

SHS Holdings Ltd

A setback in Solar plant



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SINGAPORE | CONSTRUCTION | 3Q18 RESULTS

- Revenue improved 43.5% YoY, but earnings dragged down operational expenses.
- The construction of the Bangladesh solar farm is delayed three quarters and is estimated to complete end FY19e.
- We revised FY19e earnings downwards by 36% due to delay in the solar plant. Downgrade to ACCUMULATE with a lower target price of S\$0.24. Our valuation is derived from a 10X PE of FY19 earnings.

Results at a glance

US\$000	3Q18	3Q17	YoY(%)	Comments
Revenue	14,214	9,904	43.5%	Improved revenue driven by all business segments in particular CP & Solar
Admin Expense	-2,550	-2,196	16.1%	Higher staff cost for the ramp up in modular business
Other operating expense	-2,049	-1,293	58.5%	Increase attributable to higher depn expense from the redevelopment of the Hetat office building for the E&C segment
Finance costs	-173	-29	496.6%	Higher bank borrowings for redevelopment of Hetat factory & office building
Loss after tax	-2,840	-2,526	12.4%	

Source: Company, PSR

The Positives

+ Revenue improvement is driven by better contributions from all business segments. Revenue from Engineering & construction (E&C) increased 7% YoY to \$7m. The modular segment helped offset the weakness in the structural steel business which is still suffering from lacklustre conditions and margin compression. Solar energy revenue in Singapore enjoyed 62.5% YoY growth to \$2.5m as a result of new contracts secured in FY18 and previously delayed projects. Corrosion Prevention (CP) segment jumped 44% YoY to \$2.5m due to increased orders from plant operations. The increased orders are a result of improving sentiment in the marine & offshore sector supported by stronger oil prices.

The Negatives

- Substantial delay in the Bangladesh solar project. The Bangladesh solar project was slated to be completed early FY19. Complications such as land issues, regulatory approvals and weather conditions have set the completion date back approximately three quarters. We expect the completion by the end of FY19. Anticipated earnings for the project are \$4m/year.

- Operational expense is higher than expected. Total OPEX increased 27% YoY to \$4.8m. The increase is in part due to business development and travelling expenses. These expenses are incurred for the ramp-up of the modular business. Other operating expense increased 58% due to the depreciation of the redeveloped Hetat office building used by the E&C segment. We expect these expenses to decrease once the modular business is operating at a steady state. This is achieved by operational efficiencies in relation to the design, knowledge and repetitive nature of projects.

Outlook

We expect modular to continue its contribution towards the E&C segment, while structural steel remains in a challenging environment. Key risks include further delays in the construction of the solar project.

Downgraded to ACCUMULATE with a lower target price of S\$0.24

We downgraded our BUY recommendation to ACCUMULATE with a lower target price of S\$0.24. We made a downward revision of FY19e earnings by 36% given the delay in the construction of the solar project. Our valuation is derived from a 10X PE of FY19 earnings. This is in line with the Singapore construction industry.

19 November 2018

ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 0.215
FORECAST DIV	SGD 0.001
TARGET PRICE	SGD 0.240
TOTAL RETURN	12.1%

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) :	0.25

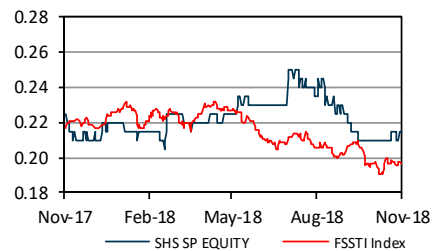
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	2.4	(8.5)	(3.6)
STIRETURN	1.7	(3.8)	(4.3)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	56	38	50	84
Gross Profit	16	4	6	27
EBIT	6.9	(18.2)	(4.1)	210
Net Profit	12	(20)	(7)	15
ROE (x)	5.4%	-9.0%	-3.5%	6.9%
ROA (x)	4.7%	-7.2%	-2.6%	5.1%

Source: Company, PSR

VALUATION METHOD

P/E Multiple @ 10 X

Alvin Chia (+65 6212 1852)

