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Issuer: Tat Seng Packaging Group Ltd

Stock code: T12

Meeting details:

Date: 25 Apr 2024

Time: 10.00 a.m.

Venue: 348 Jalan Boon Lay, Singapore 619529

Q1. The five-year financial summary is shown on page 6 of the annual report and reproduced below:

FIVE-YEAR FINANCIAL SUMMARY						
FINANCIAL YEAR ENDED 31 DECEMBER						
RESULTS OF OPERATIONS		2023	2022	2021	2020	2019
Revenue	(\$S'000)	258,868	336,264	367,513	303,069	288,618
Gross profit	(%)	22.1	17.5	18.8	21.2	17.9
Profit before tax	(\$S'000)	25,977	23,799	31,047	30,165	18,983
Profit attributable to owners of the Company	(\$S'000)	18,844	20,668	23,313	23,134	14,336
Profit for the year	(\$S'000)	19,973	21,176	25,296	25,272	14,856
	(%)	7.7	6.3	6.9	8.3	5.1
EBITDA	(\$S'000)	37,645	36,417	44,098	42,936	31,384

(Source: company annual report)

With the drop of 23% in revenue in FY2023, the revenue of \$258.9 million is the lowest in the past 7 years. Nevertheless, the gross profit margin of 22.1% is a 7-year high.

- (i) **Can management elaborate further on its observations that the China market is highly competitive due to significant excess capacity amidst slowing demand?**
- (ii) **How does the company assess the resilience of various customer industry sectors and what strategies does management have in place to address the slowdown in demand? Is demand from customers in the Electronics & Electrical segment particularly sensitive to economic conditions, judging from the nearly 40% drop in revenue?**
- (iii) **What is the geographical reach of the each of the group's factories? Can the catchment area for these factories be expanded to reach more customers?**
- (iv) **What are the risks associated with diversifying into value-added innovative packaging solutions, such as pulp mould and gift box packaging? How different is this business from the manufacture and sales of corrugated boards?**

Q2. As at 31 December 2023, the group has cash and cash equivalents of \$94.6 million, up from \$71.2 million a year ago.

Cash level, at the company level, increased from \$19.3 million to \$50.8 million after \$46.2 million was recognised as dividend income by the company from its subsidiaries (page 89). Other than bills receivables, the group also holds time deposits amounting to \$16.2 million as at 31 December 2023.

Cash and bank balances totalling \$41.9 million (2022: \$54.1 million) are held in China which operates foreign exchange controls.

The group has net debt of \$8.95 million, down from \$22.9 million (page 100).

- (i) **Could management clarify how withholding tax is calculated?** In FY2023, the group recorded withholding tax of \$2.08 million, a significant increase from \$244,000 the previous year.
- (ii) **Has the board assessed the optimal capital structure and devised strategies for greater capital efficiency?**
- (iii) **Could management provide insights into the major projected capital outlays or investments?**
- (iv) **Would it be reasonable to assume that the group is overcapitalised given the scale of its current operations?**

Q3. Madam Cheong Poh Hua will be stepping down as an executive director at the annual general meeting. Based on the director's profile, Madam Cheong Poh Hua also serves as director of the company's subsidiaries in the People's Republic of China and has been actively involved in the group's corrugated packaging businesses in China.

In addition, the function of the CFO is subsumed by Madam Cheong Poh Hua who also oversees the finance function of the China subsidiaries.

Upon the retirement of Madam Cheong Poh Hua, she will be relinquishing her position as executive director.

Separately, Mr Loh See Moon, the executive director and chief executive officer, was first appointed to the board in 1977 and has nearly 50 years of experience in the industry. In the annual report, the company has stated that, other than the executive directors, there is no key management personnel.

- (i) **Has the board analysed the group's keyman risk and can it provide shareholders with clarity on the succession plan, especially for the CEO and the CFO roles?**
- (ii) **How much time does the ED/CEO and ED/CFO spend in China overseeing the group's operations and finances?**
- (iii) **What is the depth of the group's leadership bench strength in core functions like operations, project management, supply chain management, sales, logistics and safety?**
- (iv) **What is the progress made in the search for a new CFO who will be critical in overseeing the finance function of the China subsidiaries?**

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

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