



# HONG LEONG ASIA LTD

**58<sup>th</sup> Annual General Meeting**

**26<sup>th</sup> April 2019**

**Mr Tan Eng Kwee**

**Chief Executive Officer**

# Our Businesses

4 Business Lines



**Building Materials**



**Diesel Engines**



**Packaging**



**Air-conditioners**



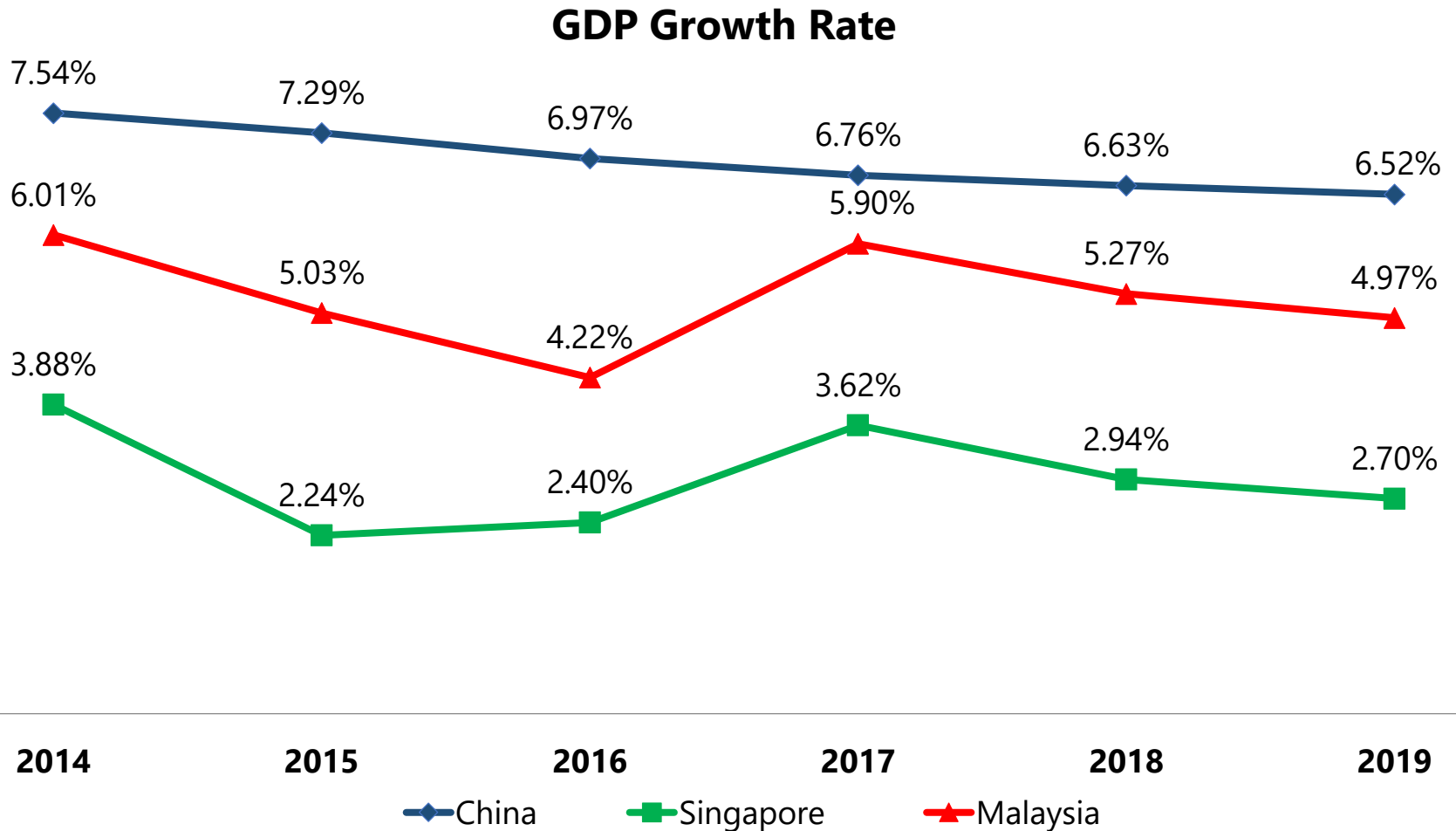
# Macroeconomic Environment

# Macroeconomic Factors



GDP growth rates in countries where the Group has operations have slowed YoY and are expected to slow further in FY 2019

## Economic Slowdown



Source: @statista

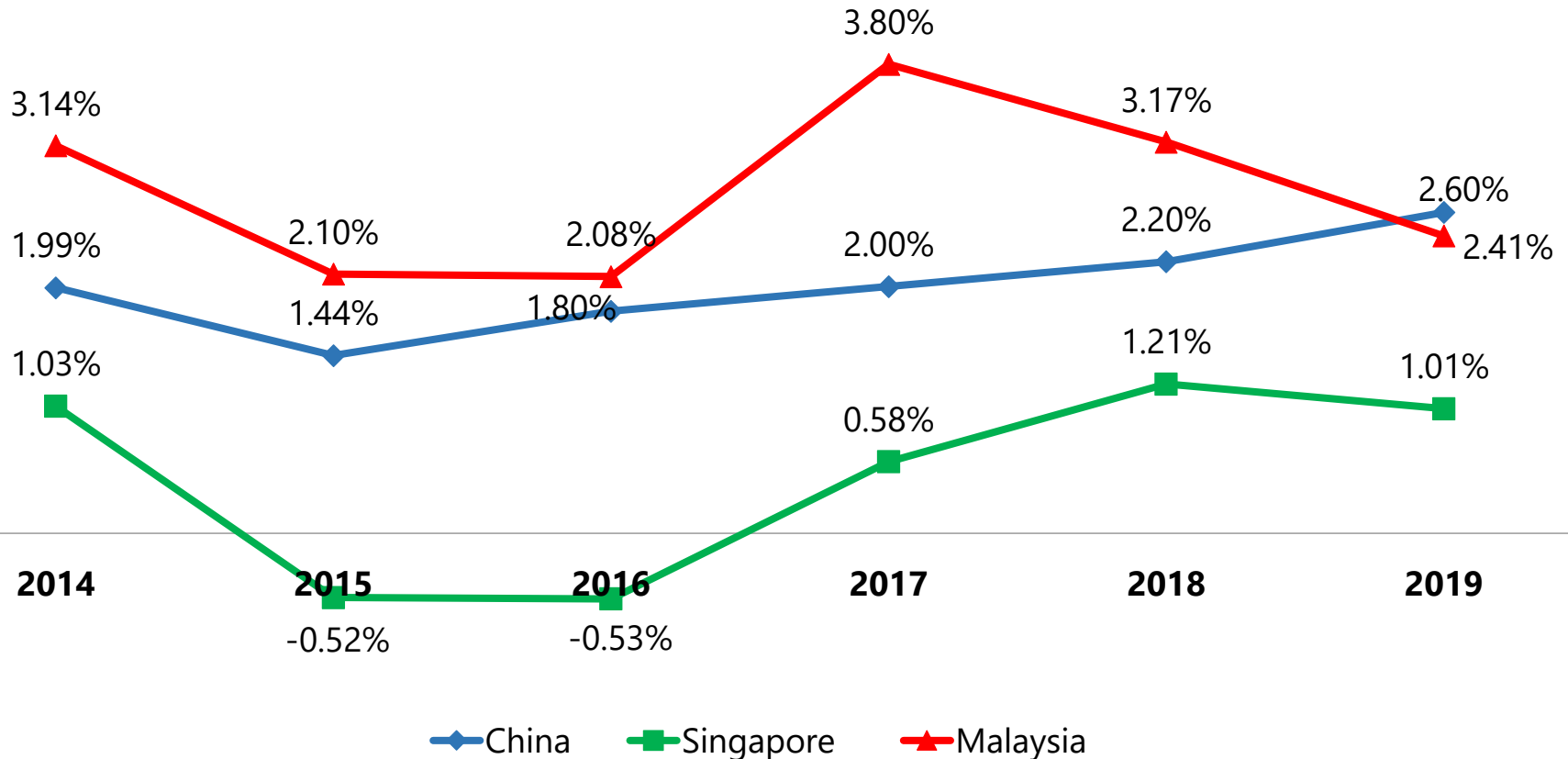
# Macroeconomic Factors



While inflation rates have eased (except for China), operating costs have not declined and selling prices continue to be under pressure

