

800 Super Holdings Ltd

Trash delivers growth

SINGAPORE | ENVIRONMENTAL SERVICES | RESULTS

25 August 2015

- Full year revenue beat estimates by 6.8%; due to a stronger 2H FY16.
- Full year recurring-PATMI beat estimates by 28.4% due to the combination of higher revenue that flowed to bottom line and the low base effect.
- Revenue growth in FY 2016 from MHA and South-West IPC contracts.
- Maintain Buy, with revised target price upwards to S\$0.66 (previous: S\$0.635), based on 7.5x FY16e P/E multiple.

With the prevailing market uncertainty and turmoil, we advocate buying this defensive stock. 800 Super provides essential waste management services, which are non-cyclical in nature. The S\$0.02 final dividend offers a yield of 5%, based on last closing price of S\$0.40. The current sell-down of the stock is irrational. Reiterate BUY with target price of S\$0.66.

What is the news?

800 Super announced its full year FY2015 (Y/E Jun) financial results on 24 August after trading hours. 2.0 Cents final dividend proposed met our forecast. This represents a 29.4% payout on recurring EPS. (FY14: 1.0 Cents DPS; 20.0% payout.)

Results at a glance

(SGD mn)	FY15	FY14	y-y (%)	Comments
Revenue	140.3	115.0	22.0	Award of new contracts and re-award of contracts at revised pricing
EBITDA	21.7	15.6	39.3	
EBIT	14.6	11.1	31.6	
PATMI	17.6	9.0	95.9	
PATMI, adj.	12.2	9.0	35.6	Excluding S\$5.4 million one-time gain from disposal of property

Source: Company, Phillip Securities Research (Singapore)

How do we view this

- Sizeable contract by Ministry of Home Affairs (MHA) is evidence of 800 Super's ability to deliver quality service.** 800 Super had announced on 16 February the award of contracts by MHA to provide cleaning and horticultural services for the east and west regions of Singapore. The aggregate contract is for a period of three years commencing from 1 April 2015 to 31 March 2018, and is worth approximately S\$38.6 million (average of S\$12.9 million revenue to be recognised annually). For context, excluding the partial revenue contribution to FY2015 revenue, this MHA contract is estimated to increase revenue by about 9.4%.
- South-West region Integrated Public Cleaning (IPC) contract and MHA contract will propel revenue further in FY 2016.** Full year effect of these two contracts will only materialise in FY2016. Ramp-up transition phase in 1H FY15 for the IPC contract results in back-loading of revenue recognition. Meanwhile, the MHA contract made a partial contribution in 2H FY15 and will fully contribute from 1H FY16 onwards.
- We expect the Biomass plant to lead to better integration of the business and cost savings.** 800 Super is developing a waste-to-energy (WTE) plant at Tuas South. Horticultural waste from its horticultural services business segment will be burnt here, leading to savings in incineration cost, while producing some energy. We understand that the Capex for this project has already been substantially incurred, primarily attributable to the land that was purchased from JTC in 2012.

Investment Actions

Our key investment thesis for 800 Super is its defensive business model, resilient earnings and superior ROE around low-twenties. We also see evidence of 800 Super's ability to compete both in quality of service and pricing to win sizeable government contracts. We assign a P/E multiple of 7.5x to 800 Super and have a target price of S\$0.66. Reiterate BUY.

Buy (Maintained)

LAST DONE PRICE	SGD 0.455
FORECAST DIV	SGD 0.026
TARGET PRICE	SGD 0.660
TOTAL RETURN	50.7%

COMPANY DATA

O/S SHARES (MN) :	178.8
MARKET CAP (USD mn / SGD mn) :	58 / 81
52 - WK HI/LO (SGD) :	0.57 / 0.27
3M Average Daily T/O (mn) :	0.20

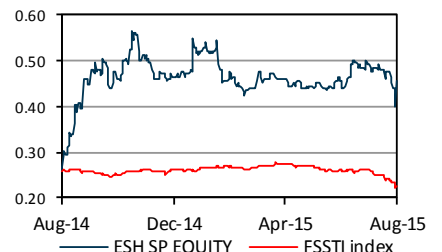
MAJOR SHAREHOLDERS (%)

