

# 800 Super Holdings Ltd

Start-up costs, but projects kicking-in soon



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## SINGAPORE | INDUSTRIALS | 3Q18 RESULTS

- 3Q revenue/PATMI were 8%/21% lower than expected; opex was higher than expected
- 9M revenue/PATMI met 73%/79% respectively, of our full year estimate
- Projects coming online and kicking-in FY19e onward
- Maintain Accumulate; lower target price of \$1.30 (previously \$1.35)

### Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Revenue	37.1	39.5	-6.1%	Completion of term contracts and renewal of certain contracts at more competitive prices
EBIT	4.74	7.48	-36.6%	0.9% higher opex, resulted in lower margin of 12.8% from 18.9%
PATMI	3.94	6.25	-37.0%	Lower margin of 10.6% from 15.8%

Source: Company, PSR

### The Positives

- + **12% YoY lower staff cost cushioned the impact of lower revenue.** Staff cost is the largest cost component (49% of opex). Staff expense was lower due to completion of cleaning contracts which are characteristically labour-intensive. However, this was mitigated by the headcount in place at the sludge treatment facility.
- + **Projects on-track and turning operational.** The waste to energy (WTE) plant was completed in December 2017 and has begun commercial operations in February 2018, though not running at full capacity. The sludge treatment facility is on-track for completion by June 2018. One of the four sludge treatment trains has been tested and is ready.

### The Negatives

- **Revenue was lower than expected.** We were expecting -2.0% YoY lower revenue, compared to actual -6.1% YoY. We under-estimated the impact from non-renewal of a large cleaning contract.
- **28% YoY higher purchase of supplies and disposal charges despite lower revenue.** Purchase of supplies and disposal charges is the second largest cost component (24% of opex). The plastic recycling plant in Batam ([announced](#) in August 2016) recently obtained its operating licence and incurred start-up costs. Iwash Laundry (recently [acquired](#) in October 2017) contributed to higher energy costs.

### Outlook

The outlook is positive. In our recent reports, we had been stating our expectation of near-term PATMI weakness. This has been on the basis of new initiatives coming on line, ramping up and not contributing fully yet. We expect higher earnings in FY19 due to projects (WTE plant, sludge treatment plant, Pasir Ris-Bedok public waste collection) starting to contribute meaningfully.

Opportunity: The National Environment Agency had announced the [appointment](#) of a consultancy team for the [development](#) of an Integrated Waste Management Facility (IWMF) at Tuas View Basin. This could be an opportunity for 800 Super to grow its business along its core competency of waste management.

### Maintain Accumulate; lower target price of \$1.30 (previously \$1.35)

We have adjusted our FY18/FY19 revenue by -4.3%/-3.8% and PATMI by -10.5%/+2.7% from previous. We have also adjusted our depreciation assumption, which has raised our cash flow estimates.

We like the stock for its future earnings growth from the new projects that will contribute meaningfully in FY19e. Our target price gives an implied FY18e forward P/E multiple of 19.1 times and FY19e forward P/E multiple of 15.5 times.

14 May 2018

## Accumulate (Maintain)

LAST CLOSE PRICE	SGD 1.12
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 1.30
TOTAL RETURN	18.8%

### COMPANY DATA

BLOOMBERG CODE:	ESH SP
O/S SHARES (MN):	178.8
MARKET CAP (USD mn / SGD mn):	150 / 200
52 - WK HI/LO (SGD):	138 / 1
3M Average Daily T/O (mn):	0.05

### 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	(0.9)	(18)	(9.3)
STIRETURN	3.7	7.0	12.9

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Jun	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	156	157	149	176
PATMI (SGD mn)	16.7	17.1	12.2	15.0
EPS (cents)	9.36	9.58	6.80	8.37
P/E, adj. (x)	7.5	13.3	16.5	13.4
BVPS (cents)	39.4	45.1	48.9	54.2
P/B (x)	178	2.83	2.29	2.07
DPS (cents)	2.5	4.0	3.0	3.0
Div. Yield (%)	3.6	3.1	2.7	2.7

Source: Company Data, PSR est.