## Moderate Inflation

### Consumer Price Index

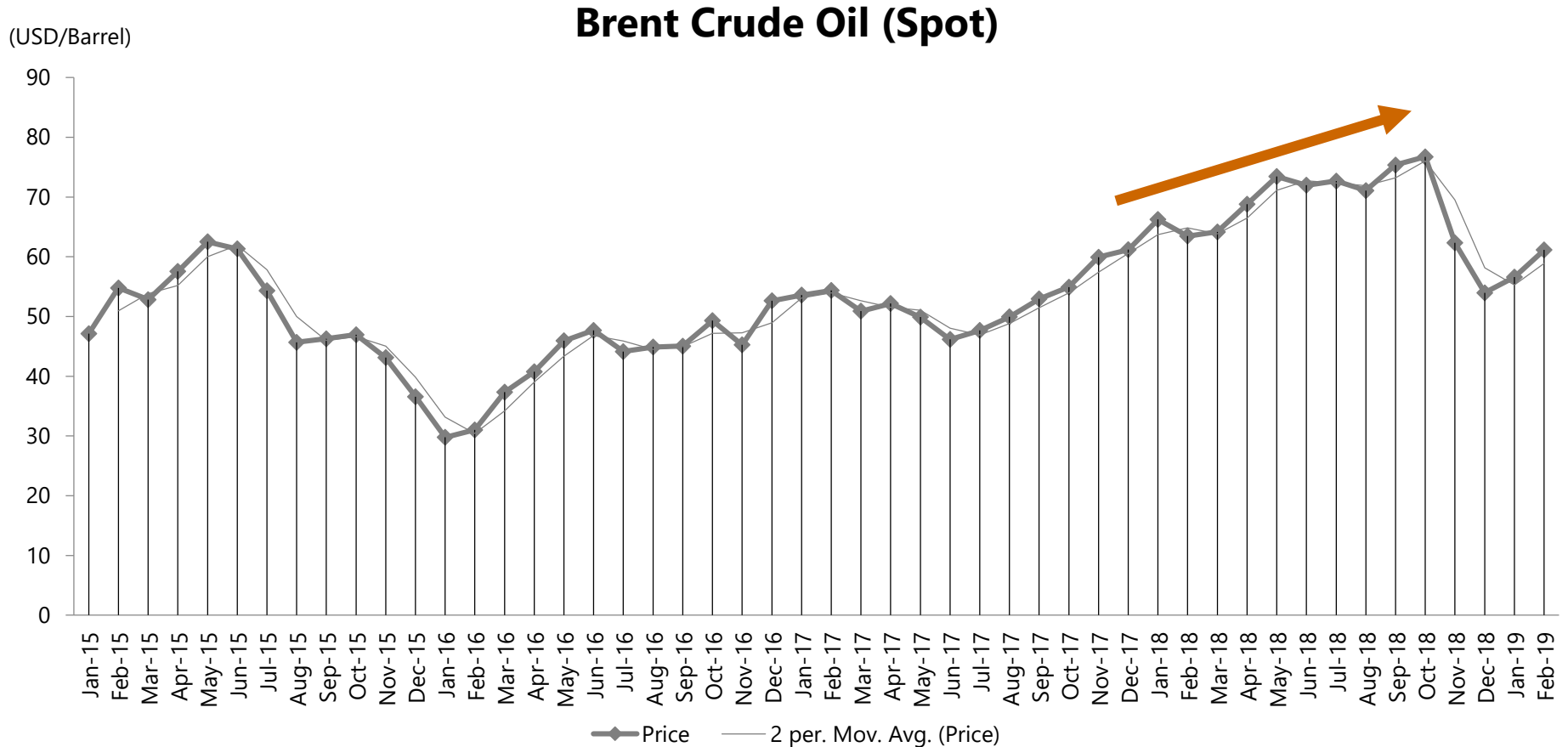


# Macroeconomic Factors

Oil price, a major cost component in manufacturing, was on an upward trend and this dampened financial performance



## Rising Crude Oil Prices in 2018



Source: indexmundi



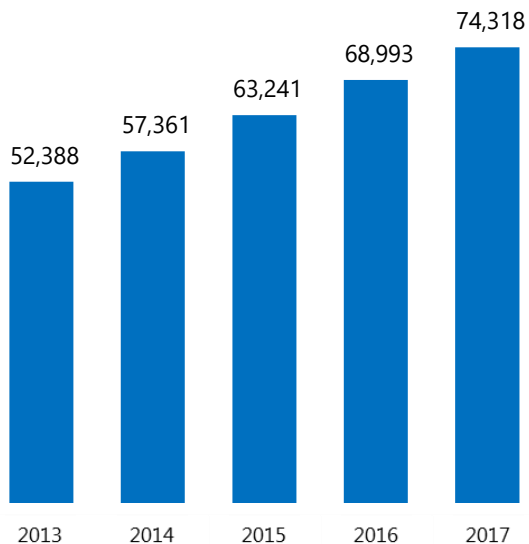
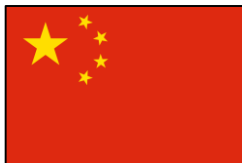
# Macroeconomic Factors

