

Boilermech Holdings Berhad – Minutes of 12th AGM held on 26 August 2022

Questions And Answers in respect of Boilermech Holdings Berhad's 12th AGM held on 26 August 2022

No.	Questions	Answers
Questions received from MSWG prior to AGM, and answered during AGM		
1.	<p>Overall, the Group performed well in FY2022 with a record revenue of RM317.8 million, up 33.9% year-on-year (YOY). However, profit before tax (PBT) declined 23.7% to RM25.7 million, mainly due to lower contribution from the Bio-Energy segment. [page 17 of Annual Report (AR) 2022]</p> <p>(a) The Bio-Energy segment saw PBT decline 25.4% to RM18.2 million despite a 40% growth in revenue to RM246.1 million. Which raw materials have the biggest impact on your cost structure?</p> <p>(b) What is the current outstanding order book for your Bio-Energy segment? How much of this order book is based on the latest (higher) cost structure? To what extent can you pass on the higher cost to your customers?</p> <p>(c) What measures have you taken or plan to implement to mitigate the risk of sudden and huge rise in costs in the future? Put another way, would you be able to maintain the profit margins if the same situation happens again?</p> <p>(d) What was the average utilisation rate for your boiler manufacturing plants in FY2022? What is the current utilisation rate and your target for FY2023?</p>	<p>(a) Steel prices has the most impact as it is the main raw material to build a boiler and also forms part of the construction of structure at the site.</p> <p>(b) Our current book order is quite positive. The order book consists of projects secured over the past 18 to 24 months with varying commodity prices. Yes, the higher raw material cost is factored into the selling price during the contract signing process. However, when commodity prices spike during the project implementation phase after the contracts are signed, margins will inevitably be affected.</p> <p>(c) Currently, we purchase our raw materials and lock the cost back-to-back for our projects wherever possible. However, there are other raw material components which are difficult or impractical to do so. Therefore, just like any other construction industry, our profit margins are still subject to the volatility of raw material prices.</p> <p>(d) In FY2022, the average production capacity was 65% as there were delays due to Covid-19 issues. Under the current circumstances, we are targeting to operate at 70-80% of our capacity for FY2023.</p>

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2.	<p>The Water Treatment segment saw revenue increase 27.6% YOY to RM37.4 million, achieving the second highest revenue since acquisition. The increase mainly came from the project business unit as more projects were carried out during the year while the trading business unit had remained largely consistent. (page 21 of AR 2022)</p> <p>(a) What is the typical revenue mix for project business unit vs trading business unit?</p> <p>(b) What is the current outstanding order book for the Water Treatment segment?</p> <p>(c) What is the outlook for this segment over the next few years?</p>	<p>(a) The ratio of trading to project revenue is approximately 50%:50% in FY2022.</p> <p>(b) Order book for Water Treatment is positive and growing.</p> <p>(c) On the back of the current Environment, Social and Governance (“ESG”) awareness and compliance, this segment is set to grow over the next few years.</p>
3.	<p>The Solar Energy segment recorded a 6.5% increase in revenue to RM34.3 million in FY2022, being the first full year of Solar Energy operations after the acquisition in 2020. The segment contributed 10.8% of the Group’s revenue for the year and 9.7% to the Group’s PBT. (page 21 of AR 2022)</p> <p>(a) What is the current outstanding order book for the Solar Energy business?</p> <p>(b) What is your target order book replenishment for FY2023?</p> <p>(c) What is your long-term target in terms of revenue composition for Solar Energy segment vs Bio-Energy and Water Treatment segments?</p>	<p>(a) Order book for Solar Energy slowed down in FY2022 and for FY2023, the demand is recovering after the economy reopened.</p> <p>(b) We are targeting to exceed FY2022’s order book.</p> <p>(c) We are targeting to increase the total contribution of Solar Energy and Water Treatment to 40% to 45%.</p>

