

SHS Holdings Limited

Expecting further delays



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8 March 2019

SINGAPORE | CONSTRUCTION | FY18 RESULTS

- Revenue disappointed by S\$3.4mn or 7%. The company swung into a wider than expected net loss of S\$12mn compared to our estimated loss of S\$7mn. Operating expenses and a S\$5mn write-off was higher than expected.
- The corrosion prevention and solar segment posted healthy growth YoY helping alleviate weakness in engineering and construction.
- We revised FY19e revenue downwards by 9% and a net loss of S\$183k. We have changed our valuation method to 0.7x P/B in line with peer valuations. Downgrade to NEUTRAL with a lower target price of S\$0.194 (prev.S\$0.24).

Results at a glance

US\$000	FY18	FY17	YoY(%)	Comments
Revenue by Segment:				
1. Corrosion prevention	14,761	9,976	48.0%	Improving sentiments around oil prices helped spur increased orders for the marine & offshore sector the demand mainly comes from new vessel build
2. Engineering & Construction	24,247	25,773	-5.9%	4Q18 was a bad quarter for E&C as there were lower contribution from both structural steel and modular. (50% decline QoQ) SSF is still facing margin compression and will remain weak. Revenue from the progressive delivery of PBU for the Lendlease Paya lebar is tapering off. New modular projects like the Cosa hotel has not begin contribution
3. Solar Energy	6,811	1,049	549.3%	Increase is due to the delivery of delayed projects in Singapore
4. Others	760	927	-18.0%	
Total Revenue	46,606	37,725	23.5%	Revenue missed our expectations by S\$3.4mn or 7% Increase mainly due to higher rental and service income from E&C segment and wages credit scheme & PIC cash payout from CP segment and write back of profit warranty
Other income	3,837	2,096	83.1%	Inclusive of Impairment charges of S\$5.3mn for FY18 and S\$9.6mn for FY17
Total OPEX	-21,942	-25,825	-15.0%	Losses were mainly due to frontloading of expenses for future modular projects
Loss after tax	-11,918	-18,227	-34.6%	

* Includes Structural steel and modular

Source: Company, PSR

The Positives

+ Recovery of the corrosion prevention segment. The corrosion prevention segment improved S\$4.8mn or 48% YoY. The recovery is mainly driven by increased orders from a Singapore marine & offshore conglomerate. Higher oil prices have spurred activities in new vessel building. We expect similar revenue contributions from the corrosion prevention segment in FY19e.

The Negatives

- Frontloading of operational expense. Total operating expense increased 3% YoY excluding the impairment charges. Higher expenses were incurred for the design and development of future modular projects that are in the pipeline. Wages for engineers, architects and workers that are involved in the design & architecture layout, planning and building of showroom modules are part of the costs that are being frontloaded. Revenue for such expenses should be recognised in the following financial year. Note that these expenses should start to normalise in the medium term as the modular business start to operate at steady state. Cost per module could decrease with size and scale.

NEUTRAL (Downgraded)

CLOSING PRICE	SGD 0.190
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.194
TOTAL RETURN	2.1%

COMPANY DATA

O/S SHARES (MN):	685
MARKET CAP (USD mn / SGD mn):	96 / 130
52 - WK HI/LO (SGD):	0.25 / 0.18
3M Average Daily T/O (mn):	0.24

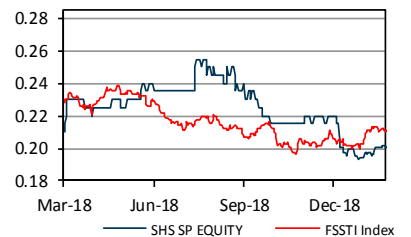
MAJOR SHAREHOLDERS (%)

Kiat Teng Choon	28.3%
Ng Han Kok	17.4%
Alexander Stone R	6.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(15)	(10.2)	(5.0)
STI RETURN	13	3.8	(4.3)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY 17	FY 18	FY 19 e	FY 20 e
Revenue	38	47	77	100
Gross Profit	4	4	22	29
EBIT	(20.1)	(14.3)	0.3	3.1
Net Profit	(20)	(15)	(0)	2
ROE (x)	-9.0%	-6.4%	-0.1%	12%
ROA (x)	-7.2%	-5.1%	-0.1%	0.9%

Source: Company, PSR

VALUATION METHOD

P/B Multiple

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Outlook

We think the legacy business of the group will remain stable. We remain cautious on the developments of the Bangladesh solar project. The growth story of the modular and solar segment has been delayed for at least a year. We think that FY20e will be the year where both growth engines will be able to turnaround group earnings.

