

SHS Holdings Ltd

Growth engines intact

SINGAPORE | CONSTRUCTION | 2Q18 RESULTS

- Revenue weaker by 13% YoY
- The corrosion prevention segment is benefitting from the improved sentiment in marine & offshore sector. The growth engines solar and modular are gaining traction.
- Maintain BUY with an unchanged target price of S\$0.29.

Results at a glance

US\$000	2Q18	2Q17	QoQ(%)	Comments
Revenue	8,520	9,769	-12.8%	Decrease mainly attributed to steel engineering projects facing margin compression
Other income	830	337	146.3%	Increase due to higher rental & service income from the Engineering & Construction segment
Selling & Distribution expense	-388	-144	169.4%	Higher business development expenses associated with the expansion of Modular business in Australasia
Finance costs	-160	-38	321.1%	Higher bank borrowings for redevelopment of Hetat factory & office building
Loss after tax	-1,357	-1,206	12.5%	Increased losses mainly attributed to the lackluster environment in structural steel

Source: Company, PSR

The Positives

+ Improving sentiment in the marine & offshore sector. Revenue for corrosion prevention (CP) segment increased 6% to S\$3.4m QoQ. The improvement in oil prices led to increased activity in the marine & offshore sector. The group witnessed more construction of new vessels, which resulted in more contracts being awarded. Utilisation of plant capacity improved which led gross margins to increase to 27% from 15.7% a year ago.

+ Growth engines Solar Energy & Modular gains traction. Revenue from the solar energy segment rose to S\$1.8m in 2Q18 from S\$0.15m in 2Q17, the increase is due to the delivery of delayed projects and new contracts secured in FY18. We expect the Bangladesh solar farm project to commission in 1H19. Modular recorded higher revenue for the delivery of pre-fabricated bathroom units for the Lendlease Paya Lebar project. The group has also fully acquired TLC modular the subsidiary for the modular business.

The Negatives

- Structural steel segment faced with margin compression. Revenue for the engineering & construction sank 49% YoY to S\$3.2m from S\$6.3m due to the structural steel segment. The segment is faced with margin compression from lackluster environment, cost overruns and a one-off revenue adjustment in 2Q18.

Outlook

We remain positive on the two growth drivers of the group solar energy & modular construction and expect significantly higher contributions in FY19. We expect order books to build up for modular construction. The Cosa hotel is on track to deliver the turnkey project in 2H18. We expect the structural steel segment to continue to face challenges from lackluster environment and margin compressions.

Maintain BUY with an unchanged target price of S\$0.29

We maintained our BUY recommendation with an unchanged target price of S\$0.29. We have adjusted FY19e revenue downwards by 10% in light of the recent result, earnings unchanged as we expect margin expansion from CP and the growth engines.



StocksBnB.com

23 August 2018

BUY (Maintained)

CLOSING PRICE	SGD 0.240
FORECAST DIV	SGD 0.001
TARGET PRICE	SGD 0.290
TOTAL RETURN	21.3%

COMPANY DATA

O/S SHARES (MN) :	685
MARKET CAP (USD mn / SGD mn) :	115 / 151
52 - WK HI/LO (SGD) :	0.25 / 0.2
3M Average Daily T/O (mn) :	0.50

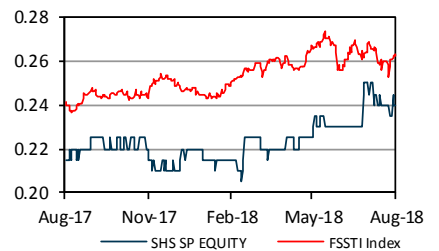
MAJOR SHAREHOLDERS (%)

Kiat Teng Choon	28.5%
Ng Han Kok	17.4%
Alexander Stone R	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(4.0)	6.7	12.6
STIRETURN	(16)	(8.5)	2.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY 16	FY 17	FY 18e	FY 19e
Revenue	56	38	57	100
Gross Profit	16	4	7	32
EBIT	6.9	(18.2)	1.0	25.9
Net Profit	12	(20)	0	20
ROE (x)	5.4%	-9.0%	0.0%	9.0%
ROA (x)	4.7%	-7.2%	0.0%	6.9%

Source: Company, PSR

VALUATION METHOD

P/E Multiple @ 10 X

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Financials
Income Statement

Y/E Dec, SGD '000	FY15	FY16	FY17	FY18e	FY19e
Revenue	62,727	56,135	37,725	56,669	100,361
Gross Profit	15,198	15,574	4,232	5,885	31,961
EBITDA	14,478	9,889	(14,588)	8,235	34,306
Depreciation & Amortisation	5,191	3,030	3,577	7,914	8,397
EBIT	9,287	6,859	(18,165)	320	25,909
Net Finance Inc/(Exp)	(100)	(135)	(246)	(406)	(444)
Profit before tax	9,101	4,064	(20,213)	(580)	24,609
Taxation	(127)	277	12	99	(4,184)
Net profit before NCI	57,677	11,637	(20,052)	(481)	20,426
Non-controlling interest	(74)	(153)	(1,825)	5	(868)
Net profit, reported	57,751	11,790	(18,227)	(476)	19,558

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	9.5	1.8	(2.7)	(0.1)	2.9
DPS*	4.0	0.3	0.2	(0.0)	1.0
BVPS	33.6	33.4	31.2	31.5	33.5

