

YOMA STRATEGIC HOLDINGS LTD.

Structural growth at a cheap price



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- Entrenched foothold in Myanmar's most attractive and fast-growing consumer segments, namely mobile finance, property, F&B and motor vehicles.
- Large property land bank worth 10-15 years of sales. Financial services poised for stellar growth on the back of a 5x YoY spike in revenue for Wave Money. F&B growth underpinned by at least 60% growth in KFC stores over the next three years.
- Initiate coverage with BUY rating and a target price of S\$0.46. We view current valuations as depressed given structural growth opportunities ahead.

Company Background

Listed on the SGX since 2006, Yoma is a leading conglomerate in Myanmar, with businesses spanning real estate, F&B, automotive & heavy equipment, financial services and investments. In Nov 19, Ayala Corporation acquired a 20% stake in Yoma at S\$0.45 per share, valuing the company at S\$1,055mn. In May 20, Ant Financial bought 33% of Yoma's fintech, Wave Money, for US\$73.5mn.

Investment Merits

- 1. Attractive valuations.** Our SOTP target price of S\$0.46 implies an 87.8% upside. This is after applying a 20% conglomerate discount. In our SOTP model, property and financial services constitute 73% and 17% of assets respectively. The outstanding 10% comprises the remaining business lines - such as F&B, automobiles and heavy equipment.
- 2. Huge land bank equivalent to 10-15 years of sale.** Yoma Land has a land bank of 20mn sqft, equivalent to 10-15 years of current sales. The projects in the pipeline to monetizing this land bank include Yoma Central, StarCity and The Peninsula Yangon. Yoma Land also has a revenue backlog of more than US\$20mn from yet-to-be-recognized sales of CityLoft @ StarCity. This should support FY20 top and bottom lines, post-completion.
- 3. Stellar growth in financial services.** Yoma owns a 29.5% stake in a fintech, Wave Money (Wave). The company is already profitable, with revenue up by c.5x YoY and 16.2% QoQ in Mar 20. Money-transfer volumes tripled to US\$4.3bn in 2019 from a year ago. Serving a population of 54mn, where is 80% unbanked, Wave enjoys a formidable distribution network of 57,000 agents across the country. This is more than 20x the number of bank branches (c.2000) nationwide. Other growth drivers include raising the limits of the money transfers, introducing micro-loans and widening e-commerce transactions.
- 4. Largest F&B operator in Myanmar with 91 stores.** Revenue from its restaurants doubled YoY in 6M-Mar 20, attributable to its acquisition of YKKO (42 stores) and opening of 12 new KFC stores. By FY23, Yoma aims to increase KFC stores 67% from 45 to 75. It has a target of 125+ stores nationwide. Myanmar's economic growth and rapid urbanization are expected to fuel its F&B growth.
- 5. Heavy equipment/motor to benefit from infrastructure improvements and rising affluence.** a) Heavy equipment: Yoma JCB is positioned to benefit from a rollout of infrastructure and increased construction activity in the country; b) Passenger & commercial vehicles: growth in sales of Volkswagen and Mitsubishi vehicles will come from rising affluence and GDP growth.

We initiate Yoma with a BUY rating. Our target price is S\$0.46, implying a total return of 87.8%.

BUY (INITIATION)

LAST CLOSE PRICE	SGD 0.245
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.460
TOTAL RETURN	87.8%

COMPANY DATA

BLOOMBERG CODE:	YOMA SP
O/S SHARES (MN) :	2,231
MARKET CAP (USD mn / SGD mn) :	392 / 547
52 - WK HI/LO (SGD) :	0.42 / 0.16
3M Average Daily T/O (mn) :	7.42

MAJOR SHAREHOLDERS (%)

SERGE PUN	28.2%
ZOBEL DE AYALA FERNANDO	14.9%
STANDARD LIFE ABERDEEN PLC	7.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	29.3	(5.4)	(24.3)
STI RETURN	9.3	(3.9)	(8.2)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept (U)	FY19	FY20e	FY21e	FY22e
Gross Rev	91,015	108,200	113,294	121,562
Gross Profit	45,289	38,420	41,794	45,530
EBITDA	8,519	21,705	26,133	28,896
NPAT	(37,154)	(11,080)	(4,819)	(465)
P/NAV (x)	1.18	0.74	0.74	0.75
P/E (x)	(16)	(49)	(113)	(1,176)
ROE (%)	(5.40)	(1.41)	(0.62)	(0.06)

Source: Company, PSR

VALUATION METHOD

SOTP (20% conglomerate discount)

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Phillip Securities is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies.

Revenue

Yoma generates its revenue through 4 key business lines: **property (FY19: 44%), F&B (24%), motors (23%) and financial services (7%)**. Property development has historically been the biggest contributor to Yoma's topline. However, as Yoma moves towards opening more F&B stores and growing Wave Money, we expect a shift in portfolio towards these growth segments.

