NAM LEE PRESSED METAL INDUSTRIES LIMITED
Company Registration No. 197500362M
(Incorporated in Singapore)

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FOR THE PURPOSES OF THE ANNUAL GENERAL MEETING TO BE HELD ON 19 JANUARY 2024

Nam Lee Pressed Metal Industries Limited (the “Company”, together with its subsidiaries, the “Group”) would like to thank shareholders for submitting their questions in advance of the Annual General Meeting to be convened at Orchid Country Club, Sapphire Suite, Social Clubhouse, No. 1 Orchid Club Road, Singapore 769162 on Friday, 19 January 2024 at 9.30 a.m. The following are the questions submitted by shareholders and the responses of the Company.

Question 1

Right at the top of my mind is the dismal performance, notwithstanding that the Company had flagged such outcome right at the beginning of the financial year. Basically, why were the Gross Profit Margin in the two Half-Year results so low:
1H23: 8.0%
2H23: 10.4%

The reasons stated in the Commentary were: “lower revenue from the reefer container business and higher labour cost and factory overhead incurred in conjunction with more construction projects in progress”. Please elaborate. Some of my concerns are:

(a) On the “higher labour cost and factory overhead incurred in conjunction with more construction projects in progress”, why should these be a factor? I understand dollar cost will go up with more construction projects, but shouldn’t such cost be at a manageable/acceptable % of the Revenue to yield a respectable Gross Profit Margin, just as in earlier years of FY18 – FY21, where the average Gross Profit Margin is 17% (over 8 Half-Year results) in the range of 13% - 19%?

(b) And based such “higher labour cost and factory overhead” reasoning, it appears from your Commentary that it is now a norm to have such “higher labour cost and factory overhead” in “more construction projects”. Clearly this is not a sustainable model for the business to go forward. We cannot continue to have a Return on NAV at 4% - 6%, or worse still, at negative Return.

Company’s Response

The drop in Gross Profit Margin in the two recent half-year results (1H23: 8.0%, 2H23: 10.4%) is mainly due to a decline in revenue from the reefer container business. This reduction in revenue significantly affects the overall Gross Profit Margin, as revenue is a critical factor in determining this metric. We acknowledge the importance of addressing the challenges in the reefer container business and are actively implementing strategies to boost revenue, with the aim of improving the Gross Profit Margin.

Fixed selling price for construction contracts, signed in advance, has contributed to rising labour costs and factory overhead, impacting Gross Profit Margin. The increase in costs for more construction projects is a response to market conditions, not a sustainable model.

In moving forward, the company aims to factor in increased costs associated with construction projects in the pricing and negotiation of new contracts. This approach is essential for maintaining a balanced and sustainable business model, ensuring that the return on Net Asset Value (NAV) improves.

Question 2

What are being done to bring the Gross Profit Margin to an acceptable level, the level seen before and up to FY21? In the 8 Half-Year results of FY18 – FY21, the average Gross Profit Margin was 17% in a range of 13% - 19%. Even in 1H20 when most commercial activities were down due to the onset of Covid, the Gross Profit Margin was 13%, higher than 9.3% (2H22), 8% (1H23) and 10.4% (2H23).

Company's Response

We are implementing strategies, including diversifying revenue streams, improving contract negotiations to adapt to changing market conditions, enhancing operational efficiency and cost management, proactively monitoring market trends, and strengthening customer relationships with value-added services. These measures aim to mitigate the impact of increased operating costs and labour expenses on our profitability.

Question 3

On dividend: Until 2021, I thought I understood the Company's dividend policy. From FY15 to FY20 (6 years), the dividend quantum was either 1.5c or 2.0c or 2.5c. Regardless of the quantum, whether it was the lowest 1.5c or the highest 2.5c, the payout was consistently around 50% (the range of 45% - 55%). Then in FY21 came the bombshell: the payout was 31%!!!

Worse still, on the dividend quantum basis, the FY21 dividend at 2c was a pervert of the past record on dividend: FY21 EPS was highest at 6.5c which was 20% higher than the next highest EPS 5.4c in FY15, and yet in FY15, the dividend was 2.5c, higher than the FY21's 2.0c!

Even if in FY21, the dividend was 2.5c, the payout would still be out of line, at 38%. So, essentially, the dividend in FY21 broke two track records in a negative way:

(a) although EPS was highest, the dividend quantum 2c was below the past highest quantum of 2.5c, and,

(b) the payout was 31% instead of the range 45% - 55%.

The damage would not have been so outrageous if the dividend had been 2.5c notwithstanding that this represented a payout of only 38% when it should be in the range of 45% - 55%.

And then in FY22, this '45% - 55%' payout was apparently restored.

Uncertainties and fickle dividend policy frustrate investors and also depress share price.

Please let us have a better understanding of the Company's thinking on dividend.

Company's Response

We want to reiterate that Nam Lee follows a dividend payout ratio of approximately 33%, based on reported Profit After Tax (PAT) after Non-Controlling Interest (NCI) attributable to shareholders.

As communicated in our FY2021 Responses to Shareholders' Queries, we outlined our dividend distribution approach. However, we understand the need for further clarification. Our dividend decisions are shaped by various factors, including:

i. The level of our available cash and cash equivalents
Aligning with the level of available cash and cash equivalents, we strive to ensure sustainable dividends without compromising financial stability.

ii. Return on equity and retained earnings
Balancing shareholder rewards and retained capital, we consider return on equity and retained earnings to safeguard the company's long-term financial health.

iii. Projected levels of capital expenditure and other investment plans
Anticipated capital expenditures and other investments play a crucial role in our decisions, guiding the need for capital retention to support future growth initiatives.

We recognize the importance of a transparent and consistent dividend policy for investor confidence and share price stability.

Nam Lee remains committed to a balanced approach, distributing dividends while retaining capital for financial flexibility and growth funding. Our FY21 dividend payout, while deviating, was made in accordance with our overall financial strategy, as detailed in our FY2021 responses.

BY ORDER OF THE BOARD

Eric Yong Han Keong
Managing Director
Date: 12 January 2024