Issuer: Vibrant Group Limited

Security: Vibrant Group Limited

Meeting details:
Date: 31 August 2017
Time: 9:30 a.m.
Venue: 51 Penjuru Road #04-00, Freight Links Express Logisticentre, Singapore 609143

Company Description
Vibrant Group Limited provides logistics, real estate, and financial services worldwide. It operates through three segments: Freight and Logistics Business, Financial Services, and Real Estate Business. The company provides international freight forwarding services, including ocean and air freight forwarding, consolidation and deconsolidation, transshipment, project cargo management, documentation, less than container load consolidation, and customs clearance and transportation services; and project logistics services for oil and gas, infrastructure development, power plant, and factory relocation. It also offers chemical logistic solutions, such as warehousing and storage for dangerous goods and non-dangerous goods, drumming, container haulage and packaged goods transportation, plant management logistics, emergency recovery, and safety escort services; and contract logistics solutions, which include order management, warehousing storage and handling, inventory management, zero-GST warehouse schemes, online warehouse management system, air-conditioned temperature control storage, cross docking, transportation and distribution, GST permit import/export, automated storage and retrieval system, and custom brokerage services, as well as value added services, such as packaging. In addition, the company provides record management services comprising document storage and retrieval, safe document destruction, and urgent document retrieval services. Further, it offers fund management and financial leasing, real estate fund management, and asset and trust management services; and invests in, develops, and manages real estate properties, as well as leases industrial buildings. The company was formerly known as Freight Links Express Holdings Limited and changed its name to Vibrant Group Limited in November 2013. The company was founded in 1981 and is headquartered in Singapore. Vibrant Group Limited is a subsidiary of Vibrant Capital Pte Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BIP)

Q1. For the previous Financial Year that ended 30 April 2016, it was highlighted to the company that the group had scaled up its operations but the growth in revenue was not accompanied by steady profit growth.

In the section titled "A Message to Shareholders" (pages 6 to 8 of the FY2017 annual report), the Chairman had painted a rosy picture by reporting on the notable developments and achievements, including:

i. Acquisition of ASX-Listed Blackgold International Holdings Limited
ii. Sale of the entire share capital of Plaza Ventures Pte Ltd, the owner of the GSH Plaza
iii. Fund management associate being awarded with the Annual Eurekahedge Asian Hedge Fund Awards 2017

However, for FY2017, while the revenue for the group dipped by more than a third to $184.6 million, the net profit attributable to owners of the company decreased from $10.0 million to $3.4 million.

The 5-year summary is reproduced below for reference (page 16 of the annual report).

5-YEAR FINANCIAL SUMMARY

	FY2013	FY2014	FY2015	FY2016	FY2017
Operating Results					
Revenue ($'000)	176,634	191,422	203,204	280,731	**184,620**
EBITDA ($'000)	45,143	41,001	43,687	43,699	**53,573**
Pretax profit/(loss) ($'000)	44,849	47,583	29,165	32,386	**25,368**
Net Profit ($'000)	38,361	42,658	30,003	10,023	**3,422**
EBITDA margin (%)	25.56	21.42	21.50	15.57	**29.02**
Pretax margin (%)	25.39	24.86	14.35	11.54	**13.74**
Net margin (%)	21.72	22.28	14.76	3.57	**1.85**
Cash and Cash equivalents	39,175	82,982	23,260	23,088	**63,039**
Financial Position					
Total assets ($'000)	452,157	700,586	933,512	1,044,330	**1,051,025**
Total debt ($'000)	107,988	217,504	384,543	448,916	**344,296**
Debt/Assets (%)	23.88	31.05	41.19	42.99	**32.76**
Shareholders' equity ($'000)	231,879	358,392	372,296	371,171	**370,358**
Return on Assets (%)	8.48	6.09	3.21	0.96	**0.33**
Return on Equity (%)	16.54	11.90	8.06	2.70	**0.92**
Net debt: Equity (times)	0.30	0.38	0.97	1.15	**0.76**
Per Share Data					
Earnings (cents) – Basic	8.10	8.62	5.84	1.86	**0.59**
Earnings (cents) – Diluted	8.10	8.62	5.84	1.86	**0.59**
Dividend (cents)	2.50	2.75	2.75	1.80	**1.50**
Net tangible assets (cents)	47.63	71.08	71.31	66.94	**61.58**