Figure 1: Summary of Yoma's 4 business lines

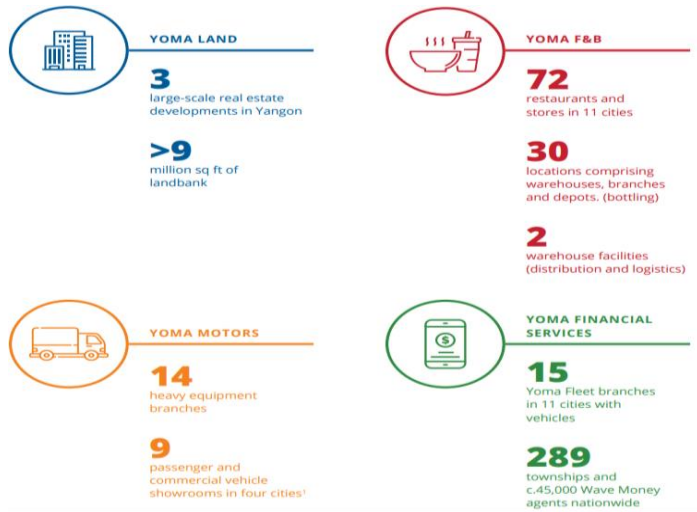


Figure 2: Subsidiaries by business lines

YOMA STRATEGIC HOLDINGS LTD.			
YOMA LAND DEVELOPMENT PROPERTIES Pun Hlaing Estate Yoma Development Group Limited (100%) Lion Century Properties Limited (100%) StarCity Thanlyin Estate Development Limited (70%) Yoma Central & The Peninsula Yangon Meeyahta Development Limited (48%*) Peninsula Yangon Holdings Pte. Limited (24%)	YOMA F&B RESTAURANTS KFC Summit Brands Restaurant Group Company Limited (100%) Little Sheep Altai Myanmar Company Limited (100%) Auntie Anne's™ Blue Ridge Company Limited (100%) YKKO Yankin Kyay Oh Group of Companies Limited (65%) BOTTLING Access Myanmar Distribution Company Limited (30%) Seagram MM Holdings Pte. Ltd. (50%*) LOGISTICS & DISTRIBUTION KOSPA Limited (50%) METRO Wholesale Myanmar Limited (15%)	YOMA MOTORS HEAVY EQUIPMENT New Holland Convenience Prosperity Company Limited (100%) Yoma JCB Convenience Prosperity Company Limited (100%) PASSENGER & COMMERCIAL VEHICLES Volkswagen Yoma German Motors Limited (100%) German Car Industries Company Limited (100%) Mitsubishi Motors MM Cars Myanmar Limited (50%) Hino Motors Summit SPA Motors Limited (23.2%) Bridgestone Tyres First Japan Tire Services Company Limited (30%) Denso D Service (Myanmar) Limited (40%)	INVESTMENTS TOURISM Memories Group Limited ¹ (33.3%) DISTRIBUTED POWER NETWORK Yoma Micro Power (S) Pte. Ltd. (35%) AGRICULTURE Plantation Resources Pte. Ltd. (100%) Yoma Agriculture Company Limited (100%) DALIAN SHOPPING MALL XunXiang (Dalian) Enterprise Co., Ltd. (100%) MITSUBISHI ELEVATORS MC Elevator (Myanmar) Limited (40%) MANDALAY AIRPORT MC-Jalux Airport Services Company Limited (9%) PRIVATE INVESTMENTS Welbeck Global Limited (100%)
INVESTMENT PROPERTIES StarCity Residential & Commercial Thanlyin Estate Development Limited (70%) Pun Hlaing Estate Residential & Commercial Yoma Development Group Limited (100%) Dulwich College Yangon Yangon Sand Industries Limited (Pun Hlaing Campus) (100%) Star City International School Company Limited (StarCity Campus) (70%)	YOMA FINANCIAL SERVICES WAVE MONEY Digital Money Myanmar Limited (34%) LEASING ACTIVITIES Yoma Fleet Limited (80%) Yoma Leasing Company Limited (80%)	CONSTRUCTION & PROJECT SERVICES SPA Design & Project Services Limited (100%) SPA Design Pte Ltd. (100%) BYMA Pte. Ltd. (40%)	

Source: Company, PSR

Figure 3: Revenue contribution by segment since 1Q19 (US\$m)

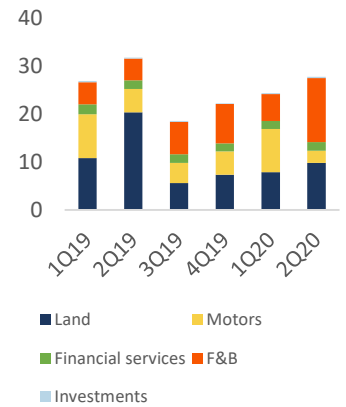
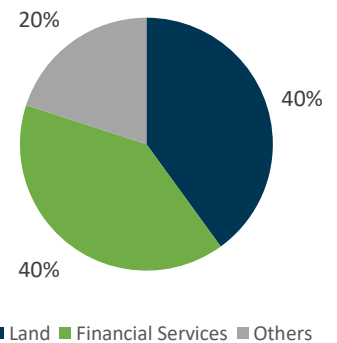


Figure 4: Yoma aims to achieve 40-40-20 contribution from Land, Financial Services and other segments respectively.



Source: Company, PSR

A. Yoma Land

Yoma Land is a leading property developer in the country. Boasting one of Myanmar's largest land bank at 9.3mn sqft, Yoma Land is transforming Yangon's cityscape across three strategically located flagship developments - StarCity, Yoma Central and The Peninsula Yangon and Pun Hlaing Estate [Fig. 5]. Yoma's real estate business will be the main beneficiary of the city's rapid urbanization, rising middle-class population and steady population growth at 0.6%.

Figure 5: Key land development rights

Project Names	Group Stake	Land Area (million square feet)		Estimated Gross Floor area (million square feet) ¹	
		FY2018	FY2019	FY2018	FY2019
StarCity	70%	4.15	3.6	11.3	10.3
Pun Hlaing Estate	70%	4.74	4.48	7.2	6.7
Pun Hlaing Estate	100%	0.56	0.56	0.8	0.8
Yoma Central	48%	0.44	0.44	0.15	0.15
The Peninsula Yangon	24%			2.29	2.29
FMI City	52.5%	0.17	0.17	-	-
Total		10.06	9.25	21.74	20.24

Source: Company

Key ongoing projects

- StarCity.** Located along the shore of the Bago River, StarCity is a residential development with a land area of 5.9mn sqft in Thanlyin Township and is the only large-scale residential development located near the Thilawa Special Economic Zone. StarCity is being developed in phases and is expected to feature some 10,000 homes and 1.7mn sqft of commercial space when completed. More than 2,000 properties at StarCity have been sold. Currently, the estate has more than 2,000 residents.
- Pun Hlaing Estate.** Pun Hlaing Estate are luxury homes set on a peninsula between the Hlaing and Pan Hlaing Rivers with a land area of 28.4mn sqft. The estate mainly comprises landed houses and low-rise apartments, set within lush green spaces. The estate offers a unique lifestyle for families with a wide range of amenities, including a world-class 18-hole Gary Player designed golf course which spans across 9.6mn sqft and a sports and country club. More than 400 properties at Pun Hlaing Estate had been sold and currently, the estate has around 800 residents.
- Yoma Central and The Peninsula Yangon.** Yoma Central and The Peninsula Yangon are part of a 0.4mn sqft integrated mixed-use development with a total GFA of approximately 2.44mn sqft. Yoma holds a 48% stake in Yoma Central and a 24% stake in the Peninsula Yangon. Both Yoma Central and The Peninsula Yangon are expected to be completed in 2021. With the collaboration of international partners and financiers and an investment of more than US\$800mn, Yoma Central and The Peninsula Yangon are to-date the largest foreign direct investment in Myanmar's real estate sector and will help to rejuvenate downtown Yangon.

