

# Cogent Holdings Ltd

Another record year of higher profit

## SINGAPORE | INDUSTRIALS | RESULTS

- FY16 S\$136.7mn revenue in line with our forecast of S\$135.1mn
- FY16 S\$32.1mn NPAT in line with our forecast of S\$31.6mn
- No final dividend declared (FY15: 1.88 cents, 35% payout)
- Long-term fundamentals riding on Jurong Island projects

**4Q16 was a bad quarter for the stock, as it declined 35% from its closing high of \$0.89 in September to its low of \$0.58 at the end of December. However, it made a V-shaped recovery right on the first trading day of 2017, gaining 36% year-to-date. The more practical measure of return is that the stock is now 13.7% higher than \$0.695, which was its price at the time of our last "Buy" call in November 2016.**

### Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Revenue	136.7	129.2	↑5.8	Driven by warehousing operations at the integrated logistics hub, container depot management services and automotive logistics management services
EBIT	41.18	33.49	↑23.0	OpEx closely similar between FY16 and FY15, largely attributable to the 11% yoy lower Rentals on leased premises (FY16: \$24.89mn; FY15: \$28.07mn); resulting in margin expansion to 30.1% from 25.9%
PBT	38.24	30.60	↑25.0	In line with above factors
NPAT	32.08	25.47	↑26.0	In line with above factors, net margin improved to 23.5% from 19.7%

Source: Company, Phillip Securities Research (Singapore)

### Negative surprise from absence of final dividend, cash to be deployed for CapEx on Jurong Island Chemical Logistics Facility project

The Board had decided not to propose a final dividend, in view of the upcoming yet-to-be-finalised capital expenditure (CapEx) required for the project. The absence of a final dividend came as a surprise to us, in view of the majority stake held by the founding family and expectation that the founding family would want some returns in the form of dividends. Nonetheless, we view the explanation for not proposing a final dividend as fair, and demonstrates the founding family's commitment to the long-term value creation for all shareholders. We maintain our assumptions from previous reports for the project: construction to commence in 2H FY17, with Phase One receiving its Temporary Occupation Permit (TOP) in 1H FY19.

### Award of two container depot sites, expect higher rentals and some margin compression

Cogent had announced the award of two new container depot sites – a 5.9 hectare plot at Tuas South and a 2.5 hectare plot on Jurong Island that will be used to construct the first full-fledged Container Depot on Jurong Island (JICD). In view of the two new sites, we believe that Cogent would be fully returning the existing Jalan Terusan site back to JTC by the middle of this year. We have been saying in previous reports to expect lower rental expense once the Jalan Terusan container depot site is returned to JTC. Clearly, that has changed, with the announcement of the two new container depot sites. We are estimating an additional S\$3.0 million to \$3.5 million rent expense per annum for both plots of land.

We understand that the Sky Depot at the Cogent One Stop Logistics Hub is expected to be fully operational by the end of 2Q FY17. As a reminder, the overhead crane system is still undergoing some rectification work as at December 2016.

### Maintain "Buy" rating with new DCF valuation of S\$1.08 (previous \$1.11)

Our price target gives an implied 17.0x FY17F P/E multiple, compared to the benchmark Straits Times Index (STI) forward P/E multiple of 14.3x.

28 February 2017

### Buy (Maintained)

LAST CLOSE PRICE	SGD 0.790
FORECAST DIV	SGD 0.022
TARGET PRICE	SGD 1.080
TOTAL RETURN	39.5%

### COMPANY DATA

O/S SHARES (MN) :	479
MARKET CAP (USD mn / SGD mn) :	269 / 378
52 - WK HI/LO (SGD) :	0.9 / 0.45
3M Average Daily T/O (mn) :	101

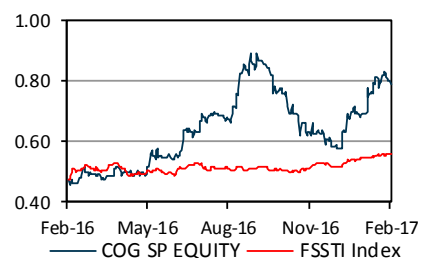
### MAJOR SHAREHOLDERS (%)

