

# 800 Super Holdings Ltd

Lower PATMI, but within expectation



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SINGAPORE | INDUSTRIALS | 2Q18 RESULTS

12 February 2018

- 2Q FY18 revenue 5.4% lower than expected, PATMI in line with our estimate
- 1H FY18 revenue and PATMI met 48% and 46% respectively, of our full year estimate
- Negative surprise of absence of interim dividend (1H17: 1 cent)
- Maintain Accumulate; lower target price of \$1.35 on cost pressures

## Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Revenue	36.1	39.4	-8.3%	Completion of term contracts and renewal of certain contracts at more competitive prices
EBIT	3.06	4.47	-31.6%	5.0% lower opex unable to offset decline in revenue, resulted in lower margin of 8.5% from 11.4%
PATMI	2.47	3.63	-32.0%	Lower margin of 6.8% from 9.2%

Source: Company, PSR

## The Positives

- + 12.7% YoY lower staff cost cushioned some impact of 8.3% YoY lower revenue.** Staff cost is the largest cost component (54% of opex). Staff expense was lower, in line with completed contracts. But it was higher labour productivity as a result of continued efforts to optimise manpower and equipment deployment which drove cost down.
- + Projects on-track and turning operational.** The waste to energy (WTE) plant was completed in December 2017, and is expected to be operational in 1Q CY2018. The sludge treatment facility is on-track for completion in 2Q CY2018. (No change in schedule since the previous quarter's results.)

## The Negatives

- Revenue was lower than expected.** We were expecting YoY lower revenue of ~3% and the actual 8.3% YoY lower revenue was worse than expected. We think that it is a reflection of the competitive nature of the contract cleaning business segment. Despite the weaker revenue, PATMI was within our expectation of \$2.44m.
- Cost pressure weighing against margin.** 5.0% decline in opex was less than the 8.3% decline in revenue. Depreciation expense was 13.6% YoY higher, in relation to new PPE for the WTE plant. Other expenses was 15.2% higher, mainly attributable to the acquisition of Iwash Laundry (Senoko) Pte Ltd.
- Negative surprise of absence of interim dividend.** While it is a negative surprise, we find that there is good reason for it. We see that 1H18 free cash flow is negative, due to the construction of the WTE plant and sludge treatment facility. These two projects are expected to drive earnings and cash flow positively, after they are completed. Moreover, we believe there is a need to conserve cash, to fulfil the capex requirements of the [public waste collection contract](#) for the Pasir Ris-Bedok sector.

## Outlook

The outlook is stable to positive. Despite the YoY lower PATMI, it was not a negative surprise and it was within our expectation. In our recent reports, we had been stating our expectation of near-term PATMI weakness. This is on the basis of new initiatives coming on line, which will have the effect of higher depreciation expense with low revenue recognition during the ramp-up phase.

## Maintain Accumulate; lower target price of \$1.35 (previously \$1.40)

Due to the absence of an interim dividend, we have lowered our FY18e and FY19e full year dividend assumption to 3.0 cents; keeping final dividend assumption of 3.0 cents same as FY17. We have also made changes to our cost assumptions, resulting in our FY18e/FY19e PATMI estimates being 9%/9% lower than previous. We still like the stock for its future earnings growth arising from the new projects that will contribute positively. Our target price gives an implied FY18e forward P/E multiple of 17.8 times.

## Accumulate (Maintain)

LAST CLOSE PRICE	SGD 1.14
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.35
TOTAL RETURN	21.1%

## COMPANY DATA

BLOOMBERG CODE:	ESH SP
O/S SHARES (MN):	178.8
MARKET CAP (USD mn / SGD mn):	153 / 204
52 - WK HI/LO (SGD):	138 / 102
3M Average Daily T/O (mn):	0.08

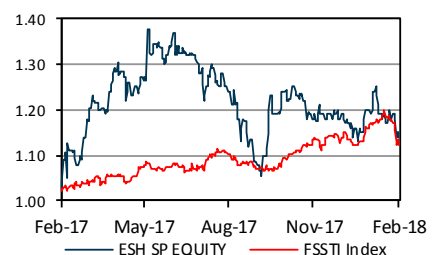
## MAJOR SHAREHOLDERS (%)

YONG SEONG INVESTMENT PTE	67.0%
KOH YONG LEE	2.8%
HOCK SEONG LEE	2.8%
CHENG CHYE LEE	2.4%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(4.2)	(2.5)	16.0
STI RETURN	(2.6)	0.2	15.0

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Jun	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	156	157	156	153
PATMI (SGD mn)	16.7	17.1	13.6	14.6
EPS (cents)	9.36	9.58	7.60	8.15
P/E, adj. (x)	7.5	13.3	15.1	14.1
BVPS (cents)	39.4	45.1	49.7	54.8
P/B (x)	178	2.83	2.31	2.10
DPS (cents)	2.5	4.0	3.0	3.0
Div. Yield (%)	3.6	3.1	2.6	2.6

Source: Company Data, PSR est.