Figure 6: Completed Investment properties

Completed Investment Properties	Number of units	Gross Floor Area (square feet)
Residential		
Star Residences in StarCity Zone A	150	138,000
The Residence at Pun Hlaing	16	38,000
Golf Apartments	24	28,000
Commercial		
Commercial units located within StarCity A2 - A5 residential blocks	N.A	72,000
Office space in The Campus leased to third parties	N.A	60,000
Future Developments		Estimated Floor Area (square feet)¹
Residential		
200 units in Galaxy Towers 2 and 4 and the remainder of StarCity Zone C		370,000 ²
Additional Golf Apartments		210,000 ³

Figure 7: CityLoft @ StarCity



Figure 8: One of the 71 luxury landed houses in Pun Hlaing Estate



Figure 9: Yoma Central and the Peninsula Yangon

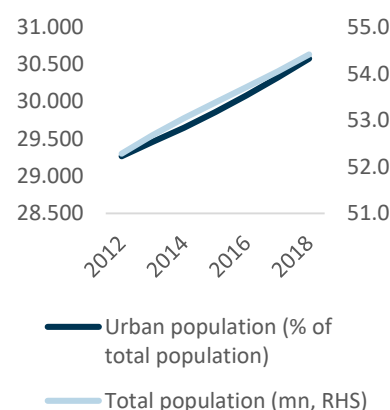


Source: Company

Investment Merits

- Huge land bank equivalent to 10-15 years of sale.** Currently comprising 9.3mn sqft across the three developments in Yangon, Yoma's land bank can accommodate 20mn sqft of gross floor area (GFA) [Fig.5]. The land bank will be developed progressively over the next 10 - 15 years.
- Myanmar's growth of middle-class to benefit sales of CityLoft @ StarCity.** To take advantage of Myanmar's growing middle class and the untapped demand for smaller but competitively priced units in Yangon, Yoma Land marked its entry into the mass market segment with CityLoft. As Myanmar's middle-class population is expected to reach 19mn by 2030, from 7.3mn in 2016, demand for homes in the affordable market segment is expected to gain more traction in the long term.
- ~8 months equivalent of revenue backlog from CityLoft to boost FY20 earnings.** As of 2Q20, 79% of a total of 791 units launched in 6 buildings have been sold/booked. Construction for the initial 5 buildings are between 13% - 61% completed. As percentage of completion method is used, Yoma accumulated a revenue backlog of more than US\$20mn from CityLoft's sales in FY19 that has not been recognized. This will support FY20's top and bottom-line post-completion.
- Completion of Yoma Central to boost recurring revenue.** Demand for expatriate and corporate housing is expected to grow in line with the expected increase in activities by foreign companies. Recurring revenue stream from retail and commercial leasing is expected to grow significantly post completion of Yoma Central in 2021.

Figure 10: Steady increase in % of urban population (2012-2018)



Source: Company, CEIC, PSR

Risks:

- Delay in the construction activity to impede revenue recognition for land development.** Amidst COVID-19, some of the construction works are either at a standstill or operating at a sub-optimal level. Revenue for CityLoft @ StarCity and Peninsula Residences are recognized on a percentage of completion basis, hence recognition will be correspondingly slowed. In the case of Yoma Central, it continues to be in the construction phase without revenue recognition.
- Slower leasing activity in the near term to impact rental income from land services.** In 2Q20, rental and occupancy rates of Pun Hlaing Estate and StarCity declined as a result of a more competitive leasing environment. Considering the lockdown measures in place which will deter physical inspections and dampen consumer sentiment, leasing activity for 3Q may continue to see more downside.
- Demand for affordable housing is constrained by a nascent mortgage market and by relatively low returns for developers.** Clarifying regulations, resolving uncertainties regarding immovable property rights and ownership records, and expanding credit access could help realize the potential of residential construction.

B. Yoma Financial Services

Yoma Financial Services comprises of 2 business lines – Yoma Fleet and Wave Money (Wave). Yoma Fleet is one of the country’s largest vehicle leasing and rental operators while Wave Money is Myanmar’s leading provider of mobile financial services (MFS) that is licensed to provide mobile-money services such as money transfers, airtime top-ups, bill payments and cash/salary disbursements.

Investment Merits

- Continued growth in fleet size and improved GPM to benefit top and bottom line for Yoma Fleet.** As of 6M-Mar20, the fleet size increased by 9.5% YoY to 1,269 vehicles [Fig. 11] and its total assets under management grew by 34.3% to US\$46.2mn. As finance leases recognise only the interest component of the lease payment as revenue, the shift in portfolio mix towards finance lease products resulted in better gross profit margins. Separately, post-acquisition of a 20% stake, Tokyo Century - one of Japan’s largest leasing companies - will now partner with Yoma to look at other forms of credit extension to capture a wider opportunity in the non-bank financial services sector.
- Accelerating growth in Wave Money.** Myanmar is largely a cash-based economy with limited bank lending outside of the key cities. Its financial inclusion remains low with over 80% of the population (54mn) currently unbanked, creating opportunities for MFS to provide consumers with a source of credit [Fig. 12]. Currently, there are 5 major bank-led MFS providers and 5 nonbank providers licensed to provide mobile-money services, wire transfers, and direct bill payment. Founded in 2016, Wave Money (Wave) is the first licensed MFS operator in Myanmar. It has 2 main businesses – Over the Counter (OTC) and e-wallet via WavePay.

Figure 11: Yoma Fleet – Fleet Size

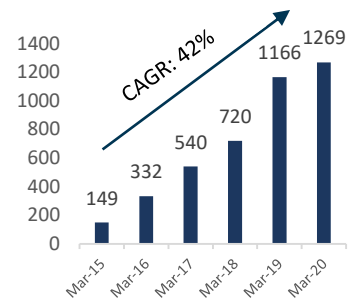
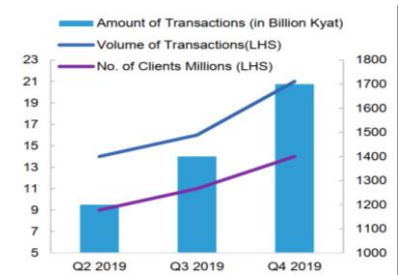
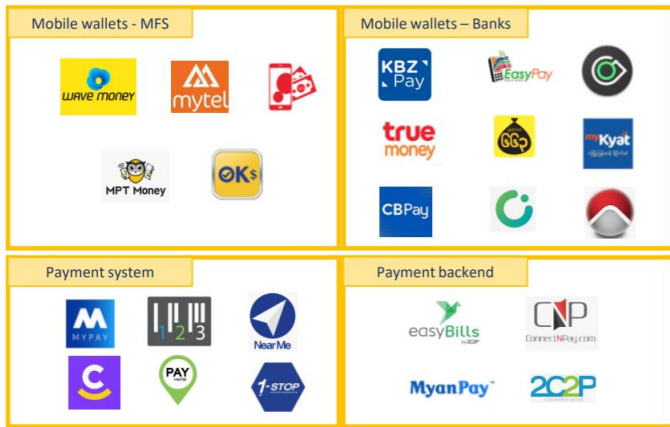


