

# Challenger beats soaring rents, continues expansion

| BY JOAN NG |

Challenger Technologies, a local retailer of IT products, does not appear to have been as badly affected by soaring rents as the rest of the sector. While retailers Courts Singapore, Pertama Holdings and FJ Benjamin Holdings reported earnings over the past fortnight that were below expectations because of runaway costs, Challenger announced that its earnings for 2007 were up 56% to \$7.1 million on a 47% rise in revenue to \$136.1 million. Its earnings per share had been diluted somewhat by a rights and warrants issue during the year, but were nevertheless up by 40% to 3.56 cents.

Maintaining those rates of profitability will be tough, however, given Challenger's expansion plans and increasingly expensive retail space across Singapore. The company opened 10 stores in the last 18 months, and plans to open three more over the next 12 to 15 months — one each at Sembawang, Tampines and Jurong. That will increase its total number of outlets to 20. The company is also constantly on the lookout for new locations.

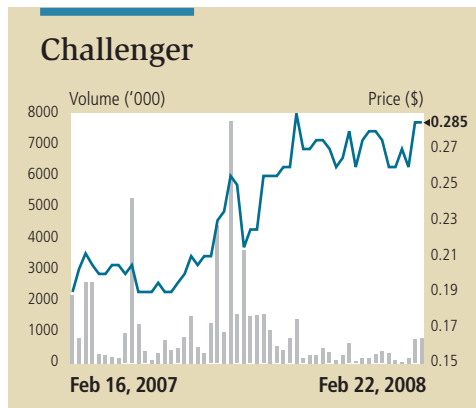
Loo Leong Thye, CEO of Challenger, thinks he will be able to hold up his company's profit margins as it expands through tough cost control, and by avoiding price wars with its larger competitors like Harvey Norman (owned by Pertama Holdings), Courts and Best Denki (which is unlisted) that it cannot win. "Those big boys are killing themselves," he says. "I look at their selling price and it's below my cost price. But what's the point of market share if you don't make money?"

## Tight management

What's the secret to Challenger's success? Astutely balancing sales of high-value but low-margin products like flat-screen TVs and laptops, and low-value but high-margin items like computer peripherals and consumables, says Loo. While products like computers and laptops do not have especially high margins, they generate high revenue per square foot of retail space. And, the large volume of sales enables Challenger to negotiate for better prices from its suppliers. "This is our bread and butter — high-ticket items with typically low margins," says Loo.

On the other hand, consumables and peripherals tend to generate high profit margins and attract customer traffic. Most of the floor space at the company's flagship outlet on the top floor of the Funan DigitalLife Mall is devoted to items like storage devices, printer cartridges or multimedia and gaming accessories. "Most of the products we're selling now have double-digit [gross margins]," Loo says.

The company also tracks the spending patterns of its customers. "We know how much an average transaction is at our store, so we



can work out how many transactions we need to have," Loo says. "If we need 20 transactions a day, then we need 100 people to walk into our store."

To keep customers coming back, Challenger operates a popular loyalty programme. Customers under the programme are offered discounts on certain products and awarded points for money they spend that can be redeemed for gifts. About two-thirds of Challenger's sales are to repeat customers. Gift redemptions un-

## Loo says the secret to Challenger's success has been to astutely balance sales of high-value but low-margin products with low-value but high-margin items

der the loyalty scheme provide the company with an avenue to clear stock and better manage its inventory.

Understanding the sales patterns at its stores gives Challenger a clear idea of how much rent it can afford to pay when it plans new store openings. "We work from the bottom up and look at our costs first," he says. For a new store, about 50% of gross profit can go towards rental costs, although eventually that number scales down to 25% as store sales grow. "From there, we look at our gross margin of about 20% and calculate the breakeven point," he says.

Even with the meticulous planning, Challenger cannot afford to pay for premium retailing space. "We normally do not offer very high rentals," Loo says. "But, at the same time, we do not ask for the best location."

None of the group's malls is located within the prime Orchard Road shopping belt. Instead, Loo's strategy has been to locate Challenger in neighbourhood malls such as Hougang Mall or Eastpoint Mall. In the malls, he has stayed away from the first floor, where rents are usually highest.

