



Signature International Berhad

Strong Signs of Encouraging Earnings Growth

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY

TP: RM3.22 (+41.2%)

Last traded: RM2.28

BUY

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In our opinion, Signature International Berhad sells more than just kitchen systems. It is selling lifestyle products, which go well with the current upmarket trend in the housing industry. As such, we are initiating coverage on the company with a BUY recommendation. We derive a target price of RM3.22/share based on 10x FY16 EPS. This represents an attractive capital upside of 41%.

Signature is principally involved in design, marketing and distribution of kitchen systems, wardrobe systems and built-in kitchen appliances. It has a manufacturing plant in Kota Damansara, which is capable of producing 700 sets/month of kitchen systems.

Investment Case

- 1) Favourable housing trends for premier kitchen players;
- 2) Strong branding and execution power; and
- 3) Manufacturing outsourcing model.

Signature recorded core profit of RM16.6mn in 1HFY15, representing a growth of 207% YoY. The increase in profit can be attributed to project revenue growth and economies of scale. In our forecast, we project the group's core profit to surpass RM30mn to RM32.5mn-38.8mn for FY15-FY18, premised on the following assumptions.

- i. Project revenue to surpass RM200mn for the first time in FY15 and sustains above RM200mn/year in the future;
- ii. Order book replenishments of RM209mn in FY16, RM167mn in FY17 and RM217mn in FY18; and
- iii. GP margin to come in between 36% and 38% in FY16-18.

Earnings Summary (RM mn)

FYE June 30	2014	2015F	2016F	2017F	2018F
Revenue	178.7	270.2	295.0	270.6	279.9
EBITDA	34.5	50.6	58.0	53.1	57.0
EBITDA margin (%)	19.3	18.7	19.7	19.6	20.4
Pretax profit	25.5	48.1	52.9	48.5	52.9
Adj PBT	30.0	45.7	52.9	48.5	52.9
Reported net profit	19.2	34.8	38.6	35.4	38.6
Core profit	23.8	32.5	38.6	35.4	38.6
Reported EPS (sen)	16.2	27.1	32.2	29.5	32.2
Core EPS (sen)	20.0	25.2	32.2	29.5	32.2
Core EPS growth (%)	479.5	26.1	27.5	(8.3)	9.1
PER (x)	11.0	8.8	6.9	7.5	6.9
GDPS (sen)	5.0	9.0	11.0	11.0	11.3
Div yield (%)	2.3	4.1	5.0	5.0	5.1
Core ROE (%)	21.2	24.7	24.9	19.8	19.1

Share Information

Bloomberg Code	SIGN MK
Stock Code	SIGN (7246)
Listing	Main Market
Share Cap (mn)	120.0
Market Cap (RMmn)	273.6
Par Value (RM)	0.5
52-wk Hi/Low (RM)	2.41/1.31
12-mth Avg Daily Vol ('000 shrs)	246.3
Estimated Free Float (%)	43.8
Beta (x)	1.2

Major Shareholders (%)

Tan Kee Chong (24.9%)
Chooi Yeoy Sun (24.8%)
HSBC (6.5%)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	32.5	38.6
Consensus	37.1	43.3
TA's / Consensus (%)	87.5	89.2
Previous Rating	Initiate coverage	

Financial Indicators

	FY15	FY16
Net Gearing (%)	11.1	Net cash
FCF/share (sen)	0.2	26.4
P/CFPS (x)	1168.7	8.6
ROE (%)	24.7	24.9
NTA/Share (RM)	1.2	1.4
Price/NTA (x)	1.9	1.6

Share Performance (%)

Price Change	SIGN	FBM KLCI
1 mth	11.8	2.5
3 mth	22.6	4.4
6 mth	28.8	2.9
12 mth	64.0	(0.8)

(12-Mth) Share Price relative to the FBM KLCI



BACKGROUND

Signature International Berhad (Signature) is an investment holding company, which is principally involved in design, marketing and distribution of kitchen systems, wardrobe systems and built-in kitchen appliances. It has a manufacturing plant in Kota Damansara, which is capable of producing 700 sets/month of kitchen systems.

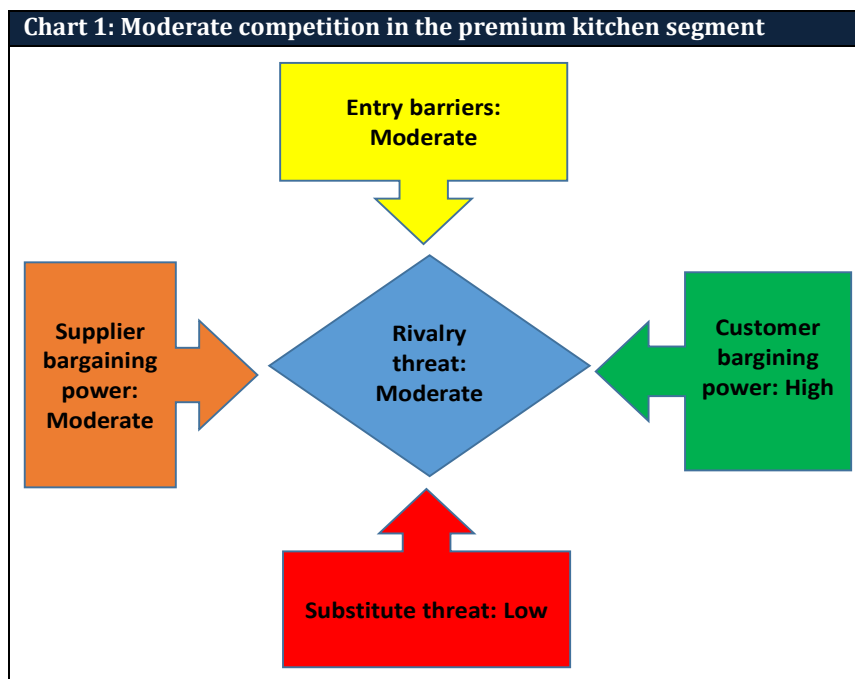
Signature's FY14 revenue came from two main sources, ie: **Project revenue and Retail sales**, which accounted for 69.3% and 30.7% respectively. Of this, a small portion of 5% was contributed by overseas projects and the balance from local sales/projects (see details in Appendix A).