## VALUATION METHOD

DCF (WACC: 6.8%; Terminal g: 15%)

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## Financials

### Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>Revenue</b>	<b>156.4</b>	<b>156.9</b>	<b>155.8</b>	<b>183.3</b>	<b>195.6</b>
Other income	0.4	0.4	0.6	0.7	0.4
<b>EBITDA</b>	<b>27.9</b>	<b>30.6</b>	<b>29.5</b>	<b>36.0</b>	<b>40.7</b>
Depreciation & Amortisation	(8.2)	(9.0)	(12.1)	(16.6)	(16.7)
<b>EBIT</b>	<b>19.7</b>	<b>21.6</b>	<b>17.4</b>	<b>19.4</b>	<b>24.0</b>
Net Finance (Expense)/Inc	(1.0)	(0.7)	(1.0)	(1.3)	(1.2)
Other items	(0.13)	(0.10)	(0.11)	-	-
<b>Profit Before Tax</b>	<b>18.6</b>	<b>20.8</b>	<b>16.3</b>	<b>18.1</b>	<b>22.9</b>
Taxation	(1.9)	(3.7)	(2.7)	(3.5)	(4.3)
<b>Profit After Tax</b>	<b>16.7</b>	<b>17.1</b>	<b>13.6</b>	<b>14.6</b>	<b>18.6</b>
- Non-controlling interest	-	(0.03)	-	-	-
<b>PATMI</b>	<b>16.7</b>	<b>17.1</b>	<b>13.6</b>	<b>14.6</b>	<b>18.6</b>

### Per share data (cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS	9.36	9.58	7.60	8.15	10.41
DPS	2.50	4.00	3.00	3.00	5.00
BVPS	39.39	45.09	49.69	54.78	61.15

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>CFO</b>					
Net income	16.7	17.1	13.6	14.6	18.6
Adjustments	11.3	13.4	15.8	21.4	22.1
WC changes	7.5	2.5	0.1	(2.2)	(1.0)
Cash generated from ops	35.5	33.0	29.5	33.8	39.7
Others	(2.8)	(3.4)	(3.7)	(4.8)	(5.4)
<b>Cashflow from ops</b>	<b>32.7</b>	<b>29.6</b>	<b>25.8</b>	<b>29.0</b>	<b>34.3</b>
<b>CFI</b>					
CAPEX, net	(12.9)	(24.6)	(70.0)	(17.3)	(17.4)
Others	(0.03)	(0.35)	-	-	-
<b>Cashflow from investments</b>	<b>(12.9)</b>	<b>(24.9)</b>	<b>(70.0)</b>	<b>(17.3)</b>	<b>(17.4)</b>
<b>CFF</b>					
Share issuance, net	-	0.02	-	-	-
Loans, net of repayments	(5.6)	6.0	28.0	(5.0)	(5.0)
Dividends	(3.6)	(6.3)	(5.4)	(5.4)	(7.2)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>(9.1)</b>	<b>(0.3)</b>	<b>22.6</b>	<b>(10.4)</b>	<b>(12.2)</b>
<b>Net change in cash</b>	<b>10.7</b>	<b>4.4</b>	<b>(21.6)</b>	<b>1.3</b>	<b>4.8</b>
Effects of exchange rates	(0.1)	0.1	-	-	-
<b>CCE, end</b>	<b>20.6</b>	<b>25.1</b>	<b>3.5</b>	<b>4.8</b>	<b>9.6</b>

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	FY16	FY17	FY18e	FY19e	FY20e
<b>ASSETS</b>					
PPE	84	99	157	158	159
Others	1.2	1.5	1.5	1.5	1.5
<b>Total non-current assets</b>	<b>85</b>	<b>101</b>	<b>159</b>	<b>160</b>	<b>160</b>
Trade receivables	33.5	30.3	30.1	35.4	37.8
Cash	20.6	25.1	3.5	4.8	9.6
Others	1.8	1.7	1.7	2.0	2.1
<b>Total current assets</b>	<b>56</b>	<b>57</b>	<b>35</b>	<b>42</b>	<b>49</b>
<b>Total Assets</b>	<b>141</b>	<b>158</b>	<b>194</b>	<b>202</b>	<b>210</b>
<b>LIABILITIES</b>					
Trade payables	21.2	20.2	20.0	23.6	25.1
Short term loans	11.0	11.0	11.0	11.0	11.0
Others	2.6	2.9	2.9	2.9	2.9
<b>Total current liabilities</b>	<b>35</b>	<b>34</b>	<b>34</b>	<b>37</b>	<b>39</b>
Long term loans	34.8	41.0	69.0	64.0	59.0
Others	1.0	2.3	2.3	2.3	2.3
<b>Total non-current liabilities</b>	<b>36</b>	<b>43</b>	<b>71</b>	<b>66</b>	<b>61</b>
<b>Total Liabilities</b>	<b>71</b>	<b>77</b>	<b>105</b>	<b>104</b>	<b>100</b>
<b>EQUITY</b>					
Non-controlling interests	-	(0.01)	(0.01)	(0.01)	(0.01)
<b>Shareholder Equity</b>	<b>70</b>	<b>81</b>	<b>89</b>	<b>98</b>	<b>109</b>