Labour costs have continued to rise in China, Singapore and Malaysia

## Rising cost of doing business in China, Singapore & Malaysia

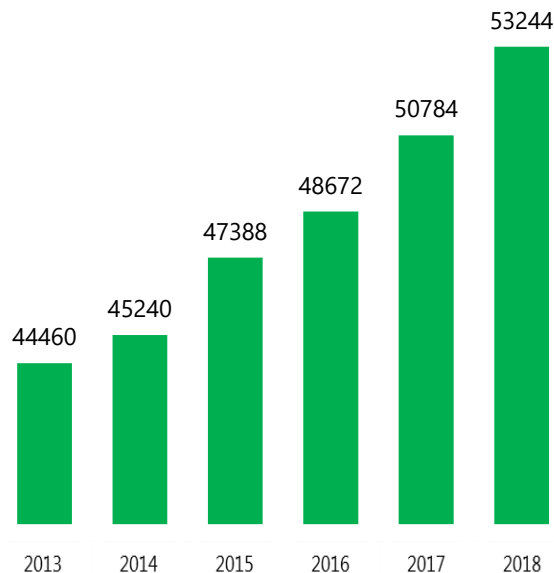
### Average Wages

**China**  
(in RMB)



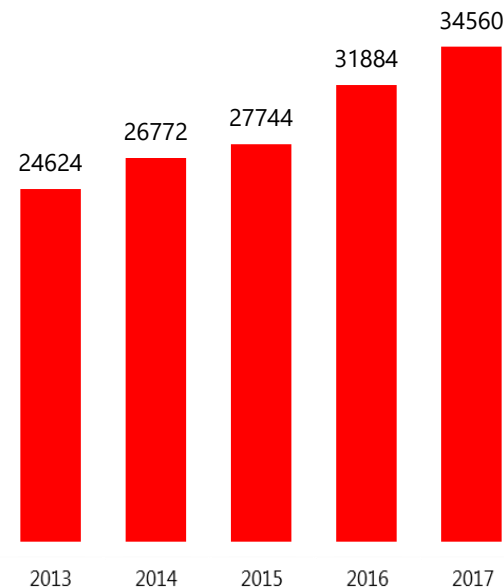
Source: tradingeconomics

**Singapore**  
(in SGD)

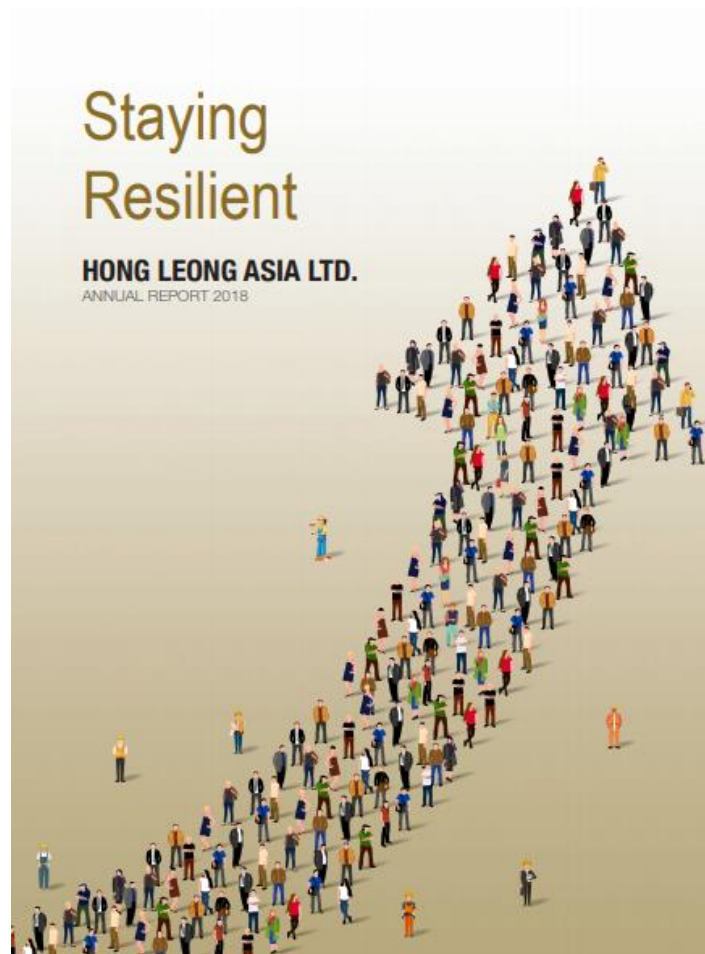


Source: stats.mom.gov.sg (monthly wages x 12)

**Malaysia**  
(in RM)



Source: tradingeconomics (monthly wages x 12)



# Group Financials



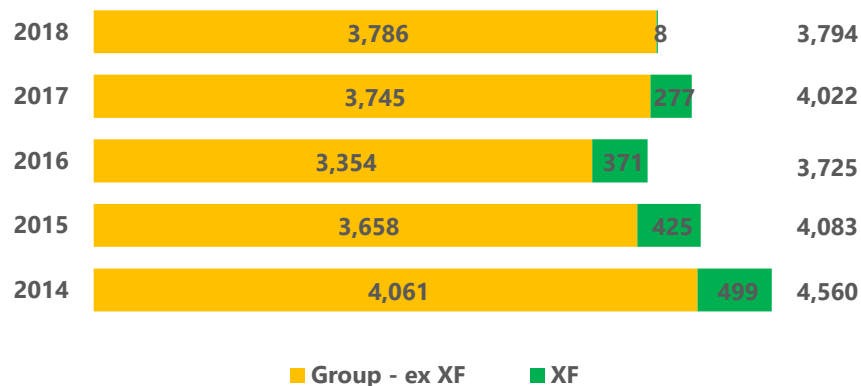
# Group Financials



While Group's revenue was marginally better, macro economic factors caused higher costs and expenses. Tasek's losses escalated.

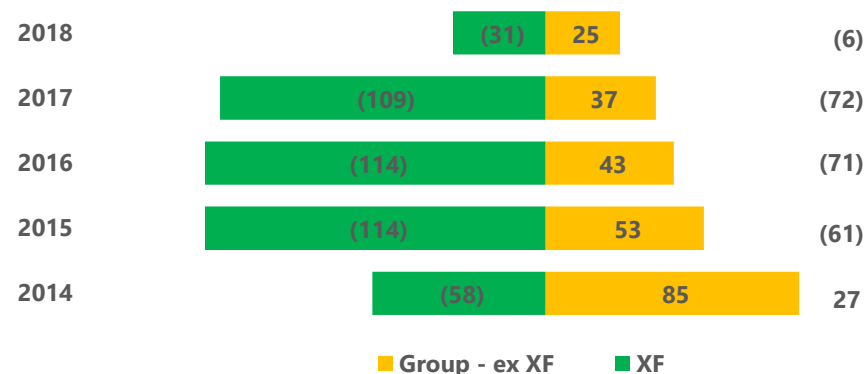
## Revenue

(+1%) (In S\$ million)



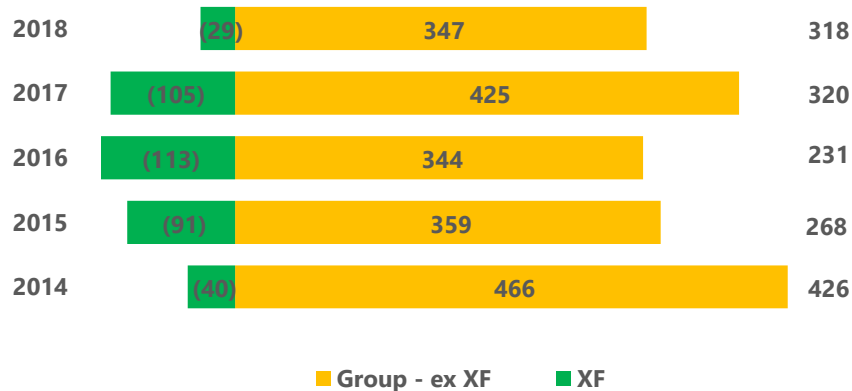
## PATMI

(-32%) (In S\$ million)



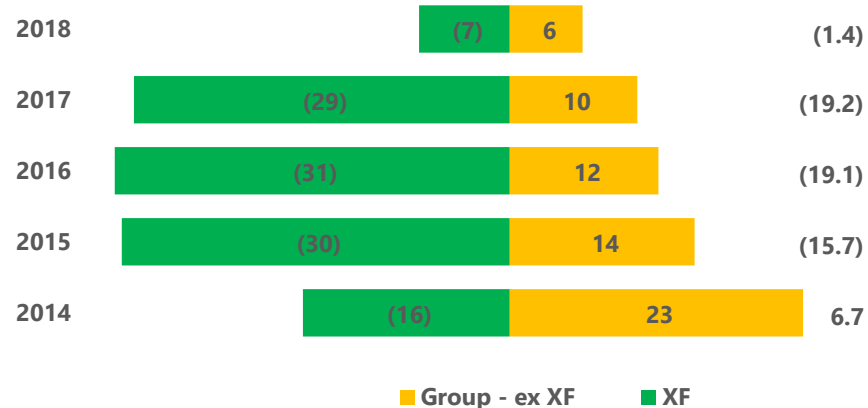
## EBITDA

(-19%) (In S\$ million)



