

Issuer: Soon Lian Holdings Limited**Security:** Soon Lian Holdings Limited**Meeting details:**

Date: 20 April 2017

Time: 09:30H

Venue: 9 Tuas Avenue 2 Singapore 639449

Company Description

Soon Lian Holdings Limited, an investment holding company, operates as a specialist supplier of aluminum alloy products primarily to the marine, precision engineering, and semiconductor industries. The company offers aluminum alloy extrusion products, such as rods, bars, tubes, and extruded profiles; and aluminum alloy piping systems covering a range of elbows, flanges, reducers, and tees, as well as aluminum honeycomb products used in ship cabin interior fittings, including partitions, cabinets, and other cabin furniture. It sells its aluminum alloy products for use in shipbuilding consisting of hulls; decks; superstructures; and cabins of light crafts, such as catamarans, pleasure crafts, crew boats, rescue boats, and patrol boats, as well as in crew boats and rescue boats of offshore oil and gas industry. The company also provides precision engineering products for electronic equipment, precision instruments, medical instrumentation, semiconductor equipment, automated assembly lines, pharmaceutical machinery, and robotics; and high strength items for use in aircraft industries, oil tankers, automotive parts, rail coaches, truck frames, bridges, and towers. It serves customers in approximately 15 countries, including Australia, Hong Kong, India, Indonesia, Malaysia, Philippines, the People's Republic of China, Singapore, South Korea, Taiwan, Thailand, the United Arab Emirates, and Vietnam. The company was founded in 1983 and is based in Singapore. Soon Lian Holdings Limited is a subsidiary of Soon Tien Holdings Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5MD)

Q1. As noted in the Operations and Financial review (page 13 of the annual report), the group's precision engineering segment yielded stronger results, fueled by higher demand. The "total revenue by segment" and "operating results before income taxes and other unallocated items" are shown in the table below.

	FY2016 (\$'000)	FY2015 (\$'000)	FY2014 (\$'000)	FY2013 (\$'000)	FY2012 (\$'000)	FY2011 (\$'000)
Precision engineering Revenue by segment	25,740	23,378	15,932	14,122	12,013	7,594
Operating results before income taxes and other unallocated items	4,176	3,851	3,204	2,229	1,731	1,561

(Source: Soon Lian Holdings Limited Annual Reports)

- a) The precision engineering segment has grown steadily over the years. **Can management provide further elaboration on the key drivers of growth in the precision engineering segment?**
- b) **How much more can the precision engineering segment grow? How sustainable is the current performance by the segment?**
- c) **What is the utilisation rate of the group's precision plant(s)?**

Q2. In the Consolidated Statement of Cash Flows (page 51), it can be seen that the group generated a net cash flow from operating activities of \$10.5 million in 2016, up from (\$1.9) million of net cash flow used in 2015. Net cash flow used in investing activities was (\$0.2) million while net cash flow used in financing activities was (\$6.6) million. One big contributor to the net cash inflow has been the improvement of inventory management by about \$7.8 million.

- a) **Can management further improve the management of working capital?**
- b) **Does management have any targets for its inventory turnover?**

As at 31 December 2015, the group had utilised (\$2.7) million in bank overdrafts and was in a cash overdrawn position of (\$1.5) million as at the end of the last financial year. In 2016, cash and cash equivalents for consolidated statement of cash flows purposes at end of the year improved to \$2.2 million (page 76 - Cash and cash equivalents in the consolidated statement of cash flows).

At the same time, the group has received a \$5.0 million loan from the controlling shareholder in FY2016, up from \$1.2 million in FY2015. The group's debt-to-adjusted capital ratio improved to 0.79x in 2016 from 1.03x (2015) (page 77 – Share capital).

- c) **In calculation of the net debt and also the debt-to-adjusted capital ratio, is the loan from the controlling shareholder included in net debt?**
- d) **Can the group still access its credit lines and credit facilities?**

Q3. In the Independent auditor's report (page 45), the impairment of trade receivables was listed as one of the key audit matters. The auditors have noted that "trade receivables amounted to \$10.1 million, representing 17% of the group's total assets, as at 31 December 2016".

The ageing analysis of the age of trade receivable amounts that are past due but not impaired is shown in the table below:

Group		
	2016 \$'000	2015 \$'000
Trade receivables:		
Less than 30 days	1,575	1,336
31 - 60 days	729	1,538
Over 60 days	1,809	1,635
Total	<u>4,113</u>	<u>4,509</u>

(Source: Soon Lian Holdings Annual Report 2016 – Page 86)

- a) Can management provide an upper limit of the ageing analysis?

Out of the total trade receivables from outside parties of \$13.2 million (page 75 – Trade and other receivables), the allowance for impairment on trade receivables was (\$1.73) million in 2016 and (\$1.37) million in 2015.

- b) Can management provide a further breakdown of the (\$3.1) million in allowance on trade receivables according to the number and profile of customers?
- c) Is the group still trading with the customer(s)?
- d) Given that the allowance for trade receivables has increased sharply in the recent two years, and that the market conditions have been challenging, is management going to review the customer credit risk policy?