Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Soilbuild Construction Group Ltd

Stock code: S7P

Meeting details:
Date: 24 June 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. In his message, the chairman stressed that the Building and Construction Authority of Singapore ("BCA") has launched the Construction Industry Transformation Map ("ITM") in 2017 and is driving the adoption rate of Design for Manufacturing and Assembly ("DfMA") methods, which includes Prefabricated Pre-finished Volumetric Construction ("PPVC") or Advanced Precast Concrete System ("APCS").

The group developed an Integrated Construction and Precast Hub ("ICPH") and it now houses the group's prefabricated and precast division which turned operational in 2019.

In addition, in 2018, the group acquired Precast Concrete Builders Pte. Ltd. (formerly known as Sembcorp EOSM Pte. Ltd.) which had manufacturing facilities for precast concrete building components in Johor, Malaysia. The group started expanding its manufacturing facilities at Pontian in Johor, Malaysia, with the completion expected in the third quarter of 2020.

(i) **What is the value proposition of the group's prefabricated and precast division when compared to other competitors?**

(ii) **With BCA driving DfMA for the industry, are there signs of over-capacity as construction companies set up their own prefab facilities?**

(iii) With revenue of $863,000 in FY2019, the segment loss was $(4.3) million. **How much of this could be attributed to the initial operating costs incurred for the precast and prefabrication business?**

(iv) **In approving the expansion of the Johor manufacturing site, what was the investment hurdle rate used by management/board?**

Q2. As shown in the Five-year financial highlights (page 6), the group reported losses after tax in each of the past three financial years.

FINANCIAL RESULTS	FY2015 $'000	FY2016 $'000	FY2017 $'000	FY2018 $'000	FY2019 $'000
Revenue	328,270	397,187	199,606	208,584	236,764
Gross profit	30,619	20,599	236	6,608	5,121
Profit/(loss) before income tax	21,180	12,680	(7,595)	(2,411)	(8,413)
Profit/(loss) after income tax	18,562	10,479	(5,974)	(3,282)	(9,140)
Comprehensive income/(loss) attributable to shareholders	18,616	10,544	(6,379)	(3,026)	(9,152)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	24,055	16,228	(4,051)	2,946	1,655

(Source: company annual report; emphasis added)

The gross profit margins from FY2017-FY2019 were 0.12%, 3.17% and 2.16% respectively. On average, the group achieved a gross profit margin of 1.8% over a three-year period. As a result, the comprehensive losses attributable to shareholders added up to $(18.6) million in FY2017-FY2019.

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In the annual reports, the reasons given were:

- FY2017: … reduction in margin recognised due to completion of projects with higher margins, which was further reduced by the increase in construction costs for certain construction projects in Singapore as a result of cost overrun and extended construction period.

- FY2018: … generated relatively higher project margins, as well as cost optimisation initiatives achieved for certain projects which were completed during the year… financial performance for FY2018 was adversely impacted by a grant of arbitration award by an arbitrator against a wholly-owned subsidiary of the Group, which has resulted in the Group having to recognise approximately S$5.3 million additional cost of sales in respect of a construction project

- FY2019: … decrease in both gross profit and gross profit margin is mainly due to higher costs incurred by prefabrication and precast division during the financial year as it is the first year of operation for the Group's precast and prefabrication business.

(i) Would management help shareholders understand if the group has retained its competitiveness in the industry which has seen an influx of large foreign construction companies?

(ii) Can management elaborate in greater detail its pro-active efforts to better manage its costs and to raise the group's productivity?

(iii) How does the group balance the need to secure projects (by being competitive with its pricing) and the need to obtain a fair and sustainable return?

Q3. The group's total borrowings increased to $73.6 million as at 31 December 2019, from $51.6 million a year ago. In July 2019, the company raised $12.3 million in a preferential offering to end the year with a cash and cash equivalents holding of $24.5 million.

The group's gearing ratio increased from 66% to 90% as at 31 December 2019. Gearing ratio is calculated as total bank borrowings divided by tangible net worth where tangible net worth is calculated as total equity less intangible assets (tangible net worth of $81.2 million).

(i) **Has the board set a limit on the group's gearing ratio?**

(ii) **What is the impact on the group's operation as a result of the government's circuit breaker measures? Does the group have sufficient working capital to tide it over this challenging period?**

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As disclosed in Note 25 (page 108 – Borrowings), the one of the subsidiaries of the company is in breach of loan covenants in relation to borrowings from a bank. There was a breach of the maintenance of debt service ratio of the group in relation to term loan amounting to $50,000,000. Arising from the breach, a portion of the term loan amounting to $48,500,000 which is due twelve months after the balance sheet date has been reclassified from non-current to current on the balance sheet of the group as at 31 December 2018.

The current ratio as at the end of the financial years 2017, 2018 and 2019 were 0.92x, 0.58x and 0.92x respectively.

(iii) **Apart from seeking a waiver, would management be addressing the covenant breach?**

(iv) **Has the board evaluated the financial strength of the group, considering the challenges in the market and the growth plans of the group?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)