## Earnings per share

(-40%) (In S\$ cents)





# Diesel Engines

## China Yuchai International





CHINA



# Industry Overview

# Industry Overview/Outlook



Supply and demand for diesel engines are influenced by several macro factors, inter alia, the following:

## Chinese Economy Govt Policies

- Slowdown in the Chinese economy @ 6.6% in 2018 the slowest pace since 1990 (2017: 6.9%)
- Government stimulus program – accelerated infrastructure spending, reduction of VAT and easing of credit

## Stricter Emission Standards

- National VI emission standard to be enforced 1 Jul 2020
- Official National VI emission standard implementation accelerated for tier 1 and tier 2 cities
- National Tier 4 (for off-road machineries) emission standard expected to be enforced Jul 2021

## Electrification

- Availability of alternatives to diesel and gasoline powered automobiles
- ICE still provide considerable power – may sustain the demand of heavy duty engines
- Lack of infrastructure (especially in lower-tier Chinese cities) for widespread adoption of electric vehicles has so far stifled the accelerated use of alternative energy engines

## Industry Consolidation

- The huge investments needed to drive technology will probably result in consolidation in the China automobile and engine industries

## Collaboration, Integration, Internationalization

- The huge Chinese market cannot be ignored by international players. International engine makers, with their hitherto more advanced technology will have to collaborate with Chinese partners for entry into China
- Major engine makers in China will probably explore more vertical integration
- China will continue to export engines



# Key Investment Highlights



# Key Investment Highlights

## Competitive advantages of Yuchai

- ✓ **Strong financials**
- ✓ **Strong market position in sales & manufacturing of diesel engines in China**
- ✓ **Extensive sales, distribution and after-sales service network in China**
- ✓ **Presence of an international footprint**
- ✓ **Adoption of new technology with continued large investment in R&D**
- ✓ **Extensive product range installed in buses, trucks and off-road applications**

# Key Investment Highlights

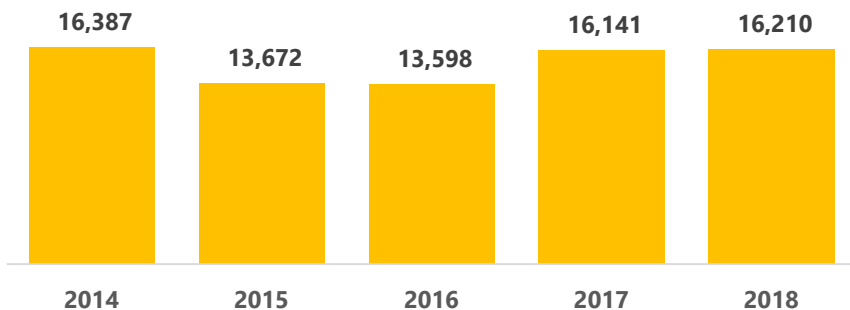


Despite challenging business environment, Yuchai remains financially strong with higher unit sales, revenue, profit and a strong cash position

## Strong Financials

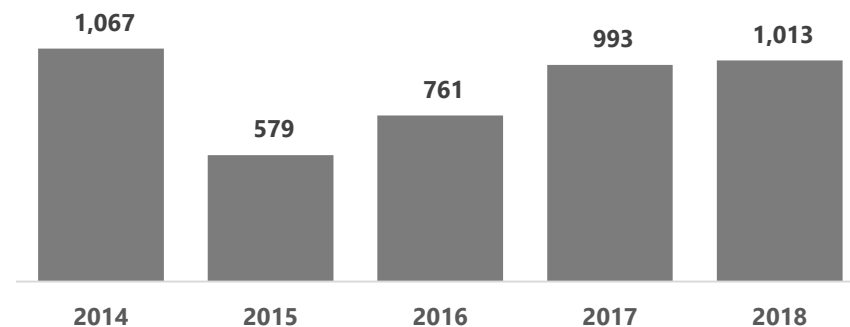
### Revenue

(+0.4%) (RMB million)



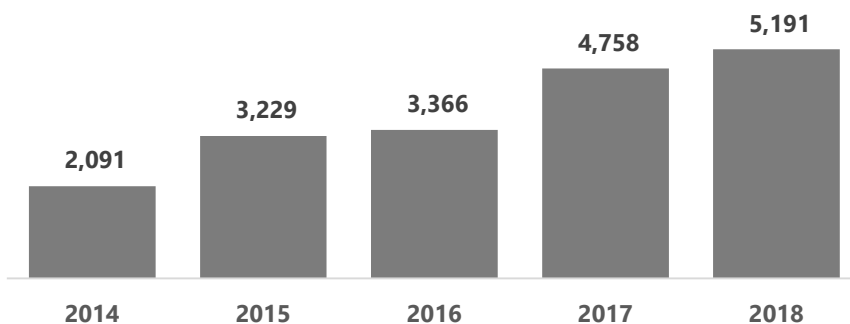
### PAT

(+2%) (RMB million)



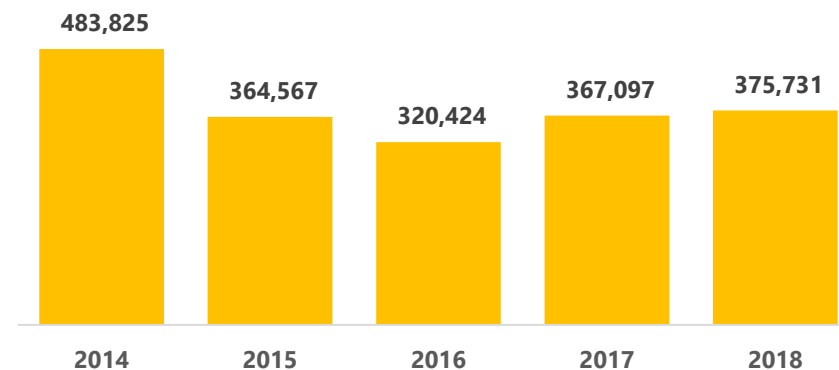
### Cash and ST Deposit

(+9%) (RMB million)



### Unit Sales

(+2%) (RMB million)

