Issuer: Cheung Woh Technologies Ltd
Security: Cheung Woh Technologies Ltd

Meeting details:
Date: 29 June 2017
Time: 11:00H
Venue: 23 Tuas South Street 1, Singapore 638033

Company Description
Cheung Woh Technologies Ltd manufactures and supplies precision hard disk drive (HDD) components. The company operates through two segments, HDD Components and Precision Metal Stamping Components. The HDD Components segment offers voice coil motor plates and air combs. The Precision Metal Stamping Components segment provides sheet metal machined parts and computer numerical controlled machined parts. Cheung Woh Technologies Ltd serves the HDD, communications, electrical and electronics, semiconductor, and automotive industries primarily in Singapore, Malaysia, Thailand, Sultanate of Oman, Portugal, the United States, the Philippines, Germany, the People's Republic of China, and internationally. The company was incorporated in 1972 and is based in Singapore. Cheung Woh Technologies Ltd is a subsidiary of Nexsuss Holdings Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C50)

Q1. In the Operating and Financial Review (pages 8 to 10 of the annual report), the drop of 14.2% in the revenue of the HDD components segment was attributed to a drop in customers' demand for air-combs and voice coil motor (VCM) plates.

a) Can management elaborate further on the market demand and market trends for the HDD components? Does management see the drop as temporary (for example, due to product cycles or replacement cycles) or is the drop more structural in nature?

Based on Note 33 (page 91 – Segment information), the HDD components segment reported external sales of $67.8 million and a loss before tax of $(0.66) million for 2017. In 2016, the group reported external sales of $79.1 million and a segment profit before tax of $7.0 million.

Even considering the $(1.2) million write-off in inventories, it may be hard for shareholders to understand how the segment slipped into a loss before tax of $(0.66) million in 2017 from a segment profit before tax of $7.0 million in 2016. In the Operating and Financial Review (page 8), the reasons provided were:

The loss suffered was due to lower sales generated and higher costs incurred during the year. Higher costs were attributed to higher labour, material and overhead costs and abnormal high yield loss that resulted from writing-off of defective Baseplates produced during its initial production.

b) Can management help shareholders to quantify the impact of each of the factors listed above? The written-off amount for defective inventories was $(1.2) million but the segment results dropped from a profit before tax of $7.0 million to a loss before tax of $(0.66) million.

c) Are further losses expected from the defective baseplates? What are the preventive measures taken by management to prevent such incidents from happening again? Could management have been more prudent at the initial production stage to ensure that the quality standards are met before the baseplates are being mass produced?

Q2. As shown in the table below, the performance of the group's other segment, Precision metal stamping components, has been rather stable.

	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
External sales	14,362	16,206	17,624	14,129	16,321
Segment profit before taxation	4,325	4,003	2,697	2,272	2,748

(Source: Company's Annual Reports)

Revenue has ranged from $14 million to $18 million and the segment has reported segment profit before taxation of more than $2.3 million in the past three financial years.

a) What are the growth prospects and opportunities for the Precision metal stamping components segment?

b) Is the group providing (or able to provide) other high value-add services on top of precision metal stamping? How synergistic is this segment to the HDD components segment?

c) Are there plans to scale up the segment?

Q3. As disclosed in the last annual report, the *"new factory building is expected to be completed by August 2016 and will add a production space of 150,000 square feet. Manufacturing robots will be used within the premises to automate the production of forged Baseplate".*

In the 2016 annual report, the Chairman disclosed that the *"construction of a 4-storey factory in Zhuhai has been completed in December 2016"* and *"infrastructure, relocation, set-up of machines and installation of manufacturing robots are expected to be completed by end of calendar year 2017".*

a) **What is the reason for the delay in the construction of the new 4-storey factory in Zhuhai? How has that affected the transitional plans?**

b) **What is the estimated total capital expenditure for the new factory?**

c) Turnover in the HDD components segment is expected to be affected during the transitional period of phasing in the manufacturing of baseplates**. Can management provide better visibility on the impact? What are the measures taken to minimise the disruption?**

d) **With the set-up of the new Zhuhai factory, can management provide shareholders with an overview of what is being produced in each of its manufacturing facilities in Johor, Penang and Zhuhai?**