

Gary Loh wipes SunMoon's slate clean; company expanding into new products

BY JOAN NG |

After hitting the gym, Gary Loh used to indulge in a snack bar. These days, however, he reaches for a fruit cup or a packet of freeze-dried apples, made and distributed by SunMoon Food Co. Following a recent convertible loan deal, Loh now controls 39.1% of the distributor of fresh fruits and vegetables, and was appointed the company's chairman on Oct 7. The deal, Loh says, has put SunMoon in a net cash position, freeing it to expand into a whole new market of processed fruits and fruit juices, where margins are higher.

A former stockbroker and banker, Loh has spent a good five years getting SunMoon to its current position. And, it's been a trying journey. Once known as FHTK, SunMoon started out as a single fruit stall that eventually expanded into the growing and distribution of fruits. But poor management and aggressive expansion left the company loss-making and in debt. In 2006, Loh's private investment firm First Alverstone Capital, which he owns jointly with his wife Selena Cheng, was approached by local accountant Nicky Tan, owner of the corporate finance firm nTan Corporate Advisory, about raising money for FHTK.

First Alverstone and QAP Capital, a company owned by two of Tan's sisters, formed

an investment vehicle called FACT 2006, with First Alverstone owning 49%. Both parties then sought out investors, some of whom were well-known names in the local corporate circle: Tang Wee Loke, a director at **UOB-Kay Hian Holdings**; Tony Tan, a former chairman of then-listed Parkway Holdings; and Jopie Ong, group managing director of **Metro Holdings**.

FACT 2006's investment in SunMoon took the form of a convertible loan facility, which was used to repay SunMoon's debts, and Loh was given to understand that the various lenders would eventually convert their loans into stakes in SunMoon. In 2008, First Alverstone converted its share of the loans, but none of the other lenders did so. SunMoon ended up with \$24.4 million of debt. Although Loh worked hard at cleaning up the company — pruning non-core assets and getting rid of unprofitable businesses — SunMoon still could not afford to repay those loans. Meanwhile, the annual interest of nearly \$3 million was eating into earnings.

That's when Loh realised he had bought a lemon. "We tried to sell the company," he says. In 2010, SunMoon announced a deal with a China-based supplier of mandarin oranges called Chic Foods, but it fell through. So Loh decided to cough up the cash.

In September, First Alverstone provided \$12 million of cash to SunMoon under a convertible loan. The money has been used to repay



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part of the debt. A further \$6 million of debt was repaid through the issue of six billion SunMoon shares at an issue price of 0.1 cents each. And a year from now, First Alverstone will pay the lenders \$6 million in either cash or SunMoon shares. The remaining \$443,092 has been paid from SunMoon's internal resources. The lenders have agreed to write off all inter-

ests accrued, amounting to \$13.2 million as at March 18. On Sept 10, First Alverstone converted its entire loan into 18 billion shares in SunMoon — representing a 58% stake.

Since then, First Alverstone has been paring down its stake. But Loh says this is not because of a lack of confidence in SunMoon's future. "I've been trying to align the interests of various stakeholders with the company, such as management, customers and suppliers," he says. For instance, First Alverstone sold a small stake through a married deal to SunMoon CEO Neo Wei Ming.

Branching into new markets

In fact, Loh says he has never been more optimistic about SunMoon's prospects. He points out that the company has been reporting positive earnings before interest, taxes, depreciation and amortisation since 2010. Without the interest burden, he is confident that earnings will improve. For the half year to June, SunMoon reported losses of \$893,000. Finance costs came up to \$1.5 million. Investors can also expect a one-time boost to earnings from the write-back of the accrued interests, which means SunMoon is likely to be profitable this year.

The company also has a positive book value now. Its net asset value as at June 30 was a negative \$21.6 million, but has since improved to a positive \$16.5 million. Loh thinks

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this will allow the company to go into partnerships, joint ventures and perhaps even make acquisitions. At the same time, SunMoon will have room to become more aggressive in its expansion plans. "No one wanted to work with us or talk to us," he says. "We couldn't even get trade lines with a bank. All this while, we have been operating entirely on a cash basis. And that has limited our growth."

