

Cogent Holdings Ltd

Results eclipsed by ongoing take-over Offer



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SINGAPORE | INDUSTRIALS | 3Q17 RESULTS

28 November 2017

- Revenue and net profit were in line with our expectations
- Ongoing Voluntary Cash Offer of \$1.02 from COSCO
- Offer Price is unjustifiably low
- Reiterate our \$1.12 valuation and recommend shareholders to Reject the Offer

Results at a glance

(SGD mn)	3Q17	3Q16	YoY	Comments
Revenue	35.3	34.1	3.6%	Higher container depot management services and transportation management services
EBIT	9.8	10.1	-2.7%	6.1% higher opex, mainly from higher depreciation and higher contract services
PBT	9.13	9.39	-2.7%	1.8% lower net finance costs
NPAT	7.36	7.83	-6.0%	14% higher income tax expense

Source: Company, PSR

The positives

+ **Better cost control helped to mitigate the YoY higher opex.** Staff cost (largest cost component) and rental on leased premises (second largest cost component) were 2% and 5% YoY lower respectively.

The negatives

– **YoY higher opex out-paced revenue growth, resulting in lower EBIT margin from 29.7% to 27.9%.** Main contributors to the higher opex were 33% YoY higher depreciation (fourth largest cost component) due to commencement of certain container depot facilities since May 2017, and 15% YoY higher contract services (third largest cost component) mainly due to higher container repair and maintenance cost and increased security cost.

– **YoY lower NPAT, but it was within our expectation.** The lower NPAT did not come as a surprise, as we were already forecasting YoY higher opex for 3Q, after observing two sequential quarters of YoY higher opex in 1Q and 2Q.

Outlook

The outlook is positive. Earnings growth in the pipeline to come from the Jurong Island Container Depot (JICD) project and to a lesser extent, the student hostel at 362 Holland Road. As described in our [previous report](#), it is inevitable that Cogent becomes consolidated as a subsidiary of COSCO SHIPPING International (Singapore) Co. Ltd. (COSCO). Thereafter, potentially benefiting from COSCO's intention to develop Cogent into a regional logistics player.

Reject the Offer; take partial profit and hold out for a failed delisting

We reiterate our \$1.12 valuation for Cogent, which is 10% higher than the Offer Price. As outlined in our [previous report](#), the Offer Price of \$1.02 is unconvincing, in our view. The Offer Price for Cogent is only 14.9x price-to-trailing-earnings, whereas the Offer Price for arguably Cogent's closest peer, Poh Tiong Choon Logistics Ltd, was at a much higher price-to-trailing-earnings multiple of 23.0x. Our recommendation remains unchanged – minority shareholders should *take partial profit* to avoid tying up capital while the Offer remains open and to **Reject the Offer**.

The remaining capital invested in Cogent will resemble a call option. If the delisting is successful, minority shareholders will receive \$1.02 anyway. If the delisting fails, minority shareholders will remain shareholders of Cogent, a listed-subsiary of COSCO.

Reject the Offer

LAST CLOSE PRICE	SGD 1.010
FORECAST DIV	SGD 0.031
TARGET PRICE	SGD 1.120
TOTAL RETURN	14.0%

COMPANY DATA

O/S SHARES (MN) :	479
MARKET CAP (USD mn / SGD mn) :	359 / 483
52 - WK HI/LO (SGD) :	102 / 0.57
3M Average Daily T/O (mn) :	0.81

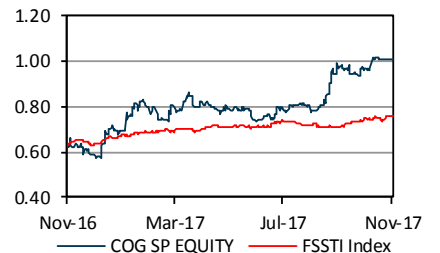
MAJOR SHAREHOLDERS (%)

YEOWKHOON TAN	70.3%
YEOWLAM TAN	13.6%
MIN CHEOWTAN	0.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.1	29.7	66.8
STIRETURN	16	5.6	24.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	129.2	136.7	141.9	144.1
NPAT (SGD mn)	25.5	32.1	32.4	33.8
EPS (cents)	5.32	6.70	6.77	7.07
P/E (x)	7.4	10.1	14.9	14.3
BVPS (cents)	217	26.4	30.0	37.1
P/B (x)	18	2.6	3.4	2.7
DPS (cents)	188	-	3.13	2.47
Div. Yield (%)	4.8	-	3.1	2.4

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.8%; Terminal g: 10%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Revenue	129.2	136.7	141.9	144.1	196.4
Other operating income	2.0	2.3	3.2	3.0	3.1
EBITDA	41.9	49.8	53.7	55.2	79.3
Depreciation & Amortisation	(8.4)	(8.6)	(11.1)	(11.6)	(15.4)
EBIT	33.5	41.2	42.7	43.6	63.9
Net Finance (Expense)/Inc	(2.9)	(2.9)	(2.8)	(2.8)	(2.9)
Other items	-	-	-	-	-
Profit Before Tax	30.6	38.2	39.9	40.8	61.0
Taxation	(5.1)	(6.2)	(7.5)	(7.0)	(10.2)
Net Income, reported	25.5	32.1	32.4	33.8	50.7

Per share data (cents)

Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	5.32	6.70	6.77	7.07	10.60
DPS	1.88	-	3.13	2.47	3.71
BVPS	21.65	26.41	30.05	37.11	45.25

