

# 800 Super Holdings Ltd

Diversification to laundry and dry cleaning



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SINGAPORE | INDUSTRIALS | UPDATE

4 October 2017

- Proposed acquisition of a laundry and dry cleaning business
- S\$5 mn aggregate consideration payable is 4.2 times over NTA
- Intention is for Vendors to continue managing the business

## What is the news?

Wizwash Pte Ltd, a wholly-owned subsidiary of 800 Super Holdings Limited (the "Group") has entered into a call and put option [agreement](#) to acquire Iwash Laundry (Senoko) Pte Ltd ("Target") from Fairlady Jewellers Private Limited ("Fairlady"), Lee Yok Sim ("LYS"), Chua Yun Chean ("CYC") and Tan Choon Huat ("TCH") (collectively, the "Vendors") for S\$4,998,960. The sum is to be paid in two tranches. Wizwash Pte Ltd was [incorporated](#) on 25 September 2017 with a paid-up capital of S\$1 mn.

## How do we view this?

### The positives

+ **Proposed acquisition provides diversification of income stream.** The Group would be diversifying outside of its area of expertise, and this creates a new income stream that is not correlated to the existing business lines of waste management, cleaning and horticultural services. However, the Group does not have expertise in the laundry and dry cleaning business and hence would rely on TCH, CYC and LYS to continue managing the business as a wholly owned subsidiary.

### The negatives

- **Uncertainty over what is a fair price to pay for a laundry and dry cleaning business.** There is a lack of listed peers to make a meaningful comparison. However, what we see is the consideration sum of S\$4,998,960 is 4.2 times over the net tangible asset (NTA) of S\$1.19 mn. In contrast, the Group currently trades at 2.6 times over its book value. As disclosed in the announcement, the principal asset held by the Target is its leasehold property at 80 Senoko Drive. The excess over the NTA could be justified if the property is held at historical cost, but market value is significantly higher than what is recorded on the balance sheet. The Proposed Acquisition has been classified as a "non-disclosable transaction". For the net profit of the Target to be less than 5% of the Group's net profit, we derive that the Group would be paying at least 5.8 times earnings for the acquisition.
- **Will an agency problem surface?** The announcement states that The Group would like TCH, CYC and LYS to continue managing the business under a renewable service agreement. As the Group does not have the expertise in laundry and dry cleaning, we would be cautious of key man risk, should the terms of the service agreement cannot be mutually agreed upon. Moreover, we think the service agreement would need to address any principal-agent problem arising from the acquisition of the business which the Vendors continue to manage.

## Maintain Buy; unchanged target price of S\$1.53

We like the stock for its recession-proof business model. The ongoing sludge treatment facility project is expected to contribute to Group earnings over the long-term. No changes to our forecasts at this time. Our target price gives an implied FY18e forward P/E multiple of 16.9x. This compares against the Straits Times Index 12-month forward P/E multiple of 14.5x.

## Buy (Maintain)

LAST CLOSE PRICE	SGD 1.190
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 1.530
TOTAL RETURN	31.9%

### COMPANY DATA

BLOOMBERG CODE:	ESH SP
O/S SHARES (MN):	178.8
MARKET CAP (USD mn / SGD mn):	156 / 213
52 - WK HI/LO (SGD):	138 / 0.78
3M Average Daily T/O (mn):	0.13

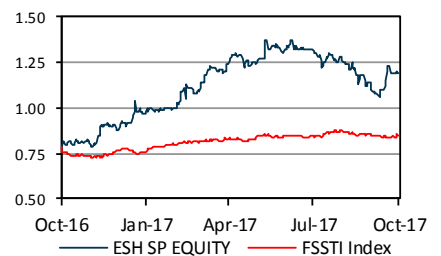
### MAJOR SHAREHOLDERS (%)

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	4.8	(9.2)	57.6
STI RETURN	(0.9)	2.0	16.9

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Jun	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	156.4	156.9	156.8	162.3
PATMI (SGD mn)	16.7	17.1	16.2	15.5
EPS (cents)	9.36	9.58	9.07	8.64
P/E, adj. (x)	7.5	13.3	13.1	13.8
BVPS (cents)	39.4	45.1	50.2	54.8
P/B (x)	1.78	2.83	2.37	2.17
DPS (cents)	2.5	4.0	4.0	4.0
Div. Yield (%)	3.6	3.1	3.4	3.4

Source: Company Data, PSR est.

