

Financial
performance review
of hup seng
perusahaan makanan



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REVIEW OF THE FINANCIAL PERFORMANCE

Hup Seng Perusahaan Makanan (M) Sdn. Bhd has performed very strongly in our financial year ended 31 December, 2008. Not only the revenue has surpassed the RM200 million mark for the first time in HSIB's history, profit before tax hit a record high of RM21 million for the financial year ended 31 December, 2008 increased from preceding year corresponding period of RM6 million by a hefty RM15 million or 250%.

The Group's record profit is respectable indeed, considering a challenging operating environment in which high cost pressures are the order of the day in better part of the year. By keeping close momentum with volatile movement of major material prices, the Group has promptly reacted with cost recovery exercises in February 2008 and again in June 2008 to protect the margin. Nevertheless, prices for most of the key input materials were falling from historical high towards the end of third quarter impacted by fear of global recession as a result of credit crunch. The continued efforts to enhance operating efficiency within the Group have also contributed greatly towards the bottom line of the year, best ever achieved in the Group's history.

Revenue rose by 14% to RM220 million as compared with preceding year corresponding period of RM193 million amid a lower production volume. The increase was largely due to selected price adjustments necessitated by the steep increases in raw material costs.

The Group has no borrowings and has a cash balance of RM21 million as at the end of the financial year. Net asset per share stood at RM2. 10 and

earnings per share (EPS) improved significantly from 7.9 sen in 2007 to 26.8 sen.

Background

Hup Seng Perusahaan Makanan (M) Sdn. Bhd., established in 1958, has been a household name synonymous with quality biscuit manufacturing. Today, it is one of Malaysia's leading biscuit manufacturers with many accumulated outstanding achievements. Through continuous upgrading, our products have been honoured with numerous awards worldwide, marking important milestones for the company's history. In recognition of Hup Seng's stringent quality management system, the company was awarded the prestigious MS ISO 9002 Quality System Certification from SIRIM in 1995 and upgraded to MS ISO 9001: 2000 Quality System Certification in 2003.

In 2005, the Prime Minister Dato' Seri Abdullah Badawi awarded Hup Seng with the Industry Product Excellence Award (Eminent Product Performance Award). Being responsible to consumers and upholding Malaysian food prestige internationally, rigorous food safety and hygienic control strategies are employed to ensure safety and hygiene of products. In mid-2007, Hup Seng was accorded with the HACCP (Hazard Analysis Critical Control Points) and BRC (British Retail Consortium) Certification. This has educated consumers on food safety and hygiene and at the same time fostered their confidence in Hup Seng's products.

With an international market coverage that spans Asia, Africa, Oceania, Europe and North America, Hup Seng's products have captured the hearts of

consumers, young and old in many corners of the world. Henceforth, Hup Seng shall continue to upgrade, improve and reach new peaks of excellence.

ACHIEVEMENT

The subsidiary, Hup Seng Perusahaan Makanan (M) Sdn Bhd., was accredited with the Certification of HACCP (Hazard Analysis Critical Control Point) and BRC (British Retail Consortium) in Year 2008.

CORPORATE SOCIAL RESPONSIBILITY

The Group recognizes the importance of a corporate culture that emphasizes good corporate social responsibility. The Group is committed to play its role as a caring corporate citizen. In line with this, the Group has taken initiative in making contributions toward the local community, for instances donations to various schools and associations. In the workplace, the Group places high importance on safety, health and employees development. For example, a committee relating to workplace safety is set up to promote awareness of safety in workplace. Various sports activities were organized for healthy and balanced working lifestyle for employees besides encouraging networking and socializing between colleagues and peer.