(Source: Company annual report)

Despite booking a gain of $52,135,000 for the disposal of the group's 35% interest in Plaza Ventures, the profit attributable to owners of the company was just $3.4 million in 2017, down by two-thirds from last year.

a) **What have caused the group to report substantially lower profits? Would the Chairman consider providing a more balanced and candid view in his message to shareholders to highlight the challenges faced by the group?**

b) In Note 16 (page 100 – Share capital), it was disclosed that the group targets to "achieve a return on shareholders' equity (ROE) of between 14.00% to 18.00%". As seen in the table above, the group achieved a ROE of 0.92%, a drop from a ROE of 2.70% in 2016. **Has the board conducted a review of the performance of each of the three segments to analyse how it can improve its ROE?**

Q2. Shareholders would also like to ask about the performance of the specific segments/operations of the group, including:

a) **Freight and logistics:** Based on Note 28 (page 111 – Segment reporting), the Freight and logistics segment reported a loss of $(5.1) million. **Would management be able to provide better visibility into the reason for the loss? What were the specific reasons/factors that caused the segment to be unprofitable?**

b) **Financial services:** The Financial services segment reported a loss of $(6.3) million. The loss in FY2016 was $(11.6) million. **Can management elaborate further on the specific operations in Financial services and why they had underperformed?**

c) **Leverage**: The finance costs for the Freight and logistics and the Financial services segments were $(4.5) million and $(6.9) million respectively. **Are the segments appropriately capitalised to allow them to grow in a sustainable manner?**

d) **Sabana Shari'ah Compliant Industrial Real Estate Investment Trust:** The company had made an announcement on 10 April 2017 that it was "engaged in discussions in relation to the acquisition of a further stake in the manager of the Sabana REIT". **Can management provide better visibility into the group's long term plans for Sabana REIT?**

e) **Impairments:** The impairment of trade and other receivables and the impairment of investments in subsidiaries and associates were two of the three key audit matters in the Independent Auditors' Report that were of most significance in the audit of the financial statements of the current period. The group recognised impairment losses of trade and other receivables amounting to $8.7 million in 2017. **Can management disclose more on the impairment (page 117)? Has the group reviewed/updated its credit-risk policy given the group is scaling up and has started to operate in different regions?**

f) **Consolidated Income Statement:** In the group's consolidated income statement (page 56), the administrative expenses and other operating expenses were $(44.7) million and $(38.7) million respectively. It would appear that items such as the impairment of a subsidiary (of $1.96 million) and the impairment loss of an associate (of $9.2 million) were included in "Other operating expenses". **Can management provide a detailed breakdown of the expenses? Shareholders would like to understand how much of the expenses are recurring/one-off.**

Q3. The company issued 26,000,000 new ordinary shares at S$0.38 each on 20 September 2016 in a placement, followed by another placement of 70,000,000 new ordinary shares at S$0.38 each on 25 May 2017.

As reported on 13 September 2016, the net asset value per share for the group was 66.26 cents (First Quarter Financial Statement Announcement for the three months ended 31 July 2016) and the net asset value per share for the group was 62.26 cents (Third Quarter Financial Statements Announcement for the three months ended 31 January 2017) as announced on 14 March 2017.

The September 2016 placement shares represented approximately 4.69% of the share capital in the company as at the date of the announcement and the May 2017 placement shares represented approximately 11.65% of the share capital in the company as at the date of the announcement.

The September 2016 placement and the May 2017 placement were carried out at discount of 43% and 39% to the last reported net asset value per share respectively.

a) **Can management and the directors help shareholders understand the rationale of carrying out substantial private placements at deep discount to the net asset value?**

b) **Did the directors consider and analyse the dilutive effect of the placements carefully? Does the benefit of the placement significantly outweigh the dilutive effects to the existing shareholders?**

Of the $36.4 million in net proceeds raised, $18.0 million (or about 50%) was used to repay bank borrowings.

c) **Can management and the directors further clarify why half the proceeds from the dilutive placement was used to repay bank borrowings? Has the company considered other sources of fundings?**

d) **Are the directors satisfied that the company has a sound capital base and is not over-leveraged?**