Figure 12: Growth of MFS



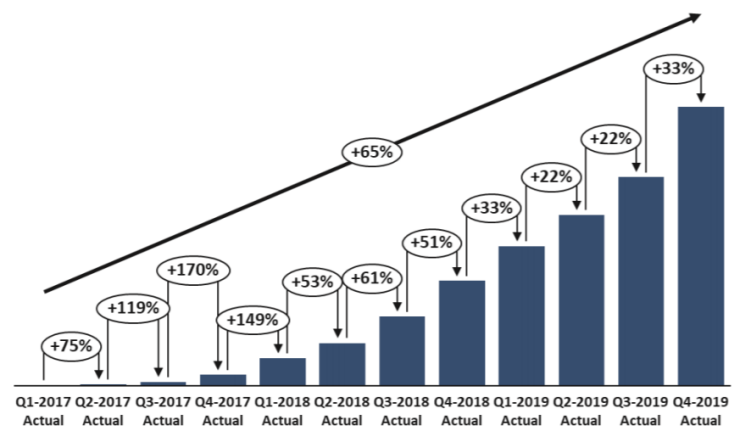
Source: Myanmar Economic Monitor, Company, PSR

Figure 13: Competitive digital payment landscape in Myanmar



Source: Company

Figure 14: Wave’s transfer volumes grew by 65% CAGR since 1Q17

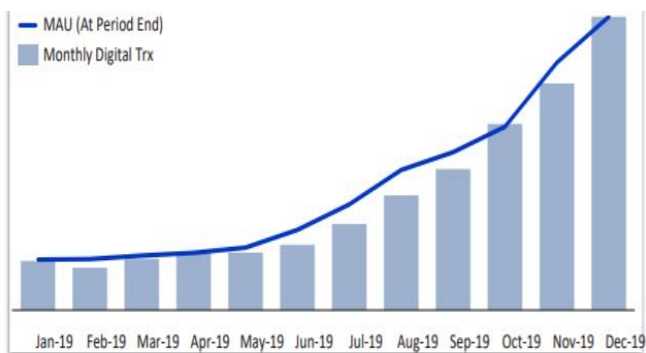


Profitable and scalable business model attributable to its brand leadership and large network of Wave agents for OTC transactions. Due to the inefficiency of Myanmar’s banking system, Wave leverages on consumers’ desire for money transfer services that are cheaper, reliable and more accessible. To date, Wave has more than 17mn unique customers on its platform and a c.90-95% market share in the OTC business. Covering 93% of the country, Wave’s agent network consists of 57,000 agents, making it more than 20 times larger than that of the traditional bank branches at 2,000 branches. Like banks, consumers just need to visit one of Wave’s agents (be it a local grocery or a pharmacy) to execute a money transfer transaction. However, unlike banks that are charging 5-10%, Wave is offering transaction charges of 1.5% which is 3-6x cheaper. [Refer to Appendix II for a typical OTC transaction and more supporting information on Wave]

In 2019, its transfer volume more than tripled, reaching US\$4.3bn (~6% of Myanmar’s GDP). In the same period, its revenue and transaction numbers also tripled. The OTC business continued to grow consistently through the expansion of distribution reach, while the growth in monthly active users (MAUs) accelerated from the investment in marketing and partnerships in the digital business [Fig. 14].

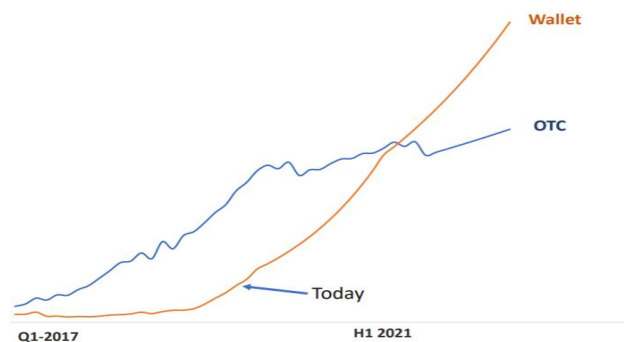
Adoption of WavePay to drive growth for Wave. WavePay was introduced in 2019 as Wave’s digital payments and e-wallet business. To date, WavePay has over 1mn downloads on the Google Play Store and 92 billers integrated into the wallet. 60% of its transactions in Mar20 is attributable to airtime purchased by customers. In Feb20, WavePay announced that it is giving its customers in Myanmar access to merchants of 2C2P – a global payments platform – through a tie-up, which will be rolled out progressively over the coming months. As WavePay continues to integrate more merchants into its platform, we are expecting the adoption of the e-wallet to accelerate past that of the OTC business by 1H21.

Figure 15: WavePay's rising MAU and transaction trend



Source: Company

Figure 16: Expectation of OTC and e-wallet adoption curve in Myanmar



Alipay to become a significant minority stakeholder. In May 20, Wave announced that Ant Financial, formerly known as Alipay – the highest valued FinTech company in the world – will join Yoma Group and Telenor Group – one of the world's largest mobile telecommunications companies – as one of its significant stakeholders. Ant Financial plans to inject US\$73.5mn into Wave for a 33% stake, highlighting its confidence in Wave’s business model. After which, Telenor Group and Yoma Group will be diluted down to 34% and 33% respectively. With this partnership, Wave will be able to tap into the experience of Alipay to promote financial inclusion and better serve the underbanked individuals and SMEs in Myanmar.

Figure 17: Wave's 5-year business plan for growth



Source: Company, PSR

In the 6M-Mar20, Wave Money’s revenue and transaction number grew by 16.2% and 13.9% QoQ with sustained positive EBITDA. The share of revenue registered from Wave Money of US\$4.3mn has yet to reflect the additional 10% stake that Yoma acquired (34% → 44%) and the share dilution post stake acquisition of Ant Financial (44% → 29.5%).

Growth of MFS fast-tracked by COVID-19. Amidst the COVID-19 outbreak, mobile money providers are considered essential businesses and are permitted to operate. The Central Bank of Myanmar promotes the use of mobile money over face-face transactions by increasing the daily transaction limit from 500,000 kyat (S\$500) to 1,000,000 kyat (S\$1,000), which is favourable for Wave in terms of transaction volume and ticket size. Moving forward, bank branch penetration in Myanmar will continue to be low given that the country sees more closing than openings of bank branches. As Wave embarks on more governmental and B-B projects like helping banks and microfinance companies disburse pensions and collect loans, we are confident that Wave still has lots of room for growth.

