

800 Super Holdings Ltd

Steady pipeline of projects

SINGAPORE | INDUSTRIALS | RESULTS

13 February 2017

- 2Q S\$39.39mn revenue in line with our forecast of S\$39.53mn
- 2Q S\$3.63mn net income missed our forecast of S\$4.25mn by 15%
- 1H S\$78.84mn revenue met 48.7% of our full year forecast of S\$162.0mn
- 1H \$8.145mn net income met 44.6% of our full year forecast of S\$18.25mn
- Introduced maiden interim dividend of 1.0 cent

We are bullish on the stock because of the pipeline of projects. While the projects require capex, we view it positively that the company is reinvesting capital into new projects. We argue that investing in projects with a higher return than the cost of capital creates value for shareholders.

Results at a glance

(SGD mn)	2Q17	2Q16	yoy (%)	Comments
Revenue	39.39	38.19	↑3.2	Projects that were re-awarded with revised pricing and new contracts awarded
EBIT	4.47	2.41	↑85.5	2.4% yoy lower opex, resulting in better operating margin of 11.4% from 6.3%
Net income	3.63	1.72	↑111	Above effects resulted in better net margin of 9.2% from 4.5%

Source: Company, Phillip Securities Research (Singapore)

Margin expansion due to strict cost control; sustainable margins going forward

Operating expenditure (OpEx) was 2.4% lower year on year (yoy), mainly due to lower staff costs (largest cost component) and lower purchases of supplies and disposal charges (second-largest cost component). We understand from management that the yoy lower staff costs was due to lower headcount, as the group improved on productivity through the use of machines and equipment; and the yoy lower purchases of supplies and disposal charges was due to start-up costs for a project in the previous year. In view of these, we are expecting sustainable EBIT-margin in the low-teens going forward.

Treatment and disposal of sludge contract not contributing yet; details in next quarter

800 Super made an announcement on 27 October 2016, in relation to the contract from the Public Utilities Board. While the announcement stated that the contract starts from 7 November 2016, we understand from management that the project has not contributed yet. We understand that construction of the facility will only commence in 2Q CY18. Details on capital expenditure (CapEx) and the project timeline to be announced in the next quarter. However, we do expect the company to be taking on more debt to fund the construction cost of the facility. We have yet to include the contribution from this project into our forecasts. Hence, this is a source of further upside to our valuation of the stock.

Introduced maiden interim dividend of 1.0 cent; kept our payout ratio forecast intact

We believe this will be welcomed by investors and trading liquidity of the stock may improve going forward. In view of the interim dividend, there will be a one-off higher cash out flow in FY17. We continue to assume a full year dividend based on 30% payout ratio. However, our FY17F/FY18F dividend forecast of 2.75/3.00 cents is now lower than our previous forecast, as we have adjusted our FY17F/FY18F net profit forecast lower by 9.7%/10.5%, in view of our over-estimation for 2Q FY17.

Upgrade to "Buy" rating with higher target price of S\$1.42 (previous: S\$0.92)

The significantly higher target price is due to change in valuation method from relative valuation to intrinsic discounted cash flow (DCF) and the rationale is explained overleaf. Our target price gives an FY17F forward P/E multiple of 15.4x, which is slightly higher than the Straits Times Index (STI) implied P/E multiple of 14.4x (Source: Bloomberg). 800 Super has consistently outperformed the benchmark index since we initiated coverage on the stock, and we believe that it will continue to do so, thus justifying the premium over the benchmark index.

Buy (Upgraded)

LAST CLOSE PRICE	SGD 1.090
FORECAST DIV	SGD 0.028
TARGET PRICE	SGD 1.420
TOTAL RETURN	32.8%

COMPANY DATA

O/S SHARES (MN) :	178.8
MARKET CAP (USD mn / SGD mn) :	137 / 195
52 - WK HI/LO (SGD) :	11 / 0.43
3M Average Daily T/O (mn) :	0.10

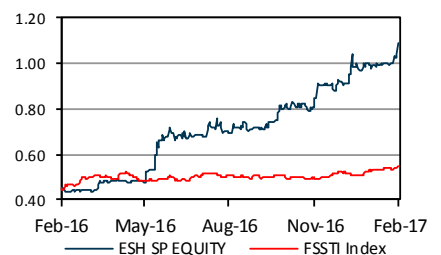
MAJOR SHAREHOLDERS (%)

YONG SEONG INVESTMENT PTE	67.0%
KOH YONG LEE	2.8%
HOCK SEONG LEE	2.8%
CHENG CHYE LEE	2.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	10.1	34.6	146.9
STI RETURN	3.3	10.0	24.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun	FY 15	FY 16	FY 17F	FY 18F
Revenue (SGD mn)	140.3	156.4	161.8	167.5
NPAT, adj. (SGD mn)	12.2	16.7	16.5	17.8
EPS, adj. (cents)	6.80	9.36	9.21	9.97
P/E, adj. (x)	7.1	7.5	11.8	10.9
BVPS (cents)	32.0	39.4	45.1	52.3
P/B (x)	151	178	2.42	2.08
DPS (cents)	2.00	2.50	2.75	3.00
Div. Yield (%)	4.1	3.6	2.5	2.8

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 6.8%; Terminal g: 10%)

Richard Leow, CFE, FRM (+65 6212 1848)
richardleowwt@phillip.com.sg

Company Valuation

We have changed our valuation method from the previous relative valuation to intrinsic discounted cash flow (DCF) model.

