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KPS Earnings Slide in 2Q20 Despite 39% Growth in Revenue Due to Impact of COVID-19 and Impairment Loss

- **Disrupted supply and weaker demand affected manufacturing business, with heavy expenses thinning operating profits**
- **Impairment loss recognised on asset held for disposal and investment property**
- **Long-term business strategy and value creation plans expected to leap Group prospect beyond 2020.**

Shah Alam, Malaysia, 27 August 2020 – **Kumpulan Perangsang Selangor Berhad** ("KPS" or "the Company" or "the Group", Bursa: 5843; Bloomberg: KUPS MK; Reuters: KPSB.KL) today reported a 39% year-on-year ("YoY") growth in revenue to RM221.5 million for the quarter ended 30 June 2020 with the recognition of Toyoplas Manufacturing (Malaysia) Sdn Bhd's ("Toyoplas") contribution in the second quarter this year. However, COVID-19 has put a damper on the performance of KPS' manufacturing business which saw a decline in capacity utilisation of its packaging, plastic injection moulding and mattress manufacturing plants. With expenses far exceeding the gross profits and lower share of profit from the associates, compounded by RM7.9 million impairment loss which was recognised on investment property and asset held for disposal, the Group recorded an operating loss of RM1.6 million. Consequently, the Group posted a reverse in earnings in the second quarter, registering RM11.4 million Loss Attributable to the Owners of the Parent.

HIGHLIGHTS FOR THE QUARTER ENDED 30 JUNE 2020

Financial and Business Performance

Manufacturing business recorded 62% revenue growth YoY, contributing RM177.9 million to the Group's revenue as compared to RM109.7 million in the corresponding quarter last year. At RM177.9 million, the manufacturing businesses that comprise Toyoplas, Century Bond Bhd ("CBB"), CPI (Penang) Sdn Bhd ("CPI") and King Koil Manufacturing West LLC ("KKMW"), contributed 80% to the Group's revenue. During the quarter under review, the global pandemic had subject KPS' manufacturing business in the China, Malaysia and the United States of America ("the US") to a temporary halt in operation at the advent stage of the outbreak in response to the movement control orders ("MCO") in the respective localities. Disrupted supply chain delayed deliveries of some input materials and restricted production capacity while order volume for several core products turned lethargic as demand weakened due in part to the customers' production suspension.

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Toyoplas led the revenue contribution to RM87.8 million. This was followed by CBB, contributing RM44.1 million, lower than that in the corresponding quarter in the previous year by RM3.7 million, on lower traction from the paper, carton, and plastics divisions. The offset division partly made up for the moderation in sales in the other divisions. CPI contributed RM33.9 million, also lower than what posted in the corresponding quarter last year by RM8.7 million. CPI's revenue decline was felt across automotive, healthcare and communication & IT business segments except in other segment whose increase was supported by a new customer and steady orders from existing customers. KKMW contributed the remaining revenue of RM12.1 million, lower than that in the corresponding period last year by RM7.1 million, mostly due to state lockdown in California and Arizona for from late-March until mid-May 2020.

A further RM30.3 million of the Group's revenue was derived from the **trading** business, represented by Aqua-Flo Sdn Bhd ("Aqua-Flo"), whose nature of the business was deemed essential and was exempt from the MCO in Malaysia. Aqua-Flo's revenue grew by 14% from RM26.5 million in the corresponding quarter last year, mainly attributable to higher sales of water chemicals. With RM30.3 million, Aqua-Flo contributed 14% to the Group's revenue.

The **licensing** business, King Koil Licensing Company Inc ("KKLC") contributed RM7.8 million, slightly lower by 3% from RM8.0 million it posted in the corresponding quarter last year. While international royalties posted an organic growth for the quarter, royalties from the US market dwindled on lower sales of King Koil branded mattress products.

The **infrastructure** business which is represented by KPS-HCM Sdn Bhd ("KPS-HCM") and Smartpipe Technology Sdn Bhd ("Smartpipe") contributed RM2.5 million and RM0.7 million, respectively. Contribution from KPS-HCM was lower as the infrastructure works at Pulau Indah were already completed and no new projects secured during the second quarter. The contribution from the infrastructure business was also challenged as Smartpipe is at an early stage of prospecting new sizeable pipe rehabilitation and replacement projects. Collectively, revenue contribution from the infrastructure business plummeted to RM3.2 million, as compared with RM12.7 million it recorded in the corresponding quarter last year. The infrastructure business contributed only 1% to the Group's revenue this quarter.

The remaining revenue contribution of RM2.2 million, or 1%, was from investment holding and property investment, mainly from net rental income at Summit Hotel KL City Centre.

For the quarter under review, while the Group's other income of RM5.1 million was steady compared with that in the corresponding quarter last year, expenses escalated by RM16.3 million to RM46.2 million, but the increase was in line with the added expenses due from Toyoplas. Due largely to the commitment to fixed costs and expenses, as well as the impairment loss recognised on investment property and asset held for disposal, the Group registered an operating loss of RM1.6 million, as compared with an operating profit of RM13.4 million posted in the corresponding period last year. Finance costs arising from loans at the Company and the subsidiaries were maintained relatively flat at RM7.8 million this quarter. However, the share of profit from associates came in 80% lower at RM0.8 million compared with RM4.1 million previously, mostly due to lower contribution by Sistem Penyuraian Trafik KL Barat Sdn. Bhd. ("SPRINT") due to weak traffic volume and NGC Energy Sdn Bhd ("NGC") due to lower traction from the industrial and commercial segments.