C. Yoma F&B

Yoma F&B owns the largest F&B platform in Myanmar. It comprises 3 segments: Restaurants, Bottling and Logistics.

Restaurants:

- 45 KFC
- 3 Auntie Anne's
- 42 YKKO
- 1 Little Sheep Hot Pot

Bottling:

- Seagram MM (Whisky)
- Access Myanmar Distribution

Logistics:

- KOSPA (Logistics)
- METRO Myanmar (Food wholesale & distribution)

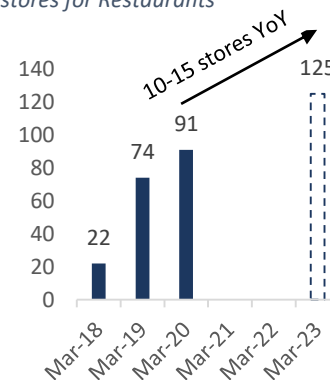
Figure 18: YKKO is famous for its "Kyay-Oh", a popular vermicelli and flat rice noodle-based dish in Myanmar



Investment Merits

1. **Resilient Restaurants to pull through even through tough times.** The new contribution from YKKO [Fig. 18] and new net store openings at KFC (Mar19: 33 stores) resulted in 6M-Mar20 Restaurants' revenue almost doubling that of Mar19. Additionally, improved margins were generated through KFC's optimization of their cost of goods sold and YKKO's higher gross profit margins. Amidst COVID-19, Yoma F&B saw a significant increase in delivery sales, from 1.1% of sales in January to 12.4% of sales by the end of Mar20 which cushioned impact from closed dine-in restaurants. Separately, there was little disruption to the restaurants' supply chains as most of them are localized.
2. **Long term outlook for Restaurants hinge on the rising middle-class and economic climate.** The Restaurants segment is expected to expand due to the rising discretionary disposable income from Myanmar's growing middle class. This group of spenders is forecasted to reach 10mn by 2022. Considering the weaker economic climate, Yoma F&B will be closing some of its non-performing stores. It targets to open approximately 2-3 more KFCs by the end of 2020. Should Myanmar's economy turnaround, it aims to operate 125+ stores nationwide, including 75 KFCs by FY23 [Fig. 19]. Without further economic growth and improved infrastructure and transport, we are looking at a 4-5 net store growth YoY instead of 10-15 stores YoY.
3. **More cost synergies from Logistics and the Restaurant business.** With the growth of FMCG and other sectors in Myanmar and the increase in cross-border trade, especially with China, the need for reliable logistics is expected to increase as both governments are working to create 'economic cooperation zones' along the Myanmar-China border. In 6M-Mar20, KOSPA, Myanmar's premier third-party logistics provider, has been consolidated as a subsidiary with a 50% stake post-SF Express's 25% stake acquisition. It benefitted from higher transport and warehouse utilization rates and volume from existing customers.

Figure 19: Projected total number of stores for Restaurants



Source: Company, PSR

Yoma also has a 15% stake METRO Myanmar, a leading specialist in food wholesale and retail. METRO Myanmar will offer customers a virtual one-stop-shop solution that combines online trading with delivery services which are made by KOSPA's fleet of trucks. We see potential cost synergies from these joint ventures moving forward as this end-to-end distribution and logistics platform can complement Yoma's F&B restaurant businesses.

Risks

1. **Continued weakness in the Bottling segment.** Despite an improvement in performance in 6M-Mar20 and share dilution in Seagram MM (Seagram) from 50% to 19.8%, Seagram – the joint venture designed to produce and distribute alcoholic beverages in Myanmar – is still registering losses. Notwithstanding the new launches in place, we are not optimistic about the sale of premium alcoholic beverages amidst a weakened economy.
2. **Competition in the wholesale and retail arena.** Wholesale and retail markets are becoming more competitive as they extend their reach into underserved areas. Supported by foreign investment and improved logistics services, retail and wholesale markets expanded geographically and grew at an estimated rate of 7% in 2019, according to Myanmar Economic Monitor. We are expecting the wholesale and retail markets to remain competitive as Myanmar continues to draw FDI into the country. This may impede Yoma F&B's growth.

D. Yoma Motors

Yoma Motors manages a portfolio of automotive brands covering the agricultural and construction equipment (Heavy Equipment), and passenger and commercial vehicles (PCV).

Yoma Heavy Equipment:

- New Holland (Farming equipment e.g. tractors)
- Yoma JCB (Construction equipment e.g. excavators)

Passenger & Commercial Vehicles

- Volkswagen
- Hino
- Ducati
- Bridgestone Tyres
- Mitsubishi
- Denso

Investment Merits

- Scalability and profitability of the PCV segment to support Yoma Motors' top and bottom line.** The overall gross margin improved in 6M-Mar20 due to better margin from PCV. Despite lower contributions from Heavy Equipment, its scalability also resulted in a 5x increase in revenue YoY which pushed Yoma Motors closer to breakeven. The increased revenue was driven by the sale of Volkswagen vehicles and Ducati motorbikes.
- Demand for PCV underpinned by low vehicle penetration and government policies.** Supported by a low vehicle penetration rate in Myanmar at 1 unit per 100 people and new government policies to help raise the number of new cars on the road (including control measures on imports of used righthand drive vehicles, which now dominate the market), the demand for PCV is expected to increase.
- Backlog of PCV sales to support FY20 revenue.** Amidst COVID-19, many offices were operating at a reduced capacity, which resulted in a backlog of sales for Volkswagen and Mitsubishi vehicles. The delay in recognition will support the top line in the coming quarters.
- National Transport Master Plan to lift demand for PCV and Construction Equipment over the next 10 years.** Under the National Transport Master Plan, the Myanmar Government is planning to allocate US\$21.4bn to rail, road, port and aviation projects by 2030. In Mar19, Yoma JCB successfully landed its first government tender to supply five 20-ton excavators and two 8-ton excavators to the Yangon City Development Committee.

Several large-scale infrastructure projects (e.g. Upgrade of the Yangon-Bago railway and the construction of the India-Myanmar-Thailand trilateral highway) are currently either underway or in the pipeline which will create a healthy demand for construction equipment. As Myanmar continues to urbanise, we believe that the Yoma JCB and PCV segment will remain a pillar of support for Yoma Motors.

