Issuer: Mun Siong Engineering Limited

Security: Mun Siong Engineering Limited

Meeting details:
Date: 20 April 2018
Time: 3.00 pm,
Venue: Darjeelin Board Room, 4th Floor, Trade Association Hub, 9 Jurong Town Hall Road, Jurong Town Hall, Singapore 609431

Company Description

Mun Siong Engineering Limited, an investment holding company, provides mechanical engineering services to oil, gas, petrochemicals, energy, refinery, storage, water, chemicals, biomedical, and other industries worldwide. Its mechanical engineering works include fabrication and erection of steel structures, fixed equipment and piping works, plant shut-down/turnaround management, construction of storage tanks, exchanger re-tubing, tube shooting services for heat exchanger, on-site flange re-facing, and ultra-high pressure abrasives water-jet cutting services. The mechanical engineering works also comprise mechanical de-coking of heaters, anti-corrosion and anti-wear coatings, supply and repair of mechanical seals and systems, dynamic balancing of rotors and impellers, condition monitoring, fabrication and assembly of equipment packages, and scaffolding services, as well as removal, servicing, repairing, overhauling, and installation of equipment. The company's electrical and instrumentation services consist of transformers, switchgears, control panels, and electrical and instrumentation installation and maintenance; calibration and testing of instruments; loop check, testing, and pre-commissioning; excavation and cable laying; design and fabrication of instrumentation and control systems; installation of distribution control systems; PLC solutions; and supply of uninterruptable power supplies. In addition, it offers rotating equipment engineering products. The company was founded in 1969 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=MF6)

1. Despite the 22% drop in revenue to $73.6 million for FY2017, the group reported a better gross profit margin of 10.2% (2016: 7.1%). Management has attributed it to the group's strong emphasis on cost management, productivity improvements and enhancement of operating capabilities (via investments in capital equipment). Profit attributable to owners of the company dipped by 17.7% to $2.17 million in FY2017.

Based on the segment information, the mechanical engineering suffered a large drop in revenue to $61.8 million and reported a segment loss of $349,000. The Electrical, Instrumentation and Others segment saw an increase of 16% to $11.8 million and the segment reported a segment profit of $2.6 million in FY2017, higher than the $2.3 million segment profit reported in FY2016.

(i) **Can management disclose the current order book?**

(ii) **Given that the group's main segment of Mechanical engineering is facing headwind and that the segment has slipped into a loss, what are management's plans to turn it around?**

(iii) **How agile is the company at right-sizing its labour force to adjust to the market's demand? How does the company ensure that staff morale is high and that it retains and motivates the talent it needs for future growth?**

(iv) **Can the company elaborate further on the key drivers of the Electrical, Instrumentation and Others segment? What has led to the improved topline and better segment profitability? How much more growth can be expected from the segment?**

2. The company has newly established Pegasus Advanced Engineering LLP and Pegasus Advanced Engineering Co. Ltd for the group's expansion in India and Myanmar respectively.

(i) **Can management help shareholders understand the size of the markets in India and Myanmar?**

(ii) **Would the new Pegasus subsidiaries be aiming to provide the group's full suite of mechanical engineering services to the customers in India and Myanmar?**

(iii) **What would allow the new subsidiaries to compete in these new markets against the incumbents? What is the value proposition of the group?**

(iv) **Can the group elaborate further on the market entry strategies? What would be management's key priorities for the next 1-2 years in these two new markets?**

(v) **How much capital expenditure would be required to fund the India and Myanmar expansion?**

3. At the last Quarterly Update pursuant to Rule 1313 (2) Compliance with the Minimum Trading Price ("MTP") Exit criterion dated 6 March 2018, the company disclosed that the board, having considered the various factors, including the numerous negative developments that currently weigh against the oil and gas industry, "is inclined to defer any corporate actions at this point in time".

As the company was added to the watch-list due to the Minimum Trading Price ("MTP") Entry Criterion with effect from 5 June 2017, the company has 36 months from the inclusion date to meet the requirements of Listing Rule 1314(2) to exit the MTP watch-list.

No doubt the company has been negatively affected by the weakened state of the global oil and gas industry, the company's 6-month volume weighted average price is just 6.8 cents, or about 1/3 of the MTP. In addition, the shares have not traded near the 20 cents level since 2011. Furthermore, as at 31 December 2017, the group's net asset value per ordinary share is 10.29 cents.

The board and management have not addressed this issue in the Annual report.

(i) Can the board help shareholders understand the likely options available to the company for it to meet the MTP exit criteria?

(ii) Has the board evaluated the pros and cons of being placed in the MTP watch-list versus deferring any corporate actions to a later date?

(iii) What are the factors or indicators that would trigger the board to start its active steps to meet the requirements of Listing Rule 1314(2)?