YONG SEONG INVESTMENT PTE	66.0%
VENSTAR INVESTMENTS LTD	4.9%
KOH YONG LEE	2.8%
HOCK SEONG LEE	2.8%
CHENG CHYE LEE	2.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(18.4)	(10.1)	53.9
STIRETURN	(14.1)	(16.5)	(11.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun	FY 14	FY 15	FY 16e	FY 17e
Revenue (SGD mn)	115.0	140.3	174.8	180.0
PATMI, adj. (SGD mn)	9.0	12.2	15.8	16.5
EPS, adj. (Cents)	5.01	6.80	8.86	9.24
P/E, adj. (x)	5.2	7.1	5.1	4.9
BVPS (Cents)	23.2	32.0	38.9	45.6
P/B (x)	1.12	1.51	1.17	1.00
DPS (Cents)	1.00	2.00	2.55	2.70
Div. Yield (%)	3.8	4.1	5.6	5.9

Source: Company Data, PSR est.

VALUATION METHOD

7.5x FY16e P/E multiple

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Peer relative valuation

800 Super is under-valued relative to closest peer. We continue to value 800 Super using a P/E multiple valuation method. At 4.7x P/E, 800 Super is under-valued relative to Colex. 800 Super has a superior ROE compared to Colex, and deserves a higher P/E multiple than Colex.

Stock sell-down has been irrational. 800 Super is currently trading at 4.7x P/E multiple, which is even below the -1 standard deviation. We think that the market has been irrational and this presents a compelling opportunity to buy this under-valued stock.

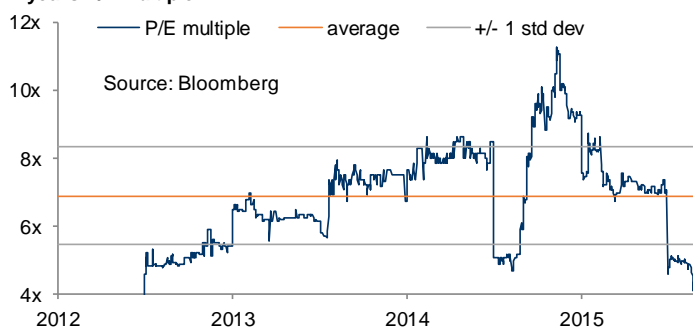
Pricing 800 Super at 7.5x P/E multiple. This is in between the average multiple (6.9x) since 2012 and +1 standard deviation (8.3x). Note also that 800 Super's waste collection and public cleaning contracts typically last for 6 to 8 years.

Peer relative data

Company	Price (\$)	Mkt. Cap. (\$mn)	Trailing P/E	Trailing P/B	Trailing EV/EBITDA	ROA (%)	ROE (%)
800 SUPER HOLDINGS LTD	0.455	81.4	4.7x	1.8x	6.1x	12.3	28.5
COLEX HOLDINGS LTD	0.265	35.1	7.2x	1.4x	4.5x	11.8	18.9

Source: Bloomberg (Updated: 25 August 2015)

4 years P/E multiple



Full Year Revenue and Profitability data

Figure 1. Revenue (\$ million)

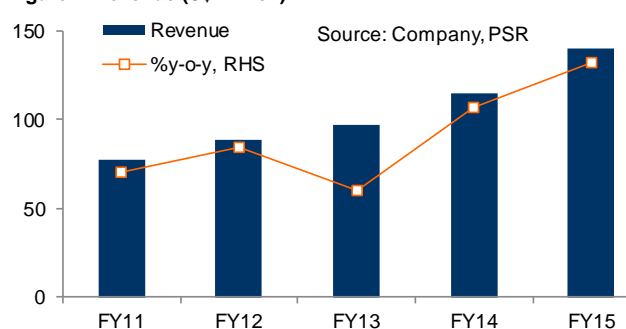


Figure 2. Operating profit (\$ million)

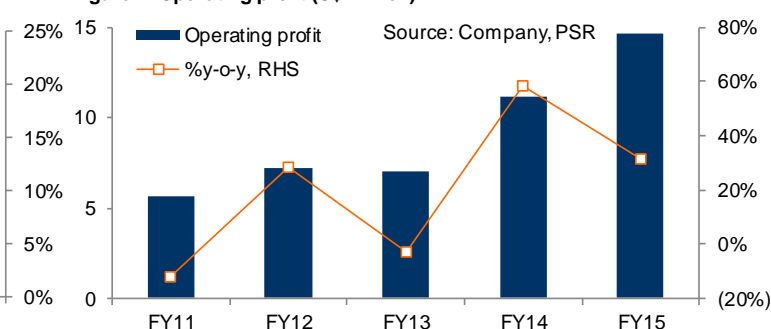


Figure 3. PATMI, adj. (\$ million)