Loh is excited about the prospects of a new line of processed fruit products that SunMoon has been developing over the last two years. It now makes fruit cups with mandarin orange segments and cubes of pears and peaches floating in apple juice. The fruit cups, which carry the SunMoon brand, are available on board Tigerair, Scoot and Jetstar flights, as well as in Caltex petrol stations. Loh says the fruit cups are among the best-selling products on the airlines. Also available at Caltex petrol stations are a selection of SunMoon-branded foil-packed fruit crisps — freeze-dried slices of apple, banana, mango, pineapple and strawberry. Both products are sugar-free, and Loh foresees good demand from the growing number of health-conscious Asian consumers.

The company began testing these products through small roll-outs in Indonesia last year. Two months ago, it signed a deal to start distribution at 8,000 points of sale across Indonesia. That brings the total number of points of sale to about 9,000. And Loh sees more growth opportunities not just in Indonesia but across Asia too.

Natural progression

Today, SunMoon derives about 70% to 80% of its sales from selling and distributing China-grown Fuji apples. It also distributes other fresh fruits and vegetables, and supplies dehydrated onion and garlic to big food companies. The addition of processed fruits is therefore an important new dimension for the company as it tries to evolve into an Asian version of Dole or Del Monte. Loh explains that he was initially attracted to FHTK because of the SunMoon brand, which was known for its premium Fuji apples. "Besides Dole and Del Monte, there are no other major fruit brands."

SunMoon only sells top grade fruits under its own brand — fruits that are unblemished and superior in shape, colour and other characteristics. Fruits that don't make this grade have previously been sold under the brand Ecofresh, which the company created specifically for this purpose, or sold as cut fruit. Now, however, SunMoon will also be able to process these fruits for sale.

Of course, it isn't just imperfect fruit that makes it into SunMoon's fruit cups and fruit crisps. Processed fruits have long been a natural next step for fruit distributors because they move through a similar supply chain but have longer shelf lives and enjoy better margins. Both Dole and Del Monte, for instance, have an established presence in the market for fruit crisps and fruit cups, as well as in other segments like juice, canned fruit and frozen fruit. Locally listed Sino Grandness also recently announced a move into the juice market.

Neo, the company's CEO, says the margin on SunMoon's fruit cups and fruit crisps is about three times better than that on fresh produce. The selling prices of fresh produce fluctuate depending on the weather, disease and other

factors that affect harvests. And they require special storage conditions such as cold rooms, which cost more money. On the other hand, fresh produce makes up a smaller portion of the production cost for processed fruits. Because many of the other costs are fixed, the selling price — and profit margin — of processed fruits is more stable. And they can be stored in ordinary warehouses for many months.

The production of SunMoon's fruit cups and fruit crisps is currently outsourced to factories in China. "In China, there is some overcapacity in production facilities," Neo says. "So they are all looking for work." SunMoon has been able to take advantage of this and enter

the market more quickly without large investments in facilities.

Going forward, Loh says SunMoon will expand into several other products including juices and flavoured water. The company is planning to launch a juice drink for children, and working on the development of other products including canned juice with pulp as well as coconut water. As revenue from these products grows, Neo intends for the sale of apples to eventually account for just half of revenue.

Neo and Loh met at the Officer Cadet School and received scholarships from the Singapore Armed Forces. Their military background is reflected in a strategy chart that they have

drawn out on a map of the world, with blue arrows and red circles indicating supply flows and target markets. Their plans sound ambitious for a company that has only just dug itself out from under a mountain of debt, and has not even begun to turn a profit. Shares of the company closed at just 0.3 cents on Oct 9.

Loh knows convincing investors will be an uphill task. "I can understand the market perception of the company: It's a joke," Loh says. But SunMoon's revenues are now growing. For the quarter to June, revenue was up 48.3% to \$12.1 million. Perhaps, after five years of pruning and planting, Loh is finally going to reap the fruits of his labour. ■