### VALUATION METHOD

DCF (WACC: 6.6%; Terminal g: 15%)

Richard Leow, CFe, FRM (+65 6212 1848)

Investment Analyst

richardleowwt@phillip.com.sg

## Financials

### Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>Revenue</b>	<b>156.4</b>	<b>156.9</b>	<b>156.8</b>	<b>162.3</b>	<b>170.4</b>
Other income	0.39	0.43	0.44	0.46	0.34
<b>EBITDA</b>	<b>27.9</b>	<b>30.6</b>	<b>31.3</b>	<b>33.2</b>	<b>37.5</b>
Depreciation & Amortisation	(8.2)	(9.0)	(10.7)	(13.6)	(13.7)
<b>EBIT</b>	<b>19.7</b>	<b>21.6</b>	<b>20.6</b>	<b>19.6</b>	<b>23.8</b>
Net Finance (Expense)/Inc	(1.0)	(0.7)	(1.1)	(1.0)	(0.9)
Other items	(0.13)	(0.10)	-	-	-
<b>Profit Before Tax</b>	<b>18.6</b>	<b>20.8</b>	<b>19.5</b>	<b>18.6</b>	<b>22.9</b>
Taxation	(1.9)	(3.7)	(3.3)	(3.2)	(3.9)
<b>Profit After Tax</b>	<b>16.7</b>	<b>17.1</b>	<b>16.2</b>	<b>15.5</b>	<b>19.0</b>
- Non-controlling interest	-	(0.03)	-	-	-
<b>PATMI</b>	<b>16.7</b>	<b>17.1</b>	<b>16.2</b>	<b>15.5</b>	<b>19.0</b>

### Per share data (cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS	9.36	9.58	9.07	8.64	10.62
DPS	2.50	4.00	4.00	4.00	4.00
BVPS	39.39	45.09	50.16	54.79	61.39

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>CFO</b>					
Net income	16.7	17.1	16.2	15.5	19.0
Adjustments	11.3	13.4	15.1	17.8	18.5
WC changes	7.5	2.5	0.0	(0.4)	(0.6)
Cash generated from ops	35.5	33.0	31.4	32.8	36.9
Others	(2.8)	(3.4)	(4.4)	(4.1)	(4.8)
<b>Cashflow from ops</b>	<b>32.7</b>	<b>29.6</b>	<b>27.0</b>	<b>28.6</b>	<b>32.1</b>
<b>CFI</b>					
CAPEX, net	(12.9)	(24.6)	(40.0)	(14.8)	(14.9)
Others	(0.03)	(0.35)	-	-	-
<b>Cashflow from investments</b>	<b>(12.9)</b>	<b>(24.9)</b>	<b>(40.0)</b>	<b>(14.8)</b>	<b>(14.9)</b>
<b>CFF</b>					
Share issuance, net	-	0.0	-	-	-
Loans, net of repayments	(5.6)	6.0	4.0	(5.0)	(5.0)
Dividends	(3.6)	(6.3)	(7.2)	(7.2)	(7.2)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>(9.1)</b>	<b>(0.3)</b>	<b>(3.2)</b>	<b>(12.2)</b>	<b>(12.2)</b>
<b>Net change in cash</b>	<b>10.7</b>	<b>4.4</b>	<b>(16.2)</b>	<b>1.7</b>	<b>5.0</b>
Effects of exchange rates	(0.1)	0.1	-	-	-
<b>CCE, end</b>	<b>20.6</b>	<b>25.1</b>	<b>8.9</b>	<b>10.6</b>	<b>15.6</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 Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>ASSETS</b>					
PPE	84.0	99.4	128.7	129.9	131.1
Others	1.2	1.5	1.5	1.5	1.5
<b>Total non-current assets</b>	<b>85.2</b>	<b>100.9</b>	<b>130.2</b>	<b>131.4</b>	<b>132.6</b>
Trade receivables	33.5	30.3	30.3	31.4	32.9
Cash	20.6	25.1	8.9	10.6	15.6
Others	1.8	1.7	1.7	1.7	1.8
<b>Total current assets</b>	<b>55.9</b>	<b>57.1</b>	<b>40.9</b>	<b>43.7</b>	<b>50.3</b>
<b>Total Assets</b>	<b>141.1</b>	<b>158.0</b>	<b>171.1</b>	<b>175.1</b>	<b>182.9</b>
<b>LIABILITIES</b>					
Trade payables	21.2	20.2	20.2	20.9	21.9
Short term loans	11.0	11.0	11.0	11.0	11.0
Others	2.6	2.9	2.9	2.9	2.9
<b>Total current liabilities</b>	<b>34.8</b>	<b>34.1</b>	<b>34.1</b>	<b>34.8</b>	<b>35.8</b>
Long term loans	34.8	41.0	45.0	40.0	35.0
Others	1.0	2.3	2.3	2.3	2.3
<b>Total non-current liabilities</b>	<b>35.8</b>	<b>43.3</b>	<b>47.3</b>	<b>42.3</b>	<b>37.3</b>
<b>Total Liabilities</b>	<b>70.6</b>	<b>77.4</b>	<b>81.4</b>	<b>77.1</b>	<b>73.1</b>
<b>EQUITY</b>					
Non-controlling interests	-	(0.01)	(0.01)	(0.01)	(0.01)
<b>Shareholder Equity</b>	<b>70.4</b>	<b>80.6</b>	<b>89.7</b>	<b>98.0</b>	<b>109.8</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (x), adj.	7.5	13.3	13.1	13.8	11.2
P/B (x)	1.8	2.8	2.4	2.2	1.9
EV/EBITDA (x), adj.	5.4	8.3	8.3	7.6	6.5
Dividend Yield (%)	3.6	3.1	3.4	3.4	3.4

