



**Securities Investors Association (Singapore)**

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**Issuer:** JEP Holdings Ltd.

**Security:** JEP Holdings Ltd.

**Meeting details:**

Date: 23 April 2019

Time: 10.00 a.m.

Venue: Carlton Hotel Singapore, Level 2, Empress Ballroom 4, 76 Bras Basah Road, Singapore 189558

**Company Description**

JEP Holdings Ltd., an investment holding company, engages in precision machining, equipment manufacturing, and trading and other businesses. Its Precision Machining segment provides precision machining services for aerospace, oil and gas, electronics, and automotive industries. The company's Trading and Other segment sells machines; and offers customized cutting tools. Its Equipment Manufacturing segment provides large format precision engineering and equipment fabrication services. The company also manufactures, imports and exports, trades in, and repairs precision machineries, carbide cutting tools, hardware, and industrial equipment, as well as undertakes engineering works. It has operations in Singapore, the People's Republic of China, Malaysia, the United States, the United Kingdom, Canada, Switzerland, France, Norway, the Middle East, and Southeast Asia. The company was formerly known as Alantac Technology Ltd. and changed its name to JEP Holdings Ltd. in May 2010. JEP Holdings Ltd. was incorporated in 1994 and is headquartered in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=1J4](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1J4))

1. As noted in the chairman's statement, the group recorded a net profit after tax of S\$2.2 million, up by 166% from \$0.8 million in FY2017. Profitability improved due to the higher gross margin generated from the Precision Manufacturing segment. For the financial year ended 31 December 2018, the group reported overall gross margin of 15%, up by 3% a year ago.

In particular, as seen in Note 32a (page 84 – Segment information), revenue from the Precision Manufacturing segment increased by 5% but the segment result showed an impressive improvement of \$6.1 million to register a segment profit of \$1.99 million.

- (i) **Would management help shareholders understand the reasons for the marked improvement in the profitability of the Precision Manufacturing segment? How much of the improvement was due to improved pricing and how much of it was due to better cost control?**
- (ii) **Is the shift of manufacturing to Penang completed for the Equipment manufacturing segment?**
- (iii) **As the group is also shifting some of its capacity in the Precision Manufacturing segment to Penang, what will be the overall split between Singapore and Penang when the streamlining is completed?**
- (iv) **Boeing and Airbus both achieved record deliveries in 2018 and have a seven-year and 7,577 aircraft backlog respectively. How is the group going to tap on the strong and visible demand? How does the group intend to acquire first tier suppliers?**

2. As seen in Note 9 (page 63 – Inventories), inventories increased by 15% to \$15.74 million as at 31 December 2018. There was a significant increase by 60% and 40% for Raw material and finished goods respectively.

## 9 INVENTORIES

	<u>Group</u>		
	December 31, 2018	December 31, 2017	January 1, 2017
	S'000	S'000	S'000
Raw materials	3,674	2,309	1,809
Work-in-progress	7,391	6,812	5,136
Finished goods	5,155	3,707	4,300
Consumables	1,180	1,165	1,144
Goods-in-transit	110	197	2,098
	17,510	14,190	14,487
	(1,769)	(415)	(450)
	15,741	13,775	14,037

- (i) **Is the higher level of raw material due to confirmed orders received?**

**(ii) Does the shift of manufacturing capacity to Penang necessitate a high level of inventories, especially raw material?**

More importantly, there was a provision for inventory obsolescence of \$(1.35) million in the year. As a reference, profit for the year amounted to just \$2.3 million in FY2018.

**(iii) Can the board help shareholders understand the reason for the significant increase in inventory obsolescence? How does management intend to better manage the risk of inventory obsolescence?**

3. The group recognised \$5.9 million in depreciation of property, plant and equipment in FY2018 while investing \$3.58 million in capital expenditure. The investment and depreciation trends in the past years is shown below:

FY2016: \$24.1 million in capital expenditure, \$3.7 million in depreciation (due to the set up of the group's Seletar Aerospace Park)

FY2017: \$8.9 million in capital expenditure, \$5.5 million in depreciation

FY2018: \$3.6 million in capital expenditure, \$5.9 million in depreciation

**(i) What is the utilisation rate of the Seletar Aerospace Park?**

**(ii) Can management help shareholders understand how "smart" the Seletar Aerospace Park facility is? What is the level of automation?**

**(iii) With the shifting of some of the manufacturing capability to Penang, is the group looking at another heavy investment phase? Can management provide shareholders with better clarity of its expansion plans in Penang?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=JEP%20Holdings%20Ltd&cid=6402,4561>

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