### Valuation Ratios

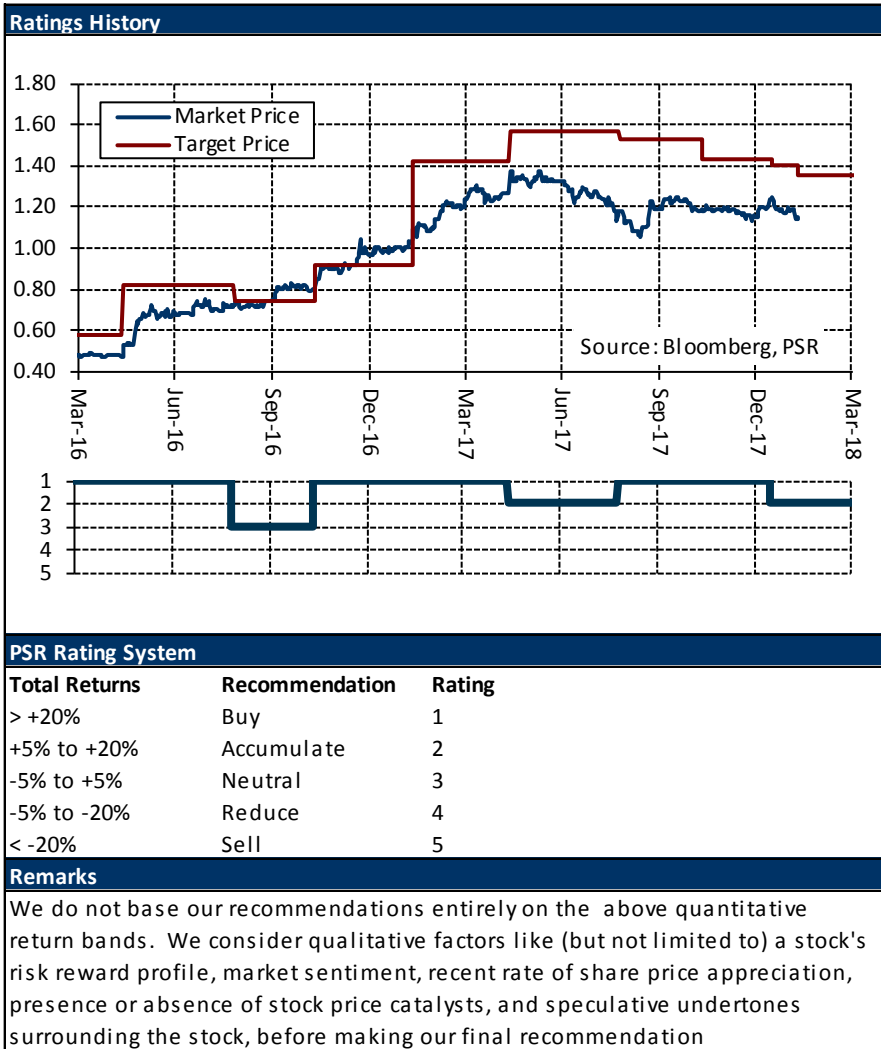
Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (x), adj.	7.5	13.3	15.1	14.1	11.1
P/B (x)	1.8	2.8	2.3	2.1	1.9
EV/EBITDA (x), adj.	5.4	8.3	9.6	7.7	6.5
Dividend Yield (%)	3.6	3.1	2.6	2.6	4.3

### Growth & Margins (%)

<b>Growth</b>					
Revenue	11.5%	0.3%	-0.7%	17.7%	6.7%
EBITDA	3.2%	9.6%	-3.6%	21.9%	13.1%
EBIT	-1.6%	9.4%	-19.3%	11.3%	23.9%
Net Income	37.6%	2.3%	-20.6%	7.3%	27.6%
<b>Margins</b>					
EBITDA margin	17.9%	19.5%	18.9%	19.6%	20.8%
EBIT margin	12.6%	13.8%	11.2%	10.6%	12.3%
Net Profit Margin	10.7%	10.9%	8.7%	8.0%	9.5%

### Key Ratios

ROE (%)	26.2%	22.7%	16.0%	15.6%	17.9%
ROA (%)	12.7%	11.4%	7.7%	7.4%	9.0%
Debt-to-Equity (x)	0.65	0.65	0.90	0.77	0.64
Net Debt or (Net Cash)	25.2	26.9	76.5	70.2	60.4
Net Gearing (x)	0.36	0.33	0.86	0.72	0.55



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