Shareholding & management structure

Mr. Tan Kee Choong and Dato' Chooi Yoey Sun are the founders with their respective stake holding of 24.9% and 24.8% in Signature. Mr. Tan, who is currently the Managing Director, is mainly involved in product design and development, quality control and brand building. Dato' Chooi, who is currently the Executive Director, spearheads the dynamic sales and marketing teams in opening up Signature's market and participating in project biddings. Both Mr. Tan and Dato' Chooi started their careers in the kitchen/furniture industry in 1990 and each has accumulated more than 24 years of experience in different divisions.

Kitchen industry

In Malaysia, kitchen industry can be divided into two segments, ie: 1) non-branded kitchen systems and 2) branded kitchen system. In our analysis of competitive factors, we are of the opinion that the level of competition is moderate (seen Appendix B).



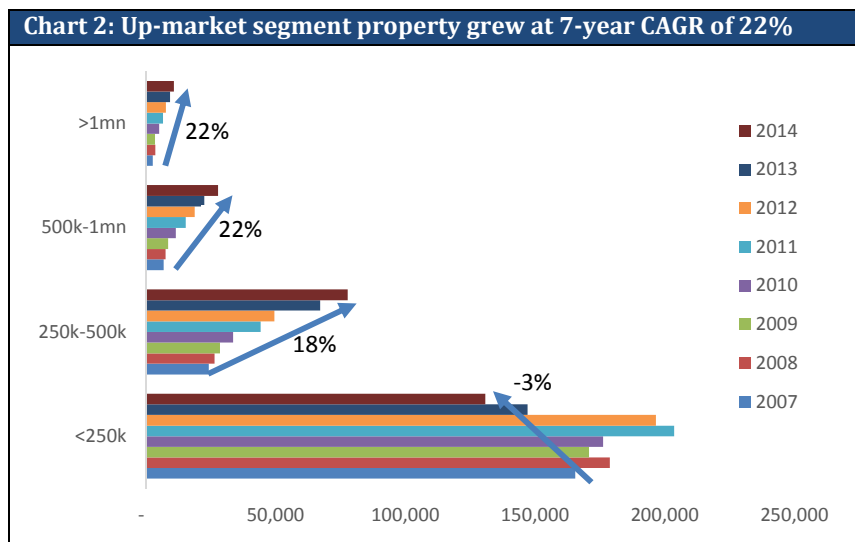
INVESTMENT CASE

1) Favourable housing trends for premier kitchen players

In our opinion, property sale is a good leading indicator of kitchen sales. As such, we are bullish on Signature's future sales, which will be driven by two visible trends in the property market, i.e.: i) rising demand and supply of luxury homes; and ii) increase in housing supply.

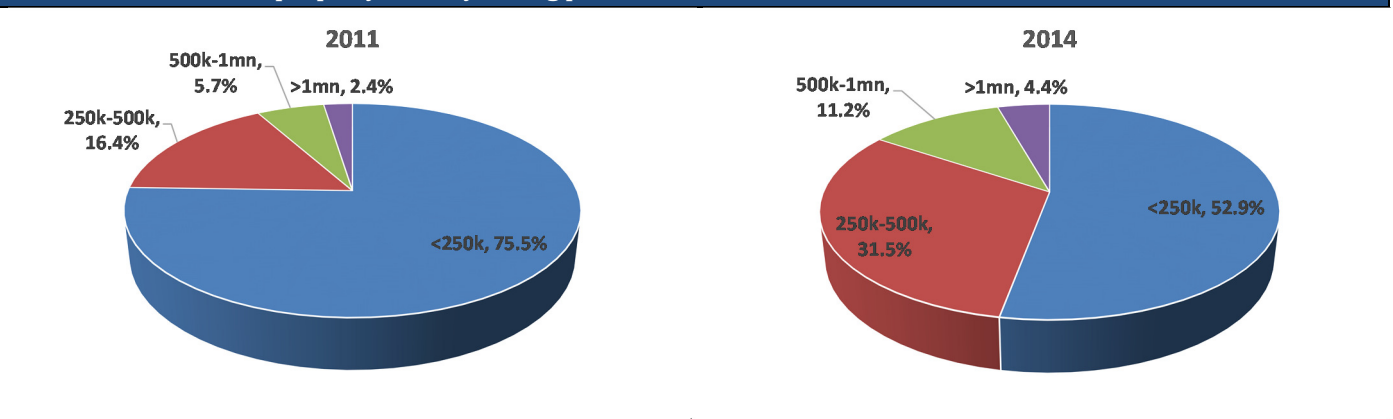
i. Rising demand and supply of luxury homes. The change in housing trend in Malaysia has seen a tremendous growth in the supply of residential properties, which priced at above RM500k/unit. This is to cater for the change in consumer preference in housing demand towards safety and lifestyle living, resulting in increase in demand and supply of gated and guarded properties and serviced apartments with 3-tier security systems in the Klang Valley, Penang and Johor. This additional safety feature has lifted property prices and developers have blended it with other freebies such as kitchen system to justify the price increase.