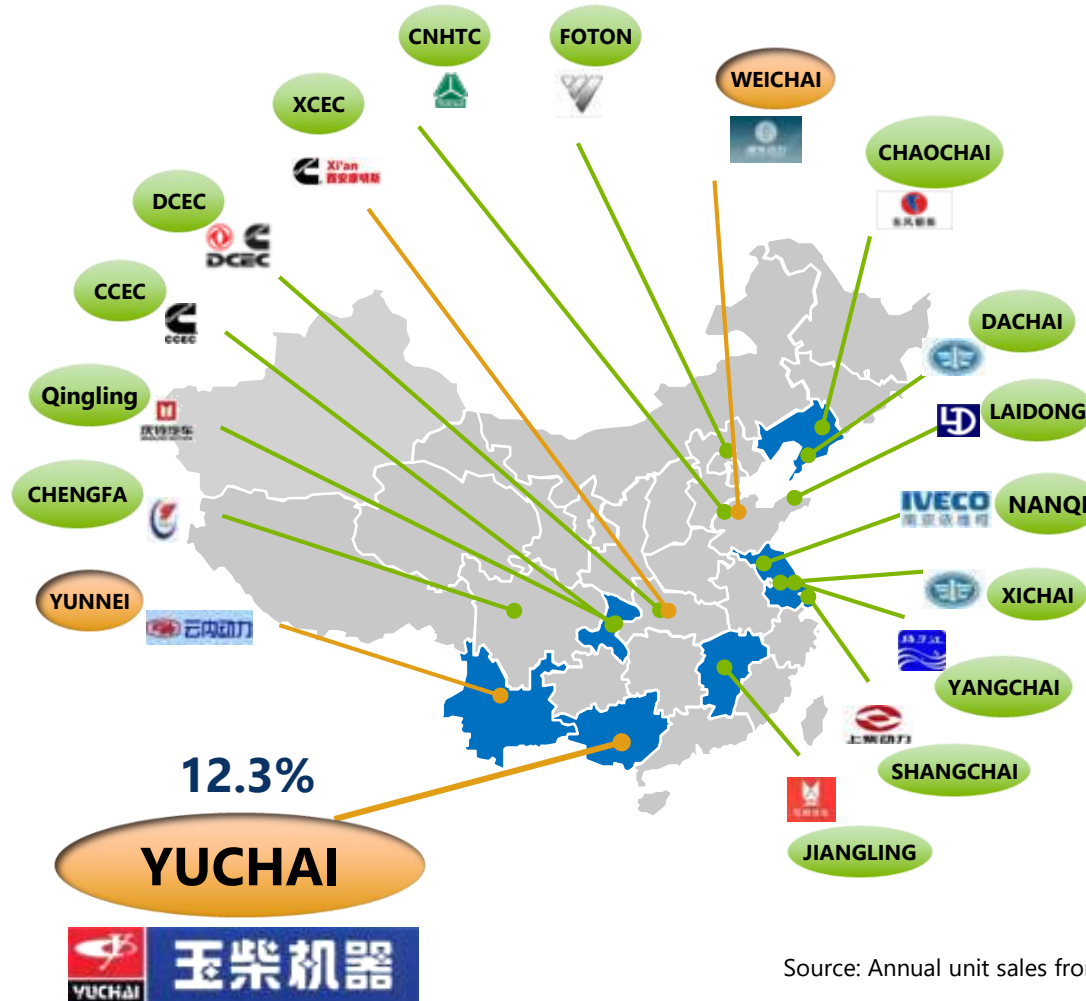


# Key Investment Highlights

Yuchai's market share has increased from 11.8% in FY2017 to 12.3% in FY2018



Strong market position in sales & manufacturing of diesel engines in China



Source: Annual unit sales from CAAM (exclude gasoline powered EVs)

Note: Yuchai sales include off-road engines



# Key Investment Highlights



Yuchai is well placed to serve and expand its customer base through its sales force and nation-wide distribution and after-sales service network

**Extensive sales, distribution and after-sales service network in China**



## Sales network

- Nationwide network of **> 30 sales offices**
- Strong partnership with major automobile producers in China
- Sales force of >700**

## After-sales service

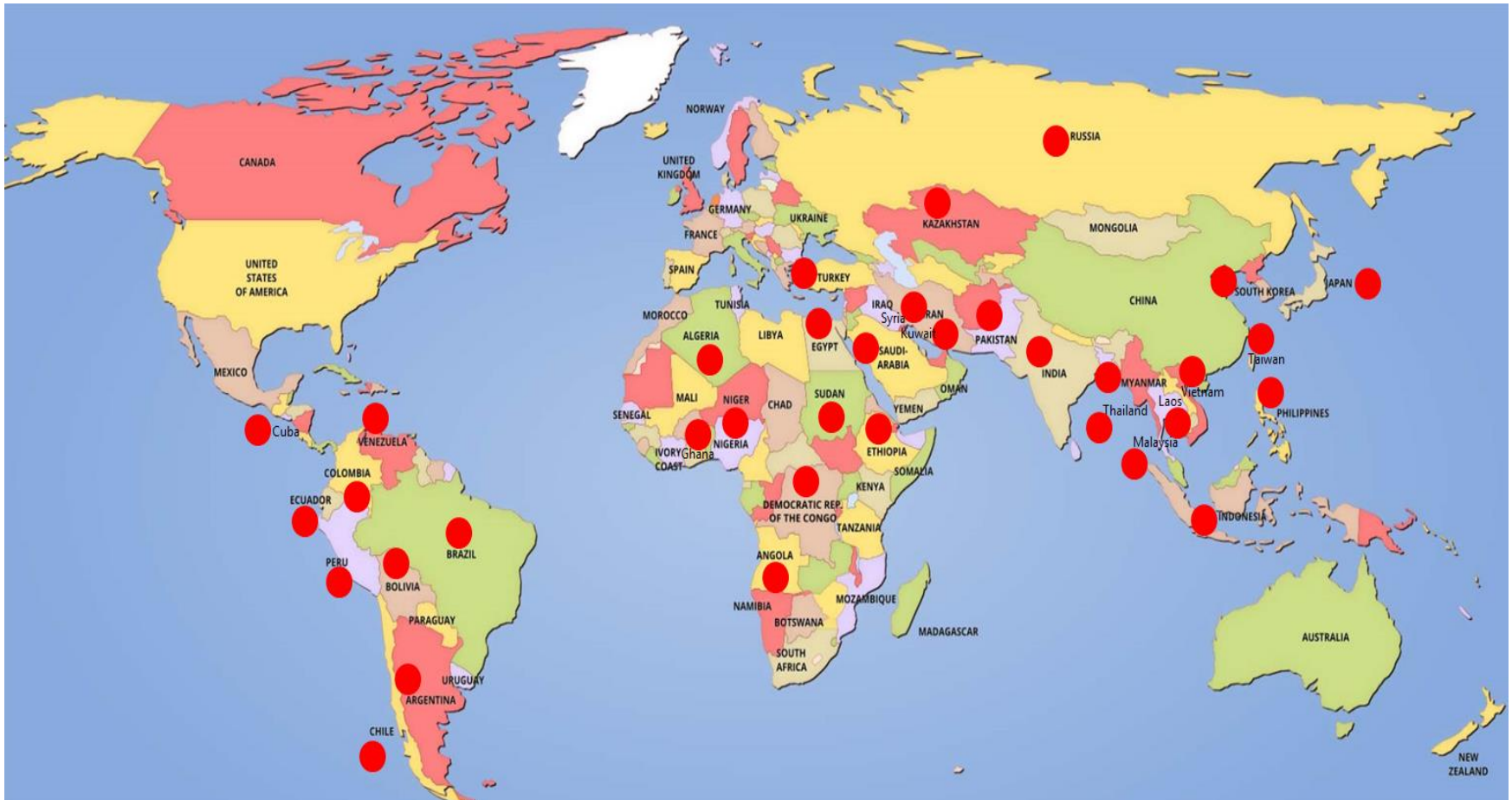
- Nationwide after-sales service network with **>2,600 after-sales service points**
- 24-hour toll free hotline**

# Key Investment Highlights



Yuchai's engines are now exported to several countries, a testament of the international standard of its products

## Presence of an International Footprint



# Key Investment Highlights



Continued emphasis on R&D gives Yuchai a strong competitive edge in the diesel engine industry