By settling for less-than-ideal locations and through tough negotiations, Challenger has managed to lock in reasonable rates in its leases, Loo says. Most of the company's leases also include agreements that cap increases on renewal at 20% or less, he adds. If landlords ask for more, Loo counters with offers

to base the rental rates on a fixed percentage of his gross turnover, which he says landlords have been willing to accept.

## High dividend

Reflecting the tough environment in which Challenger operates, the stock currently trades at less than eight times the company's earnings for 2007. By comparison, shares in Pertama are trading at about 12 times its 2007 earnings, while shares in recently listed Apple products retailer Afor are trading at just over six times.

However, investors in the stock have benefited from a high dividend yield. The company declared a final dividend of 2.3 cents a share when it announced its full-year results earlier this month. Along with the interim dividend of one cent, the company's full dividend was 3.3 cents, an increase of 65% over the previous year. That's a gross dividend yield of 11.6% based on its closing price of 28.5 cents last Friday.

Can the small company with a market value of just \$58.7 million maintain that dividend amid the tough business conditions?

Loo says Challenger doesn't have a firm dividend policy because the retail industry is simply too unpredictable. But as the owner of more than 41% of the company's shares, he has been enjoying the hefty payouts too, and says he wouldn't want to see future dividends reduced.



A Story of Passion & Style

# Health Management to open second Malaysian hospital in Johor by June

| BY NOVA THERESIANO |

**D**rop by the hushed waiting rooms in one of Singapore's few private hospitals and chances are you will hear Bahasa Indonesia being whispered among some of the patients.

Indeed, it is very common to find Indonesians hopping over to Singapore to seek medical treatment, followed by some shopping in Orchard Road. After all, the island-state is known for its capable doctors, reliable health-care services and advanced medical facilities. And there are plenty of malls.

But there is now competition from Malaysia. With the Indonesian rupiah weakening against the Singapore dollar, Indonesians are flocking to Malaysian private hospitals as a cheaper alternative, says Francis Lim, executive director of homegrown healthcare provider Health Management International Ltd (HMI).

Not to be outdone, HMI will soon open of its second hospital in Johor, Malaysia. The Regency Specialist Hospital is located in the new town of Bandar Seri Alam, about 18km east of Johor Baru. Currently, HMI runs the Mahkota Medical Centre in Melaka, which gets a third of its revenue from Indonesian patients.

Slated to open by end-June, Regency Specialist Hospital is a six-storey medical centre with 218 beds, six operating theatres, critical-care wards, labs and diagnostic radiology departments. The building has a gross floor area of 20,300 sq m.

## Malaysia's incentive

Gan See Khem, group executive chairman of HMI, says Malaysia attracted 296,687 foreign patients in 2006 and is one of the fastest-growing destinations for medical tourism in Asia. As medical tourism is expected to generate US\$1 billion (\$1.5 billion) in revenues by 2010, the Malaysian government is doing all it can to help promote the sector. Starting January, health tourists can get a visa of up to six months.

"Singapore's scalability is not big," says Gan, when asked why HMI did not set up a medical centre in Singapore. Malaysia has a population of 25 million — 5.5 times that of Singapore's — and has a shortage of quality healthcare facilities, especially in Johor, she adds.

Setting up Regency in Johor not only caters to Malaysians and Indonesians, it also attracts nearby Singaporeans. With medical costs spiralling in the republic, health-conscious Singaporeans can hop to Regency for a health screening — just an hour's drive away and cheaper too.

"[Also,] I'm interested in Malaysia because I think there are a lot of similarities in the law and practices between Singapore and Malaysia," says Gan. So, it was only natural for HMI to choose Malaysia for its first overseas ven-



With the Indonesian rupiah weakening against the Singapore dollar, Indonesians are flocking to Malaysian private hospitals as a cheaper alternative, says Lim



Gan: There are still opportunities in Malaysia, but moving on, we are looking at China as a destination we'll explore



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ture. "We [also] know that in the Malaysian healthcare sector, the government sector is not competing with us," she explains.