National Property Information Centre (NAPIC) data shows CAGR growths of 22% in property transactions, priced in between RM500k-RM1mn/unit and above RM1mn/unit segments during 2007 to 2014 (see Chart 2). Chart 3 depicts that properties transactions above RM500k/unit accounted for 16% of the total volume in 2014 as compared to only 8% in 2011 and less than 3% in 2004.



Source: NAPIC

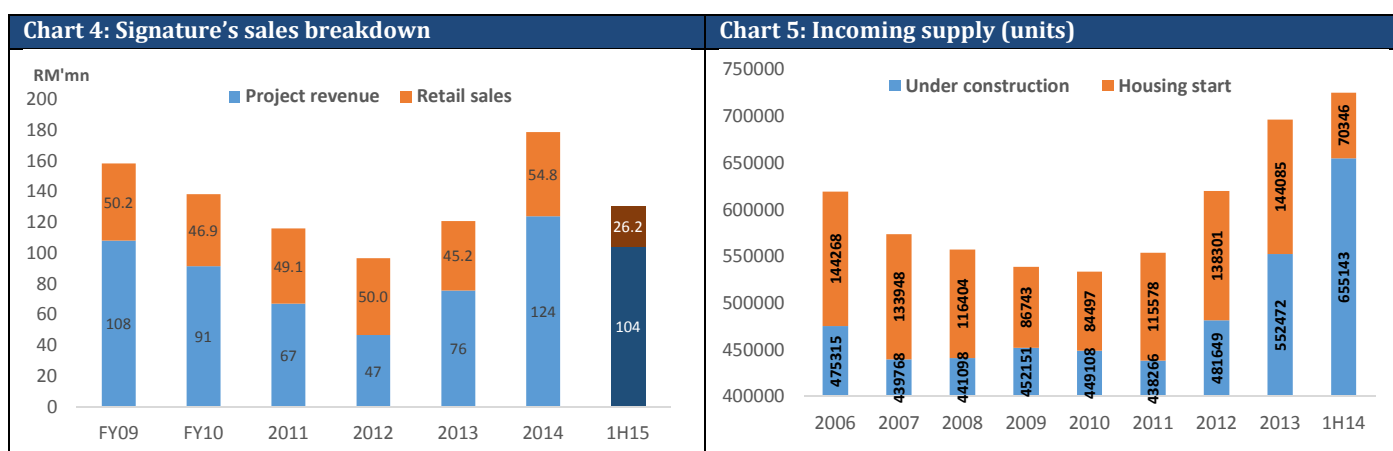
Chart 3: Breakdown of property sales by selling price



Source: NAPIC

ii. Increase in housing supply. In Malaysia, property development will usually take 2-3 years, after signing of sale and purchase agreement, to complete and hand over to owners. Then, renovation and furnishing works will start once defects in the property have been rectified by the developers. For semi-furnished or fully-furnished projects, home furnishing works will begin at the tail-end of the development.

2 to 3-year time lag. Following this development cycle, furniture sales including kitchen cabinet will only be realised 2-3 years after a project launch. This pattern concurs with our findings that Signature's sales (see Chart 4) are also 3-years lagging behind Malaysian housing incoming supply (see Chart 5), which consists of property under construction and new housing start. Note that our R2 statistical test shows that 90% of the Signature's sales growth during FY10-FY13 (from calendar year June/09 to June/13) can be explained by the incoming supply during 2007-2011.



Source: Signature & NAPIC

Strong earnings visibility. Based on the strong correlation between historical housing supply data and current sales of kitchen systems, we make inferences that current incoming supply is a good determinant of future sales of kitchen systems. Based on the latest housing data released by NAPIC, the incoming supply of residential properties grew 11.9% YoY in FY12, 12.4% in FY13 and 10.8% in 1H14, this would lead to strong sales of kitchen systems. In fact, we believe some of the impact has already been felt in Signature's FY14 and 1HFY15 earnings when revenue surged by whooping 47.9% and 86.5% YoY respectively.

Management has guided that its current order book stood at RM160mn as at Apr-15. This outstanding RM160mn would be converted to revenue and recognised in FY16 and FY17. In the meantime, Signature's tender book has hit a record high level of RM400mn, which can be used to replenish its order book, given the tender success rate of 50-60%.

2) Strong brand name and execution power

We like Signature's current positioning in the market as a premier kitchen designer and manufacturer. In the past, the company has completed some ultra-exclusive and award-winning projects to improve its track record. (see Table 1). We attribute the success in project bidding to Signature's key competence, ie: i) branding & 2) project executions.