Adoption of new technology with continued large investment in R&D

## Crankshaft manufacturing line



## Nat 6/ T4 Investment Capex



- Close to **RMB 2 billion (more than USD95 million)** were spent on R&D in the last 3 years
- We expect **more investments to improve emission standard** of diesel engines (e.g. Tier 5 off-road engines in the works)
- Investments in **alternative energy projects** will increase this year and more so in the years to come
- More than **2,000 patents** registered

# Key Investment Highlights

Our product range extends across numerous applications and power

Extensive product range installed in buses, trucks and off-road applications



**Bus Engines**



**Truck Engines**



**Off-Road Engines**





# Investment Upsides



# Investment Upsides

We see several positive factors of our investment in Yuchai

- ✓ Sustainable demand for environmental-friendly diesel engines for use in trucks and buses
- ✓ Availability of exhaust after treatment technology for diesel engines will address some environmental concerns
- ✓ Potential for growth in off-road engines due to increased pace of urbanization in China (higher productivity needed & construction equipment) and other emerging economies
- ✓ High capex and R&D (technology) create high barrier entry
- ✓ Investments in alternative energy already in the works
- ✓ Continued growth in eCommerce leading to higher auto demand for trucks

# Building Materials Unit Singapore & Malaysia





## Singapore



# Industry Overview



# Singapore Industry Overview



## Several factors will influence supply and demand for construction materials

### Strong Government Influence

- Recent cooling measures will see construction demand in Singapore supported by public sector projects in Civil Engineering & Industrial sectors
- Contract values are larger and tenures are longer
- Singapore government can and does manage construction demand by changing the timing of public sector projects

### Environmental Concerns

- Push towards environmentally friendly DfMA (Design for manufacturing & Assembly) – PPVC (Pre-fabricated Pre-finished Volumetric Construction)
- Policy towards concentration of batching plants at selected locations

### Neighbourhood Politics

- Supply of raw materials (e.g. granite & sand) will be influenced by neighbourhood politics
- Alternative (non-traditional) sources of supply already mandatory ⇒ effect on prices

### Curb on Foreign Workers

- Recent government policies to reduce foreign workers quota will drive wages higher

### Effect of Global Economy and Politics

- As an open economy, Singapore is greatly affected by the state of the global economy
- Recent USA-China tariff war has dampened economic outlook – construction demand is expected to be flattish

# Malaysia Industry Overview



Several adverse factors impacted the construction materials industry with excess capacity leading to pricing pressure being the norm

## Change of government

- Cancellation or deferment of infrastructure projects deemed too costly (KL-SG high speed rail, East Coast Link which account for ~ 15% of 2018 nominal GDP)
- Lack of fiscal space

## Property Slowdown

- Property overhang due largely to stringent loan requirements
- Wait & See attitude – developers & buyers
- Uncertainty due to the review, revise and renegotiation of projects

## Low domestic demand

- Contraction in domestic consumption (-7.04% in 2016 and -8.41% in 2017)
- Total excess capacity in SE region (exclude Philippines) was 127m tons in 2017

## Severe losses of cement players

- Shutdown of production lines
- Retrenchment/Voluntary Separation Scheme
- Increases in production/delivery costs
- Import of coal and gypsum. Prices on the increase
- High energy costs – 65% of total production costs
- Fluctuation and depreciation of MYR



# Key Investment Highlights



# Key Investment Highlights - Singapore

Some of the key investment highlights of BMU Singapore

## Singapore

- ✓ Proactive steps taken by the Singapore government to manage construction demand
- ✓ Well positioned to address rising demand for DfMa
- ✓ Dominant market positions in precast, ready-mix and cement sectors (\$9 billion planned IR is a positive development)
- ✓ Integration provides BMG with cost and supply availability competitive advantages
- ✓ Good geographic footprint in Singapore
- ✓ Adverse impact from neighbouring politics and curb on foreign workers quota

# Key Investment Highlights - Singapore



Public sector projects in civil engineering and industrial sectors will make up > 50% of construction activities. Contract values will be larger

Proactive steps the Singapore government takes to manage construction demand

## Construction Output

Total nominal construction output to improve to between \$27 billion and 32 billion...



Note: All data from BCA REDAS Construction Prospect 2019 seminar except \* - data extrapolated from Singstat Construction Output data based on progress payments

PERIOD	Public Sector Demand	Total Construction Demand
2018F	\$13.4 Bn* (46% CE / 53% Bldg)	\$30.5 Bn (\$26.3Bn - output)
2019P	\$16.5 Bn - \$19.5 Bn (50% CE / 50% Bldg)	\$27 Bn - \$32 Bn
2020 – 2023P	\$16 Bn - \$20 Bn (50% CE / 50% Bldg)	\$27 Bn - \$35 Bn

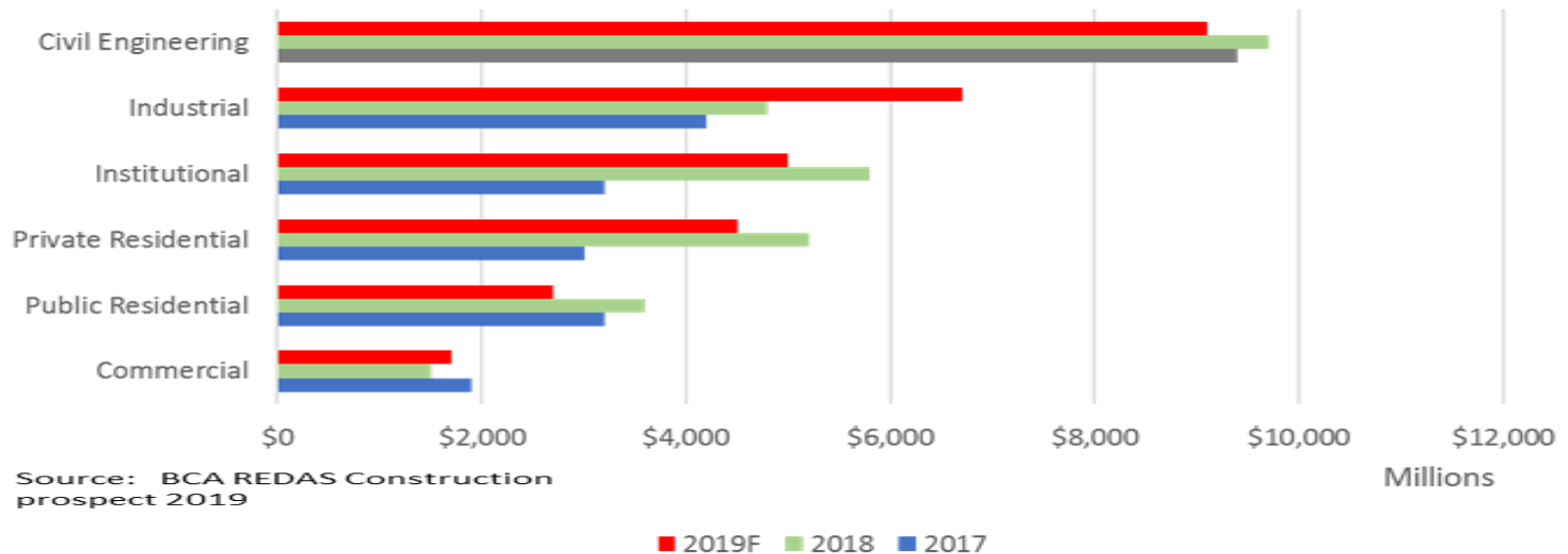
# Key Investment Highlights - Singapore



Civil engineering and industrial sector construction activities will be the main drivers of construction activities in Singapore in FY2019