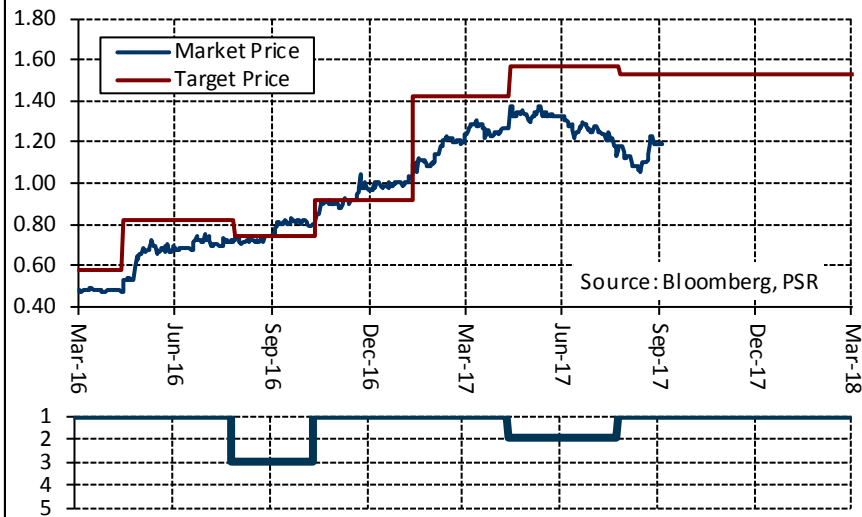
### Growth & Margins (%)

<b>Growth</b>					
Revenue	11.5%	0.3%	-0.1%	3.5%	5.0%
EBITDA	3.2%	9.6%	2.4%	5.9%	13.0%
EBIT	-1.6%	9.4%	-4.6%	-4.9%	21.3%
Net Income	37.6%	2.3%	-5.2%	-4.8%	22.8%
<b>Margins</b>					
EBITDA margin	17.9%	19.5%	20.0%	20.5%	22.0%
EBIT margin	12.6%	13.8%	13.1%	12.1%	14.0%
Net Profit Margin	10.7%	10.9%	10.3%	9.5%	11.1%

### Key Ratios

ROE (%)	26.2%	22.7%	19.1%	16.5%	18.3%
ROA (%)	12.7%	11.4%	9.9%	8.9%	10.6%
Debt-to-Equity (x)	0.65	0.65	0.62	0.52	0.42
Net Debt or (Net Cash)	25.2	26.9	47.1	40.4	30.4
Net Gearing (x)	0.36	0.33	0.53	0.41	0.28

**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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**Contact Information (Singapore Research Team)**
**Head of Research**Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)**Research Operations Officer**Mohamed Amiruddin - [amiruddin@phillip.com.sg](mailto:amiruddin@phillip.com.sg)**Consumer | Healthcare**Soh Lin Sin - [sohls@phillip.com.sg](mailto:sohls@phillip.com.sg)**Oil & Gas | Energy**Chen Guangzhi - [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)**Macro**Pei Sai Teng - [peist@phillip.com.sg](mailto:peist@phillip.com.sg)**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -  
[richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - [tandh@phillip.com.sg](mailto:tandh@phillip.com.sg)**Technical Analysis**Jeremy Ng - [jeremyngch@phillip.com.sg](mailto:jeremyngch@phillip.com.sg)**Banking and Finance**Jeremy Teong - [jeremyteongfh@phillip.com.sg](mailto:jeremyteongfh@phillip.com.sg)**US Equity**Ho Kang Wei - [hokw@phillip.com.sg](mailto:hokw@phillip.com.sg)


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**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](http://www.poems.com.sg)**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](http://www.poems.com.my)**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](http://www.phillip.com.hk)**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](http://www.phillip.co.jp)**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](http://www.phillip.co.id)**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](http://www.phillip.com.cn)**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](http://www.phillip.co.th)**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](http://www.kingandshaxson.com)**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](http://www.kingandshaxson.com)**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](http://www.phillipusa.com)**AUSTRALIA****Phillip Capital Limited**Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)**SRI LANKA****Asha Phillip Securities Limited**2<sup>nd</sup> 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](http://www.ashaphillip.net)**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](http://www.phillipcapital.in)**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.phillipcapi.com.tr](http://www.phillipcapi.com.tr)**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**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](http://www.phillipbank.com.kh)

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