Table1 : Completed projects

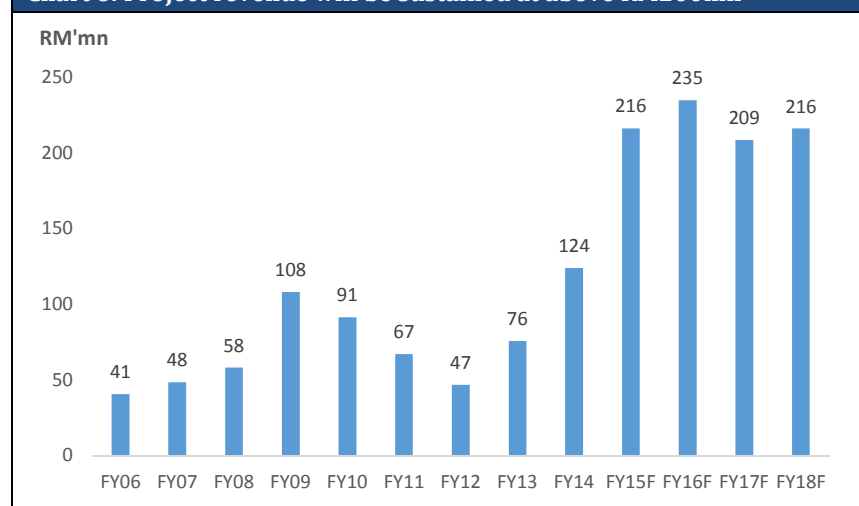
Project	Developer
The Troika	BRDB
Zehn Bukit Pantai	Juta Asia Properties
Ara Hills	Sime Darby
Mon't Kiara Meridin Condominiums	Sunrise
The Hampshire Residences	Zelan
Putrajaya Apartment, Precint 9	SP Setia
10 Mon't Kiara	Sunrise
One Residence	MCT
Mutiara Bukit Jalil	Puchong Kinrara Development
The Pavilion Residence	Urusharta Cemerlang
Ujana Apartments, Johor	UEM
Sinaran TTDI	UDA Holdings
11' Mont Kiara	Sunrise
The Pearl	Malton
Kiara 9	Mitrajaya Holdings
The Oval	Guocoland
Turnberry Villa	Sime Darby
Desa Idaman	Mitrajaya Holdings
Regalia Serviced Apartments	Mayland
Seri Pilmoor	Sime Darby
D'Pulze, Cyberjaya	DPulze Ventures
The Cascades, Kota Damansara	Mitraland Group
Jelutong Heights, Shah Alam	NBC Land
Central Park, Penang	Insa Properties
Titiwangsa Sentral, KL	CA+ Associates
Kiaramas Danai	Asia Quest Holdings
Tropicana Grande, KL	Tropicana
Casa Tropicana	Tropicana
Rhombus Penaga, Bangsar	Beneton Group
Masera, Bukit Segar Cheras	PPB Group
Palazio Apartment, JB	Mayland Austin
D'Esplanade, JB	KSL Holdings
Damansara Oval, KL	Monoland Corp
ViPod KLCC	Monoland Corp
Quadro KLCC	Monoland Corp
Soho Suites, KLCC	Monoland Corp
Six Ceylon	Symphony Life
Zeta Park, Setapak	Fitters Group
Arata	Symphony Life
Jaya One	Tetap Tiara
The Haven, Ipoh	Superbook Projects
Residence 21, Penang	Appresquare
Overseas project	Country
Brigade Gateway	India
Al Reem Island	Abu Dhabi
Belle Revieve	Mauritius
Trillium III	Sri Lanka
Golden Westlake	Vietnam
F1 Circuit	Abu Dhabi
Century Celeste	India
Marina Apartments	Dubai
Sui Generis	Singapore
The Emperor	Sri Lanka
Jaypee Green Crescent Court	India
185 Rajadamri	Thailand
Diamond Island Luxury Residences	Vietnam

Source: Signature

i. Branding. Branding is essential as Signature is involved in the premium segment of kitchen systems. The successful listing of the company on the Main Market of Bursa Malaysia is a significant milestone for adding value to brand equity. Besides that, Signature has a series of marketing programs tailored to its target market including the establishment of Signature Lifestyle Gallery, participation in international showcases and advertising in the interior design and home living magazines. Signature Lifestyle Gallery is an effective marketing tool to demonstrate a wide range of local and imported kitchen systems to customers. Last year, it opened 2 Signature Lifestyle Gallery in the Klang Valley and Johor each to expand its reach to customers.

ii. Project executions. Project execution is one of the key success factors to sustain its relationship with housing developers and project customers. From the developer's view point, kitchen system is only a fraction of the project's entire costs so a delay in kitchen works is unacceptable. This is especially true as installation of kitchen always comes at the tail-end of project development. As such, developers will only engage with reliable players in the kitchen industry to ensure project completion. As far as Signature is concerned, project revenue has been growing by leaps and bounds and it will be an important source to fuel future earnings growth (see Chart 6). As such, Signature has comprehensive teams to ensure project completions, from design to sales to installation, as the cost of project delay is unbearable.

Chart 6: Project revenue will be sustained at above RM200mn



Source: Signature

Project design. Every project will start with identifying a workable kitchen solution that suit the need, lifestyle and pricing of the project. As such, kitchen designs are very important to attract developers' attentions. Signature has a handful of experienced designers of kitchen systems, led by the Group Managing Director Mr. Tan Kee Choong. Every year, the team will visit different kitchen exhibitions and trade shows to keep abreast with the latest design and modern technology in the kitchen industry.

Capacity to install 4,800 kitchen systems in 6 months. Signature has 30 sale and 60 technical staffs in project teams to handle different projects at the same time. To ensure swift progress, the company has an external team of 200 project installers to install and assemble kitchen systems. Assuming each installer takes 7 days to complete kitchen works for one residential unit, Signature has a capacity to complete 5,200 units of kitchen systems in 6-month period, which none of its competitors can cope with. This is a competitive advantage to Signature over its peers in bidding for kitchen projects.

3) Manufacturing outsourcing model

Signature has a kitchen manufacturing plant, which can produce up to 700 kitchen sets per month, to cater for retail sales. To meet the demand from housing development, Signature will outsource the manufacturing works to furniture makers like Mieco Chipboard Bhd and Heveaboard Bhd. We like this business model, which requires minimal amount of capital expenditure and yield relatively high margins as compared to its peers in the furniture manufacturing industry. More importantly, it will provide the flexibility in terms of i) inventory management and ii) cash flow management.

