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## Corporate: LNG keeps focus on connectors

By Nadia S Hassan

Mesdaq Market-listed LNG Resources Bhd is busy preparing to move into its new, state-of-the-art plant in Tanjung Agas, Muar, next year. Its managing director Low Chee Thean says 2007 will be the year the company reaps the fruit of its labour in the form of increased revenue.

LNG is principally involved in the manufacture of precision engineering and precision injected moulded components, which are used to make connectors for electrical and electronic products such as computers and mobile phones. This business was the biggest contributor to group revenue for the financial year ended 2004, accounting for some 71%. The group also makes tools and dies apart from providing components for the semiconductor industry.

According to Low, components for connectors can be used in many industries but for now, the company is eyeing the automotive and micro device markets. He feels LNG's products, which are known for their high quality, will give the company the edge in expanding market share in these two sectors.

"Micro connectors are a new trend in the connectors industry because electronic gadgets keep getting smaller. We foresee less tolerance to defects in the two sectors, which bodes well for us because we are known for our good quality. In a way, we are moving in early," Low says. The advantage of focusing on the connectors industry rather than the semiconductor industry is that the former is less cyclical, he adds. LNG is planning to purchase additional equipment for its new plant as its old plant is already operating at full capacity.

"Our old plant is running at full capacity and as a result, we cannot take in new orders. But this problem will be solved when we complete our new plant by the first quarter of 2007," Low says. The company had targeted to complete the plant by the end of this year but experienced some delay in signing the sales and purchase agreement for the land where the factory will be located. If all goes according to plan, the new plant will enable LNG to increase its production by 20% annually. Its goal is to double production capacity by 2009. Production capacity at LNG's present facility is around 385,000 machine hours.

In tandem with the increased production at the new plant, Low is expecting revenue to grow at an average of 20%. As with all companies that deal in high technology, research and development (R&D) remains the key for LNG to stay ahead of the pack. "In the past year, we spent around RM200,000 on R&D but this figure is not fixed. We spend on R&D as and when the situation demands it, so the amount can vary from year to year," says Low. "Currently, our biggest problem is the lack of skilled workers. However, it is not just our problem; it is plaguing the whole industry."

LNG is also planning to branch out into the downstream manufacture of connector terminals, which would enhance its label as a "one-stop shop" for such products. At present, it manufactures metal and plastic parts separately for its customers. "We aim to be able to assemble these parts so we can present our clients with a complete unit," says Low. This will mean better margins for the company, he adds.

LNG's top five customers — which comprise mostly multinational corporations (MNCs) — accounted for about 83% of the group's total revenue for 2004. At the moment, it has 10 customers and hopes to add at least two more names this year. Despite the small number of customers, Low does not think LNG is overly dependent on its major customers.

"We have built good relationships with our customers over the years and they have been satisfied with our work. Our biggest customer, in particular, has been with us for over 10 years."

LNG is also looking to grow its export market but has no plans to expand overseas at present.

LNG is planning to fund its expansion via proceeds from a special issue of 25.9 million shares, which it announced in November 2004. So far, 10.3 million of these shares have been placed out to various Bumiputera institutions, which raised some RM2.5 million.

The Ministry of Trade and Industry has given the company until the end of this year to place out the remaining RM15.6 million shares, but LNG is looking to complete the placement in the next two to three months.

Low says the proceeds raised from this special issue should be enough to fund LNG's entire expansion, which means it will not have to borrow.

A look at LNG's latest balance sheet reveals low short-term borrowings of RM86,000, while cash in hand stands at RM10.2 million.

LNG's recent announcement of a dividend policy, where at least half its profits will be returned to shareholders, will also please investors. The company has stated that it will pay out an interim dividend of 10% for this year plus an additional special dividend of 10%, which amounts to a dividend payout of RM3.2 million.

LNG's revenue and net profit have been climbing steadily since 2001. For the financial year ended Dec 31, 2003 (FY2003), revenue stood at RM15.2 million while net profit was RM4.1 million. Revenue rose to RM20.2 million in FY2004, while net profit climbed to RM4.8 million. For FY2005, LNG is expecting revenue growth to be lower due to capacity constraints. Still, it expects revenue to be above RM21 million. Net profit for FY2005 is also expected to be lower due to an allowance for higher tax expenses. LNG had enjoyed pioneer status for five years up until September 2004.