Regency, originally a joint venture between DBS Land and the Development Corp, has a rather turbulent past. Construction of its building ground to a halt during the Asian financial crisis and, even after it was finally completed in March 2002, it was left vacant because DBS

Land had merged with Pidemco to form CapitaLand, which had no interest at the time in healthcare-related properties, says Gan. That's when HMI swooped in.

The company began negotiating to acquire Regency in 2003 and finally signed a deal last May to buy over CapitaLand's 65% stake in Regency's holding company, Premier Health Corp (M) Sdn Bhd for RM12 million (\$5.26 million). Five days later, HMI paid another RM6.5 million for the remaining 35% stake from the Penang Development Corp.

Gan considers the RM18.5 million investment a bargain. Moreover, no major renovation work had to be carried out as the building was as good as new, she says.

"Actually, we are trying to [launch Regency] by next month. Unfortunately, the licences took a bit longer than we expected," says Gan, hinting that the reshuffling of Malaysian government officials and ministers had something to do with the delay. But all the required licences have since been secured and HMI is training its staff in preparation for its opening.

HMI's long wait for Regency should be worth

it with the launch of the Iskandar Development Region (IDR) in 2006. Located in Johor and three times the size of Singapore at 2,217 sq km, the special economic zone will spearhead Prime Minister Abdullah Ahmad Badawi's attempt to turn the southern state into the second metropolis after Kuala Lumpur. At the heart of the IDR is a US\$1.2 billion, nine sq km megacity called Node 1, which Regency can tap into. It has also been reported that there are talks between Singapore and Malaysia to extend the MRT line from Woodlands to the IDR.

But shareholders of HMI cannot reap the rewards of Regency just yet. Although the acquisition of Regency was completed last year, shareholders still have to bear with the financial cost in setting up the hospital, until at least June 30 this year (HMI has a June 30 year-end). For the first six months to Dec 31, HMI's revenue inched up 2% to \$22.1 million, while net profit attributable to shareholders slumped to \$312,000, from \$1.4 million the previous year.

## China next

Beyond Malaysia, HMI has set its sights on China — not to set up hospitals but to train nurses. Given the acute shortage of nurses in Singapore and abroad, HMI sees huge potential in training nurses from the world's most populous nation. "There are still opportunities in Malaysia but, moving on, we are looking at China as a destination we'll explore," says Gan, as HMI currently runs a nursing and a healthcare vocational training school in Singapore on Jalan Bukit Merah.

Although HMI's education division now contributes only about 5% of its total revenue and the nursing school takes in about 200 students a year, these numbers are set to grow.

Last April, HMI signed a memorandum of understanding with Linyi People's Hospital in Shandong to set up a joint training programme. Under the agreement, trainee nurses from China can complete the second half of their training in Singapore and sit the Singapore Nursing Board exam. Upon graduation, most of these nurses would be placed in local hospitals, but they can also apply to be nurses in other Commonwealth countries. **E**



A Collection to Meet the  
World's Needs

# Open, principled and poised for the global stage

Asia's share of the global furniture export market continues to grow, Singapore's furniture industry is poised to make its presence felt on the global stage. Already, Singapore's furniture companies are highly regarded internationally for their reliability and

seen as trustworthy partners.

To further boost the industry, the Singapore Furniture Industries Council (SFIC) — together with lead agency for the furniture industry, SPRING Singapore and IE Singapore — is jointly launching a local furniture industry branding

programme on March 9 in conjunction with the International Furniture Fair Singapore/Asean Furniture Show 2008.

This week, we turn our focus on two local furniture companies that have won over buyers through their open and principled business relationships with their clients.

## Cathay Decoration

### Serving the discerning

Cathay Decoration is a complete interior solutions company specialising in design development, building and implementing interior fit-outs as well as providing pre-construction consultation, and project and construction management services to institutions like hotels and corporate offices.

With customers like Marriot Hotel and the National University of Singapore, Cathay Decoration has developed customised tools and processes, providing consistent and high-quality output.

A recent project for Swiss bank UBS, which involved extensive restoration, was even nominated for the 2007 URA Architectural Heritage Award.

"We serve a lot of corporate customers who are very driven by regulations and high standards," says managing director Alison Kwok. "Our end products and services must exceed expectations because our customers are positioned to be the best in their industry."

