

Issuer: LTC Corporation Limited

Security: LTC Corporation Limited

Meeting details:

Date: 27 October 2017

Time: 9.30 a.m.

Venue: The Conference Room, 10 Arumugam Road, #10-00 LTC Building A, Singapore 409957

Company Description

LTC Corporation Limited, an investment holding company, engages in the property investment and development, steel trading and fabrication, and retail operations in Singapore and Malaysia. It operates through Steel Trading, Property Development, and Property Rental segments. The Steel Trading segment supplies steel reinforcement bars for building construction and civil works, as well as provides services to cut, bend, or assemble the rebars to customer requirements. The Property Development segment builds and sells residential, commercial, and industrial properties. The Property Rental segment owns, manages, and leases industrial and commercial properties. The company also imports, exports, and distributes steel and iron products, as well as operates as a commission agent and general merchant. In addition, it leases, operates, and manages retail businesses, which include department store, supermarket, food and beverage outlets, and fitness center. The company was formerly known as Lion Teck Chiang Limited and changed its name to LTC Corporation Limited in October 2014. LTC Corporation Limited was incorporated in 1964 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=L17)

Q1. The group's steel business remains the largest contributor of revenue and profits. Revenue in Steel trading increased by 16% to hit \$107.5 million in 2017 with the operating profit coming in \$6.1m in 2017, reversing a \$(2.5) million loss in 2016.

In the Chairman's Statement (page 2 of the annual report), the Chairman had cautioned that competition amongst steel suppliers will be intense, coupled with a projected decrease in demand from the private construction sector although the public sector will take the lead in construction demand by releasing more tenders for MRT and hospital projects. In the past, the group had projects for the Thomson Line and East Coast Line MRT Stations.

- a) **Can management help shareholders understand the group's market share in the local steel market?**
- b) **Without the direct ownership of a steel mill, how does the group compete in a crowded sector?**
- c) **What are the new projects that the group would be bidding for? How does the group differentiate itself from the competitors other than price?**

The group has recognised a provision for onerous contract of \$775,000 in 2017. In the past financial years, the group has had a write-back of \$97,000 in 2016, and provisions of \$212,000 in 2015, \$44,000 in 2014 and \$nil in 2013.

- d) **Would the board regard the price of steel as a key risk area? If so, what are the possible risk mitigating strategies that the group can employ so as to ensure that risks are adequately managed within the Group's risk tolerance limits?**

Q2. The Chairman also disclosed that, under the group's retail business, the Sogo store was being renovated and "re-energising of merchandise is being carried out". This ongoing transformation, together with the upgrade of the store's facade, was carried out "in anticipation of improvement in the market".

- a) **Can management provide some visibility into the additional capital expenditure for the flagship store?**
- b) **What is the basis of management's conviction of the recovery of the retail business?**

In addition, the group has disclosed that "the retail team has signed up 6 new locations to operate new stores in the next 5 years wherein the 2nd Sogo store in Malaysia is expected to open in early 2019 in Shah Alam".

- c) **How much capital has the group earmarked to support the retail/Sogo business? What is the expected return on investment (ROI)?**
- d) **Can management share their plans to rejuvenate and refresh the retail experience and explain how they can overcome the massive challenge face by brick-and-mortar retailers from online shopping/e-commerce giants who are not constrained by geography?**

Q3. The valuation of investment properties and the net realisable value of completed property held for sale – Hypermarket are two of the key audit matters highlighted in the Independent Auditor's Report. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As disclosed in Note 41 (page 103 – Level 3 fair value measurements), the group's industrial buildings at Arumugam Road were valued at \$118 million in 2017 and in 2016 (shown below).

41. Financial instruments (cont'd)

D. Level 3 fair value measurements

The following table presents the information about fair value measurements using significant unobservable inputs:

Description	Fair value as at 30 June \$	Valuation technique(s)	Key unobservable inputs	Range
2017				
Investment properties – Industrial buildings	118,000,000	Comparable sales method	Transacted price of comparable properties (psm).	\$8,298- \$8,928
2016				
Investment properties – Industrial buildings	118,000,000	Investment method	Capitalisation rate	5.0%

The valuations of the investment properties are generally sensitive to changes in yield and rental rates. A significant increase/(decrease) in yield and rental adjustments would result in a significantly higher/(lower) fair value measurement.

(Source: Company annual report)

- a) **Can shareholders understand why the valuation technique was changed from “Investment method” (using a capitalisation rate of 5%) to “Comparable sales method” (using transacted price of comparable properties)?**

Also, the net realisable value of completed property held for sale – Hypermarket is \$12.5 million (equivalent to RM38.9 million). While the group has sold 47 of the 48 shop houses at the same development, the hypermarket of 20,241 sq.m. remains unsold. The hypermarket has been recognised as a completed property held for sale from as far back as FY2012.

- b) **Can management let shareholders know if the hypermarket is tenanted out?**
- c) Management has stated its intention to dispose of the properties and hence have retained the hypermarket as completed properties held for sale on the reporting date. **Can management let shareholders know what are the marketing efforts to sell the hypermarket?**
- d) **What are the assumptions used in estimating the net realisable value (NRV) of the hypermarket?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Lum%20Chang%20Holdings%20Ltd>

The company’s response could be found here:

https://sias.org.sg/media/qareport/company_responce/1478155535_LTC_Responses_to_SIAS_Questions.pdf