OUTLOOK AND PROSPECTS

Malaysia economic expansion disappeared in fourth quarter 2008 and it barely remained above water with a negligible growth of 0.1 % that led a full year growth of 4.6% as compared to 6.3% of 2007. The slower growth was due to the worsening global economy that had caused a significant drop in the country's exports. The global economy is getting more critical and all signs indicate deeper and prolonged recession. Any improvement will hinge on the state of development in the US and other bigger economies in the

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world. The country's grossdomestic product forecast for this year has been revised downwards to between -1% and 1%, from 3. 5% earlier. The management expects 2009 to be another very challenging year for the Group in view of growing global economic uncertainty. In this environment, the Group's strategy remains focused on product and service quality, flawless operation and cost control. At the same time, the Group will continue to look for ways to sustain its competitive position while remaining focused on operational efficiency so that satisfactory results are achieved in the coming year.

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

2004	2005	2006	2007	2008	Financial year ended 31 December	RM'000	RM'000
RM'000	RM'000	RM'000	RM'000	RM'000	Turnover	186, 482	180, 968
329	Profit After Tax	6, 564	5, 098	6, 807	4, 757	16, 071	Net Earnings Per Share
11 sen	8. 5 sen	11. 3sen	7. 9sen	26. 8 sen			

Board of Directors

Keh (Kerk) Chu Koh

Keh (Kerk) Chu Koh, Malaysian aged 66, is the Chairman of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Managing Director on 3

August, 2000. Subsequently, he is redesignated as Chairman on 1 February, 2003. He was the Deputy Managing Director of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. (" HSPM") on 13 October, 1974 and then the Managing Director of the same on 1 April, 1977. He was appointed as the Deputy Managing Director on 21 April, 1977 and subsequently the Vice Chairman of Hup Seng Hoon Yong Brothers Sdn. Bhd. (" HSHY") on 1 January, 1990. He is the brother of Kuo Choo Song and Kerk Chiew Siong, and uncle of

Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of Hup Seng Industries Berhad ("HSIB")) is disclosed in page 12 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. As one of the founders of Hup Seng Co., he has approximately 50 years of experience in the biscuits industry. He plans the Group's strategic business development and production development which includes the installation of various production facilities in the Group's factory and heads the research and development team which researches new varieties of biscuits. He contributed in obtaining the Certification of HACCP (Hazard Analysis Critical Control Point) & BRC (British Retail Consortium) for HSPM in year 2008, to ensure that product safety and quality are in line with global standard. He travels abroad extensively to keep abreast with the latest developments in the biscuits manufacturing industry and to assess new market prospects for the Group.

Kerk Chiew Siong

Kerk Chiew Siong, Malaysian aged 56, became a member of the Board of Directors on 4 October, 1991 and was appointed as an Executive Director on 3 August, 2000. His position as Executive

Director was redesignated to Non-Executive Director on 1 February, 2003.

On 17 August, 2006, he then became the Non-Executive Vice Chairman of the Company. He was appointed as the Director of HSPM on 12 March, 1981

and then as an Executive Director on 1 January, 1990 before being

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redesignated as Vice Chairman on 1 February, 2003. He was a Director of HSHY on 15 February, 1988 and then became the Deputy Managing Director of the same on 1 January, 1990 before being redesignated as Executive Director on 1 February, 2003. He is the brother of Kuo Choo Song and Keh (Kerk) Chu Koh, and uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. He has more than 33 years of experience in the manufacturing and marketing of biscuits. As head of the Quality Assurance and Business Development Department, he is responsible for devising strategies for market development and researching the potentials of the Group's products in existing as well as new markets. He also ensures the Group's biscuits manufacturing quality control system meets the MS ISO9001: 2000 requirements.

Kuo Choo Song

Kuo Choo Song, Malaysian aged 77, is the Managing Director of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Executive Chairman of the Company on 3 August, 2000. Subsequently, he is redesignated as Managing Director in HSIB on 1 February, 2003. He had been a member of the Audit Committee until 12 December, 2007. He was appointed as the Managing Director of HSPM on 13 October, 1974 and as the Chairman of the same since 1 April,

1977. He was subsequently redesignated as Vice Chairman of HSPM on 1 February, 2003. He has been the Chairman of HSHY since 21 April, 1977. He has over 50 years of experience in the biscuits industry at management and board levels. He is one of the founders of Hup Seng Co. which was established in 1958 and subsequently became HSPM in 1974. He is the elder brother of Keh (Kerk) Chu Koh and Kerk Chiew Siong, and uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed

in page 12 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. His job responsibilities include planning the Hup Seng Group's business development programs and representing the Group at various external functions.