Founded in 1974 as a sole proprietorship, Cathay Decoration now has an annual turnover of \$12 million to \$13 million. Impressive financial figures aside, the company is also known for its principled, honest and open business practices within the industry.

Cathay Decoration's dedicated team of 75 employees is driven by a company culture best crystallised by the phrase: "All things are possible." They are also passionate about their work and thrive on meeting their clients' needs with the best possible results.

"We believe in learning and continuous improvement through experience and aim to deliver the best out-of-the-box solutions for our clients," says Kwok. "Also, we have a proven track record of maintaining transparency in our all business communications. In the long run, having the courage to tell the truth in all

our dealings with customers will be more profitable for all."

To establish and cultivate links with the industry, the company's management is also active in the SFIC. Through this affiliation, the company has also benefited from working with regional Furniture Councils, manufacturers and specialist suppliers in Asia.

The company has also moved beyond Singapore, with a Bangkok office that can provide customers with complete interior fit-out de-



**Kwok:** We serve a lot of corporate customers who are very driven by regulations and high standards

sign and related services. It hopes to become the preferred provider of interior construction services in Singapore and Asia.

While Kwok is mindful of some of the challenges facing local furniture companies like Cathay Decoration, she is optimistic, and rightly so. Many companies in the industry are doing more and more of their creative work here, on top of just the traditional manufacturing or headquarter functions. In short, it has become busier for everyone.

"There are more and more players in the market and one of the challenges for companies like Cathay Decoration will be finding the right people for the job. With government support, the outlook for the industry is bright," she says.

## Lorenzo International

### 'In good hands'

Singapore-listed Lorenzo International, a premium designer and manufacturer of lifestyle furniture for the mid- to high-end market, sees an open business culture as vital to its business.

"Appropriate disclosure is very important, especially in financial reporting," says executive chairman James Goh. "Through our open communication with stakeholders, our business has improved tremendously. Our customers and shareholders have confidence in us and can be assured they are in good hands."

The transparency goes beyond just customers and shareholders, as the company makes it a point to keep suppliers and other business partners informed on possible issues.

The company, an established brand name in the industry, has two main collections. "Dante", is a classic leather collection offering a full range of contemporary lifestyle furniture with a strong European influence, while "Enzo" is a complete range of stylish and sophisticated wood-based furniture and accessories, including sofas, dining tables, beds, cabinets, bookshelves, wardrobes and other furniture.

Listed in 2006, Lorenzo International now has an annual turnover of some \$70 million. It runs three manufacturing facilities — two leather sofa-manufacturing facilities in Malaysia and in Kunshan, China; and a wood-based furniture manufacturing facility, also in Kunshan.

"We differentiate ourselves through cost-competitiveness, consistently creative furniture designs as well as creating furniture based on a 'lifestyle' concept," says Goh. "Through years in the retailing business, we have, through feedback and communication, gained a better understanding of what our customers want and look for."

The company aims to build the Lorenzo brand into a more prominent one in the region and beyond.

It currently has 36 self-owned outlets and 33 licensed retailing system stores in six countries, including Singapore, Malaysia, China, Brunei, Myanmar and Taiwan and a sales network spanning 50 countries, including Southeast Asia, Europe and the US.

The opportunities are certainly there. Goh, citing a \$1.25 billion turnover in 2007



**Goh:** The outlook for the industry is still very good with the housing boom, especially in the markets where we operate

in the local furniture import and export markets, is expecting to see that figure grow even further.

"Our biggest challenges are the rising costs of raw materials, oil and labour," says Goh. "But the outlook for the industry is still very good with the housing boom, especially in the markets where we operate. Once you have a good reputation, business will keep coming as customers typically need to refurbish every five to eight years."

To Goh, the joint marketing and branding efforts between industry players and government agencies like SPRING Singapore will also "act as a bridge" for the industry to gain a bigger presence in the international market.

"We can mirror what happens in Italy where they have a special platform for all players to gain international exposure," he says.

Compared with Italy, "ours is on a much smaller scale, but it can still be done. People will be able to see what Singaporean players have to offer", he says.



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Find out more at the **International Furniture Fair Singapore/ ASEAN Furniture Show 2008**

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