Proactive steps the Singapore government takes to manage construction demand

## 2019 – Volumes of Contracts to be Awarded



- Civil engineering projects will continue to provide demand – projects tenure have a longer time horizon and are subject to BCA index mechanism
- Total industrial construction demand will continue to surge with the public sector (JTC / NEA / PUB) leading the increases – opportunities for higher grade concrete
- RMC, Granite and Cement are positioned to compete for all projects. Precast's focus is only on residential projects (principally HDB)

# Key Investment Highlights - Singapore

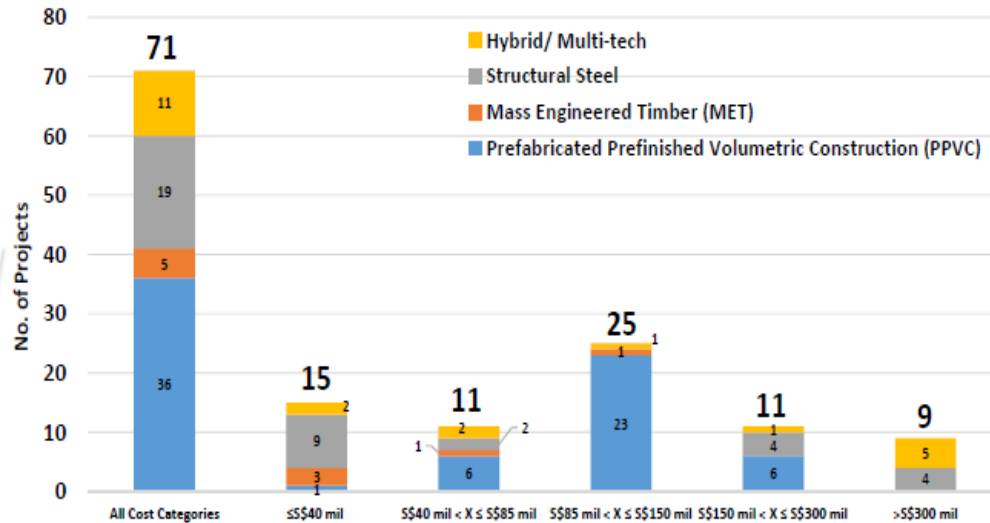


50% of the 71 public sector projects in 2019 / 2020 will adopt PPVC and % of dwelling units using DfMA will rise from 23% to 33% in 2019

## Well positioned to address rising demand for DfMa

### Pipeline of Projects Prescribing DfMA Technologies (largely PPVC)

(Construction tenders expected to be called between Jan 2019 and Dec 2020)



DfMA – Design for Manufacturing & Assembly

- To improve productivity, government is forcing the adoption of Design for Manufacturing & Assembly (DfMA) in the construction industry. A key initiative of DfMA is the adoption of Prefabricated Prefinished Volumetric Construction (PPVC). 36 PPVC projects (out of 71) are expected to be called between Jan'19-Dec'20

### HDB dwelling Units Using PPVC

Year	2014 /15	2016	2017	2018	2019
% of total DUs launched	4%	6%	26.7%	23%	33.2%

- All government land sales (GLS) for private development must adopt DfMA. As for HDB, PPVC adoption is on an upwards trajectory. It is set to increase to 33% of DUs launched in 2019, up from 23% in 2018.

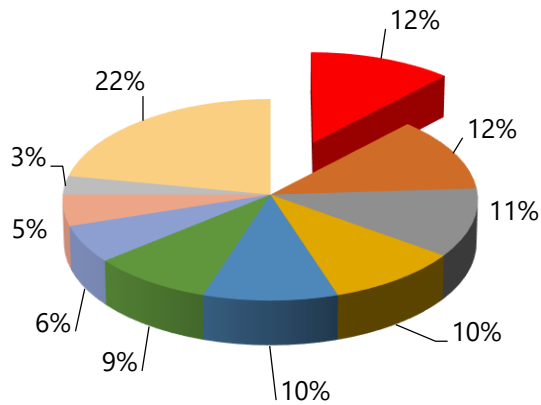
# Key Investment Highlights – Singapore

BMG Singapore continues to maintain its market leadership positions in Singapore



## Dominant market positions in precast, ready-mix and cement sectors

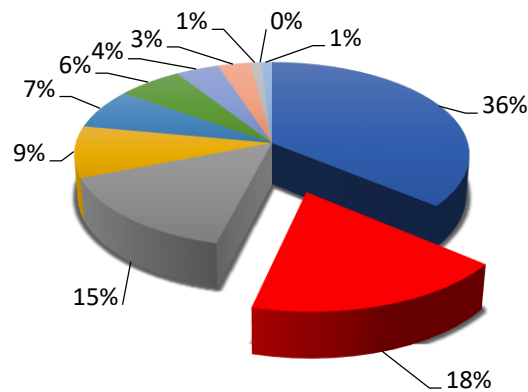
### Precast Market Share 2018



- HLBM
- Syscon
- Teambuild \*1
- Soil-build \*2
- Sunway
- Poh Cheong
- Robyn Village
- Prefab
- Econ
- Others

Source: Internal Estimates

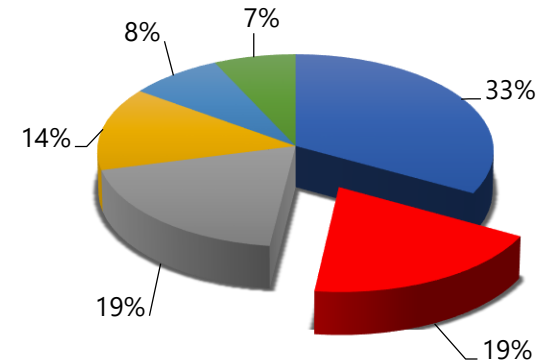
### Ready-mix Market Share 2018



- Pan-United
- ICPL
- Alliance Concrete
- Samwoh
- YTL
- G&W
- Sinmix RMC
- Star RMC
- Topmix
- Holcim
- Others

Source: BCA & Internal Estimates

### Cement Market Share 2018



- United Cement
- SCMC
- Engro Corp
- YTL/Nanyang
- LafargeHolcim
- NS Cement

Source: Internal Estimates



# Key Investment Highlights - Singapore



Availability of supplies and competitive pricing are assured to allow BMG Singapore to remain as a dominant player in the construction industry

Integration provides BMG with cost competitive and supply availability advantages