Other are: Kerk Chian Tung(Executive Director), Teo Lee Teck(Non-Executive Director), Kerk Kar Han(Non-Executive Director), Woon Chin Chan(Independent Non-Executive Director), Norita Binti Ja'afar(Independent Non-Executive Director), Mazrina Binti Arifin(Independent Non-Executive Director), Raja Khairul Anuar Bin Raja Mokhtar(Non-Executive Director) and Wee Hoe Soon @ Gooi Hoe Soon(Alternate Director to Woon Chin Chan).

Distribution Network

Besides the domestic market, We also export our products to over 40 countries in Asia, Europe, America, Africa, Mid-Asia & etc.

We are proud of our record in building profitable and successful business in the most demanding and competitive of international markets. Our challenge lies in gearing to meet the future demands of the markets we serve.

PRICE/EARNINGS RATIO

The price/earnings ratio is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. In year 2004, the price/earnings ratio for Hup Seng Industries Berhad is 0.13 times and increases by 0.05 times to 0.18 times in year 2005. The price/earnings ratio decreases back to 0.13 times in year 2006. However, the price/earnings ratio has been increases by 0.03 times again to 0.16 times in 2007. In year 2008, the price/earnings ratio decreases sharply by 0.12 times to 0.04 times only. A higher price/earnings ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower price/earnings ratio. Thus, we notice that the stock in year 2008 is the cheapest where the investor will pay less for each unit of net income.

PRICE/CASH FLOW RATIO

Price/cash flow ratio is a measure of the market's expectations of a firm's future financial health. It is calculated by dividing the company's market price by the company's operating cash flow per share in the most recent fiscal year. In year 2004, the price/cash flow ratio for Hup Seng Industries Berhad is 18.90 times. During year 2005, the price/cash flow increases by 1. <https://assignbuster.com/financial-performance-review-of-hup-seng-perusahaan-makanan/>

65 times to 20.55 times. The ratio for 2006 is decreases by 0.95 times to 19.6 times. In year 2007, the price/cash flow ratio is 13.21 times and decreases by 3.66 times to 9.55 times in year 2008. The lower a stock's price/cash flow ratio, the better value that stock.

PRICE/ BOOK VALUE RATIO

The price/book value ratio is provides an assessment of how investors view the firm's performance. It is calculated by dividing company's market price by the company's shareholders' equity per share. Firms expected to earn high returns relative to their risk typically sell at higher price/book value ratio multiples. In year 2004, the price/book value ratio for Hup Seng Industries Berhad is 1.15 times and increases to 1.21 times by 0.06 times in year 2005. It is decrease by 0.11 times to 1.1 times in year 2006. Then, the price/book value ratio is decreases again to 0.98 times in year 2007. After that, it decreases again to 0.87 times in year 2008. The higher the ratio, the higher the premium the market is willing to pay for the company above its hard assets.

PRICE/SALES RATIO

The price/sales ratio is a valuation metric for stocks. It used to determine the value of a stock relative to its past performance. It may also be used to determine relative valuation of a sector or the market as a whole. It is calculated by dividing the company's market price by the company's revenue per share in the most recent fiscal year. The price/sales ratio of Hup Seng Industries Berhad for year 2004 is 8.75 times. In year 2005, it rises up to 9.79 times with increases by 1.04 times. In year 2006, it decreases by 0.41 times to 9.38 times. After that, the price/sales ratio decrease sharply by

2. 54 times to 6. 84 times in year 2007 and decreases again to 5. 39 times in year 2008. A low price/sales ratio is usually thought to be a better investment since the investor is paying less for each unit of sales.