Research Analyst

alvinchiaw@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD '000	FY15	FY16	FY17	FY18e	FY19e
Revenue	62,727	56,135	37,725	50,012	84,338
Gross Profit	15,198	15,574	4,232	6,452	26,988
EBITDA	14,478	9,889	(14,588)	3,798	29,485
Depreciation & Amortisation	5,191	3,030	3,577	7,914	8,444
EBIT	9,287	6,859	(18,165)	(4,116)	21,041
Net Finance Inc/(Exp)	(100)	(135)	(246)	(460)	(627)
Profit before tax	9,101	4,064	(20,213)	(7,116)	15,541
Taxation	(127)	277	12	127	(311)
Net profit before NCI	57,677	11,637	(20,052)	(6,989)	15,230
Non-controlling interest	(74)	(153)	(1,825)	70	(868)
Net profit, reported	57,751	11,790	(18,227)	(6,919)	14,362

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	9.5	1.8	(2.7)	(1.0)	2.1
DPS*	4.0	0.3	0.2	0.2	0.7
BVPS	30.1	29.9	28.0	27.2	28.4

*FY15 DPS includes a special dividend of 3.68 cents

Cash Flow

Y/E Dec, SGD '000	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit after tax	57,677	11,637	(20,052)	(6,989)	15,230
Adjustments	(33,527)	(5,501)	13,590	7,787	8,755
WC changes	2,916	(8,488)	(3,442)	1,413	(15,029)
Cash generated from ops	27,066	(2,352)	(9,904)	2,211	8,956
Tax paid	(2,936)	(240)	26	127	(311)
Others	(28,186)	3,114	10,718	(2,211)	(8,956)
Cashflow from ops	23,010	(1,830)	(9,064)	2,339	8,645
CFI					
CAPEX, net	(3,457)	(19,546)	(25,072)	(13,500)	(9,050)
Others	56,686	(5,205)	686	(1,600)	-
Cashflow from investments	53,229	(24,751)	(24,386)	(15,100)	(9,050)
CFE					
Share issuance, net	105	16,906	1	-	-
Loans, net of repayments	(1,227)	3,708	12,820	8,989	3,489
Dividends	(5,659)	(27,741)	(1,713)	(1,370)	(5,027)
Interest paid	(2,429)	(915)	(5,314)	(460)	(627)
Others	23	2,735	6,030	(207)	-
Cashflow from financing	(9,187)	(5,307)	11,824	6,951	(2,165)
Net change in cash	67,052	(31,888)	(21,626)	(5,810)	(2,569)
Effects of exchange rates	(117)	125	(59)	-	-
CCE, end	102,555	70,792	49,107	43,297	40,727