## Hayford Quarry



## SCMC



## RMC



## Trading



## Tasek



# Key Investment Highlights - Singapore



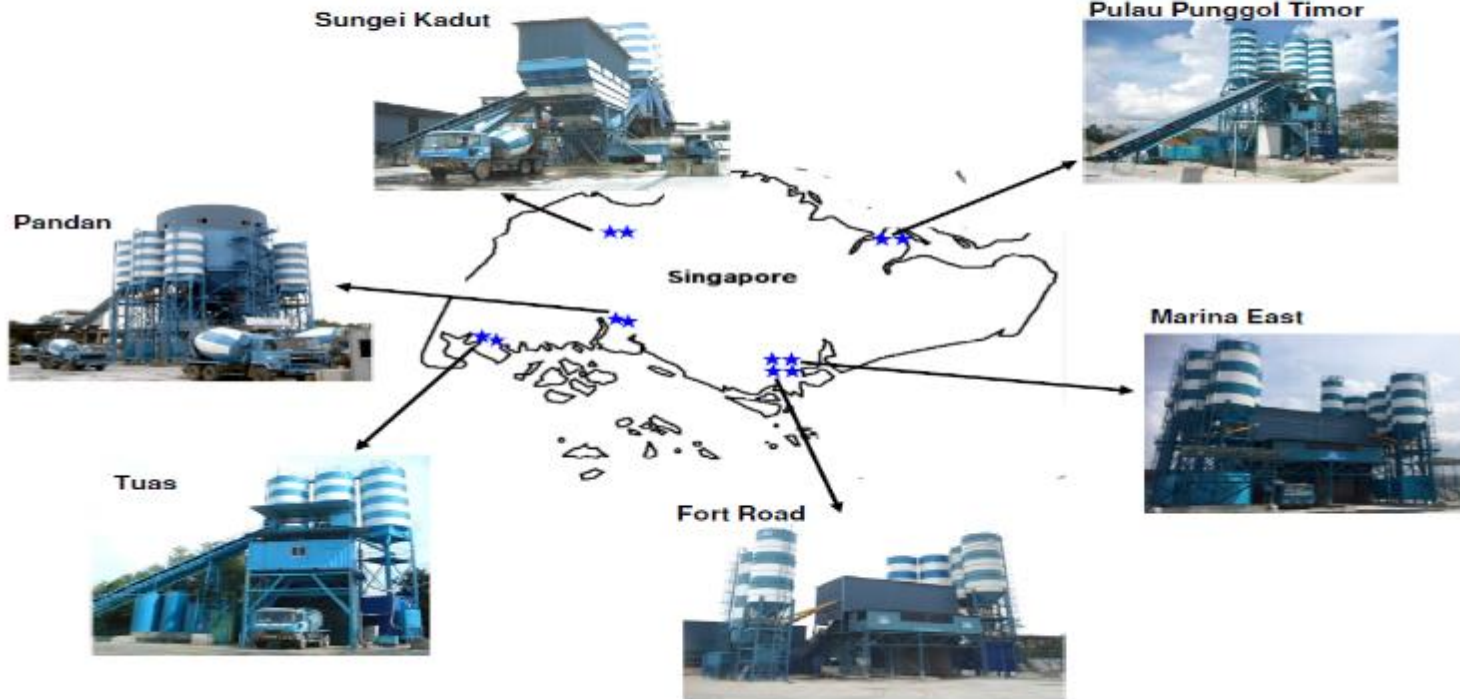
With 6 ready-mix plants and a fleet of > 200 trucks owned and contracted in Singapore, ICPL is one of the leading players in Singapore

## Geographic footprint in Singapore



**Island Concrete Pte Ltd**

*Strategic Locations*



# Key Investment Highlights - Singapore

Cost will increase as a result of ban on construction materials by neighbouring countries and curtailment on foreign workers



Adverse impact from neighbouring politics and curb on foreign workers quota



- Restriction on the hire of foreign workers will drive up wages
- Reluctance of Singaporeans to take up jobs currently done by foreign workers will limit any expansion plans of BMG

- Malaysian government has banned the export of sand to Singapore
- Singapore government has imposed a condition on construction material companies to import at least 30% of their sand requirements from non-traditional sources.

# Plastic Packaging

## Rex Packaging Group



**DONGGUAN**

**REX PACKAGING CO., LTD**

**TIANJIN**

**REX PACKAGING CO., LTD**



# Industry Outlook

# Industry Outlook



## Global demand will remain strong but environmental concerns & customers' expectations are negative factors

### Rising Asian Demand for Plastic

- Switch to plastics from metal/glass/paper due to cost
- Fast expanding online markets
- Higher consumption from growing affluent population
- Infrastructure projects (plastic pipes)

### Changes in Consumer Behaviour

- Growth of packaged food
- Convenience-oriented packaging

### China Factor

- Largest consumption of plastics
- 2nd largest growing market after India
- Fragmented market in rigid plastics manufacturing

### Environmental concerns

- Mismanaged plastic waste
- Society now demands emphasis on product stewardship
- Gradual shift from "use-once-and-discard) approach to recycling
- Only 12% of plastic waste is currently reused or recycled

### Changes in Customers' Demand

- Design, Produce & Deliver vs. Produce & Deliver

### Market Accessibility

- Accessible market limited by distance
- Export is generally not an option due to cost



# Raw Material Price Trend Landscape



Production cost of two major products (Jerry can and bottles) affected by higher RM costs

## DGRex HDPE Purchase Price Trends (2016 – 2018) (RMB/MT)

### 2016 Average Resin Price:

Jerry Can: RMB 8,265/ MT  
Bottle: RMB 8,028/ MT

### 2017 Average Resin Price:

Jerry Can: RMB 8,786/ MT  
Bottle: RMB 8,679/ MT

### 2018 Average Resin Price:

Jerry Can: RMB 9,661/ MT  
Bottle: RMB 9,589/ MT



## TJ Rex HDPE Purchase Price Trends (2016 – 2018) (RMB/MT)

### 2016 Average Resin Price :

Jerry Can : RMB 8,429/ MT  
Bottle : RMB 8,040/ MT

### 2017 Average Resin Price :

Jerry Can : RMB 8,866/ MT  
Bottle : RMB 8,675/ MT

### 2018 Average Resin Price :

Jerry Can : RMB 9,640/ MT  
Bottle : RMB 9,454/ MT





# Air-conditioning Systems

## Airwell



# Global Outlook for Air-Conditioners



Air conditioners are still in demand and China is the largest market. But supply still exceeds demand in China

## Asia Demand

- China is the largest manufacturing & consuming market (41.6% of global demand): CAGR of just under 4% from 2011 to 2016
- Asia ex China & Japan is second largest consumer

## Strong Global Demand

- Rising global population
- Global warming
- Growing affluent
- Infrastructure development
- Rapid urbanization (China will reach 60% by 2020 and 70% by 2030)

## China Manufacturing

- All major world manufacturers have established factories in China
- Ownerships per 100 households in urban areas = 107.4 units & rural areas = 34.2 units
- **Air-conditioning plants are large to achieve economics of scale**

## China Export Market

- **Largest global exporter: > 30% of global's exports from China – current domestic demand cannot absorb local production**
- Major destinations: USA, Japan, Middle East, Italy & India

# Certifications

Airwell has attained various certifications which confirmed its high quality standard



## Certifications



ISO-9001 Certification



OHSAS-18001 Certification



ISO-14001 Certification



EMC  
(电磁兼容指令)



CE认证



CB安全标准认证



法国NF认证



## Residential Buildings



## Commercial Buildings



# Product Range



# Product Range

## Residential and commercial air-conditioners

### Fedders & Airwell Products



**FEDDERS**

FEDDERS定位于中高端家装产品



全直流变频水机  
MQHD系列  
YVD系列



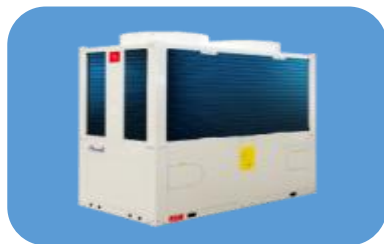
直流无刷风盘  
VPND系列



空气净化器

*Airwell*

商用/工程类产品,  
定制产品



模块机组



酒窖空调



水地源热泵



单元机组



整体水水机组



海水源热泵机组



空气侧机组



# THANK YOU

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