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4.	<p>Gross margin reduced from 24.1% to 17.5% mainly due to rising commodity prices and the product mix for the main Bio-Energy segment this year which garner lower direct contribution. An increase in provision for doubtful debt and other expenses has also impacted the PBT which reduced from RM33.7 million to RM25.7 million. (page 20 of AR 2022)</p> <p>(a) Do you expect gross margin to recover back to pre-Covid-19 level of 24-26% in FY2023? If not, when?</p> <p>(b) How much was the increase in provision for doubtful debt and other expenses in FY2022?</p> <p>(c) What is the budgeted capex for FY2023? Please provide the breakdown of capex for each business segment.</p>	<p>(a) In FY2023, we expect partial recovery of gross margin but unlikely to achieve pre-Covid-19 level as our margins are still affected by the existing contracts with high raw material cost and product mix.</p> <p>(b) The provision for doubtful debt for FY2022 was RM1 million while there was a bad debt recovery in FY2021 of RM2 million which we managed to collect back resulting in a RM3 million variance in PBT.</p> <p>The other expenses included a RM3.4 million increase in general admin and staff cost as compared to FY2021 as the business operations and staffing increased post-Movement Control Order (“MCO”).</p> <p>(c) After the completion of the Indonesia plant acquisition, we only expect minor capex for production facility upgrade.</p>
5.	<p>In FY2020, the Group acquired a boiler manufacturing plant in Surabaya which commenced its operations in March 2021 after required licenses have been obtained. The plant increased its boiler fabrication capacity, facilitated faster response time to customers and lowered delivery and transportation costs as well as carbon footprint to reach end customers. (page 29 of AR 2022)</p> <p>(a) How many workers have you employed for this plant? Do you plan to hire more workers this year?</p> <p>(b) What is the current utilisation rate for this plant? When do you expect it to run at full capacity?</p>	<p>(a) Our current staff level in Surabaya is sufficient for the orders that we have but we are still looking to increase the staff number in Indonesia.</p> <p>(b) We expect to ramp up production to more than 80% by FY2024.</p>

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6.	The Group's Managing Director (MD), Mr. Chia Lik Khai is also an Executive Director of QL Resources Berhad. How does the Board ensure that the MD of the Company is able to stay focused and discharge his duties and responsibilities diligently, especially in such an uncertain and challenging business environment?	Mr Chia Lik Khai, as the MD, is tasked by the Board to manage the overall direction and strategic goals of the Company and he is capably assisted by the three respective heads of the three Business Units as well as a team of Group Functional Heads. The MD provides strategic direction for the Group as well as sets out and oversees the KPIs for the business units. The respective Heads of Business Unit are responsible for the day-to-day operations, driving business results and the implementation of strategies and policies. The MD is also supported by the specialised Group Functional Heads to implement corporate initiatives and matters such as risk management, sustainability, human and organisation, finance, IT, legal and performance reporting. To ensure effective management of the Group under uncertain and challenging business environment, MD and the senior management routinely and frequently review performance and adequacy of risk management practices and react to and deal with changes in a timely manner.
Questions from Shareholders and MSWG's Representative as responded during AGM		
1.	Referring to the answers to MSWG's questions presented by Mr Chia Lik Khai and enquiries on how much the gross margin is, going forward, and what is Boilermech's position, given the market information that the steel price is stabilized now.	<p>Though the common steel's price has started to stabilize, Mr Chia Lik Khai ("Mr Chia") replied that its current price is still comparatively high.</p> <p>In view of the mixture of old and new projects, projects secured prior to December 2021 are likely to be affected by the steel price hike. However, the price increase of raw materials was factored in the projects subsequently and the actual profit margin will be reflected after the cost of projects normalized.</p> <p>At this juncture, Mr Gan Chih Soon ("Mr Gan"), the Executive Director was invited by Mr Chia to share more details on Management's action while facing the escalating raw materials price. Mr Gan informed that Management already started to lock in the raw material prices based on the projects in hand as well as making adjustment to selling price accordingly.</p>
2.	Comparing the financial result of the 1st Quarter FY2022 Vs 1st Quarter FY2023, what measure is being taken to manage the high cost of operation?	<p>Mr Chia explained that the main reasons for the increase of overhead at the amount of RM6 million for the 1st Quarter FY2022 Vs 1st Quarter FY2023 are the following:-</p> <ul style="list-style-type: none"> (i) higher net provision of doubtful debts (RM1 million) arising from slowdown in payment from customers/receivables. (ii) reversal of bad debts in FY2021 of RM2 million and the remaining RM3 million is due to the increase of OPEX.