### VALUATION METHOD

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

Richard Leow, CFA, CFTe, FRM (+65 6212 1848)

Investment Analyst

richardleowwt@phillip.com.sg

## 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>149.1</b>	<b>176.4</b>	<b>189.2</b>
Other income	0.4	0.4	0.5	0.5	0.4
<b>EBITDA</b>	<b>27.9</b>	<b>30.6</b>	<b>25.8</b>	<b>33.3</b>	<b>37.6</b>
Depreciation & Amortisation	(8.2)	(9.0)	(10.6)	(14.5)	(14.6)
<b>EBIT</b>	<b>19.7</b>	<b>21.6</b>	<b>15.2</b>	<b>18.7</b>	<b>22.9</b>
Net Finance (Expense)/Inc	(1.0)	(0.7)	(1.0)	(1.3)	(1.1)
Other items	(0.13)	(0.10)	(0.20)	-	-
<b>Profit Before Tax</b>	<b>18.6</b>	<b>20.8</b>	<b>14.1</b>	<b>17.5</b>	<b>21.8</b>
Taxation	(1.9)	(3.7)	(1.9)	(2.5)	(3.3)
<b>Profit After Tax</b>	<b>16.7</b>	<b>17.1</b>	<b>12.1</b>	<b>14.9</b>	<b>18.5</b>
- Non-controlling interest	-	(0.03)	(0.03)	(0.03)	(0.03)
<b>PATMI</b>	<b>16.7</b>	<b>17.1</b>	<b>12.2</b>	<b>15.0</b>	<b>18.5</b>

### Per share data (cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS	9.36	9.58	6.80	8.37	10.34
DPS	2.50	4.00	3.00	3.00	5.00
BVPS	39.39	45.09	48.89	54.18	60.48

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>CFO</b>					
Net income	16.7	17.1	12.1	14.9	18.5
Adjustments	11.3	13.4	13.5	18.3	19.1
WC changes	7.5	2.5	0.6	(2.2)	(1.0)
Cash generated from ops	35.5	33.0	26.2	31.1	36.5
Others	(2.8)	(3.4)	(2.9)	(3.8)	(4.5)
<b>Cashflow from ops</b>	<b>32.7</b>	<b>29.6</b>	<b>23.3</b>	<b>27.3</b>	<b>32.1</b>
<b>CFI</b>					
CAPEX, net	(12.9)	(24.6)	(65.0)	(15.4)	(15.5)
Others	(0.03)	(0.35)	-	-	-
<b>Cashflow from investments</b>	<b>(12.9)</b>	<b>(24.9)</b>	<b>(65.0)</b>	<b>(15.4)</b>	<b>(15.5)</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>(19.1)</b>	<b>1.5</b>	<b>4.4</b>
Effects of exchange rates	(0.1)	0.1	-	-	-
<b>CCE, end</b>	<b>20.6</b>	<b>25.1</b>	<b>6.0</b>	<b>7.6</b>	<b>12.0</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	154	155	156
Others	1.2	1.5	1.5	1.5	1.5
<b>Total non-current assets</b>	<b>85</b>	<b>101</b>	<b>155</b>	<b>156</b>	<b>157</b>
Trade receivables	33.5	30.3	28.8	34.1	36.5
Cash	20.6	25.1	6.0	7.6	12.0
Others	1.8	1.7	1.6	1.9	2.0
<b>Total current assets</b>	<b>56</b>	<b>57</b>	<b>36</b>	<b>44</b>	<b>51</b>
<b>Total Assets</b>	<b>141</b>	<b>158</b>	<b>192</b>	<b>200</b>	<b>208</b>
<b>LIABILITIES</b>					
Trade payables	21.2	20.2	19.2	22.7	24.3
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>33</b>	<b>37</b>	<b>38</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>104</b>	<b>103</b>	<b>100</b>
<b>EQUITY</b>					
Non-controlling interests	-	(0.01)	(0.03)	(0.07)	(0.10)
<b>Shareholder Equity</b>	<b>70</b>	<b>81</b>	<b>87</b>	<b>97</b>	<b>108</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (x), adj.	7.5	13.3	16.5	13.4	10.8
P/B (x)	1.8	2.8	2.3	2.1	1.9
EV/EBITDA (x), adj.	5.4	8.3	10.6	8.0	6.9
Dividend Yield (%)	3.6	3.1	2.7	2.7	4.5