Valuation

We have changed our valuation method to 0.7x P/B to reflect the fair value of SHS this in line with peer valuations. Our target price is lowered to S\$0.194 (prev. S\$0.24).

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local	Market Cap (\$ m)	PE FY18	P/BV FY18	Dividend Yield	ROE FY18	EV/EBITDA	EBITDA Margin	EV (\$ m)
<u>Construction</u>												
TA Corp Ltd	-9.3%	2.1%	2.1%	0.22	111	N.M.	0.63	4.7%	-8.0%	N.M.	-5.5%	428
<u>Prefab</u>												
Soil Build Construction	-11.0%	-3.8%	-3.8%	0.10	67	N.M.	0.81	5.0%	-3.2%	N.M.	-2.6%	92
<u>Structural Steel</u>												
TTJ Holdings	-12.9%	-1.6%	-1.6%	0.30	105	11.8	0.75	2.3%	6.7%	3.5	12.6%	40
	-11.0%	-0.7%	-0.7%		284	4.35	0.72	3.9%	-1.4%	1.3	1.9%	205
SHS Holdings	2.3%	0.0%	0.0%	0.19	130.17	N.M.	0.70	0.0%	-6.1%	-12.5	-20.8%	121

Financials

Income Statement

Y/E Dec, SGD '000	FY17	FY18	FY19e	FY20e
Revenue	37,725	46,606	77,000	99,500
Gross Profit	4,232	3,827	22,330	28,855
EBITDA	(16,475)	(9,168)	7,735	8,776
Depreciation & Amortisation	3,577	5,061	7,434	5,713
EBIT	(20,086)	(14,316)	301	3,062
Net Finance Inc/(Exp)	(246)	(576)	(500)	(627)
Profit before tax	(20,213)	(14,993)	(199)	2,435
Taxation	12	58	2	(49)
Net profit before NCI	(20,052)	(14,834)	(196)	2,387
Non-controlling interest	(1,825)	2,916	13	(203)
Net profit, reported	(18,227)	(11,918)	(183)	2,184

Per share data (SGD Cents)

Y/E Dec	FY17	FY18	FY19e	FY20e
EPS, reported	(2.7)	(1.7)	(0.0)	0.3
DPS	0.2	-	-	0.1
BVPS	30.1	27.0	27.0	27.3

Cash Flow

Y/E Dec, SGD '000	FY17	FY18	FY19e	FY20e
CFO				
Profit before tax	(20,064)	(14,892)	(199)	2,436
Adjustments	12,781	10,612	7,434	5,713
WC changes	(11,543)	(6,394)	(8,854)	(6,002)
Cash generated from ops	(18,826)	(10,674)	(1,619)	2,146
Tax paid	178	(209)	2	(49)
Others	19,625	10,475	1,619	(2,146)
Cashflow from ops	(17,849)	(11,082)	(1,616)	2,098
CFI				
CAPEX, net	(26,552)	(5,299)	(5,982)	(4,562)
Others	7,691	(1,046)	-	-
Cashflow from investments	(18,861)	(6,345)	(5,982)	(4,562)
CFE				
Share issuance, net	1	-	-	-
Loans, net of repayments	12,968	1,181	1,089	-
Dividends	(1,713)	(1,370)	-	(437)
Interest paid	(2,387)	219	(500)	(627)
Others	6,162	(1,874)	-	-
Cashflow from financing	15,031	(1,844)	589	(1,064)
Net change in cash	(21,679)	(19,271)	(7,009)	(3,528)
Effects of exchange rates	(6)	54	-	-
CCE, end	49,107	29,890	22,881	19,353