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
PBT	30.6	38.2	39.9	40.8	61.0
Adjustments	10.7	11.5	13.9	14.4	18.3
WC changes	3.6	(0.0)	0.6	0.3	6.3
Cash generated from ops	44.9	49.7	54.4	55.5	85.6
Others	(3.5)	(4.9)	(7.5)	(7.0)	(10.2)
Cashflow from ops	41.4	44.8	46.9	48.5	75.3
CFI					
CAPEX, net	(19.8)	(15.3)	(21.5)	(83.8)	(32.0)
Others	(1.58)	1.48	0.26	0.25	0.13
Cashflow from investments	(21.3)	(13.9)	(21.2)	(83.6)	(31.8)
CFF					
Loans, net of repayments	(7.1)	(6.3)	(9.1)	11.3	(13.2)
Dividends	(18.0)	(9.0)	(15.0)	-	(11.8)
Others	(3.2)	(3.2)	(3.1)	(3.1)	(3.1)
Cashflow from financing	(28.3)	(18.5)	(27.1)	8.2	(28.1)
Net change in cash	(8.2)	12.5	(1.4)	(26.9)	15.4
Effects of exchange rate	(0.01)	0.02	-	-	-
CCE, end	44.5	56.9	55.5	28.6	44.0

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 Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
PPE	199	213	223	295	312
Investments	0.04	0.11	0.11	0.11	0.11
Others	3.6	2.6	2.6	2.6	2.6
Total non-current assets	203	215	226	298	315
Trade Receivables	17.1	17.8	18.5	18.8	25.6
Cash	45.3	57.7	56.3	29.4	44.8
Others	3.6	3.4	3.6	3.6	5.0
Total current assets	66.0	79.0	78.4	51.9	75.4
Total Assets	269	294	304	350	390
LIABILITIES					
Short term loans	13.4	16.1	16.7	13.2	15.3
Accounts Payables	6.2	6.9	7.1	7.3	9.9
Others	38.4	38.3	39.5	40.0	51.8
Total current liabilities	58.0	61.3	63.4	60.5	77.0
Long term loans	105	104	94	109	93
Others	2.7	3.0	3.0	3.0	3.0
Total non-current liabilities	108	107	97	112	96
Total Liabilities	166	168	160	172	173
EQUITY					
Shareholder Equity	104	126	144	178	217

Valuation Ratios

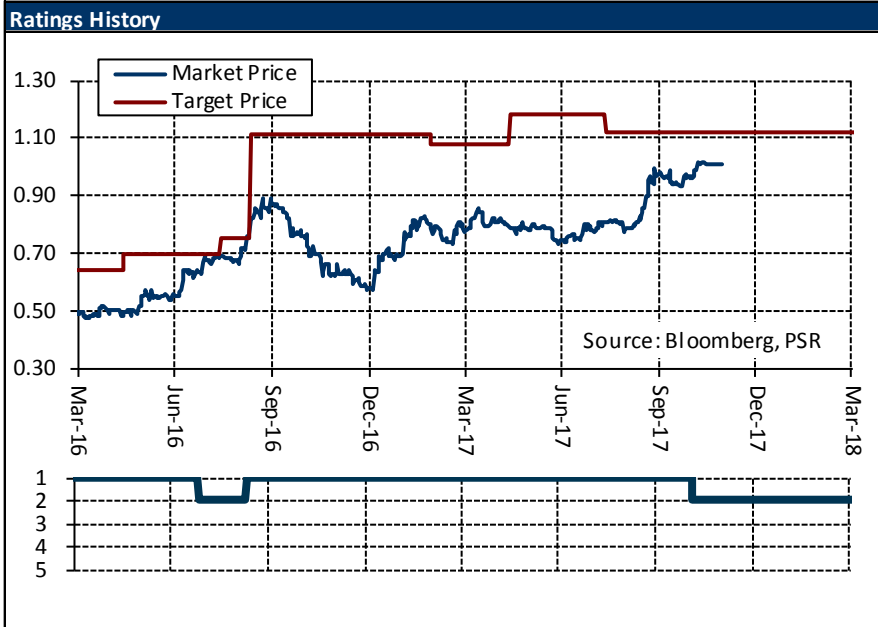
Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
P/E (x)	7.4	10.1	14.9	14.3	9.5
P/B (x)	1.8	2.6	3.4	2.7	2.2
EV/EBITDA (x)	6.2	7.8	10.0	10.4	6.9
Dividend Yield (%)	4.8	-	3.1	2.4	3.7

Growth & Margins (%)

Growth					
Revenue	9.1%	5.8%	3.8%	1.6%	36.3%
EBITDA	15.6%	18.6%	8.0%	2.8%	43.5%
EBIT	13.5%	23.0%	3.6%	2.3%	46.5%
Net Income	3.3%	26.0%	1.0%	4.4%	50.1%
Margins					
EBITDA margin	32.5%	36.4%	37.9%	38.3%	40.4%
EBIT margin	25.9%	30.1%	30.1%	30.3%	32.5%
Net Profit Margin	19.7%	23.5%	22.8%	23.5%	25.8%

Key Ratios

ROE (%)	25.4%	27.9%	24.0%	21.0%	25.8%
ROA (%)	9.6%	11.4%	10.8%	10.3%	13.7%
Net Debt or (Net Cash)	72.9	61.9	54.3	92.5	63.9
Net Gearing (x)	70.4%	49.0%	37.8%	52.1%	29.5%



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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