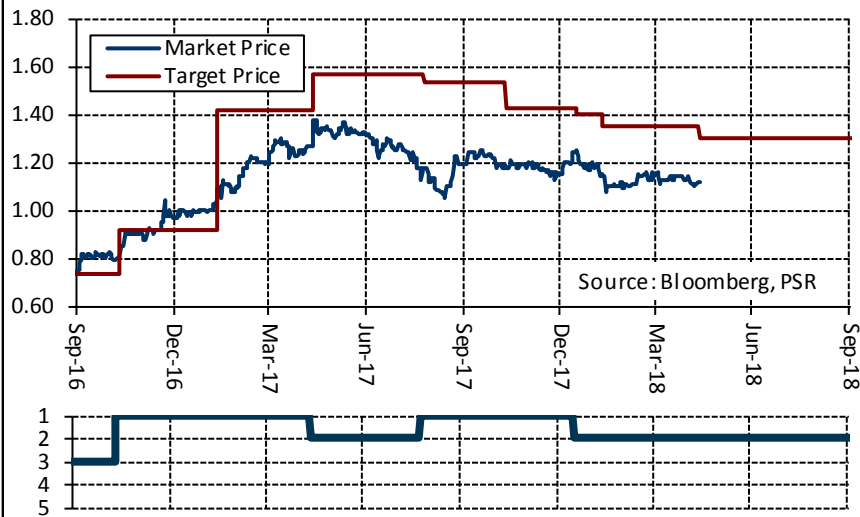
### Growth & Margins (%)

<b>Growth</b>					
Revenue	11.5%	0.3%	-5.0%	18.3%	7.2%
EBITDA	3.2%	9.6%	-15.7%	29.0%	12.9%
EBIT	-1.6%	9.4%	-29.4%	22.9%	22.4%
Net Income	37.6%	2.3%	-29.0%	23.1%	23.6%
<b>Margins</b>					
EBITDA margin	17.9%	19.5%	17.3%	18.9%	19.9%
EBIT margin	12.6%	13.8%	10.2%	10.6%	12.1%
Net Profit Margin	10.7%	10.9%	8.2%	8.5%	9.8%

### Key Ratios

ROE (%)	26.2%	22.7%	14.5%	16.2%	18.0%
ROA (%)	12.7%	11.4%	7.0%	7.6%	9.1%
Debt-to-Equity (x)	0.65	0.65	0.91	0.77	0.65
Net Debt or (Net Cash)	25.2	26.9	74.0	67.4	58.0
Net Gearing (x)	0.36	0.33	0.85	0.70	0.54

**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

<b>Head of Research</b> Paul Chew – <a href="mailto:paulchewkl@phillip.com.sg">paulchewkl@phillip.com.sg</a>	<b>Contact Information (Singapore Research Team)</b> <b>Research Associate</b> Alvin Chia - <a href="mailto:alvinchiawy@phillip.com.sg">alvinchiawy@phillip.com.sg</a>	<b>Research Operations Officer</b> Mohamed Amiruddin - <a href="mailto:amiruddin@phillip.com.sg">amiruddin@phillip.com.sg</a>
<b>Consumer   Healthcare</b> Soh Lin Sin - <a href="mailto:sohls@phillip.com.sg">sohls@phillip.com.sg</a>	<b>Oil &amp; Gas   Energy</b> Chen Guangzhi - <a href="mailto:chengz@phillip.com.sg">chengz@phillip.com.sg</a>	<b>Macro</b> Pei Sai Teng - <a href="mailto:peist@phillip.com.sg">peist@phillip.com.sg</a>
<b>Transport   REITs (Industrial)</b> Richard Leow - <a href="mailto:richardleowwt@phillip.com.sg">richardleowwt@phillip.com.sg</a>	<b>REITs (Commercial, Retail, Healthcare)   Property</b> Dehong Tan - <a href="mailto:tandh@phillip.com.sg">tandh@phillip.com.sg</a>	<b>Technical Analysis</b> Jeremy Ng - <a href="mailto:jeremyngch@phillip.com.sg">jeremyngch@phillip.com.sg</a>
<b>REITs (Commercial, Retail, Healthcare)   Property</b> Tara Wong - <a href="mailto:tarawongsi@phillip.com.sg">tarawongsi@phillip.com.sg</a>	<b>US Equity</b> Ho Kang Wei - <a href="mailto:hokw@phillip.com.sg">hokw@phillip.com.sg</a>	

**Contact Information (Regional Member Companies)****SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 63517000 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**

**Phillip Capital Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA**

**PhillipCapital (India) Private Limited**  
No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

**CAMBODIA**

**Phillip Bank Plc**  
Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Phillip Capital Limited**  
Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**TURKEY**

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**

**Asha Phillip Securities Limited**  
2<sup>nd</sup> Floor, Lakshmans Building,  
No. 321, Galle Road,  
Colombo 03, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

**DUBAI**

**Phillip Futures DMCC**  
Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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