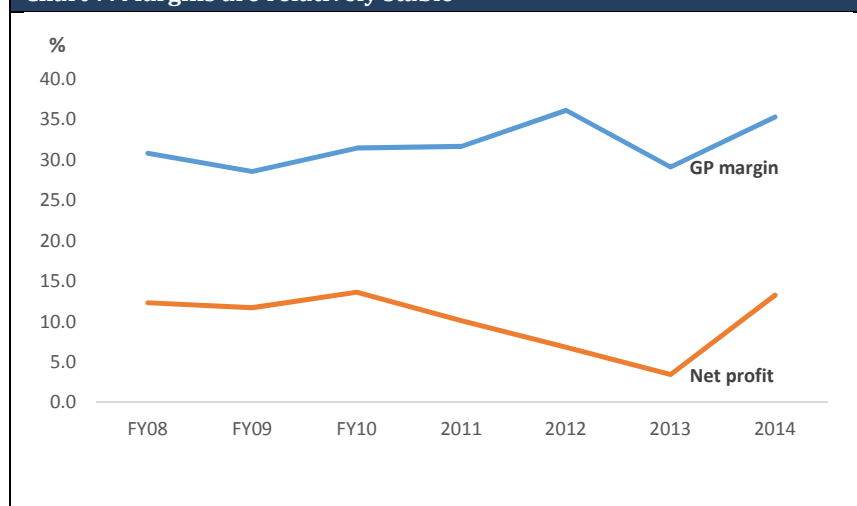
i. Inventory management. For project revenue, the semi-finished products from suppliers will be sent directly to project sites for assembling and installing. As such, Signature is not required to keep significant amount of direct material and this can reduce the company's holding cost in inventory.

ii. Cash flow management. The recognition of projects revenue is based on percentage of completion method. However, it takes 30 to 60 days to submit the first claim upon delivery and 30 days to certify the percentage of work done. On top of that, there is a credit term of average 60 days after the issuance of certificate for payments. So, it will take approximately 120 to 150 days for the company to receive the first payments. To elevate the strain on cash flow, Signature outsources the manufacturing jobs and it will get a credit term of 60 days from its suppliers to minimise its cash flow impact.

FINANCIAL HIGHLIGHTS

6-year earnings CAGR of 9.8%. Since IPO exercise in 2008, Signature's core earnings have been growing at a CAGR of 9.8% to RM23.8mn in FY14, underpinned by a CAGR growth of 8.4% in revenue. GP margin and net profit margin have been relative stable at above 30% and 10% respectively except in FY12 and FY13 when the net profit margin dropped to 6.8% and 3.4% respectively. This was partly due to the distortion from deferred taxation over the treatment of asset impairment.

Chart 7: Margins are relatively stable



Provisions on receivable. Note that in Signature's accounts, there are numerous entries of provisions, allowances, impairments and write-off of receivables, doubtful debts and bad debts. Also, there are write-back of allowances and provisions of these assets. We understand from management that the complication in the treatment of receivable comes from the 5% retention sums held by project developers. Signature will only receive the final 5% payments 24 months after the project completion and this will give rise to provisions on receivables.

Conservative balance sheet. Based on audited FY14 accounts, Signature's net gearing stood at 4%, which commensurate with its asset-light approach where it partially outsourced the manufacturing works. In our view, this prudent capital structure is important to the group's cash flow liquidity, which can be affected by payments delays. In our simple stress test, Signature's current ratio will drop from 1.8x to 0.9x in FY14 if we were to remove the entire trade receivables and amount owing by contract customers.

Investment properties. Signature has substantial amount of investment properties worth RM31mn in FY14. Of this, approximately RM22mn worth of properties are either condominiums, serviced apartments or retail shops, which Signature purchased from developers as a gesture of supporting developers' sales. This include some iconic buildings such as Setia Sky Residence, Kiara 9 Residency, Quadro Residence KLCC and cluster homes in Putra Heights. In our opinion, the average age of these RM22mn investment properties is approximately 3 years and this can be an important source of cash flow once the 5-year RPGT period lapses.

Forecast. Signature recorded core profit of RM16.6mn in 1HFY15, representing a growth of 207% YoY. The increase in profit can be attributed to project revenue growth and economies of scale. In our forecast, we project the group's core profit to surpass RM30mn to RM32.5mn-38.8mn for FY15-FY18, premised on the following assumptions below.

- i. Project revenue to surpass RM200mn first time in FY15 and sustain above RM200mn/year in the future;
- ii. Order book replenishments of RM209mn in FY16, RM167mn in FY17 and RM217mn in FY18; and
- iii. GP margin to come in the range between 36% and 38% in FY16-18.

Dividend policy. There is no formal dividend policy but the company has been paying at least 30% of earnings as dividends since FY11. In view of limited capital expenditure requirement in the near future, we project the company to pay out 35% of earnings as dividends in FY15-18.

RISKS

Dependence on few key suppliers. In the manufacturing outsourcing model, the orders from Signature are usually treated as external and secondary to suppliers' own orders. As such, suppliers may reduce the production capacity allocated to Signature to produce its own products. This will cause production and project flow disruptions to Signature. To mitigate the impact, Signature does not rely on one single supplier to supply its orders.

Competing for same projects. Supplier can imitate Signature's product designs and compete for the projects which Signature is bidding. However, this can be mitigated by breaking up the products orders to different suppliers so none of them can easily copy the design. Also, the suppliers may not have the manpower to complete projects on time.