Risks

- Weaker sales expected from New Holland (Heavy Equipment) amidst a drop in agriculture demand.** In 6M-Mar20, fewer tractors were sold as a result of continued weakness in the agricultural sector attributed to COVID-19 due to falling crop prices, persisting export restrictions to India and initial border closures with China and Thailand. Notwithstanding the relaxation of lockdowns, the sales contributed by New Holland from the Heavy Equipment segment is expected to remain slow as tractors are big ticket items for farmers, and they are likely to be cash-strapped from the devoid of sales last quarter.
- Weather conditions to impact New Holland sales.** In 2019, the sales of tractors fell by 35% due to heavy rainfall in the months of May to October [Fig. 20]. According to ASEAN Specialised Meteorological Centre, the rainfall over the northern ASEAN region is forecasted to be below-normal in 2020. Nevertheless, it is still identified as a key risk given that the business can be severely affected by the monsoon season.
- Although the business environment is improving, the slow recovery of residential projects continues to hinder the growth of the construction sector.** According to Myanmar Economic Monitor, the risk of time and cost overruns is discouraging people from buying residential buildings, which account for 50% of total construction activity. Strengthening the mortgage market and expanding credit access could unlock the potential of the residential subsector.

Figure 20: Average rainfall (mm) and rainy days (n) in Yangon (2009-2019)



Source: Company, World Weather Online

E. Notable Investments

- 1. Yoma Micro Power (YMP) to gain market share from diesel and promote the use of Wave.**
In Mar20, one of Yoma's joint ventures - YMP has finished building 250 micro solar-hybrid power plants which will help power rural Myanmar. As part of YMP's business model in Myanmar, mobile network operators and tower companies are its anchor clients. They buy electricity generated by the power plants at a cost lower than diesel, which was what the towers previously relied on. The connection is extended to nearby communities which include households, schools, shops and businesses through mini-grid distribution networks. Rural households can pay for the electricity using cash or through Wave Money.
- 2. Divestment of Edotco Myanmar and potentially Dalian Mall to focus on core assets.** Yoma divested its remaining 12.5% stake in Edotco Myanmar for US\$57.5mn, monetizing a gain of US\$48mn which it will use to expand its core businesses and repay debt. Separately, Yoma has initiated on-going discussions to dispose of its investment in The Grand Central Shopping Mall in Dalian, China. It has thus reclassified the investment as "disposal group classified as held-for-sale", resulting in the non-recurring fair value loss of approximately US\$32mn.

Risks

- 1. Recent fraud case at its subsidiary and lockdowns to pressure performance of Memories Group (MG) in 2020.** MG is a leading integrated tourism company in Myanmar which Yoma owns a 33% stake. In Apr20, MG discovered a case of fraud at its wholly-owned Myanmar subsidiary. Any impact of this misappropriation will be reflected in the financial statements of MG for the period ending Sept20. Separately, travel lockdowns that are in place globally amidst COVID-19 will impede MG's business which is heavily reliant on tourism. These factors will cause a negative overhang for MG in the near term.

Strategic Investor – Ayala Corporation

Ayala Corporation (Ayala) is the oldest and one of the largest conglomerates in the Philippines with core interests in real estate, banking, telecommunications, and power. It has a market cap of US\$10.1bn (PHP \$507.2bn).



In Nov19, Ayala Corporation (Ayala) has invested US\$155mn (S\$211mn) for a maximum 20% stake in Yoma, making it the second-largest shareholder. The move is part of an overall US\$237.5mn investment by Ayala into the Yoma Group - a 20% stake each in Yoma Strategic and its affiliate First Myanmar Investment Public Co, making it the largest foreign direct investment made by a Philippine company into Myanmar.

Highlighting Ayala’s faith in the future of the country as well as Yoma’s business model, Ayala paid an issue price of S\$0.45 per share for its Yoma stake, which represents a 36% premium over its VWAP on 12-13 Nov19. At least half or more of the placement proceeds will go into funding the growth and expansion of Yoma's various businesses, while the remainder will be used to refinance existing indebtedness and for general corporate purposes.

As both Ayala and Yoma emphasize similar key business segments, we anticipate important collaboration between the two companies which will help strengthen Yoma’s foundation for future growth.

Core Value Drivers



REAL ESTATE

44.4%

Leading and most diversified property developer in the country with the largest landbank

Market cap: ~\$11.1B % to equity earnings: 30%

[VISIT WEBSITE](#)



FINANCIAL SERVICES

48.6%

Pioneering financial institution and one of the most profitable banks in the country

Market cap: ~\$6.2B % to equity earnings: 26%

[VISIT WEBSITE](#)



TELECOMMUNICATIONS

30.9%

Purveyor of the Filipino digital lifestyle supported by a robust telecom infrastructure

Market cap: ~\$4.6B % to equity earnings: 13%

[VISIT WEBSITE](#)



POWER GENERATION

100%

Fast-growing regional energy platform with investments in renewable and conventional power assets and development, operations and retail supply capabilities

% to equity earnings: 24%

[VISIT WEBSITE](#)

Portfolio Investments



51.4%

Regional player in water infrastructure services and development

Market cap: ~\$442M

[VISIT WEBSITE](#)



100%

Industrial technologies investments focused on electronics manufacturing, vehicle retail, and enabling technologies

[VISIT WEBSITE](#)



100%

Portfolio of key infrastructure projects and public-private-partnerships (PPPs) in the Philippines

[VISIT WEBSITE](#)

Long-Term Value Drivers

Social Infrastructure



IPEOPLE

Digital Enablers



ENTREGO
ZALORA



Regional Platform

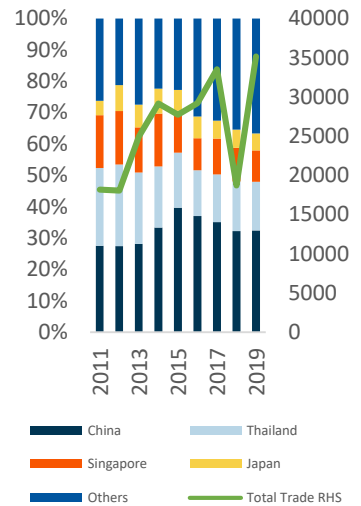


Source: Company, Ayala

Outlook in Myanmar

1. **Hard hit by trade and tourism in the near term.** Myanmar's growth may face strong headwinds due to its exposure to the slowdown in China and around the world. The COVID-19 outbreak has limited global demand and elevated global economic uncertainty, which is likely to have a material impact on Myanmar's tourism-related services, agricultural exports to China, and supply-chain disruptions to the manufacturing sector.
 - a. **Tourism:** Representing 16% of GDP, income from hotels, restaurants and transport activities, which are partly supported by tourism, have been significantly impacted. In 2019, Chinese nationals accounted for 20% of tourist arrivals. Growth in China is projected to decline to 2.3% in 2020, from 6.1% in 2019.
 - b. **Agricultural exports to China:** The agriculture sector remains the biggest employer in Myanmar, accounting for 78% of the rural labour force. Farmers are suffering from declines in production and prices associated with a reduction in exports to China. Agricultural exports to China represent 10% of total exports (2019: 4% of GDP, World Bank).
 - c. **Supply-chain disruptions to the manufacturing sector.** Garments' manufacturing accounts for 13% of exports. Nearly 15,000 garment manufacturing workers lost their jobs as factories were forced to close due to a lack of raw materials from China and cancellation of orders from the European Union countries. FDI inflows could be hampered as well, hitting the manufacturing sector which relies on labour and imports of raw materials.