YEOW KHOON TAN	70.3%
YEOW LAM TAN	13.6%
MIN CHEOW TAN	0.5%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	16.8	29.0	76.8
STI RETURN	2.7	10.2	23.7

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17F	FY 18F
Revenue (SGD mn)	129.2	136.7	142.1	145.6
NPAT (SGD mn)	25.5	32.1	30.4	33.0
EPS (cents)	5.32	6.70	6.35	6.89
P/E (x)	7.4	5.9	12.4	11.5
BVPS (cents)	217	26.4	32.8	37.4
P/B (x)	18	1.5	2.4	2.1
DPS (cents)	1.88	-	2.22	2.41
Div. Yield (%)	4.8	-	2.8	3.1

Source: Company Data, PSR est.

### VALUATION METHOD

DCF (WACC: 7.2%; Terminal g: 10%)

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## Revenue by Business Segments at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Transportation management	26.63	28.18	↓(5.5)	Decrease in trucking jobs performed, notably for customers in the oil & gas sector
Container depot management	26.01	22.62	↑15.0	Increased volume for container repairs and storage in both Singapore and Malaysia
Automotive logistics management	30.71	27.47	↑11.8	Increased demand for vehicle storage space and vehicle transportation services
Warehousing & property management	59.47	54.74	↑8.6	Income from warehousing units of the integrated logistics hub at 1 Buroh Crescent
Inter-segmental eliminations	(6.15)	(3.77)	↑63.0	

Source: Company, Phillip Securities Research (Singapore)

## Company Valuation

We have changed our cash flow model from a dividend discount model (DDM) to discounted free cash flow to firm (FCFF) model.

▪ **Uncertainty in dividends going forward makes DDM valuation unsuitable**

A final dividend was not proposed for FY16. The reason given was due to anticipation of CapEx requirements for the Jurong Island Chemical Logistics Facility project. We have become uncertain of dividends to be declared in the next two years, while the project is being constructed. Nonetheless, we continue to assume a 35% payout ratio.

▪ **Change in valuation model to FCFF**

We are using the FCFF model, primarily because of the uncertainty in the exact contribution of new debt used to fund the Chemical Logistics Facility project on Jurong Island.

## FCFF valuation

Y/E Dec (S\$ mn)	FY17F	FY18F	FY19F	FY20F	FY21F
Cash flow from operations	44.0	46.9	71.3	71.6	72.7
Interest expense x (1 - tax rate)	2.6	2.6	2.6	2.2	1.9
CapEx	(21.5)	(83.8)	(32.2)	(27.7)	(28.9)
<b>Free Cash Flow to Firm</b>	<b>25.1</b>	<b>(34.4)</b>	<b>41.7</b>	<b>46.2</b>	<b>45.8</b>
<i>PV of FCFF</i>	23.4	(30.0)	33.9	35.1	32.4
<b>Terminal value</b>					<b>753.2</b>
<i>PV of terminal value</i>					533.6
<b>Firm value</b>	<b>628.4</b>				
<i>less debt</i>	(110.6)				
<b>Equity value</b>	<b>517.8</b>				
Number of ordinary shares (mn)	478.5				
<b>Price target (S\$)</b>	<b>1.08</b>				

## Assumptions

Cost of capital (equity & debt)	7.1%
Terminal growth rate	1.0%

Source: Phillip Securities Research (Singapore)

## Key assumptions

1. Assumed an additional \$90 million CapEx for Phase 1 of Chemical Logistics Facility across FY17F and FY18F, over and above the maintenance CapEx.
2. Higher cash flows from FY19F onwards as the Chemical Logistics Facility becomes operational.
3. Terminal CapEx is higher than maintenance CapEx, to account for Phase 2 of Chemical Logistics Facility.

## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17F	FY18F	FY19F
<b>Revenue</b>	<b>129.2</b>	<b>136.7</b>	<b>142.1</b>	<b>145.6</b>	<b>191.6</b>
Other operating income	2.0	2.3	1.4	1.4	1.9
<b>EBITDA</b>	<b>41.9</b>	<b>49.8</b>	<b>49.1</b>	<b>52.5</b>	<b>75.6</b>
Depreciation & Amortisation	8.4	8.6	10.1	10.7	14.2
<b>EBIT</b>	<b>33.5</b>	<b>41.2</b>	<b>39.0</b>	<b>41.8</b>	<b>61.4</b>
Net Finance (Expense)/Inc	(2.9)	(2.9)	(2.8)	(2.8)	(2.9)
Other items	-	-	-	-	-
<b>Profit Before Tax</b>	<b>30.6</b>	<b>38.2</b>	<b>36.2</b>	<b>39.0</b>	<b>58.5</b>
Taxation	(5.1)	(6.2)	(5.8)	(6.0)	(9.8)
<b>Net Income, reported</b>	<b>25.5</b>	<b>32.1</b>	<b>30.4</b>	<b>33.0</b>	<b>48.7</b>

### Per share data (cents)

Y/E Dec	FY15	FY16	FY17F	FY18F	FY19F
EPS, reported	5.32	6.70	6.35	6.89	10.17
EPS, adj.	5.32	6.70	6.35	6.89	10.17
DPS	1.88	-	2.22	2.41	3.56
BVPS	21.65	26.41	32.75	37.43	45.19

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17F	FY18F	FY19F
<b>CFO</b>					
PBT	30.6	38.2	36.2	39.0	58.5
Adjustments	10.7	11.5	12.9	13.5	17.1
WC changes	3.6	(0.0)	0.7	0.4	5.5
Cash generated from ops	44.9	49.7	49.8	52.9	81.1
Others	(3.5)	(4.9)	(5.8)	(6.0)	(9.8)
<b>Cashflow from ops</b>	<b>41.4</b>	<b>44.8</b>	<b>44.0</b>	<b>46.9</b>	<b>71.3</b>
<b>CFI</b>					
CAPEX, net	(19.8)	(15.3)	(21.5)	(83.8)	(32.2)
Dividend income	0.002	-	-	-	-
Others	(1.58)	1.48	0.26	0.30	0.13
<b>Cashflow from investments</b>	<b>(21.3)</b>	<b>(13.9)</b>	<b>(21.2)</b>	<b>(83.5)</b>	<b>(32.0)</b>
<b>CFF</b>					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(7.1)	(6.3)	(9.1)	11.3	(13.2)
Dividends	(18.0)	(9.0)	-	(10.6)	(11.5)
Others	(3.2)	(3.2)	(3.1)	(3.1)	(3.1)
<b>Cashflow from financing</b>	<b>(28.3)</b>	<b>(18.5)</b>	<b>(12.1)</b>	<b>(2.4)</b>	<b>(27.8)</b>
<b>Net change in cash</b>	<b>(8.2)</b>	<b>12.5</b>	<b>10.6</b>	<b>(39.1)</b>	<b>11.5</b>
Effects of exchange rate	(0.01)	0.02	-	-	-
<b>CCE, end</b>	<b>44.5</b>	<b>56.9</b>	<b>67.5</b>	<b>28.5</b>	<b>39.9</b>

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	FY17F	FY18F	FY19F
<b>ASSETS</b>					
PPE	199.5	212.6	223.9	297.1	315.1
Investments	0.04	0.11	0.11	0.11	0.11
Others	3.6	2.6	2.6	2.6	2.6
<b>Total non-current assets</b>	<b>203.1</b>	<b>215.2</b>	<b>226.6</b>	<b>299.8</b>	<b>317.7</b>
Trade Receivables	17.1	17.8	18.5	19.0	25.0
Investments	0.02	-	-	-	-
Cash	45.3	57.7	68.4	29.3	40.7
Others	3.6	3.4	3.6	3.7	4.8
<b>Total current assets</b>	<b>66.0</b>	<b>79.0</b>	<b>90.5</b>	<b>51.9</b>	<b>70.5</b>
<b>Total Assets</b>	<b>269.1</b>	<b>294.2</b>	<b>317.1</b>	<b>351.7</b>	<b>388.3</b>