VALUATION AND RECOMMENDATION

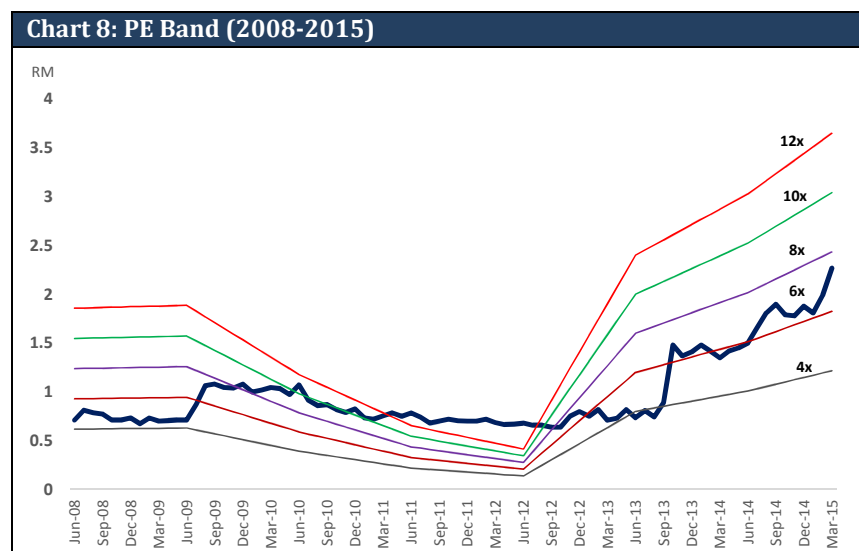
PE Band

In the PE band chart below, we have dissected Signature's share price performance into 3 parts.

2008-2010: Share price (adjusted for bonus issue) exceeded RM1.00 for the first time in 2009. However, the price was below RM1.00 most of the time in 2008-2010 and the forward PE has never gone above 10x (except 2 occasions in June/10 and Dec/10) with earnings ranging from RM12mn to RM19mn.

2011-2012: Share price remained at below RM1.00 but the forward PE shot up from 10x to 20x as FY12-13 earnings were hit by lacklustre sales due to weak housing demand in 2009-2010. FY12-13 earnings dropped to RM4-6mn range.

Late2013-Present: The share price recovered and exceeded RM2.00 for the first time in 2015 due to earnings optimism. PE reverted to 4-8x underpinned by strong earnings growth in FY14 (>400% due to low base effect) and FY15 (est. 26.1%).



Signature (Buy, TP: RM3.22): We value Signature at RM3.22/share, based on 10x FY16 EPS. We think our PE valuation is fair after benchmarking to peers' average PE of 7-8x with earnings growth potential of 18-32% and market capitalization ranging from RM230mn to RM301mn (see Table 2). The premium attached to the peer's average is to reflect its relatively high profit margin and also the expected record earnings at above RM30mn in FY15 and FY16, which are expected to be a trend in the future.

Point to note: In Bursa filing, we understand one of the major shareholders, HSC Healthcare, has pared down its stake from 20.9% to below 5% as at Oct-14. As HSC Healthcare or its Chairman Dr. Lim Yin Chow is not directly involved in the day-to-day business operations of Signature, we do not think the share disposal will have any drastic impacts on Signature's operations. On the other hand, the share disposal is expected to improve the tradability of Signature shares in the market as the public free float has increased to 43.8% from 22.9% in Oct-14.

Table 2: Peer comparison

Stock	Share price (RM)	Market cap (RM'mn)	EPS growth (%)		PE (x)		Dividend yield (%)		ROE (%)	
			FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
Pohuat	2.1	238.1	27.8	12.3	7.4	6.6	4.3	4.8	16.7	16.7
Homeriz	1.14	228.0	18.6	25.0	9.5	7.6	8.8	10.5	20.7	20.9
Heveaboard	3.03	301.3	50.1	17.4	6.6	5.6	2.0	2.6	15.7	15.8
Average		255.8	32.2	18.2	7.8	6.6	5.0	6.0	17.7	17.8
vs										
Signature	2.28	273.6	26.1	27.5	9.0	7.1	3.9	4.8	24.7	24.9

Financial Statements (FYE June)

Profit and Loss (RM'mn)	2013	2014	2015F	2016F	2017F
Revenue	120.8	178.7	270.2	295.0	270.6
COGS	(85.6)	(115.6)	(170.8)	(183.7)	(168.8)
Gross profit	35.2	63.2	99.4	111.2	101.9
EBITDA	12.4	34.5	50.6	58.0	53.1
Depr. & Amor.	(2.5)	(2.6)	(2.8)	(2.9)	(2.8)
Net finance cost	(1.6)	(1.9)	(2.1)	(2.2)	(1.8)
EI	0.4	(4.5)	2.3	0.0	0.0
PBT	8.8	25.5	48.1	52.9	48.5
Adj PBT	8.4	30.0	45.7	52.9	48.5
Tax	(3.7)	(5.9)	(11.9)	(12.7)	(11.6)
MI	(0.5)	(0.3)	(1.4)	(1.6)	(1.5)
Net profit	4.6	19.2	34.8	38.6	35.4
Core profit	4.2	23.8	32.5	38.6	35.4
EPS (sen)	3.5	20.0	25.2	32.2	29.5
DPS (sen)	1.5	5.0	9.0	11.0	11.0

Cash Flow (RM'mn)	2013	2014	2015F	2016F	2017F
PBT	8.8	25.5	48.1	52.9	48.5
Non- cash item	2.3	7.1	1.6	2.9	2.8
Chg in working capital	2.5	(21.8)	(31.4)	(10.4)	11.5
Tax	(3.1)	(5.1)	(11.9)	(12.7)	(11.6)
Others	(0.5)	(0.4)	(1.2)	0.0	0.0
CFO	10.0	5.3	5.2	32.7	51.2
Capex	(1.8)	(1.6)	(5.0)	(1.0)	(1.0)
Others	0.3	(5.6)	0.0	0.0	0.0
CFI	(1.5)	(7.2)	(5.0)	(1.0)	(1.0)
Net Borrowing/Rpmt	(1.9)	(1.1)	5.0	(3.0)	(5.0)
Dividend Paid	(1.8)	(1.8)	(10.8)	(13.2)	(13.2)
Others	(0.9)	0.2	0.0	0.0	0.0
CFF	(4.7)	(2.7)	(5.8)	(16.2)	(18.2)

