted a "stricter inventory management controls". **Please elaborate further on the new management controls. How effective can this be to actively mitigate the risk of stock obsolescence, especially in an environment where the demand from Energy and Marine sectors could be very uncertain?**