Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: MTQ Corporation Limited

Security: MTQ Corporation Limited

Meeting details:
Date: 27 July 2018
Time: 10.00 a.m.
Venue: Carlton Hotel, Empress Ballroom 2, Level 2, 76 Bras Basah Road, Singapore 189558

Company Description

MTQ Corporation Limited, an investment and management holding company, provides engineering solutions for oilfield equipment in Singapore, the Kingdom of Bahrain, Australia, Indonesia, and the United Kingdom. The company operates through Oilfield Engineering and Neptune segments. It offers engineering services for the servicing, manufacturing, assembly, and fabrication of oilfield equipment, such as valves and blow-out-preventers; rents and sells oilfield equipment and spare parts, such as heat exchanger mud coolers, shale shakers, drilling handling tools, bop pressure test units and torque tools, valves, mud pumps, and drillpipe protectors, as well as drilling spools, adaptors, and related pressure control drilling equipment; and designs and manufactures proprietary and custom-built pipe support and pipe suspension solutions for the oil and gas industry. The company also provides engineering services to offshore oil and gas, marine, and renewable energy industries; and trades in oilfield industry materials. In addition, it is involved in the manufacture of high pressure piping; general steel fabrication and repairing of oilfield equipment; fabrication of pressure vessels; and provision of commercial diving, as well as inspection, repair, and maintenance services to the oil and gas, shipping, defense, and marine infrastructure industries. Further, the company provides hydrographic survey, geophysical, and positioning services; subsea engineering services to the oil and gas sector; and remotely operated vehicles services and tooling solutions for shallow and deep water applications, as well as designs, manufactures, supplies, and installs a range of pipeline stabilization and protection systems. The company was formerly known as Metalock Singapore Limited and changed its name to MTQ Corporation Limited in 2003. MTQ Corporation Limited was founded in 1959 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=M05)

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1. Would the board/management help shareholders better understand the challenges faced in the operations of the group? Specifically:

(i) **Oilfield engineering: What are the utilisation rates across the group's engineering facilities in Pandan Loop, in Loyang, in Bahrain and in Jakarta, Indonesia (under Binder Group)? Are there differences in technical capability across the facilities? Is it opportune to streamline the operations and to reduce the fixed cost base of the group, especially for the three facilities that are in close proximity (Loyang, Pandan and Jakarta)?**

(ii) **Pipeline support/LNG: Are there other major LNG projects in Singapore or in the region?**

(iii) **Neptune Marine:** The write-off of deferred tax assets seem to suggest that losses will continue at Neptune. **Can management disclose the utilisation rate of its Remotely Operated Vehicle ("ROV") fleet? What is the drop in the charter rate of the ROVs? Should Neptune decide to expand outside of Australia, what are the likely key markets? If so, would the group be incurring further restructuring costs and/or start-up costs?**

2. The "Trade receivables and allowance for impairment of trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 36). 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 noted in the KAM, the carrying amount of the group's trade receivables of $25,509,000 as at 31 March 2018 were significant to the group as they represented 47% of the group's total current assets as at 31 March 2018.

In addition, as seen in Note 18 (page 92 – Trade and other receivables), the amount of trade receivables past due by more than 90 days but not impaired has increased from $2.8 million to $4.6 million (as shown below). This excludes the $923,000 that has been written off in 2018 (page 71).

	Group 2018 $'000	Group 2017 $'000
Trade receivables past due but not impaired:		
Lesser than 30 days	3,899	11,291
30 to 60 days	705	4,132
61 to 90 days	660	1,173
More than 90 days	4,609	2,813
	9,873	19,409

(Source: Company annual report)

(i) Can management help shareholders understand the specific reason(s) for the significant increase in trade receivables past due by more than 90 days but not impaired?

(ii) What is the upper limit to the aging of trade receivables? Please provide a breakdown of the long outstanding debts.

(iii) What is the profile of the debtor(s) with long outstanding debt?

(iv) What are the efforts by management to collect the long outstanding debt, including the $923,000 that was impaired in the year?

(v) Given that the credit worthiness of customers may be impacted by the prolonged weakened economic conditions in the offshore marine industry, has the board evaluated the robustness of the group's credit policies and credit assessment procedures?

3. On 20 June 2018, the company announced that it has recorded pre-tax losses for the three most recently completed consecutive financial years (based on audited full year consolidated accounts).

According to Rule 1311(1) of the Listing Manual, the Exchange will place an issuer on a watch-list if it records pre-tax losses for the three most recently completed consecutive financial years (based on audited full year consolidated accounts); and an average daily market capitalisation of less than S$40 million over the last 6 months.

As at 18 July 2018, based on the total number of issued shares of 216,318,408 and a 6-month volume weighted average price ("VWAP") of $0.224, the average market capitalisation is approximately $48 million. Based on the last traded price of $0.188, the market capitalisation is just above the $40 million threshold.

(i) What are the deliberations the board has had on the risk of being watch-listed by the exchange based on the financial criteria?

As seen in the Consolidated statement of comprehensive income, loss from continuing operations, net of tax, increased from $(16.2) million in 2017 to $(30.0) million in 2018.

(ii) What guidance has the board given to management with regard to the urgency to turnaround the business?

A copy of the questions for the Annual Report for the financial year ended 31 March 2016 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=8

The company's response could be found here: -----

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