Issuer: Mewah International Inc.
Security: Mewah International Inc.

Meeting details:
Date: 26 April 2018
Time: 10.30 a.m.
Venue: Genting 1 Ballroom, Level 1, Genting Hotel Jurong, 2 Town Hall Link, Singapore 608516

Company Description

Mewah International Inc., an investment holding company, produces and sells refined and fractionated vegetable oils and fats primarily in Singapore and internationally. It operates through two segments, Bulk and Consumer Pack. The company offers RBD palm oils, olein, and stearin, as well as palm fatty acid distillates, hydrogenated palm products, and palm mid fractions; and NBD soya bean and canola, NBDW sunflower seed and corn, NBD hydrogenated soya bean, and hydrogenated canola oils, soya bean and mixed fatty acid distillates, and mixed acid oils. It also provides RBD palm kernel, coconut, hydrogenated coconut, and hydrogenated palm kernel oils, as well as lauric oils fatty acid distillates; specialty fats for ice cream and ice cream coatings; special filling and coating fats for confectionery and bakery applications; special frying oils and fats; and cooking oils. In addition, the company offers jerry cans to pack cooking oil; food grade polyethylene bags for food and beverages industrial, general household, and garbage disposal use; contract manufacturing and toll packing services; and TV commercials. Further, it provides freight forwarding, transportation, warehousing, and logistic services; packages and trades in edible oils; imports, exports, and distributes rice and other products; manufactures and sells dairy-based products; and trades in and markets food products. The company offers specialty fats and oils, and confectionary oils to distributors and factories involved in the production of confectionery, bakery products, and other food items; and edible oil products to refiners, processers, wholesalers, and retailers in food, animal feed, pharmaceutical, and oleochemicals industries. Mewah International Inc. sells its consumer pack products under the Oki, Mona, Moi, Krispi, Deli, Turkey, Cabbage, Mewah, and Fry-ola brand names through its sales and distribution network. The company is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=MV4)

Q1. As noted in the CEO's Message, the group posted the highest net profit in 5 years of US$33.6 million despite the high volatility in CPO prices throughout the year.

More impressively, the group achieved better refining and production margins for both the Bulk and Consumer Pack businesses. The group has opened new offices to deepen and enlarge the distribution network and improved on its logistics supply chain with the purchase of two small vessels.

In the consumer business, sales volume increased to 1,095 MT while the operating margin per MT also improved to US$59.5/MT. Total operating margin for the consumer business hit US$65.1 million.

a) **Can management elaborate further on the growth prospects of the African market which accounted for about 40% of overall consumer pack sales?**

b) **Can the board/management help shareholders understand why it had defined operating margin as gross profit adjusted for the depreciation in cost of sales, selling and distribution expenses and foreign exchange gains/(losses)? Specifically, can shareholders understand why foreign exchange gains/(losses) would constitute operating margin? How much control, if any, do the business units have in determining the foreign exchange policies?** A example of the calculation of the operating margin by the group is shown below:

The Group measures and tracks the earnings in terms of Operating Margin ("OM") as calculated below.

	Group THREE MONTHS ENDED			Group TWELVE MONTHS ENDED		
	31 Dec 2017 US$'000	31 Dec 2016 US$'000	Change %	31 Dec 2017 US$'000	31 Dec 2016 US$'000	Change %
Gross profit	**55,779**	88,925	-37.3%	**193,585**	215,577	-10.2%
Add: Depreciation in Cost of sales	**3,274**	2,665	22.9%	**11,254**	10,745	4.7%
Less: Selling and distribution expenses	**(19,431)**	(25,037)	-22.4%	**(86,884)**	(93,577)	-7.2%
Add: Foreign exchange gains/(losses)	**10,934**	(26,814)	n.m.	**33,050**	1,640	1915.2%
Operating margin	**50,556**	39,739	27.2%	**151,005**	134,385	12.4%

(Source: Company Unaudited Financial Statements For The Fourth Quarter and Full Year Ended 31 December 2017 dated 28 February 2018)

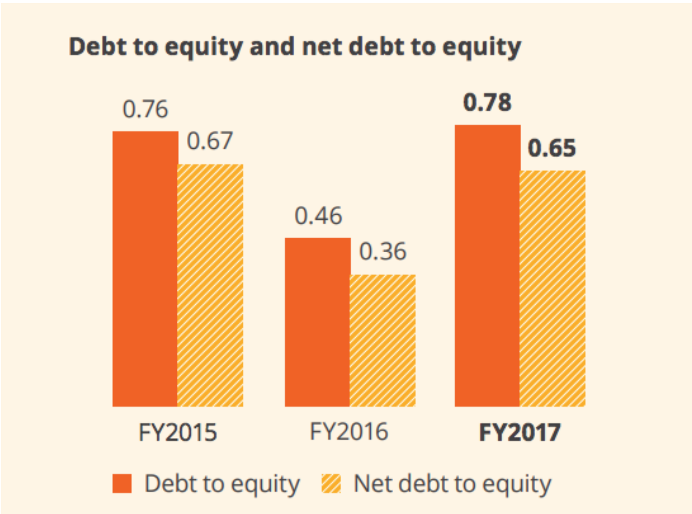
Q2. Would the board/management help shareholders better understand the group's operations? Specifically:

a) **Expenses:** Even as revenue decreased by 3.8% and sales volume dropped by 12.6%, administrative costs jumped 12.2% from US$70.6 million to US$79.2 million (page 52 – Consolidated income statement). This was mainly due to employee compensation costs increasing from US$50.8 million to US$60.9 million (page 75 – Note 8 Employee compensation). **What were the specific reasons for the big increase in labour costs? How can management better manage its costs? Has management evaluated how the group could increase automation to improve efficiency and to reduce the reliance on labour?**

b) **Inventory:** Inventory days jumped to 49 from 29, caused by a large build-up in inventories. The group's cycle time went up to 60 days in FY2017, compared to just 44 days in FY2016. The level of inventories went up from US$222.6 million to US$367.8 million (page 78 – Note 13 Inventories). **What are the specific reasons for the huge increase in the level of finished goods?** Finished goods increased from US$127.1 million to US$195.8 million. **Was it a planned build-up of inventory in anticipation of higher prices or are there problems with the supply chain?**

Q3. The CEO has also noted that the group's balance sheet position remained strong with its debt to equity ratio at 0.78x and its net debt to equity ratio of 0.65x (page 5). While the cash position was US$65.9 million compared to last year's US$49.8 million, borrowings nearly doubled from US$194.9 million as at 31 December 2016 to US$385.4 million as at 31 December 2017 (page 86 - Note 23 Borrowings).

The trends in the debt to equity and net debt to equity are shown in the following diagram:



(Source: Company annual report)

The group has established limits for its net debt to equity ratio to be less than 1.5x.

a) **Can the board or the Executive Risk Management Team provide shareholders with better visibility on how the limit was established?**

b) **When was the last review of the leverage limit?**

c) **With the *current* net debt to equity ratio of 1.85, is the group close to the 2.0x limit it had set for working capital?**

d) **Given the volatility in commodity prices and the fluctuation in foreign exchange rates, is there a need to review the limit?**

In terms of credit risks, trade receivables past due over 1 year stood at US$5.6 million. What assessment has been made to deem these long outstanding debt as collectable?