

# Acromec Limited

Home-grown engineering services provider making strides

SINGAPORE | ENGINEERING | IPO NOTE

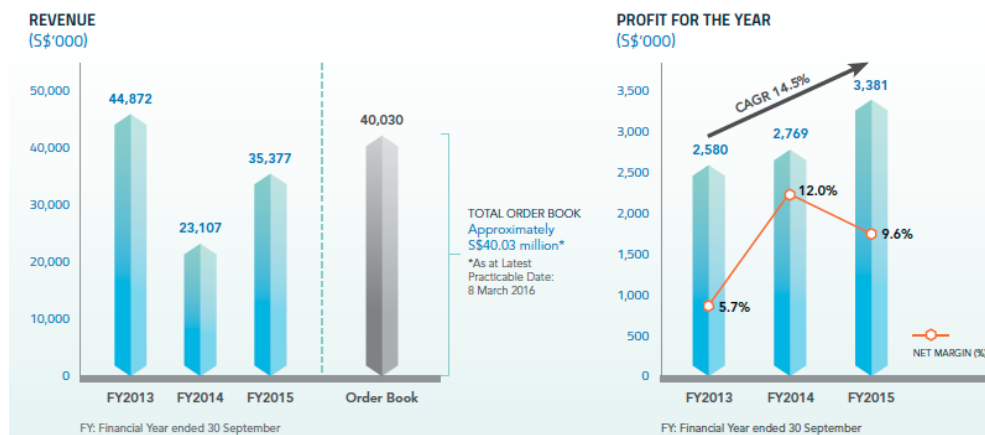
13 April 2016

- Home grown engineering services provider with a good track record and portfolio of renowned clients in the healthcare, biomedical, research and electronics sector.
- Focus of company to be on healthcare and biomedical/research sectors locally, sectors where the government has committed substantial funds to develop.
- Acromec has zero debt, stable margins, positive operating cash flows, and a high return on equity (42.2% in FY15). Post-IPO, Acromec trades at a historical P/E of 9.45x, lower than the industry average of 18.9x. **Subscribe.**

## Investment Summary:

Founded in 1996, Acromec Limited designs and builds controlled environments for use in various industries. The facilities Acromec builds can be segregated into three main types: Laboratories, Medical and Sterile Facilities, and Cleanrooms. Over the years, the company has grown from a sub-contractor to a total solutions provider in the field of controlled environments, establishing a credible track record over 2 decades since founding. Serving mainly the healthcare, biomedical, research and academia, and electronics sectors, customers include SGH, NUH, CGH, A\*Star, P&G, and John Matthey Singapore.

## Financial Highlights:



Source: IPO Prospectus

\*90% of orderbook expected to be fulfilled in FY2016

## Peer comparison:

NAME	COUNTRY	GROSS MARGIN	RETURN ON EQUITY	DEBT/ASSETS	PE	PB
ACROMECC	SG	21.1	42.2	0.00	9.45	2.47
DAI-DAN CO LTD	JPN	12.0	7.7	5.26	7.83	0.57
TAKASAGO THERMAL ENGINEERING	JPN	11.4	6.5	3.64	15.06	0.94
TAIKISHA LTD	JPN	14.8	7.5	5.58	13.38	0.97
DRAEGERWERK AG	GERMANY	44.9	3.6	14.78	28.56	0.98
L&K ENGINEERING CO LTD	TAIWAN	6.6	4.0	18.81	29.69	0.82
Industry Average		17.94	5.86	9.61	18.90	0.86

Source: Bloomberg, Phillip Securities Research (Singapore) (PSR)

## Subscribe

IPO PRICE	SGD 0.220
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

## IPO STATISTICS

Total New Share issue	27,000,000
-Placement tranche	25,500,000
-Public tranche	1,500,000
Listing Status	Catalist
Closing date (public)	14/12/2016 12pm
Trading date	18/4/2016 9am
Lead Manager	SAC CAPITAL