Figure 21: China is Myanmar's largest trading partner (RHS: US\$m)



* 2018 - Transitional budget year

Figure 22: Myanmar GDP growth in high positive territories (%)

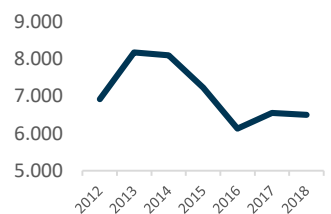
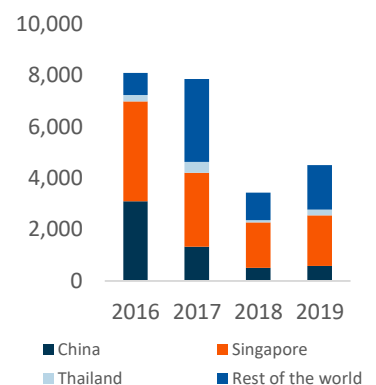


Figure 23: FDI into Myanmar (2016-2019, USD mn)



Source: Ministry of Commerce, CEIC, PSR

Economic growth in Myanmar was projected to increase to 6.4% in 2020 and 6.7% in 2021. However, since the COVID-19 outbreak, economic growth is expected to decline sharply in 2020 to 2-3%.

2. **Gradual recovery expected post-lockdown from COVID-19.** In 2021, economic growth is expected to recover in the range of 4-6% with the improved business sentiment, better access to electricity and improved availability of credit.

Myanmar will continue to work closely with its neighbouring countries to discuss the future FDI opportunities. Chinese investments are expected to continue. However, the economic blow dealt by the outbreak may place Myanmar in a weaker position as it negotiates with China over a series of large infrastructure projects.

Besides China, Myanmar inked a deal with Singapore's Infrastructure Asia (IA) in May 20 where IA will identify suitable investors for infrastructure projects in Myanmar that are aligned with the country's sustainable development plan. The mutual collaboration will provide and promote growth in both countries.

Looking ahead, rapid urbanization and positive GDP growth underpin the long-term prospects for Myanmar's real estate industry. Growth of restaurants should sustain due to the rising discretionary disposable income from Myanmar's growing middle class. Myanmar's location between China and India makes it strategically significant in China's Belt and Road Initiative. Investment growth in transport and telecommunication will sustain, as the government plans for more infrastructure spending. Construction sector activity is also expected to improve, with positive proxy indicators such as building permits and large FDI commitments.

Risk Factors

- 1. Slowdown of Myanmar's economy exacerbated by lower external demand and FDI.** Slowing global and regional growth, especially in China, can also transmit to Myanmar through the trade channel by lower external demand and inbound foreign investments.
- 2. Private-sector growth is hindered by supply-side constraints and a restrictive business environment.** The top three impediments to firms' ability to grow in Myanmar are access to factors of production (i.e., finance, land, and skilled workers); poor physical and digital connectivity; and difficulty in doing business.
- 3. Depreciation of the Myanmar Kyat (MMK) due to macroeconomic and/or political uncertainty.** The MMK could weaken in the coming quarters as a result of renewed trade tensions between the US and China. The upcoming 2020 general elections could add another source of uncertainty.
- 4. Other risks:** Insecurity in border areas with violence and forced displacement of refugees in Rakhine, and uncertainty from legal proceedings could affect investors' sentiment.

Peer Comparison

Figure 24: Comparables

	Mkt. Cap.	Price	P/B	Total Returns 1M (%)	Total Returns YTD (%)	Gearing (%)	ROE (%)
Competitors							
YOMA STRATEGIC HLDGS LTD (SGD)	547	0.245	0.7	2.1	(30.0)	27.7	(6.8)
SINGAPORE MYANMAR INVESTCO L (SGD)	10	0.032	0.3	38.5	(28.0)	30.9	(23.5)
MEMORIES GROUP LTD (SGD)	19	0.038	0.3	15.2	(60.0)	31.4	N/A
MYANMAR INVESTMENTS INTERNAT (USD)	29	0.755	1.0	(3.8)	(5.6)	0.0	(7.4)
MYANMAR STRATEGIC HOLDINGS (USD)	27	10.250	5.3	0.0	0.0	0.0	(52.2)
<i>Average</i>	126.3	2.3	1.5	10.4	(24.7)	18.0	(22.5)