The Group reversed its earnings position and registered a Loss before Tax and Zakat of RM8.6 million as compared with Profit before Tax and Zakat of RM9.8 million in the corresponding quarter in the previous year. Having adjusted for Tax and Zakat and non-controlling interests, KPS posted a Loss Attributable to the Owners of the Parent of RM11.4 million, as compared with RM2.9 million Profit Attributable to the Owners of the Parent it recorded in the corresponding quarter last year.

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KPS' Managing Director/Group Chief Executive Officer, Ahmad Fariz Hassan said:

"Aside from the Group's asset realignment exercise which resulted in the impairment loss, the second quarter of 2020 was the most challenging period, having thrown us back in a loss position after a strong show of earnings in the first quarter. Although our results were impacted by a precipitous decline in production caused by the COVID-19 pandemic, we have successfully and safely resumed operations at our plants in China, Indonesia, the US and Malaysia after a series of lockdowns due to the MCOs in the respective locations. Additionally, we have taken several actions in preparation for recovery by ensuring the sustainability of our supply chain and aiming for sustainable sales traction by creating a more expanded demand.

We expect the results for the second half of 2020 to reflect these remedial actions, which will be supported by an improved plant capacity utilisation that is already picking up in the recent months."

HIGHLIGHTS FOR THE YEAR ENDED 30 JUNE 2020

In the first quarter of 2020, KPS was charting profits at an operating level, which serves as a testament to the success of its long-term business strategy. It was only since late March 2020 during the onset of COVID-19 pandemic that the prospect of its business was impacted. Despite kickstarting the year with a strong performance in the first quarter 2020, the uncertainty of the economic impact from the pandemic which resulted in the temporary suspension in operations and consequently the disruption at both supply and demand sides of production has adversely affected output volumes. This led to a shortfall in the earlier-expected revenue and subsequently weaker year-to-date bottom-line performance as compared to that in the corresponding period last year, save the performance of its trading business via Aqua-Flo and licensing business via KKLC, which maintained an organic momentum.

For the six months ended 30 June 2020, the Group posted revenue of RM455.9 million, an increase of 44%, as compared to RM316.6 million it recorded in the corresponding period in 2019. Of the total revenue, manufacturing businesses grew by 69%, contributing RM363.0 million or 80% to the Group's revenue. This was followed by the trading, licensing and infrastructure businesses which grew by 20%, 3% and -81% and contributed RM63.0 million, RM19.9 million RM5.0 million, respectively. Contribution by property investment was almost flat, contributing to the remaining RM4.9 million or 1% in the current period.

On higher expenses and the impairment loss that was recognised in the second quarter, KPS posted a 39% decline in operating performance to RM16.3 million, as compared to RM26.6 million in the corresponding period last year. While steady consolidated finance costs at RM17.0 million, the share of profit from associates reduced by 53% to RM3.6 million. As a result, Profit Before Tax and Zakat shrank by 83% to RM2.8 million. Adjusting for tax, zakat and minority interests, the Group posted RM8.3 million Loss Attributable to the Owners of the Parent in the period under review, as compared with RM4.1 million Profit Attributable to the Owners of the Parent in the corresponding period last year.

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GROUP PROSPECTS

Production has since resumed at all our manufacturing plants, although the respective capacity utilisation rates have not necessarily reverted to pre-COVID-19 levels. To date, the Group has not experienced further shut-downs at its manufacturing facilities, but production disruption risks remain, particularly in COVID-19 hotspot areas in which it operates such as in the US. To minimise COVID-19-related health and safety risks to the employees, KPS has complied with applicable requirements set forth by the respective public health authorities and promoted employee safety and confidence for return to work, with work from home arrangements implemented for our professional staff, continue in part.

KPS is cautious of its business prospect for the remainder of 2020, taking into consideration the macroeconomic, geopolitical and socio-demographic risks such as moderating global growth, persistent US-China trade tension and the permeating impact of COVID-19, which is expected to continue to affect the stability of global supply chain and ultimately, future normalised demand. To mitigate this risk, it shall continue to monitor the operating environment closely and where necessary take further remedial and preventive actions concerning production in the effort to bridge recovery.

"We shall endeavour to improve the Group's prospect and ensure the sustainability of the Group's business by managing our liquidity more effectively, focussing on an improvement in operational efficiency, enhancing organic growth and earnings through the penetration in new market segments and expansion of product mix and services, as well as enhancing market share and customer base across the subsidiaries, especially of the manufacturing business. We wish to assure stakeholders that all efforts are being carried out to mitigate the current situation and to put the Group on a stronger footing in bracing the new normalcy post-recovery. These shall form the basis of our plan for stronger business momentum for the Group going forward," Ahmad Fariz commented on the Group's prospect beyond 2020.

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About Kumpulan Perangsang Selangor Berhad (www.perangsangselangor.com)

Incorporated on 11 August 1975, Kumpulan Perangsang Selangor Berhad ("KPS" or "the Company" or "the Group") is a public limited liability company listed on the Main Market of Bursa Malaysia Securities Berhad under the Industrial Products & Services Sector. KPS has core investments in the Manufacturing sector, as well as businesses in the Trading, Licensing, and Infrastructure sectors. While strengthening our business to optimise returns, KPS is committed to providing significant contributions towards sustainable development in the areas of economic, environmental, and social for the benefits of all stakeholders.

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