## MAJOR SHAREHOLDERS (%)

INGENIEUR HOLDINGS	55.1%
LIM SAY CHIN	7.5%
CHEWCHEE KEONG	7.5%
GOI CHEW LENG	7.5%

## KEY FINANCIALS

SGD M N	FY 13	FY 14	FY 15
Revenue	44.9	23.1	35.4
Gross Profit	7.8	5.8	7.5
PBT	2.9	3.2	4
NPAT	2.6	2.8	3.4
EPS (cents, Basic/diluted)	2.77	2.97	3.63
PE	7.9	7.4	6.1
BVPS (cents)	4.2	5.2	6.7
P/B	5.3	4.2	3.3
Dividend	20% Payout for FY16 and FY17		

Source: IPO Prospectus

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## COMPANY BACKGROUND AND HISTORY


### Business Segments:

#### Engineering, Procurement and Construction (EPC)

Acromec provides EPC services, specialising in architectural and mechanical, electrical and process (MEP) works within controlled environments. The EPC segment has made up bulk (>94%) of Acromec's revenue historically. The facilities Acromec build are segregated into three main kinds: Laboratories, Medical and Sterile Facilities, and Cleanrooms.



#### LABORATORIES

 Environmental parameters in these facilities are controlled for scientific or technological research, experiments or measurements to be performed.

#### Types of Laboratories


- Forensic and diagnostic laboratories;
- Containment laboratories for biomedical research, including the more sophisticated and challenging BSL3 laboratories, which are high containment laboratories that allow work to be done with indigenous or exotic agents which may cause serious or potentially lethal disease such as severe acute respiratory syndrome, avian flu and tuberculosis; and
- Laboratories for research in chemicals and materials, clean technology, electronics and pharmaceutical products.

#### Track Record

- Built laboratories for facility owners such as P&G, Singapore General Hospital, National University of Singapore and Johnson Matthey Singapore Private Limited.



#### MEDICAL AND STERILE FACILITIES

 Environmental parameters in these facilities are controlled to provide clean environments to reduce risk of infection to patients and/or contain infectious diseases.

#### Types of Medical and Sterile Facilities


- Operating theatres;
- Theatre sterile services units;
- Intensive care units;
- Isolation wards; and
- Fertility centres.

#### Track Record

- Built medical and sterile facilities for hospitals and medical centres such as National University Hospital, Singapore General Hospital, Tan Tock Seng Hospital, Changi General Hospital, Virtus Fertility Centre and Aptsu Surgery Centre.



#### CLEANROOMS

 Enclosed space in which airborne particulates, contaminants and pollutants are kept within strict limits. Cleanrooms are typically used in manufacturing and scientific research.

#### Types of Cleanrooms

- Cleanrooms of various sizes and specifications, which comply with Class 1 or ISO 3 to Class 100,000 or ISO 8 standards.

#### Track Record

- Built cleanrooms for customers such as STATS ChipPAC Ltd., A\*Star and ASE Singapore Pte Ltd.

Source: IPO Prospectus

### Maintenance

The Maintenance segment commands a higher gross profit margin (GPM) than the EPC segment (25.4% vs 20.9% for the EPC segment in FY2015). The Maintenance segment contributed 5.4% of total revenue in F15. Management is keen to grow the contribution to 20% of total revenue, in view of its better GPM and recurring nature. Maintenance contracts are customisable and extend from between 1 to 7 years. The value of a maintenance contract depends on the complexity of the facility. The per annum maintenance revenue could be up to 10% of facility cost for highly specialised facilities. Currently, bulk of the Maintenance revenue is derived from facilities that were built by the Group. Management's main strategy to grow the Maintenance segment revenue is to continue securing maintenance contracts for facilities that were built by them.

### Good Track Record:

Acromec has grown from a sub-contractor to a total solutions provider in the field of controlled environments, establishing a credible track record over 2 decades since founding. Serving mainly the healthcare, biomedical, research and academia, and electronics sectors, customers include SGH, NUH, CGH, A\*Star, P&G, and John Matthey Singapore.

### Past and Existing Projects



Source: IPO Prospectus

### USE OF PROCEEDS

Management guided that current projects of Acromec tend to be smaller ones (biggest contract won was S\$20mn) with quick turnaround time. The entire process from tendering of project to handover/completion can take 9 months on average. Management has earmarked bulk of the IPO proceeds as working capital to bid for more and larger projects.