▪ Relative multiple valuation has become unsuitable

When we initiated coverage on the stock in September 2014, we had used 8.0x P/E multiple to value it because of the major contracts that are of 6 or 7-year tenures. Our P/E multiple used to value the stock had changed a few times during the course of our coverage and in our last report, we had pegged 800 Super's valuation to 9.0x of its forward P/E.

With the new projects coming on line, the revenue contribution from the major contracts will be diluted in significance. Hence, valuation should not be pegged to the tenures of those major contracts. Pegging the P/E multiple to the nearest peer has also become unsuitable, as the growth profile and especially capital structure of the two companies are clearly different.

▪ Change in valuation model to FCFF

We are using the free cash flow to firm (FCFF) model, primarily because of the uncertainty in debt level going forward. We are expecting the company to take on more debt for the material recovery facility (MRF) project and the sludge purification and disposal facility.

FCFF valuation

Y/E Jun (S\$ mn)	FY17F	FY18F	FY19F	FY20F	FY21F
Cash flow from operations	24.57	27.30	29.05	30.19	31.24
Interest expense x (1 - tax rate)	0.96	0.96	0.72	0.60	0.60
CapEx	(25.19)	(12.01)	(12.25)	(12.49)	(12.74)
Free Cash Flow to Firm	0.34	16.25	17.52	18.29	19.10
<i>PV of FCFF</i>	<i>0.32</i>	<i>14.25</i>	<i>14.39</i>	<i>14.08</i>	<i>13.77</i>

Terminal value

PV of terminal value **334.5**
241.2

Firm value

298.0

less debt (44.8)

Equity value **253.2**

Number of ordinary shares (mn) 178.8

Price target (S\$) **1.42**

Assumptions

Cost of capital (equity & debt) 6.8%

Terminal growth rate 1.0%

Source: Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Jun, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Revenue	115.0	140.3	156.4	161.8	167.5
Other income	0.46	0.45	0.39	0.39	0.37
EBITDA	15.6	27.1	27.9	29.3	31.8
Depreciation & Amortisation	(4.4)	(7.0)	(8.2)	(9.1)	(10.0)
EBIT	11.1	20.0	19.7	20.2	21.8
Net Finance (Expense)/Inc	(0.5)	(0.9)	(1.0)	(1.0)	(1.1)
Other items	(0.09)	(0.06)	(0.13)	(0.03)	-
Profit Before Tax	10.5	19.1	18.6	19.2	20.7
Taxation	(1.5)	(1.5)	(1.9)	(2.7)	(2.9)
Profit After Tax	9.1	17.6	16.7	16.5	17.8
- Non-controlling interest	0.11	0.02	-	-	-
Net Income, reported	9.0	17.6	16.7	16.5	17.8
Exceptional items	-	5.4	-	-	-
Net Income, adj.	9.0	12.2	16.7	16.5	17.8

Per share data (cents)

Y/E Jun	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	5.01	9.82	9.36	9.21	9.97
EPS, adj.	5.01	6.80	9.36	9.21	9.97
DPS	1.00	2.00	2.50	2.75	3.00
BVPS	23.24	32.03	39.39	45.10	52.32

Cash Flow

Y/E Jun, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CFO					
Net income	9.1	17.6	16.7	16.5	17.8
Adjustments	6.5	4.1	11.3	12.8	14.0
WC changes	(10.0)	(3.4)	7.5	(1.0)	(0.5)
Cash generated from ops	5.6	18.3	35.5	28.3	31.2
Others	(1.2)	(1.9)	(2.8)	(3.7)	(4.0)
Cashflow from ops	4.4	16.3	32.7	24.6	27.3
CFI					
CAPEX, net	(3.7)	(6.0)	(12.9)	(25.2)	(12.0)
Others	-	0.04	(0.03)	-	-
Cashflow from investments	(3.7)	(5.9)	(12.9)	(25.2)	(12.0)
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(1.5)	(3.9)	(5.6)	(1.0)	(10.0)
Dividends	(1.8)	(1.8)	(3.6)	(6.3)	(4.9)
Others	-	-	-	-	-
Cashflow from financing	(3.3)	(5.7)	(9.1)	(7.3)	(14.9)
Net change in cash	(2.6)	4.7	10.7	(7.9)	0.4
Effects of exchange rates	-	-	(0.1)	-	-
CCE, end	5.3	10.0	20.6	12.7	13.1