Key Assumptions (RM'm)	2013	2014	2015F	2016F	2017F
Project revenue	75.7	123.9	216.2	234.8	208.6
Retail sales	45.2	54.8	54.0	60.2	62.0
New projects secured	-	-	200	209	167
New bids	-	-	300	300	400

Balance Sheet (RM'mn)	2013	2014	2015F	2016F	2017F
PPE	7.4	46.5	48.7	46.8	45.0
Investment properties	16.4	31.0	39.0	39.0	39.0
Others					
LT Assets	23.8	79.8	90.0	88.1	86.3
Inventories	14.2	16.7	25.7	27.7	25.4
Trade & other receivables	56.6	70.6	101.4	117.0	112.7
Cash & Cash equivalent	19.8	15.3	9.7	25.2	57.2
Others					
ST Assets	168.2	145.2	171.5	204.6	230.0
Total Assets	192.0	225.1	261.6	292.7	316.3
Trade and other payables	27.4	51.1	59.5	66.6	71.6
ST Borrowings	2.6	2.9	2.9	2.9	2.9
Others					
ST Liabilities	64.8	81.4	89.8	96.9	101.9
LT Borrowings	18.9	17.6	22.6	19.6	14.6
Others	2.5	2.5	2.5	2.5	2.5
LT Liabilities	21.5	20.1	25.1	22.1	17.1
Share Cap	60.0	60.0	60.0	60.0	60.0
Reserves					
Shareholder's Funds	103.3	120.7	142.4	167.8	190.0
MI	2.4	2.9	4.3	5.9	7.3
Liabilities + Equities	192.0	225.1	261.6	292.7	316.3

Ratios	2013	2014	2015F	2016F	2017F
EPS Growth (%)	(36.7)	479.5	26.1	27.5	(8.3)
PER (x)	66.0	11.4	9.0	7.1	7.7
Div Yield (%)	0.7	2.2	3.9	4.8	4.8
Net cash (RMm)	(1.7)	(5.3)	(15.8)	2.7	39.7
Net gearing (x)	0.0	0.0	0.1	Net cash	Net cash
ROE (%)	4.1	21.2	24.7	24.9	19.8
ROA (%)	2.3	11.4	13.3	13.9	11.6
NTA (RM)	0.86	1.01	1.19	1.40	1.58
P/NTA (x)	2.6	2.3	1.9	1.6	1.4
EV/EBITDA (x)	22.2	8.1	5.7	4.7	4.4

Appendix A : Business structure

Signature is principally involved in design, marketing and distribution of kitchen systems, wardrobe systems and built-in kitchen appliances. It has a manufacturing plant in Kota Damansara, which is capable of producing 700 sets/month of kitchen systems.

Signature's current revenue comes from two main sources, ie: Project revenue and Retail sales, which accounted for 69.3% and 30.7% of FY14 revenue respectively. Of the total revenue, a small portion of 5% was contributed by overseas projects and the balance from local sales/projects.

For project revenue, Signature actively participates in housing projects for the supply of kitchen systems. In a typical tender process, developers or project designers will call kitchen suppliers to advise and quote kitchen systems before they can firm up property selling prices. As such, a tender process usually start before a project is launched. However, as kitchen works can only start when the building and unit structures are completed, contract awards are usually delay until the project reaches 50% completion.

For the retail market, Signature has 6 wholly-owned retail showrooms (each in Kota Damansara, Mid Valley, Puchong, Penang, Ipoh and Johor) and 13 appointed agents nationwide to cater for individual sales. Signature's kitchen series can be divided into 4 main themes, i.e.: Sleek Linear, Contemporary Charm, Simply Natural and Rustic Country, which can be further subdivided into 100 different colours and material combinations. Also, Signature is selling imported kitchen systems too, which include some internationally renowned brands such as Bieffi Cucine, Binova and Nobilia. In other words, Signature has a wide range of premium kitchen products with selling price ranging from below RM20,000/unit to as high as RM100,000/unit and above.

Currently, close to 50% of the retail revenue is generated from those wholly-owned outlets. In terms of average sales per customer, 10% is below RM20,000, 40% is in between RM20,000 and RM50,000, another 40% is in between RM50,000 and RM100,000, and the last 10% is above RM100,000. The premium pricing does not come as a surprise as Signature is not designed to be any mom and pop shops, selling homogenous products.

Operationally, Signature has 350 employees under different divisions, ie: manufacturing, site management, retail sales, project sales and administration. In the manufacturing division, there are 20 local and 90 foreign workers running one shift operation, producing 700 set of kitchen systems per month.

Subsidiary	Effective stake	Principal activities
Signature Cabinet	100%	Design, marketing and distribution of kitchen systems, wardrobes systems and built-in kitchen appliances.
Signature Aluminium	60%	Manufacture, supply, fabrication, and installation of aluminium, glass and aluminium related products for the retail and project business.
Signature Obicorp	100%	Marketing and distribution of built-in kitchen appliances and white goods.
Kubiq	100%	Selling, marketing and distributing kitchen and bedroom cabinets, knockdown furniture and furniture parts, appliances and accessories.
Signature Interiors	80%	Interior decorators, consultants and planners of the arrangement, decoration and furnishing of office, shops and residential interiors.
Signature Realty	100%	Investment properties holdings.

