

Issuer: Samudera Shipping Line Ltd
Security: Samudera Shipping Line Ltd

Meeting details:

Date: 25 April 2018

Time: 10.00 a.m.

Venue: M Hotel Singapore, Shenton Room, Basement 1, 81 Anson Road, Singapore 079908

Company Description

Samudera Shipping Line Ltd owns and operates ocean-going ships; and provides containerized feeder shipping services in South East Asia, the Far East, Indian Sub-continent, and the Middle East. The company operates through three segments: Container Shipping, Bulk and Tanker, and Agency and Logistics. It provides feeder services for the transportation of containerized cargo between Singapore as a hub port and other outgoing spoke ports in Asia to main line operators; liner services to traders and freight forwarders; and inter-regional container shipping services to manufacturers, exporters, and importers. The company also offers regional industrial shipping services for liquid and gas, and dry bulk cargoes; marine off-shore support services; and tramp shipping agency services, including customs clearance, cargo handling, crew handling, and ship husbandry to ship operators of liquid, gas, and dry bulk cargoes, as well as in marine offshore support sector. In addition, it provides freight forwarding, transportation, and logistics services, such as logistics management, breakbulk, document processing, warehousing facilities, point to point deliveries, packing and crating, air cargo, project cargo management, FCL/LCL consolidations, transportation/transloading, door to door, valuable/dangerous cargo handling, and supply chain facilities. Further, the company offers shipping agency and container freight station, ship manning, and vessel operation and maintenance management services. It operates a fleet of 37 vessels, including 28 container vessels, 2 oil tankers, 3 chemical tankers, 1 gas tanker, 1 marine off shore support vessels, and 2 dry bulk carriers. The company was incorporated in 1993 and is headquartered in Singapore. Samudera Shipping Line Ltd is a subsidiary of PT Samudera Indonesia Tbk.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S56)

Q1. With the group adopting the strategic approach of gradually selling or scrapping Indonesia flagged vessels due to Indonesia shipping laws, the group is seeking shareholders' approval to dispose five vessels, including Sinar Labuan, Sinar Agra and Sinar Busan.

- a) **Can management let shareholders know when does the group expect to cease its shipping services for domestic routes within Indonesia?**
- b) **What percentage of revenue did this segment generate in 2017?**
- c) **India-Middle East services:** The group has extended its shipping services to new markets including the Indian subcontinent and the Middle East. **Can management help shareholders understand the progress made in this new market? What is the profile of the local partner from the Middle East?**
- d) **Malaysia:** Similarly, as part of the group's expansion into the logistics business in the region, a subsidiary will begin operating a warehouse in Malaysia from the second quarter for the storage of general and mining cargo. **What is the group's experience in the logistics business and what would be the group's strategy to grow this business in Malaysia?**

Q2. The impairment assessment of vessels was highlighted as one of two key audit matters in the Independent Auditor's Report (page 38). 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.

Of the group's total assets of US\$366 million, vessels accounted for US\$187 million.

- a) **Would the group provide a detailed list of the vessels owned by the group that amounted to US\$187 million? Please include the type and size of vessel, the flag, the age and the valuation.**
- b) **An impairment charge of US\$7.33 million was recognised in FY2016 but none in FY2017. Can management elaborate further on the improvements in the operating environment to justify why further impairment is not needed?**
- c) **What was the average utilisation rate of the group's fleet?**
- d) **The recoverable amounts of the dry bulk carriers of US\$73.0 million were determined based on value in use calculations (page 100). It was stated that a weighted average cost of capital (WACC) of 6.70% was used and that the cost of the equity component of the WACC was derived using the capital asset pricing model. Would management help shareholders understand how it had estimated the cost of equity and subsequently the WACC of 6.7%? What does the audit committee think of the appropriateness of this discount rate of 6.7% to discount the cash flows associated with the dry bulk carriers?**

Q3. As shown in the Financial highlights (page 32), the group's gearing has been on a steady decline since FY2013. Gearing ratio dropped from 0.68x in FY2013 to just 0.26x in FY2017. Cash and cash equivalents stood at US\$37.9 million as at 31 December 2017 while the group's borrowings totalled US\$63.1 million.

- a) **With the changing business model and the impending sale of vessels, has the board/management re-evaluated the group's capital needs and optimal capital structure to support the business?**
- b) **How strategic are the group's property investments? Are there plans to monetise the assets?**