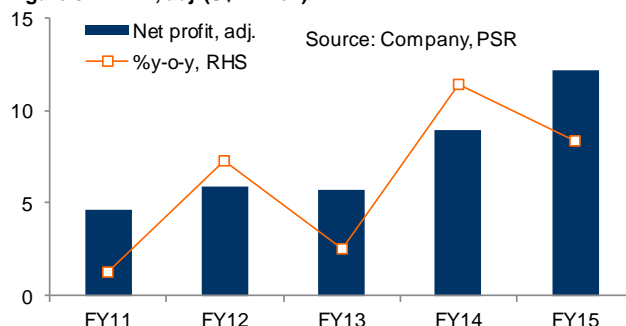
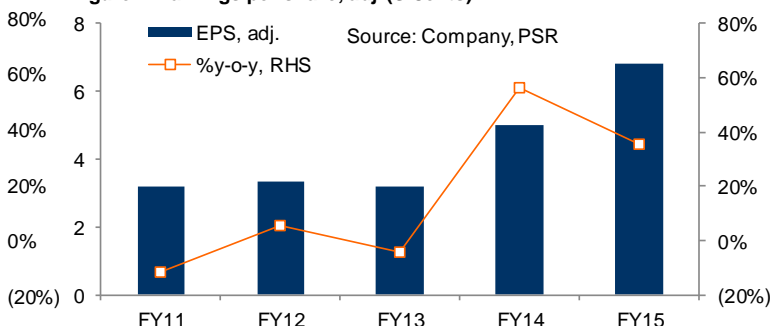


Figure 4. Earnings per share, adj. (S Cents)



Financials

Income Statement

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	97.5	115.0	140.3	174.8	180.0
Other income	0.34	0.46	0.45	0.62	0.64
EBITDA	10.2	15.6	21.7	26.9	27.5
Depreciation & Amortisation	(3.2)	(4.4)	(7.0)	(7.5)	(7.4)
EBIT	7.0	11.1	14.6	19.4	20.1
Net Finance (Expense)/Inc	(0.36)	(0.50)	(0.90)	(0.99)	(0.94)
Other items	0.05	(0.09)	(0.06)	-	-
Exceptional items	-	-	5.4	-	-
Profit Before Tax	6.7	10.5	19.1	18.4	19.2
Taxation	(0.9)	(1.5)	(1.5)	(2.5)	(2.7)
Profit After Tax	5.8	9.1	17.6	15.8	16.5
- Non-controlling interest	0.04	0.11	0.02	-	-
Net Income, reported	5.7	9.0	17.6	15.8	16.5
Net Income, adj.	5.7	9.0	12.2	15.8	16.5

Per share data (Cents)

Y/E Jun	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	3.21	5.01	9.82	8.86	9.24
EPS, adj.	3.21	5.01	6.80	8.86	9.24
DPS	1.00	1.00	2.00	2.55	2.70
BVPS	19.25	23.24	32.03	38.89	45.58

Cash Flow

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
Net income	5.8	9.1	17.6	15.8	16.5
Adjustments	4.4	6.5	4.1	11.1	11.0
WC changes	(1.6)	(10.0)	(3.4)	(6.1)	(0.8)
Cash generated from ops	8.6	5.6	18.3	20.8	26.8
Others	(1.6)	(1.2)	(1.9)	(3.7)	(3.4)
Cashflow from ops	7.0	4.4	16.3	17.2	23.3
CFI					
CAPEX, net	(18.0)	(3.7)	(6.0)	(6.4)	(6.3)
Others	-	-	0.0	-	-
Cashflow from investments	(18.0)	(3.7)	(5.9)	(6.4)	(6.3)
CFF					
Share issuance, net	0.0	-	-	-	-
Loans, net of repayments	9.2	(1.5)	(3.9)	(1.2)	(1.4)
Dividends	(1.8)	(1.8)	(1.8)	(3.6)	(4.6)
Others	-	-	-	-	-
Cashflow from financing	7.4	(3.3)	(5.7)	(4.8)	(6.0)
Net change in cash	(3.5)	(2.6)	4.7	6.0	11.1
Effects of exchange rates	-	-	-	-	-
CCE, end	7.9	5.3	10.0	16.0	27.1