*FY15 DPS includes a special dividend of 3.68 cents

Cash Flow

Y/E Dec, SGD '000	FY15	FY16	FY17	FY18e	FY19e
CFQ					
Profit after tax	57,677	11,637	(20,052)	(481)	20,426
Adjustments	(33,527)	(5,501)	13,590	7,816	12,580
WC changes	2,916	(8,488)	(3,442)	(1,980)	(16,662)
Cash generated from ops	27,066	(2,352)	(9,904)	5,355	16,344
Tax paid	(2,936)	(240)	26	99	(4,184)
Others	(28,186)	3,114	10,718	(5,355)	(16,344)
Cashflow from ops	23,010	(1,830)	(9,064)	5,453	12,161
CFI					
CAPEX, net	(3,457)	(19,546)	(25,072)	(13,000)	(10,000)
Others	56,686	(5,205)	686	(1,600)	-
Cashflow from investments	53,229	(24,751)	(24,386)	(14,600)	(10,000)
CFE					
Share issuance, net	105	16,906	1	-	-
Loans, net of repayments	(1,227)	3,708	12,820	-	-
Dividends	(5,659)	(27,741)	(1,713)	186	(6,845)
Interest paid	(2,429)	(915)	(5,314)	(406)	(444)
Others	23	2,735	6,030	(207)	-
Cashflow from financing	(9,187)	(5,307)	11,824	(427)	(7,289)
Net change in cash	67,052	(31,888)	(21,626)	(9,574)	(5,129)
Effects of exchange rates	(117)	125	(59)	-	-
CCE, end	102,555	70,792	49,107	39,533	34,405

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 '000	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	27,138	42,793	75,408	80,494	82,097
Others	87,916	103,959	93,875	97,875	97,875
Total non-current assets	93,522	111,303	145,345	154,431	156,034
Accounts receivables	23,518	21,147	14,716	41,886	54,901
Cash	103,755	70,792	49,107	39,533	34,405
Inventories	4,083	9,941	20,483	10,127	12,361
Total current assets	152,888	137,329	108,244	115,484	125,604
Total Assets	246,410	248,632	253,589	269,915	281,638

LIABILITIES

Accounts payables	14,041	12,311	11,928	26,762	25,349
Short term loans	150	18	13,050	13,050	13,050
Tax payable	858	528	811	811	811
Total current liabilities	23,871	22,671	39,829	54,178	52,321
Long term loans	-	3,840	3,776	3,776	3,776
Deferred tax liabilities	2,202	2,015	3,598	3,598	3,598
Total non-current liabilities	2,588	6,133	7,502	7,374	7,374
Total Liabilities	26,459	28,804	47,331	61,552	59,695

EQUITY

Non-controlling interests	849	2,051	2,938	2,933	3,801
Shareholder Equity	219,102	217,777	203,320	205,429	218,142

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X)	2.5	13.2	(8.8)	(338.0)	8.2
P/B (X)	0.7	0.7	0.8	0.7	0.7
EV/EBITDA (X)	2.7	9.2	(9.0)	17.2	4.3
Dividend Yield	17.0%	1.1%	0.9%	-0.1%	4.3%

Growth & Margins

Growth					
Revenue	-	-10.5%	-32.8%	50.2%	77.1%
EBITDA	-	-31.7%	-247.5%	N.M.	316.6%
EBIT	-	-26.1%	-364.8%	N.M.	7987.2%
Net profit, adj.	-	-79.6%	-254.6%	N.M.	-4206.4%

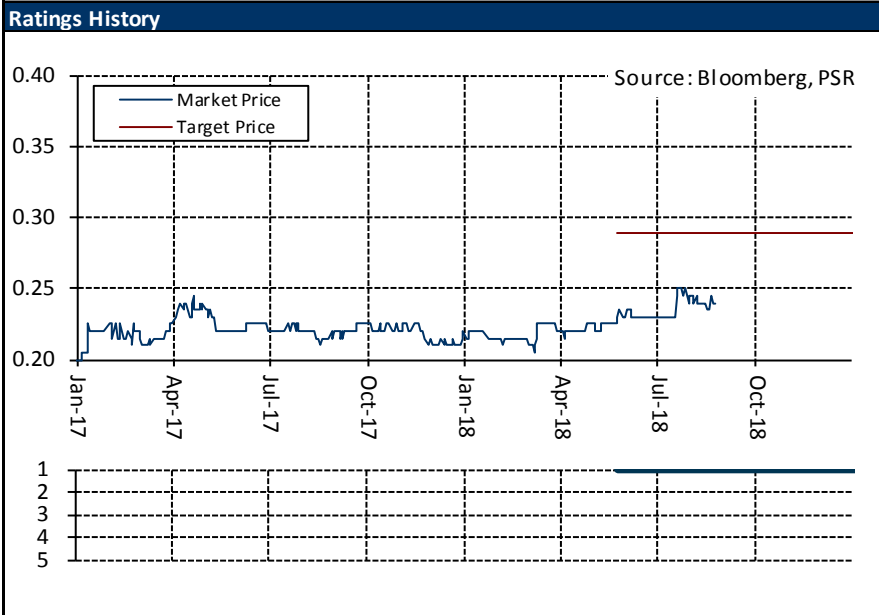
Margins

Gross margin	24.2%	27.7%	11.2%	10.4%	31.8%
EBITDA margin	23.1%	17.6%	-38.7%	14.5%	34.2%
EBIT margin	14.8%	12.2%	-48.2%	0.6%	25.8%
Net profit margin	92.1%	21.0%	-48.3%	-0.8%	19.5%

Key Ratios

ROE (%)	26.4%	5.4%	-9.0%	-0.2%	9.0%
ROA (%)	23.4%	4.7%	-7.2%	-0.2%	6.9%

Net Debt / (Cash)	(103,605)	(66,934)	(32,281)	(22,707)	(17,579)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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