SOURCE > The Business Times
DATE > Wednesday, 29 November 2023
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Fu Yu guides for better FY2024 performance, margins after strategic review

Capital expenditure improvements will start to bear fruit next year, says group CEO David Seow

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PRECISION plastic components manufacturer Fu Yu Corp is projecting a brighter outlook for FY2024 with the launch of new transformation strategies to "build a much stronger business foundation, open up new business opportunities and enhance shareholder value".

The group on Tuesday (Nov 28) said it expected China's economic slowdown, rising interest rates and geopolitical tensions to "pose challenges" for FY2023.

For the nine months ended Sep 30, Fu Yu reported a 34 per cent decline in revenue to S$104 million from S$157.6 million the year prior. Gross profit fell 67.8 per cent on the year to S$9.5 million from S$29.5 million previously, led by lower profit contributions from the manufacturing business.

Fu Yu group chief executive David Seow said its customers typically give one, three and six-month forecasts for future orders. Over the past year, customers have revised their forecasts downwards as they continued to hold large stockpiles of inventory post-pandemic.

"We saw that trend happen for the last year but it seems to have improved so we are hopeful that come next year, things will be better," he said.

Its audited results for the full year are expected to be released in late February 2024.

Going forward, Fu Yu anticipates its FY2024 financial performance to improve on expectations of a higher top line driven by the launch of its newly established "Smart Factory" facility along Tuas Drive. This involved additional capital expenditure of S$22 million.

Seow said that capital expenditure improvements will start to bear fruit next year as the company has upgraded its machinery and hired more engineers to manufacture products within the two to five micron precision range. This is an improvement over the 10 to 20 micron range that the company could manage previously.

The upgrade will allow the company to manufacture smaller components, such as the plastic lenses that go over the sensors of electric cars and other biomedical products.

Seow is particularly bullish on the biomedical sector, which will involve the manufacturing of products such as syringes and endoscopes.

Although the sector currently accounts for less than 10 per cent of the company's revenue, he expects it to contribute to at least half of its revenue in three years' time.

Because the biomedical sector has stringent requirements and very high entry barriers, he believes that the company will be able to find a niche for itself in the space.

Higher margins in the biomedical segment, advances in smart manufacturing, and group-wide efficiencies are also believed to improve FY2024 gross profit margin compared to the 9 per cent margin achieved in the first half of FY2023.

Fu Yu also projects revenue contribution from its export tooling segment – where revenue contributions will commence from FY2024 – to "rise significantly".

Fu Yu's announcement follows the completion of its strategic review headed by Seow.

Seow was appointed after the board was reconstituted in 2021, following Pilgrim Partners Asia's acquisition of a 29.8 per cent stake in the company.

In its Nov 28 filing, Fu Yu said that its board had outlined five major strategies to "address the fresh challenges and opportunities" post-Covid with its recent completion of the company's strategic review.

The first is to place a back-to-back emphasis on the design and manufacturing of mould capabilities, as well as improvements to group-wide efficiencies related to its Smart Factory as a hub to support plastics manufacturing.

Secondly, the company intends to target higher-precision tooling and components for the biomedical and life science industries while enlarging its geographic and sectoral market reach.

The third strategy is to position the company to help customers improve their sustainability efforts and reduce greenhouse gas emissions.

This will be accomplished through initiatives such as the use of renewable energy, alternative raw materials, additive manufacturing technologies, and data capture of carbon reduction throughout the manufacturing process.

Fu Yu's fourth strategy is to optimise its manufacturing processes, shorten lead times, and improve cost efficiencies by engaging with its customers early at the design phase, and integrating product development.

Lastly, the group said it aimed to increase shareholder value by forging alliances and collaboration globally to raise Fu Yu's profile as it explores merger and acquisition opportunities.

Seow said: "We strive to be that one-stop shop – so rather than have the customer go and look for his five suppliers himself, we will find partners to work with in the metals, rubber, electronics industries, and then we try to do everything for our customer."

He added that the company's strong balance sheet allows it to pursue these different opportunities despite the current interest rate environment. The company was in a net cash position of S$56.7 million as at Sep 30, 2023.

Shares of Fu Yu ended Tuesday trading S$0.004 or 3.3 per cent higher at S$0.127.

Fu Yu's David Seow is particularly bullish on the biomedical sector, which will involve the manufacturing of products such as syringes and endoscopes. PHOTO: CHERYL ONG, BT