Signature Kitchen's 4 main product themes

Sleek Linear

'Less is more' is the philosophy behind this kitchen concept. Precise lines, seamless surfaces and handleless panels combine to create sleek, minimalist design statements that eliminates any hint of domestication in the kitchen.

Subtle sophistication with a touch of modernism.



Contemporary Charm

This collection presents a refreshing appeal in its subtle and clean lines, with charming accents such as obvious handles and door pulls.

Designed to endure the tides of fashion fads to remain timelessly chic.



Simply Natural

Take inspiration from Mother Nature and let the natural beauty of raw materials of oak shine through. Natural wood elements are shown off in this collection with a contrast in the fine horizontal and vertical wood grain details on the door frames.

Pure enjoyment in a warm and natural ambience.



Rustic Country

Traditional country design takes a dive into a fresher, more relaxed realm with modern crafted elements. A classic design with understated elegance and hints of vintage or baroque elements, while rich earth tones create a homey atmosphere.

A modern interpretation of country style kitchens.



Source: Signature

Appendix B : Kitchen industry

Kitchen industry can be divided into two segments, ie: 1) non-branded kitchen systems and 2) branded kitchen systems.

- Non-branded kitchen systems
 - Largest category of operators
 - Carpenters, sub-contractors, sole proprietors and trade person
 - May have small workshops, do not have manufacturing facilities or retail showrooms
 - Do not have their brand names
 - Do not participate in marketing or promotional activities
- Branded kitchen systems:
 - Small group of operators
 - Larger corporations in terms of turnover and number of employees
 - Invest significantly on their brands
 - Have manufacturing facilities, design centres, and retail showrooms

In our analysis of competitive factors in the kitchen industry, we are of the opinion the level of competition is moderate.

Barriers to Entry

- Non-branded kitchen systems: low
- **Branded kitchen systems: moderate**

Determinants of supplier power: Moderate

- Major raw materials and finished products:
 - Wood and wood-based panel products - plywood, veneer sheets, MDF, particleboard, and laminated board
 - Kitchen appliances
 - Countertops
 - Fittings – cabinet door handles, hinges, metal-based mechanisms
 - Paints and coatings, glass, aluminium, glue and other minor materials
- Number of local producers of various wood-based panels in Malaysia:
 - 176 plywood/veneer mills
 - 7 particleboard/chipboard plants
 - 8 MDF plants
 - 41 laminated board plants
- Supply availability:
 - Sales value of veneer sheets and plywood
 - Sales value of laminated board, particleboard and other panels
 - Sales value of kitchen appliances
 - Import value of particle board and similar board

Rivalry determinants

- Non-branded kitchen systems: high
 - Many operators within segment – contributing to the overall competitive industry
 - Less product and service differentiations
 - Operators compete on price
- **Branded kitchen systems: Moderate**
 - Operators are highly differentiated through strength of brand equity
 - Operators with high brand equity face less competitive intensity
 - Operators with significant presence in the consumer market through retail showrooms put competitive pressure on operators with less number of retail showrooms
 - Not rely entirely on local market → increase volume of work → obtain economies of scale → increase profit margin
 - 80 operators in the local market – reduces intensity of competition

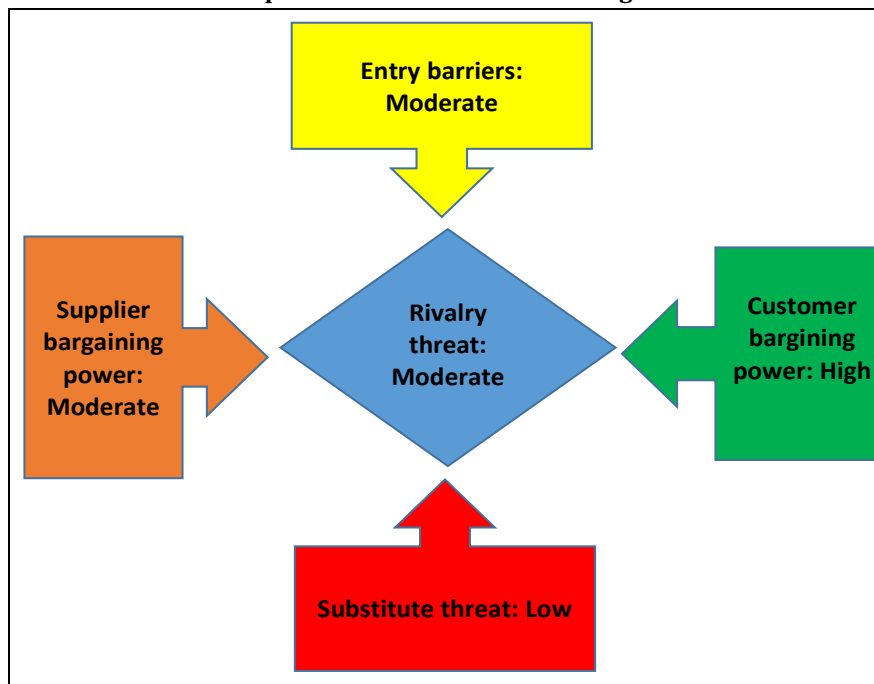
Determinants of buyer's power : High

- Ultimately dependent upon the consumers and their expenditure on household products and services
- Factors impacting consumer demand:
 - Increase affluence of the population
 - The growing sophistication in lifestyles
 - Growth in disposable income
 - General population growth

Determinants of substitution threat: Low

- No threats of substitutes
- The only other consideration is the use of different types of materials, or a combination of materials used

Moderate level of competition in Branded Kitchen segment



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