Source: Company, Phillip Securities Research (Singapore) Estimates

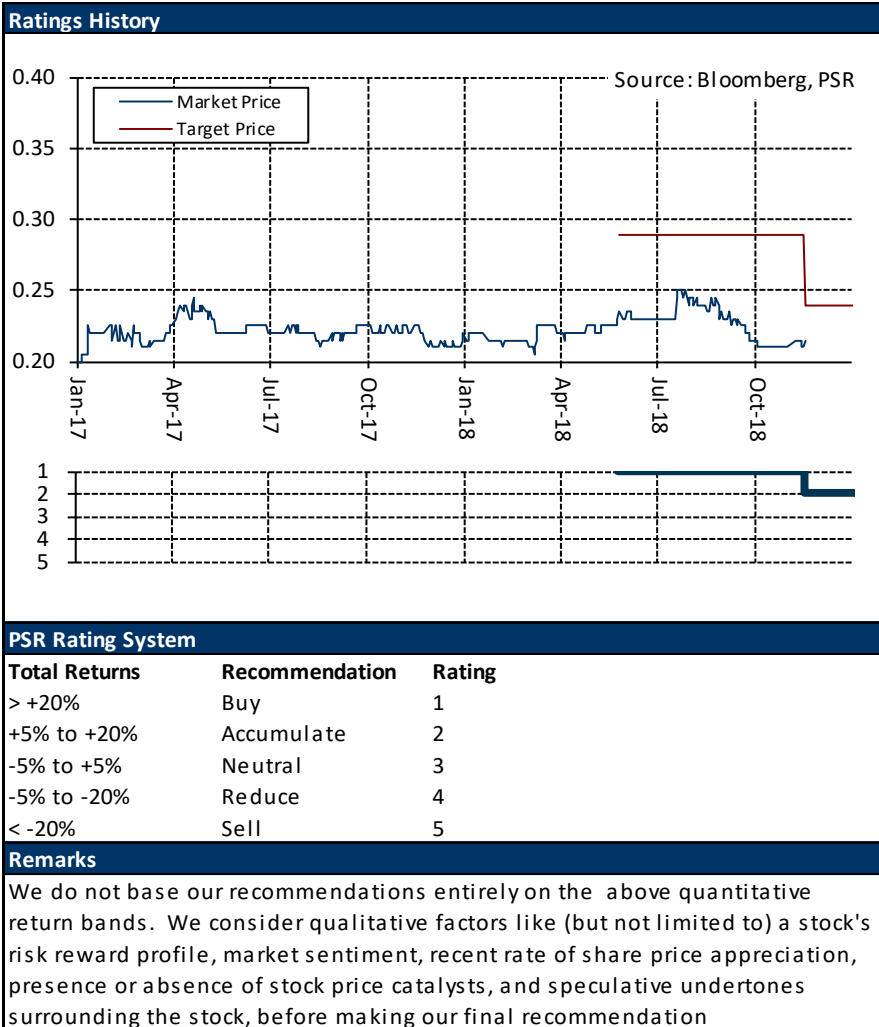
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD '000	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	27,138	42,793	75,408	80,994	81,599
Others	87,916	103,959	93,875	97,875	97,875
Total non-current assets	93,522	111,303	145,345	154,931	155,536
Accounts receivables	23,518	21,147	14,716	37,343	46,238
Cash	103,755	70,792	49,107	43,297	40,727
Inventories	4,083	9,941	20,483	5,773	13,082
Total current assets	152,888	137,329	108,244	110,351	123,985
Total Assets	246,410	248,632	253,589	265,282	279,522
LIABILITIES					
Accounts payables	14,041	12,311	11,928	21,258	22,433
Short term loans	150	18	13,050	22,039	25,528
Tax payable	858	528	811	811	811
Total current liabilities	23,871	22,671	39,829	57,609	61,646
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	64,983	69,020
EQUITY					
Non-controlling interests	849	2,051	2,938	2,868	3,736
Shareholder Equity	219,102	217,777	203,320	197,431	206,766

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X)	2.5	13.2	(8.8)	(23.3)	11.2
P/B (X)	0.8	0.8	0.8	0.9	0.8
EV/EBITDA (X)	2.7	9.2	(9.0)	38.5	5.2
Dividend Yield	17.0%	1.1%	0.9%	0.9%	3.1%
Growth & Margins					
Growth					
Revenue	-	-10.5%	-32.8%	32.6%	68.6%
EBITDA	-	-31.7%	-247.5%	N.M.	676.3%
EBIT	-	-26.1%	-364.8%	N.M.	-611.2%
Net profit, adj.	-	-79.6%	-254.6%	N.M.	-307.6%
Margins					
Gross margin	24.2%	27.7%	11.2%	12.9%	32.0%
EBITDA margin	23.1%	17.6%	-38.7%	7.6%	35.0%
EBIT margin	14.8%	12.2%	-48.2%	-8.2%	24.9%
Net profit margin	92.1%	21.0%	-48.3%	-13.8%	17.0%
Key Ratios					
ROE (%)	26.4%	5.4%	-9.0%	-3.5%	6.9%
ROA (%)	23.4%	4.7%	-7.2%	-2.6%	5.1%
Net Debt / (Cash)	(103,605)	(66,934)	(32,281)	(17,482)	(11,423)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

research@phillip.com.sg

Banking and Finance

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Telco | Technology

Alvin Chia – alvinchiawy@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow – richardleowwt@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Tara Wong – tarawongsj@phillip.com.sg

US Equity

Edmund Xue – edmundxueji@phillip.com.sg

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

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

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website 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

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

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

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

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

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

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

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

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

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

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

SRI LANKA

Asha Phillip Securities Limited

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: 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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