

Issuer: Isetan (Singapore) Limited

Security: Isetan (Singapore) Limited

Meeting details:

Date: 27 April 2018

Time: 10.00 a.m.

Venue: Furama RiverFront, Venus 1, Level 3, 405 Havelock Road, Singapore 169633

Company Description

Isetan (Singapore) Limited operates department stores and supermarkets in Singapore. The company operates in two segments, Retail and Property. It operates stores under the Isetan Scotts, Isetan Katong, Isetan Tampines, Isetan Serangoon Central, and Isetan Jurong East names. The company also offers online shopping services, as well as owns and leases properties. The company was formerly known as Isetan Emporium (Singapore) Private Limited and changed its name to Isetan (Singapore) Limited in 1981. Isetan (Singapore) Limited was incorporated in 1970 and is headquartered in Singapore. Isetan (Singapore) Limited is a subsidiary of Isetan Mitsukoshi Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=I15)

1. As noted in the Chairman’s Statement, group revenue for the financial year ended 31 December 2017 (“FY 2017”) slipped to \$276.6 million driven by the lower sales of \$ 265.1 million in the retail segment. Revenue from the retail segment has slipped 7.46% in FY2017, 4.7% in FY2016 and 11.2% in FY2015 with the cessation of Isetan Orchard.

While management is cognisant of the headwinds, the group’s multifaceted response has been to:

- enhance our e-commerce site and strengthen the omni-channel strategy
- appeal to customers experientially through the five senses within our store environment, merchandise selection and service
- provide service that embraces the *omotenashi* spirit (the Japanese way of warm hospitality and detailed customer service)
- work with strategic partners to appeal to younger base of customers

The retail segment continues to struggle. The segment loss has increased to \$(9.4) million in FY2017 (page 93 – Note 37 Segment information). In FY2016, FY2015 and FY2014, the losses were \$(12.5) million, \$(27.3) million and \$(8.2) respectively.

- (i) **Does the board/management see the group turning around the retail segment with its multifaceted response?**
- (ii) **How much does e-commerce/online currently contribute to the group’s revenue, in the form of sales and also increased footfall?**
- (iii) **How much more cost savings can the group achieve from further cost cuttings and optimisation of operations?**
- (iv) **What is the long term future of the group’s retail business?**

2. The group has a portfolio of held-to-maturity financial assets valued at \$57.7 million in the form of bonds. The fixed interest rates ranged from 2.22% to 7.00%. The weighted average effective interest rates for the bonds are 3.91% (current) and 3.65% (non-current).

- (i) **Can the board and the Audit and Risk Committee (ARC) help shareholders understand how is the bond portfolio managed?**
- (ii) **How is the investment mandate determined? What is the level of oversight by the ARC?**
- (iii) **Can the company provide a breakdown of the bond portfolio, including the size, the type of industries, the term/maturity and the bond rating? Can the company confirm that all the bonds are denominated in Singapore Dollars?**
- (iv) **What is the exposure to non-investment grade bonds?**

3. In the Analysis of group performance (page 8), it is shown that the group reported earnings per share of 5.16 cents. The return on equity has been 1.23% in FY2017, 1.49% in FY2016 and (15.0)% in FY2015.

Earnings/(Loss) per share (cents)	5.16	6.23	(62.60)	(7.60)	15.86
Dividend paid :					
Final Gross dividend per share (cents)					
- Ordinary	5.0	5.0	7.5	7.5	7.5
Net (\$'000)	2,063	2,063	3,094	3,094	3,094
Net assets per share	\$4.20	\$4.18	\$4.17	\$4.87	\$5.02

(Source: Company annual report)

- (i) **Would the board/management disclose the company’s cost of capital?**

- (ii) **Would the company explain why it had invested nearly \$60 million into bonds? How does that fit into the group's overall strategic growth plans?**

In addition, the group has cash and cash equivalents of \$57.7 million as at 31 December 2017, up from \$54.7 million a year ago. This has resulted in the low return on equity of 1.23%.

- (iii) **For the benefit of both new and old shareholders, can the board restate/clarify the company's long-term strategy and mission?**
- (iv) **Would the board consider a review to determine the group's optimal capital structure so that value can be unlocked to benefit all shareholders?**