Source: Company, Phillip Securities Research (Singapore) Estimates

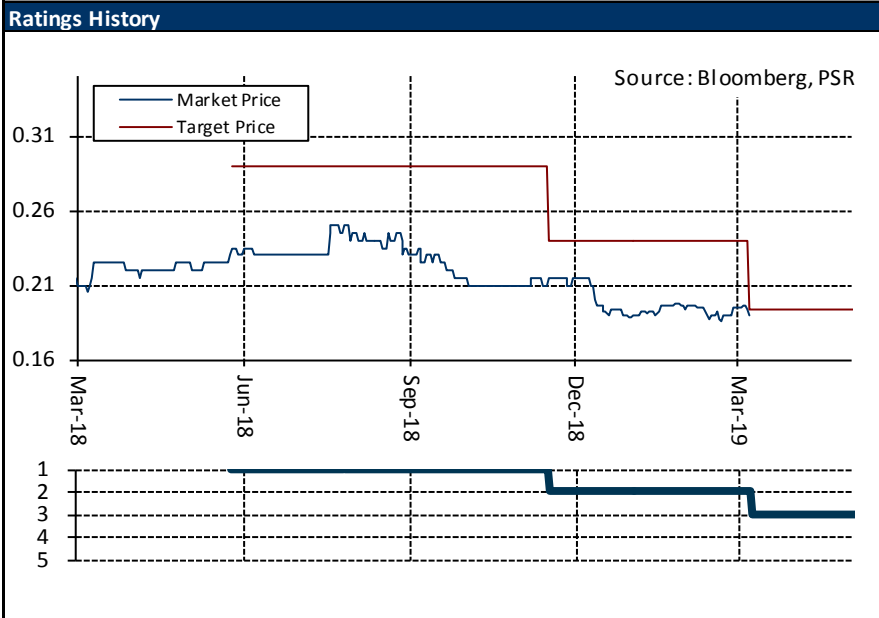
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD '000	FY17	FY18	FY19e	FY20e
ASSETS				
PPE	75,408	91,506	90,054	88,903
Others	109,478	93,200	93,200	93,199
Total non-current assets	145,345	143,813	142,361	141,210
Accounts receivables	11,445	10,676	24,719	30,601
Cash	49,107	29,890	22,881	19,353
Inventories	8,151	7,849	12,063	17,866
Total current assets	108,244	89,308	100,556	108,713
Total Assets	253,589	233,121	242,917	249,923
LIABILITIES				
Accounts payables	11,928	8,883	18,286	23,969
Short term loans	13,050	4,945	6,034	6,034
Tax payable	811	608	608	608
Total current liabilities	39,829	31,155	41,147	46,203
Long term loans	3,776	13,062	13,062	13,062
Deferred tax liabilities	3,598	3,533	3,533	3,533
Total non-current liabilities	7,502	16,644	16,644	16,644
Total Liabilities	47,331	47,799	57,791	62,847
EQUITY				
Non-controlling interests	2,938	(829)	(842)	(639)
Shareholder Equity	203,320	186,151	185,968	187,715

Valuation Ratios

Y/E Dec	FY17	FY18	FY19e	FY20e
P/E (X)	N.M	N.M	N.M	59.6
P/B (X)	0.7	0.7	0.7	0.7
EV/EBITDA (X)	(7.4)	(12.8)	16.2	14.7
Dividend Yield	0.9%	0.0%	0.0%	0.3%
Growth & Margins				
Growth				
Revenue	-	23.5%	65.2%	29.2%
EBITDA	-	N.M.	-184.4%	13.4%
EBIT	-	N.M.	-102.1%	915.8%
Net profit, adj.	-	N.M.	-98.5%	N.M
Margins				
Gross margin	11.2%	8.2%	29.0%	29.0%
EBITDA margin	-43.7%	-19.7%	10.0%	8.8%
EBIT margin	-53.2%	-30.7%	0.4%	3.1%
Net profit margin	-48.3%	-25.6%	-0.2%	2.2%
Key Ratios				
ROE (%)	-9.0%	-6.4%	-0.1%	1.2%
ROA (%)	-7.2%	-5.1%	-0.1%	0.9%
Net Debt / (Cash)	(32,281)	(11,883)	(3,785)	(257)
Net Gearing (X)	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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