Use of net proceeds (After deducting expenses)	Estimated Amount (S\$m)
<b>Working Capital to expand business operations through securing more/larger scale projects</b>	<b>3.5</b>
<b>Expansion through acquisitions/Venturing into new geographical markets</b>	<b>1.0</b>
<b>Net Proceeds</b>	<b>4.5</b>
Total Listing Expenses	1.4
Gross Proceeds	5.9

Source: IPO Prospectus, PSR

### SHAREHOLDING STRUCTURE

The three founders/key management team (Mr Lim Say Chin, Desmond Chew, Lingo Goi) will collectively own 77.6% (from 100%) of enlarged share capital after IPO. In demonstration of their commitment to the Group, the trio has agreed to a lock up period of 6 months for 100% of their interests and a further 6 months thereafter, for 50% of their interests, from the date of listing.

The other 22.4% consists of 27m new shares which will be offered at S\$0.22 each (25.5m placement shares and 1.5m public offer)

## VALUATION

Acromec has entered into a service agreement with the 3 founders which effectively raises their annual remuneration from BAND A (\$0-\$250k) to BAND B (\$250k-\$500k) from FY2016, including an incentive bonus which is pegged to the profit before tax of the company. We think this new band is not out of industry norm.

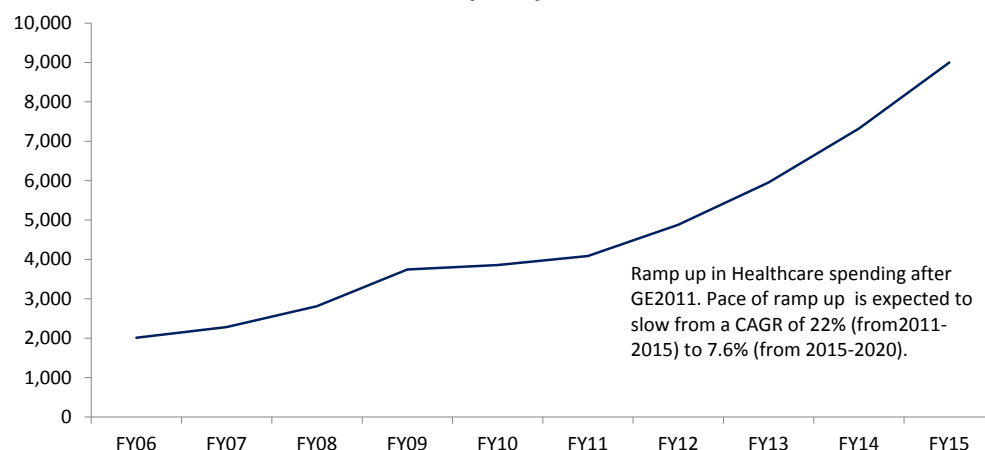
Assuming the service agreement was in place in FY2015, at the offering price of \$0.22, Acromec will be trading at a post-IPO historical P/E of 9.45x.

## PROSPECTS AND OPPORTUNITIES

### Singapore – Healthcare

- Increasing demand for healthcare infrastructure and government healthcare spending.** Redevelopment plans for SGH, the planned 4 new acute hospitals in Singapore to open beyond 2020, the opening of the Centre for Oral Health in NUH in 2019, and the new wing at the National Skin Centre could represent opportunities for Acromec.