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3.	What is the current level of bad debt expense?	<p>Mr Chia responded that the provision of bad debts was mostly due to the delay in collections where customers did not pay when business activities slowed down.</p> <p>The Company's overall receivables has not increased from year on year though the provision was triggered, attributable to long outstanding aged debtors. Once payment is received from customers, a reversal would be made.</p>
4.	What are the possibilities for recovery of profit margin among the three business segments?	<p>Mr Chia said that the profit margin of Bio-Energy ("BE") Segment is expected to recover faster than the Water Treatment ("WT") and Solar Energy ("SE") Segments, as large scale projects are able to recover faster.</p> <p>SE Segment is still facing a competitive landscape, with the surge of cost of solar panels. As the market price of solar panels remain challenging, the profit margin of SE Segment might not improve in the short to medium term.</p> <p>WT Segment was not impacted much as the increase of cost of related materials was still manageable.</p>
5.	As Mr Chia Lik Khai will become the MD of Boilermech Group, what is the business direction and KPIs set for the next three years?	<p>Mr Chia replied that the key focus is to drive the overall growth for the Company which is divided into external (business) and internal growth: -</p> <p><u>External/ Business Growth</u></p> <ul style="list-style-type: none"> - To leverage the three core businesses which are positioned to support ESG growth for customers and stakeholders in Indonesia. - To increase visibility of water treatment in industrial wastewater as well as for the food and beverages industry other than the palm oil industry. - To strengthen the solar business in the Commercial & Industry and residential sectors. <p><u>Internal Growth Initiatives</u></p> <ul style="list-style-type: none"> - To build people and system which will allow the business to scale with the improved efficiency. - To increase project execution efficiency, after sales deliveries and customers' satisfaction. - To keep risk and sustainability initiatives on the radar.

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		<p>Mr Adrian Chair added that the Board of Directors are also focusing on new areas of growth and the appropriate strategy for ESG-related initiatives. Management was advised to position the renewable energy as a holistic solution to customers while setting the internal key result areas (KRAs) in a broader spectrum.</p> <p>Mr Adrian Chair being the Chairman of Nomination Committee, emphasized the utmost importance of the Company's ability and capability to grow internally particularly grooming the technical/functioning talents into management/leadership roles in the near future.</p>
6.	<p>Having noted the order book reported for three Business Segments is positive, what is the quantum and position of the order book?</p>	<p>Mr Chia informed that it is the Company's policy not to disclose detailed information of order book to shareholders.</p> <p>At the same time, he informed that "positive" mean that the order book is still growing.</p> <p>To the question asked on how positive the order book is, Mr Adrian Chair said such information is competitive and sensitive.</p>
7.	<p>What is the competitive edge of the solar business, given the fact that solar business is already competitive when Boilermech entered the solar business in 2020?</p> <p>How does the solar business compete with the larger industry players like Solarvest and Samaiden in terms of customers and network?</p>	<p>Mr Chia said that Boilermech entered into the solar business through partnership in a relatively small size solar company.</p> <p>Boilermech Group, with its readily available customer network and experience in managing company growth and long-term business plan with financial strength, is poised to drive the solar joint venture ("JV") entity to become a scalable player. In addition, the founder of the JV company, Mr Michael Leong, is also considered one of the pioneer players of the solar industry.</p> <p>From the technical perspective, he has hands-on experience in the technical solution, will be able to provide optimized solution to customers. Mr Michael will continue to build the solar business.</p>