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	35.9	51.8	67.9	66.8	65.7
Intangibles	-	-	-	-	-
Investments	-	-	-	-	-
Others	0.0	1.6	1.6	1.6	1.6
Total non-current assets	35.9	53.5	69.6	68.4	67.3
Inventories	-	-	-	-	-
Trade receivables	21.2	31.1	40.0	49.9	51.4
Cash	7.9	5.3	10.0	16.0	27.1
Others	2.0	1.7	2.4	3.0	3.0
Total current assets	31.1	38.1	52.4	68.9	81.4
Total Assets	67.0	91.6	121.9	137.3	148.7
LIABILITIES					
Trade payables	10.6	12.1	18.1	22.5	23.2
Short term loans	2.3	6.8	8.3	8.3	8.3
Others	1.0	1.2	1.7	1.6	1.7
Total current liabilities	13.8	20.1	28.0	32.4	33.1
Long term loans	17.4	28.1	34.8	33.6	32.2
Others	1.4	1.9	1.9	1.8	1.9
Total non-current liabilities	18.8	30.0	36.7	35.4	34.1
Total Liabilities	32.6	50.0	64.7	67.8	67.2
EQUITY					
Non-controlling interests	0.09	0.05	-	-	-
Shareholder Equity	34.3	41.5	57.3	69.5	81.5

Valuation Ratios

Y/E Jun	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	6.9	5.2	7.1	4.9	4.7
P/B (X)	1.2	1.1	1.5	1.1	0.9
EV/EBITDA (X), adj.	5.1	4.9	5.5	3.8	3.3
Dividend Yield (%)	4.5%	3.8%	4.1%	5.9%	6.3%

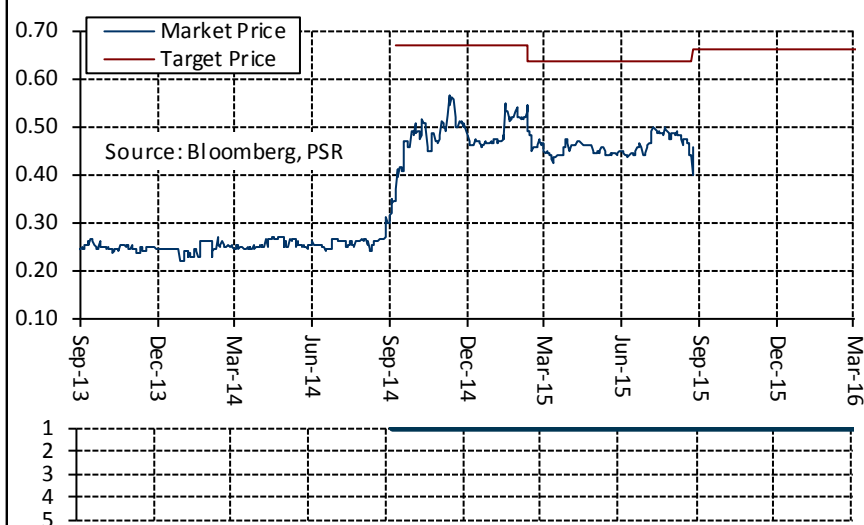
Growth & Margins (%)

Growth					
Revenue	10.0%	17.9%	22.0%	24.6%	3.0%
EBITDA	1.6%	52.4%	39.3%	24.1%	2.3%
EBIT	-2.7%	58.4%	31.6%	32.3%	3.8%
Net Income, adj.	-3.4%	56.3%	35.6%	30.3%	4.3%
Margins					
EBITDA margin	10.5%	13.5%	15.4%	15.4%	15.3%
EBIT margin	7.2%	9.7%	10.4%	11.1%	11.2%
Net Profit Margin	5.9%	7.8%	8.7%	9.1%	9.2%

Key Ratios

ROE (%)	17.7%	23.6%	24.6%	25.0%	21.9%
ROA (%)	9.7%	11.3%	11.4%	12.2%	11.6%
Net Debt or (Net Cash)	20.1	34.9	42.8	40.1	28.3
Net Gearing (X)	58.4%	83.9%	74.8%	57.6%	34.7%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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