### Government Health Expenditure (\$m)

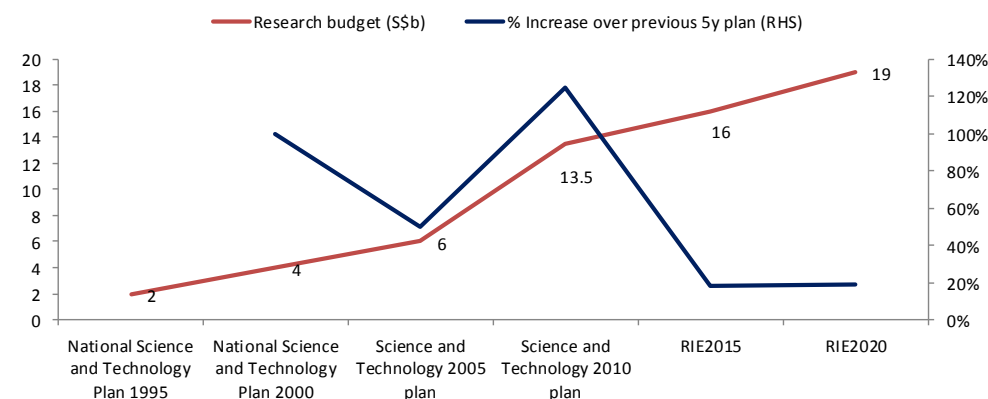


Source: Singstat, PSR

### Singapore – Biomedical and Research and Academia

- Increased government and private sector investments in research activities to provide opportunities for Acromec.** The Singapore government announced in January 2016 that it has set aside S\$19bn over 2016-2020 for its Research, Innovation and Enterprise (RIE) 2020 plan. This allocation is an 18% increase over the \$16.1bn allocated from 2011 to 2015. An A\*Star survey also noted private sector R&D spending hit an all-time high of S\$5.2bn in 2014, up 16% from 2013.

### Government expenditure on Research and Innovation



Source: National Research Foundation (PMO), PSR

#### ASEAN – Healthcare

- **Many ASEAN countries are building and upgrading their healthcare infrastructure.** Management has earmarked Myanmar as a country where they are looking to expand and offer their MEP engineering solutions in the healthcare sector.

#### ASEAN – Electronics

- **Growing electronics manufacturing activities in Vietnam could provide opportunities.** Vietnam's electronics industry makes up 23.4% of GDP in 2014 (from 5.2% in 2010). With Acromec's expertise in cleanroom design and construction for the electronics sector, management has targeted this segment as a potential market for the Group to venture into.

#### KEY RISKS

**Changes in Singapore government policies relating to the sectors Acromec serves.** The Group is affected by Singapore government's policies and budgets relating to the healthcare, biomedical, research and academia sectors, including its expenditure on public infrastructure, as well as its efforts in attracting investments in the healthcare, biomedical, research and academia sectors.

**Acromec's revenue is dependent on the capital expenditure of their customers.** Any slowdown in the growth and development of the healthcare, biomedical, research and academia, and electronics sectors could result in a reduction in the capital expenditure budgets of Acromec's customers and a lesser number of projects available for tender.

**Lack of recurring revenue base.** Acromec's business is generally project-based and they face the risk of any delay or premature termination of secured projects and/or they may not be able to secure new projects.

**Acromec is vulnerable to the availability and costs of employing foreign personnel.** As at 30 September 2015, approximately 60.7% of Acromec's personnel were foreigners. Any changes in the labour policies in Singapore and in other countries where they operate, or the foreign personnel's countries of origin may affect the supply of foreign labour and cause disruptions to their business operations.

#### What do we think?

**Good Track Record with favourable prospects.** Acromec operates in an industry with high barriers of entry where there are strict requirements on safety standards. With a good track record and portfolio of renowned clients, Acromec is in a good position to benefit from Singapore's push towards better healthcare infrastructure and increased investment in R&D initiatives. This reputation and track record will also facilitate Acromec's venture overseas.

**Maintenance contracts are a means to maintaining relationships with existing clients.** While maintenance contracts make up only 5.4% of Acromec's revenue, management intends to grow this business segment. Management guided that there have been requests from existing clients to help maintain the facilities Acromec constructed. While also an avenue to grow recurring revenue, we think an equally important factor is the ability to maintain relationships with existing clients which could potentially bring in future main EPC projects.

**Management nimbleness in running business.** From originally serving the electronics sector when the company first started, the management team has been nimble and resourceful to leverage on their expertise in the controlled environment space to venture out into the biomedical/research and the healthcare sectors in 2002 and 2011 respectively. The company's progression from sub-contractor to main contractor along the way is also testament to the quality of work provided.

**Execution risks exist with little visibility as contracts are short term, for now.** Acromec's biggest contract won so far is a c.S\$20m contract. As the contracts currently are mostly short term with a tender-to-completion duration averaging 9 months, 90% of the

company's current order book are expected to be recognised in FY2016, with little stretching beyond. We are optimistic though of management's ability to leverage on their track record and capitalize on the favourable trends in the healthcare and R&D scene locally.

**IPO price at a discount to peers.** With zero debt, stable margins, positive operating cash flows, and a high return on equity, Acromec trades at a post-IPO historical P/E of 9.45x, lower than the industry average of 18.9x.

#### **Investment Actions**

Application for IPO shares closes at Thursday 14 April 12pm and trading commences 18 April 9am.

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