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8.	<p>The utilisation rate for the boiler manufacturing plant for FY2023 is targeted at 70-80%. Is there any plan to expand the utilisation and what is the cost involved?</p>	<p>Mr Chia informed that there are two boiler manufacturing plants of which located in Subang Industrial Park (Malaysia) and Surabaya (Indonesia).</p> <p>The Company's current focus is to achieve 70% - 80% utilization rate for Subang plant and to ramp up the production capacity of Surabaya plant to be the same capacity.</p> <p>For long-term planning, Management will look into the feasibility of locating the bigger plant, either in Malaysia or Indonesia, subject to a detailed study. As of now, the plant in Indonesia will serve as the second plant. If the investment strategy continues to be conducive and the Indonesia plant is fully utilized, Management will look into other alternatives going forward.</p>
9.	<p>Referring to credit risk – trade receivables (page 128 of Annual Report 2022), with the breakdown of debts past due for more than 120 days at approximately RM8.3 million (11.4%) out of the total trade receivables: -</p> <ul style="list-style-type: none"> - Do you foresee any further impairment as impairment has been made for the 1st quarter of FY2023? What is the recovery effort? - Was it due to the worsening credit risk of customers? - Any risk of customer concentration (single largest customer)? 	<p>Mr Chia responded that it is part of Management's continuing effort to reduce the amount of trade receivables. This outstanding debt was mainly due to challenges faced at the customers' sites, i.e. operations related matters, such as certain sites were delayed for project execution whereas technical issues with customers took time to be resolved, especially during the MCO period. As explained earlier, Mr Chia stressed that the amount of trade receivables due for more than 120 days was not caused by the worsening credit risk of customers.</p> <p>Boilermech is not at risk with customer concentration as it does have many customers.</p>
10.	<p>Delay in payment and some bad paymasters in general required close monitoring and follow-up with the customers.</p> <p>(a) What is the credit risk assessment employed by the Company? How does the Company handle the worst scenario?</p> <p>(b) Will Boilermech impose a personal guarantee for its non-listed corporate customers?</p>	<p>(a) Mr Chia explained that the credit risk assessment/policy being applied for old and new customers could be different in payment term depending on their risk profile.</p> <p>(b) So far, Boilermech has not imposed a personal guarantee for its corporate customers.</p>

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11.	<p>Based on the presentation and explanation from Management earlier:-</p> <p>(a) Please clarify the provision of doubtful debts, accounting policy vs reality, and the trend in terms of exposure.</p> <p>(b) The Company's financial records showed the fluctuation in provisions of doubtful debts from time to time. What is the reality vs recommended accounting policy?</p> <p>(c) The Company's auditors and finance team are advised to consider the impact of the amount of provision for doubtful debts and inventory written off.</p> <p>Financial statements should be reflective of the actual result of the Company's business performance instead of impacted by a blanket provision.</p> <p>What is the main reason for the substantial amount of inventory written off?</p>	<p>(a) Mr Chia said that the accounting policy for provision of doubtful debts was based on certain statistics of the Company in the past and also by assessing the risk profile of the customers. On top of making the provision, Management also puts in effort on credit control, tightening terms during the contract signing.</p> <p>(b) Same as above.</p> <p>(c) Generally, boilers are made of durable steel in different shapes, sizes, thickness, etc. Mr Chia explained that the inventory written off were basically the slow-moving and aged products.</p> <p>Based on the said accounting policy, a reversal could be made in the event that the Company optimizes the inventory. Management is monitoring closely to ensure the inventories are usable from time to time.</p>
12.	<p>With the price increase for solar panels, how will Management manage and monitor the price of its key components?</p>	<p>Mr Michael Leong, the person in charge of the Solar Energy Segment, replied that the price of solar panels fluctuated substantially from end of year 2021 to early of year 2022 and has stabilized recently. Nevertheless, Management had put in place various methods in managing and monitoring the price of the key components of solar panel.</p>
13.	<p>Based on the presentation slide, Solar Energy Segment was moving into the large-scale projects, where the revenue was increased and profit was declined for FY2022. What is the Company's strategy and direction, going forward?</p>	<p>Mr Chia addressed that Management will continue to seize business opportunities besides enhancing the internal team's competency as well as strengthening the commercial risk management.</p> <p>Going forward, large-scale projects will still be considered while having prioritized the risk factors of the Company.</p>

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14.	What is the long-term sustainability of Boilermech's business in providing boilers (parts) and services to the palm oil mills?	Mr Chia replied that Boilermech will continue to concentrate in providing engineering products in line with its long term sustainability plans.
15.	Reference is made to the list of properties stated in pages 155 to 156 of the Company's Annual Report 2022, where Return on Equity ("ROE") is computed at 6%. Can the ROE be improved if the assets of the Company are fully utilized?	Mr Chia explained that two pieces of land located in Malaysia and Indonesia had been purchased with the intention to build manufacturing plants in the long term. Management may consider to maximize the value of the excess land while staying focused on growing the existing business amid challenges.