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UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

Issuer: Isetan (Singapore) Limited

Stock code: I15

Meeting details:

Date: 26 Apr 2024

Time: 10.00 a.m.

Venue: Furama RiverFront, Singapore, Venus 2, Level 3, 405 Havelock Road, Singapore 169633

Q1. On 1 April 2024, the company announced the proposed acquisition by Isetan Mitsukoshi Ltd. of all the ordinary shares in the company, Isetan (Singapore) Limited, effected by way of a scheme of arrangement for a consideration of S\$7.20 per share in cash.

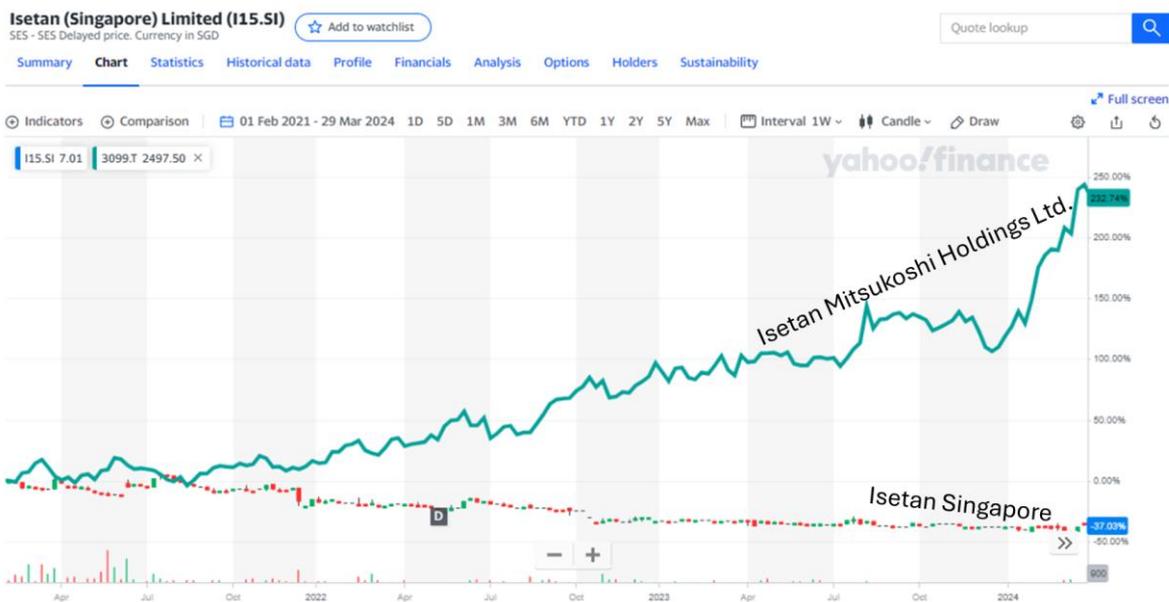
While the scheme consideration looks attractive relative to the recent trading prices, it is noted that much value has been eroded due to less-than-satisfactory operational results and the lack of dividends. In fact, the net assets value per share has fallen by 55 cents per share in the past 4 years.

- (i) Could the board, particularly the independent directors (IDs), clarify their roles and level of involvement in the joint announcement and the implementation agreement? What input did the IDs provide to the offer to safeguard the interests of Isetan Singapore shareholders?**
- (ii) Specifically, how extensively did the IDs deliberate with the offeror regarding the scheme consideration of \$7.20 per share?**
- (iii) What is the procedure for shortlisting and selecting the independent financial adviser? What criteria are used, and what progress has been achieved in this regard?**
- (iv) What input would the IDs have in the process of obtaining independent valuations of the group's key assets?**

Q2. It is believed that Isetan Mitsukoshi Holdings, the parent company, is motivated by efforts of the Tokyo Stock Exchange (TSE) to boost market valuations of Japanese companies listed on the TSE. The TSE recognised that "corporate values" of listed companies have to improve and a key metric that stood out is that half of all listed companies have a price-to-book ratio of below 1. The TSE recognised that the main actor in enhancing corporate value is the company itself and the exchange raised awareness and literacy regarding the cost of capital, capital efficiency and stock prices of listed companies¹.

Specifically, it required companies with price/book consistently below 1x to disclose their policies and specific initiatives to improve their valuations².