Source: Company, Phillip Securities Research (Singapore) Estimates

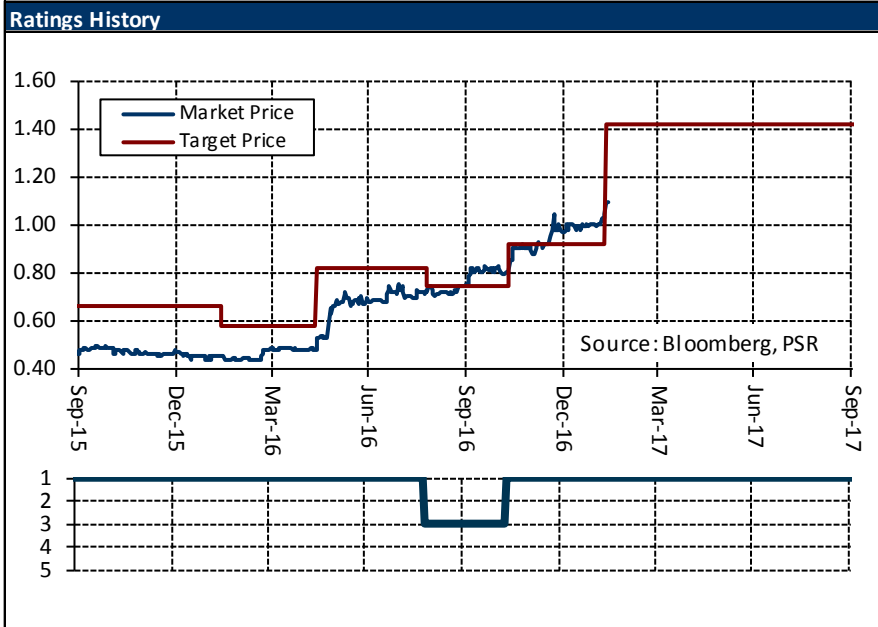
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Jun, SGD mn	FY14	FY15	FY16	FY17F	FY18F
ASSETS					
PPE	51.8	67.9	84.0	100.1	102.1
Others	1.6	1.6	1.2	1.2	1.2
Total non-current assets	53.5	69.6	85.2	101.3	103.3
Trade receivables	31.1	40.0	33.5	34.7	35.9
Cash	5.3	10.0	20.6	12.7	13.1
Others	1.7	2.4	1.8	2.4	2.4
Total current assets	38.1	52.4	55.9	49.7	51.4
Total Assets	91.6	121.9	141.1	151.0	154.7
LIABILITIES					
Trade payables	12.1	18.1	21.2	21.9	22.7
Short term loans	6.8	8.3	11.0	10.0	10.0
Others	1.2	1.7	2.6	2.6	2.6
Total current liabilities	20.1	28.0	34.8	34.6	35.3
Long term loans	28.1	34.8	34.8	34.8	24.8
Others	1.9	1.9	1.0	1.0	1.0
Total non-current liabilities	30.0	36.7	35.8	35.8	25.8
Total Liabilities	50.0	64.7	70.6	70.4	61.1
EQUITY					
Non-controlling interests	0.05	-	-	-	-
Shareholder Equity	41.5	57.3	70.4	80.6	93.5

Valuation Ratios

Y/E Jun	FY14	FY15	FY16	FY17F	FY18F
P/E (x), adj.	5.2	7.1	7.5	11.8	10.9
P/B (x)	1.1	1.5	1.8	2.4	2.1
EV/EBITDA (x), adj.	4.9	4.4	5.4	7.7	6.8
Dividend Yield (%)	3.8	4.1	3.6	2.5	2.8
Growth & Margins (%)					
Growth					
Revenue	17.9%	22.0%	11.5%	3.4%	3.5%
EBITDA	52.4%	74.0%	3.2%	4.9%	8.5%
EBIT	58.4%	80.1%	-1.6%	2.5%	7.6%
Net Income, adj.	56.3%	35.6%	37.6%	-1.5%	8.1%
Margins					
EBITDA margin	13.5%	19.3%	17.9%	18.1%	19.0%
EBIT margin	9.7%	14.3%	12.6%	12.5%	13.0%
Net Profit Margin	7.8%	8.7%	10.7%	10.2%	10.6%
Key Ratios					
ROE (%)	23.6%	24.6%	26.2%	21.8%	20.5%
ROA (%)	11.3%	11.4%	12.7%	11.3%	11.7%
Net Debt or (Net Cash)	29.5	33.1	25.2	32.1	21.7
Net Gearing (x)	0.71	0.58	0.36	0.40	0.23



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

Contact Information (Singapore Research Team)

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@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, Bangkok,
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 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
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

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, 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 (DGCX)
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

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.