### LIABILITIES

Short term loans	13.4	16.1	16.7	13.2	15.3
Accounts Payables	6.2	6.9	7.2	7.3	9.6
Others	38.4	38.3	39.6	40.4	50.7
<b>Total current liabilities</b>	<b>58.0</b>	<b>61.3</b>	<b>63.4</b>	<b>60.9</b>	<b>75.7</b>
Long term loans	104.8	103.6	93.9	108.7	93.4
Others	2.7	3.0	3.0	3.0	3.0
<b>Total non-current liabilities</b>	<b>107.5</b>	<b>106.6</b>	<b>96.9</b>	<b>111.7</b>	<b>96.4</b>
<b>Total Liabilities</b>	<b>165.6</b>	<b>167.9</b>	<b>160.3</b>	<b>172.6</b>	<b>172.1</b>

### EQUITY

<b>Shareholder Equity</b>	<b>103.6</b>	<b>126.3</b>	<b>156.7</b>	<b>179.1</b>	<b>216.2</b>
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### Valuation Ratios

Y/E Dec	FY15	FY16	FY17F	FY18F	FY19F
P/E (x)	7.4	5.9	12.4	11.5	7.8
P/B (x)	1.8	1.5	2.4	2.1	1.7
EV/EBITDA (x)	6.2	5.0	8.6	9.0	5.9
Dividend Yield (%)	4.8	-	2.8	3.1	4.5

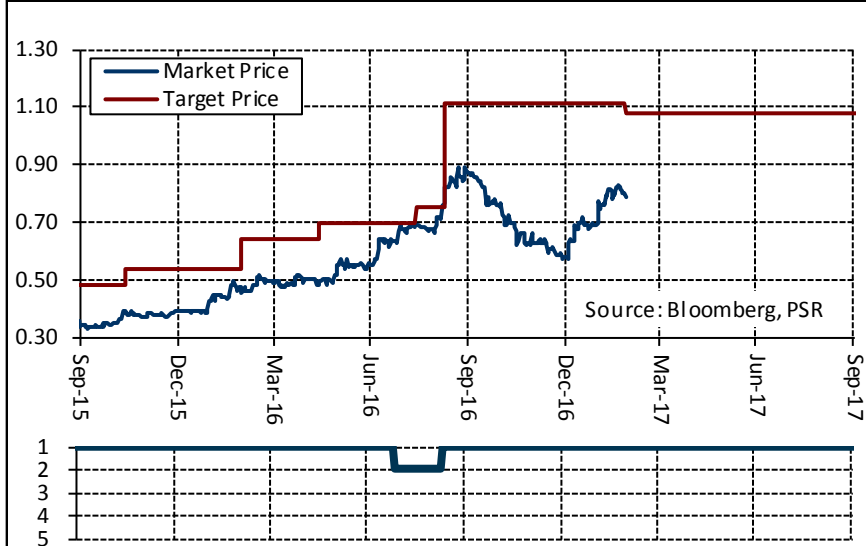
### Growth & Margins (%)

<b>Growth</b>					
Revenue	9.1%	5.8%	4.0%	2.4%	31.6%
EBITDA	15.6%	18.6%	-1.3%	6.8%	44.1%
EBIT	13.5%	23.0%	-5.3%	7.2%	47.0%
Net Income	3.3%	26.0%	-5.3%	8.6%	47.6%
<b>Margins</b>					
EBITDA margin	32.5%	36.4%	34.6%	36.0%	39.5%
EBIT margin	25.9%	30.1%	27.4%	28.7%	32.1%
Net Profit Margin	19.7%	23.5%	21.4%	22.7%	25.4%

### Key Ratios

ROE (%)	25.4%	27.9%	21.5%	19.6%	24.6%
ROA (%)	9.6%	11.4%	9.9%	9.9%	13.2%
Net Debt or (Net Cash)	72.9	61.9	42.3	92.7	68.0
Net Gearing (x)	70.4%	49.0%	27.0%	51.7%	31.4%

## Ratings History



## 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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