The stock price performance of Isetan Mitsukoshi Holdings and the company is shown below. As can be seen from the chart, the share price of Isetan Singapore has languished for years and traded around \$2.80 prior to the announcement. On the other hand, the share price of Isetan Mitsukoshi Holdings has more than tripled in the past 3 years³, outpacing the Nikkei 225 index as well.



(Source: <https://sg.finance.yahoo.com/quote/I15.SI/>)

For Isetan Singapore, a more relevant measure would be the revalued/realisable net asset values (RNAV) given its accounting policies and assets held.

- (i) **What is the cost of capital for the Isetan (Singapore) Limited? Has management consistently generated returns exceeding the cost of capital over the past 10 years?**

¹ <https://www.jpx.co.jp/english/news/1020/p1j4l400000014ul-att/p1j4l400000014x9.pdf>

² <https://www.jpx.co.jp/english/news/1020/p1j4l400000014ul-att/p1j4l400000014x9.pdf#page=7>

³ <https://www.imhds.co.jp/en/ir/stockholder/stockprice.html>

- (ii) **Could the board, particularly the independent directors, clarify their efforts in enhancing corporate value and improving capital efficiency? To what extent have these efforts been successful?**
- (iii) **What is the RNAV of the company?**
- (iv) **Would it be more prudent for the company to implement its own capital efficiency measures before considering any privatisation efforts with the parent company so that value can be crystallised?** For instance, the group holds cash and cash equivalent of up to \$69.8 million which could be distributed to shareholder with ease. Certain non-core assets such as the Kallang Pudding warehouse could be sold and the proceeds returned to shareholders. Estimates of the RNAV ranged from \$9 to \$10. Proceeding with the proposed scheme consideration of \$7.20 per share may potentially undervalue the company, leaving significant value on the table for shareholders.
- (v) **Are the IDs revisiting the issue of the scheme consideration with the offeror to enhance the likelihood of the scheme being approved by shareholders?** The scheme must be fair and reasonable to be delisted from SGX-ST and it requires approval by a majority in number (i.e. headcount) representing three-fourths in value (votes) of shareholders present and voting at the scheme meeting. It is not in the interest of shareholders nor the offeror if the company fails to secure shareholder approval at the scheme meeting.

Q3. The chairman's statement and management discussion can be found on pages 4 to 5 and pages 6 to 9 of the annual report respectively. The group operates a flagship store at Isetan Scotts and suburban malls in Tampines and Serangoon Centra (NEX shopping mall). In the leasing business, the group partly owns Wisma Atria and several Kallang Pudding warehouse units.

The retail segment incurred a loss of \$(10.11) million in FY2023, compared to a loss of \$(3.70) million in FY2022. Lower-than-expected sales prompted the company to re-assess its retail revenue prospects moving forward, resulting in a higher impairment charge for right-of-use assets and property, plant and equipment for FY2023.

- (i) **Did the board evaluate and compare the performance of the local subsidiary with that of the Japanese parent company?**
- (ii) **Has the board or management considered the potential erosion of the brand value in the local context, compared to the strength of its brand value in Japan? In addition, could the competitive advantage have been diminished by e-commerce more significantly than other local retail businesses, thus explaining its challenges?**

The announcements of appointment and cessation of directors could be found here: [https://www.sgx.com/securities/company-announcements?pagesize=20&value=ISETAN%20\(SINGAPORE\)%20LIMITED&type=company&ANNC=ANNC03%2CANN04](https://www.sgx.com/securities/company-announcements?pagesize=20&value=ISETAN%20(SINGAPORE)%20LIMITED&type=company&ANNC=ANNC03%2CANN04)

There have been a whole host of changes in the management team from 2019 to 2024.

- (iii) **Could the frequent turnover in the management team have played a role in the company's underperformance?**
- (iv) **What led to the suspension of the group's online business since June 2023? If management decides to resume online operations, what strategies are they considering to make it appealing to customers and profitable for the group?**
- (v) **Separately, in the property leasing segment, how does the open tender for 35/37 Kallang Pudding Road affect the group's warehouse at 5 Kallang Pudding Road in terms of rental and/or capital value?**
- (vi) **Has the board or management considered the possibility of completely exiting the retail business and subsequently winding down the entire operation to return cash and capital to shareholders?**



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