

Company Name : LKL International Berhad
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LKL hopes to tap US market

It is confident of obtaining approval from the FDA to export its health care products



by Lim Gian Yai

FRESH from its listing on the ACE Market, healthcare-related company LKL International Bhd has now set its eyes on the US market.

It is learnt that the medical beds and peripherals manufacturer is seeking approval from the US Food and Drug Administration (FDA) to export health care products to the US and neighbouring countries.

The only American countries LKL exports to are Costa Rica and Mexico.

"We have exported our medical beds and accessories to over 30 countries spanning across Asia, Europe, Africa, Middle East and Central America.

"So the US market is a missing piece of the puzzle that we are eager to fill. It is also where our future export business lies.

"We are confident to receive clearance from the FDA," LKL founder and managing director Lim Kon Lian tells **FocusM**.

The 62-year-old says the company is seeking advice on the requirements and procedures necessary for FDA submission. The outcome is expected to be known in the first half of next year.

LKL produces various types of medical and delivery beds based on manual, hydraulic and electric control systems.

It also designs and manufactures the medical peripherals and accessories like patient transport trolleys, examination tables, medical carts and instrument trolleys which are used mainly in hospitals and other healthcare-related facilities.

American market

The FDA regulates medical devices before and after they reach the marketplace.

Those that require its green light include complicated and high-risk devices such as artificial hearts. It also regulates relatively simple and low-risk products.

Apart from medical devices, FDA is also responsible for regulating pharmaceutical drugs, foods, cosmetics, veterinary drugs and tobacco.

Securing orders from the US market will be a huge boost for the company. LKL's export business contributed around 20% to its turnover in the last four years.

Its export sales in FY16 ended April 30 rose marginally to RM7.71 mil from RM7.6 mil last year.

While Lim reckons the US is a relatively mature market measured by the number of beds per 1,000 population, emerging economies surrounding the US nevertheless offer LKL vast opportunities too.

"FDA approval will be instrumental to our marketing and trading activities in Latin American countries," he says. The Americas is a continent encompassing 35 countries with a 973 million population.

The World Bank says the average medical beds per 1,000 population for developed countries was 5.6 in 2013.

However, the US fell behind developed country standards with merely 2.9 beds per 1,000 population. This was also far lower than the 13.7 beds and 10.3 beds in Japan and Korea respectively.

Despite the sluggish economic condition, LKL is confident of achieving a high single digit growth. "It is a realistic target in light of the soft market conditions," Lim says.

While LKL is optimistic of reaching its target growth going forward, the manufacturer fared poorly in its recent financial results.

Its FY16 results posted a 45% drop in net profit to RM3.27 mil from RM5.96 mil the previous year, while revenue slipped 4.84% to RM37.14 mil from RM39.03 mil. LKL attributed the decrease in total revenue to poor market sentiment.

"If we strip off the listing expense and provision, our performance should be in tandem with last year's," says Lim.

Revenue from manufacturing medical/healthcare beds, and medical peripherals and accessories decreased to RM30.04 mil in FY16 from RM33.33 mil last year.

However, it saw a 24.52% increase in revenue from trading of such products to RM7.11 mil from RM5.71 mil in FY15.

Formal dividend policy

For the first quarter ended July 30, LKL made RM1.6 mil in net profit on the back of RM11.92 mil in revenue. There is no comparative quarter for review.

Asked if there are plans to set up a formal dividend policy or transfer to the Main Market, Lim says it will be premature to disclose such details.

"A dividend policy benefits shareholders, but it might be premature to talk about it given our short stint in Bursa Malaysia.

"I think we need to focus on growing the business and gaining a strong foothold before talking about a dividend policy or transfer [to the Main Market]," Lim says.

LKL made its debut on the bourse with an initial public offer (IPO) price of 20 sen per share in May. The company raised RM22.6 mil from the exercise.

In an IPO note in May, Public Investment Bank Bhd highlighted the absence of a long-term contract and strong dependency on purchase orders as LKL's key operating risks.

This is despite acknowledging its strength and capabilities to capitalise on growth in the local and international healthcare industry. The company counts distributors and agents as its main distribution channels.

Lim and his family members hold 67.14% stake in LKL. His spouse Mok Mei Lan, and children Pak Hong and Sin Yee, all hold executive and managerial positions in the company.

Medical beds, peripherals and accessories are a relatively small industry with a market size of about RM86.3 mil last year.

It is expected to expand at a compounded annual growth of 11.3% to RM118.9 mil in 2018.



Lim says US market missing piece of the puzzle that LKL is eager to fill

LKL INTERNATIONAL BHD

KEY BOARD MEMBERS AND MANAGEMENT

TAN SRI ADZMI ABDUL WAHAB (chairman)
 LIM KON LIAN (MD)
 MOK MEI LAN (group ED)
 TAN CHUAN HOCK (director)

MAJOR SHAREHOLDERS

Lim Kon Lian	25.68%
Mok Mei Lan	25.65%
Elaine Lim Sin Yee	7.91%
Lim Pak Hong	7.9%
Tan Chuan Hock	6.71%

MARKET CAP (Oct 19)	RM115.77m
SHARE PRICE (Oct 19)	27 sen
52-WEEK HIGH (May 16)	35 sen
52-WEEK LOW (Sept 22)	25 sen

FINANCIAL RESULTS (Q1 ended July 31)

REVENUE	RM11.92m
NET PROFIT	RM1.62m

Prospects for growth in medical beds and peripherals is fuelled by demand for healthcare services. More hospitals and medical centres operating will mean greater demand for beds and related apparatus.

Under the 11th Malaysia Plan launched in May last year, the government announced its aim to provide universal access to quality healthcare.

In doing so, it aims to increase the medical bed ratio to 2.3 beds per 1,000 population by 2018. To meet the targeted ratio, some 17,998 beds need to be added to the healthcare sector.

Additionally, should the country continue to grow and meet the world average of three beds per 1,000 population, such demand will increase by some 23,000 beds to 98,568 beds, according to an independent market research report by Smith Zander International. **FocusM**