Forecast For Year 2009

After we estimated for the growth of 7% for year 2009, we can make the forecast market value for year 2009. In year 2009, we expect that the price/earnings ratio still maintain with 0. 04 times which has the same times with year 2008. As a result, the expected market value will decrease to RM1. 10. Therefore, we expect the investors still paying less for each unit of net income, so the stock will become cheaper. For the price/cash flow ratio, we expect that it will decrease by 0. 63 times to 8. 92 times. As a result, the expected market value will decrease to RM1. 10. Thus, the lower of stock's price/cash flow ratio give the better value that stock in year 2009. For the price/book value ratio, we estimate that it will decrease by 0. 05 times to 0. 82 times which will decrease to RM1. 10 in the market value in year 2009. So we estimate that it has the lower premium that market is willing to pay for Hup Seng above its hard assets. For the price/sales ratio, we expect that it will decrease by 0. 35 times to 5. 04 times. As a result, the expected market value will decrease to RM1. 10. Thus, it seem that it will be a better investment opportunity in year 2009 for investors.

Other Ratios Analysis Of Hup Seng Industries Berhad

2004	2005	2006	2007	2008
Leverage Ratios: Interest Burden	1. 00 times	1. 00 times	1. 00 times	1. 00 times
Leverage	1. 01 times	1. 01 times	1. 01 times	1. 01 times
Compound Leverage Factor	1. 01 times	1. 01 times	1. 01 times	1. 01 times
Liquidity Ratios: Current Ratio	36. 73 times	14. 03 times	13. 46 times	14. 55 times
Quick Ratio	36. 73 times	14. 03 times	13. 46 times	14. 55 times
Cash Ratio	36. 28 times	13. 99 times	13. 39 times	14. 47 times
Profitability Ratios: Return On Assets	9. 57%	9. 25%	8. 59%	11. 35%
Return On	13. 39%			

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Equity 6. 87% 6. 08% 6. 17% 8. 32% 9. 97% Profit margin 77. 43% 75. 74% 73. 89% 79. 97% 81. 92%

Comparison With Competitor (Hwa Tai Industries Berhad)

Hwa Tai Industries Berhad is our strong competitor, so we compare our company with them through ratio analysis which are the ratio as table below:

Hup Seng Industries Berhad Hwa Tai Industries Berhad (Year 2008) (Year 2008)
 Price/Earnings Ratio 0. 04 times (1. 12) times Price/Cash Flow Ratio 9. 55 times (7. 84) times
 Price/Book Value Ratio 0. 87 times 1. 28 times
 Price/Sales Ratio 5. 39 times 0. 33 times

Since Hwa Tai Industries Berhad has net loss, so we cannot compare the price/earnings ratio of our company with it.

According to statement of cash flow in Hwa Tai Industries Berhad, we notice that cash outflow is more than cash inflow which indicate negative in net cash flow. Therefore, we fail to make comparison among these two company.

The higher the price/book value ratio, the higher the premium the market is willing to pay for the company above its hard assets. A low ratio may signal a good investment opportunity, so Hup Seng Industries Berhad has a better investment opportunity to investors because the ratio is only 0. 87 times which is lower than Hwa Tai Industries Berhad that is 1. 28 times of ratio.

The price/sales ratio is one of the tools that will help investors determine which category a stock is in and help them to make an informed investment decision. The lower the price/sales ratio, the better the investment opportunity. Based on the table above, it shows that Hwa Tai Industries Berhad has a better investment opportunity to investors because it has the lower price/sales ratio than Hup Seng Industries Berhad.

As a conclude, a smart investor will invest in Hup Seng Industries Berhad to earn more profit because Hup Seng Industries Berhad has high earnings per share which will give investors higher return. Besides that, Hup Seng Industries Berhad also has positive net cash flow which the cash inflow is greater than the cash outflow. As a result, the increasing of reliability of investors towards Hup Seng Industries Berhad will encourage investors to invest in this company.