Source: PSR, Bloomberg

Valuation

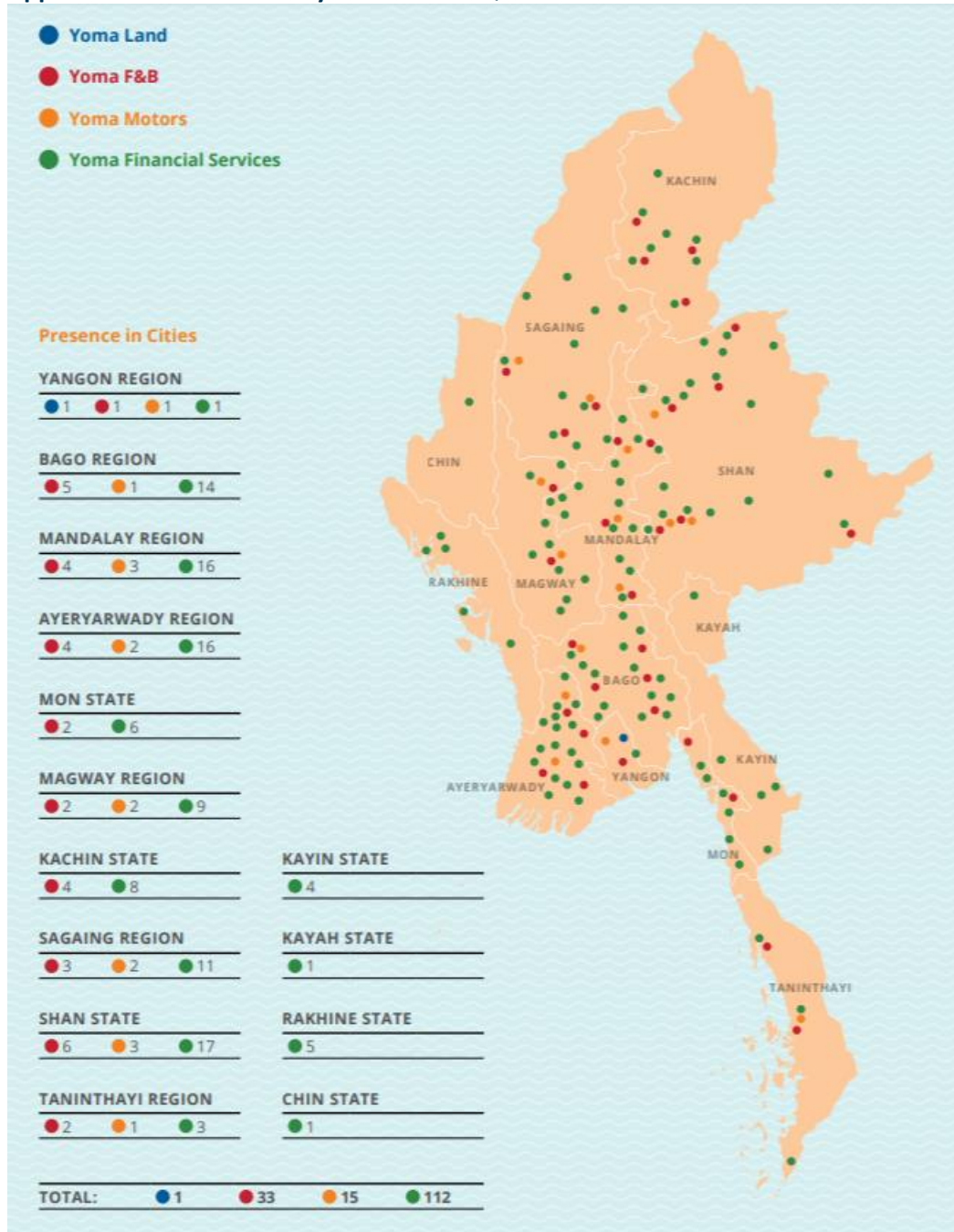
We initiate coverage on Yoma with a BUY rating and a SOTP-derived target price of S\$0.46 to reflect the diverse nature of its business lines. Barring downside risks from a severe domestic outbreak, we are bullish on the development of Myanmar post COVID-19. In our SOTP model, property and financial services constitute 73% and 17% of its assets respectively. The outstanding 10% comprises the remaining business lines - such as F&B, automobiles and heavy equipment. Downside risks to our valuation include the depreciation of USD against SGD. A conglomerate discount of 20% has been applied.

Figure 25: SOTP Model

Assets				
*	Yoma Land	Properties	Valuation (US\$)	Remarks
A)	Land Bank	Star City Development	\$129,500,000	Balance sheet cost
		Pun Hlaing Development	\$364,850,000	Balance sheet cost
B)	Investment Properties	Star City	\$122,920,000	Share of fair value
		Others	\$68,800,000	Share of fair value
C)	Development Properties	Yoma Central	\$122,000,000	Balance sheet cost
		Peninsula Yangon	\$28,000,000	Balance sheet cost
		City Loft	\$7,000,000	DCF
Yoma Land Valuation			\$843,070,000	
Yoma Financial Services			Valuation (US\$)	Remarks
A)	Yoma Fleet		\$133,000,000	Based on Tokyo Century Transaction Valuation
B)	Wave Money		\$65,704,545	Based on Ant Financial Transaction Valuation
Yoma Financial Services Valuation			\$198,704,545	
Yoma F&B			Valuation (US\$)	Remarks
A)	Restaurants		\$43,174,000	P/Sales
B)	Logistics		\$6,000,000	Based on SF Transaction valuation
Yoma F&B Valuation			\$49,174,000	
Yoma Motors			Valuation (US\$)	Remarks
Yoma Motors			\$18,740,000	P/Sales
Yoma Motors Valuation			\$18,740,000	
Other Investments			Valuation (US\$)	Remarks
Implied Valuation			\$48,470,000	
Total Assets			\$1,158,158,545	
Net Debt and Overheads			\$225,298,000	
Valuation			\$932,860,545	
No of shares			2,231,220,416	
Less: Conglomerate discount			20%	
USD/SGD			1.3882	
TP (S\$)			\$0.46	

Source: Company, PSR, Bloomberg

Appendix I – Presence in Myanmar as of 2Q19



Source: Company

Appendix II – An example of Wave Money’s OTC transaction

Figure 26: A typical Wave Money agent

Mr X in District A would like to transfer 100,000 kyat (S\$100) to Mrs Y in District B

1. Mr X heads to a Wave Money Agent in District A (WMA)
2. Mr X pays 101,500 kyat (S\$101.50) to WMA for the transfer, which includes a 1.5% fee equivalent to 1,500 kyat (S\$1.50) of transaction cost
3. WMA receives the cash, and generates a transaction-specific code which will be sent via an SMS to Mrs Y in District B
4. Mrs Y heads to a Wave Money Agent in District B (WMB)
5. Mrs Y hands over the transaction code to WMB, which WMB will punch into the system along with another code for verification purposes
6. WMB will use 100,000 kyat (S\$100) of its own cash to disburse to Mrs Y, which WMB will be reimbursed during consolidation



Source: MMtimes

Additional supporting information

1. **Inefficiency of Myanmar’s banking system.** Myanmar ranks 26th in the world by population, but its density lags asia’s average of 140 pop/sqkm at 80.3 pop/sqkm due to its massive land size of 676,577 sqkm. With only 2,000 branches across Myanmar, almost 70% of the population live 1 hour away of bank branch, highlighting the need for better accessibility.
2. **Young and savvy population.** The country’s high mobile and smartphone penetration of 126% and 85%, as well as a young population at 28 years of median age, prompts a shift in focus towards MFS away from the traditional cash-based economic model.

Source: Company, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Sept, (\$'000)	FY18	FY19	FY20e	FY21e	FY22e
Revenue	99,631	91,015	108,200	113,294	121,562
Cost of sales	(67,940)	(45,726)	(69,780)	(71,500)	(76,032)
Gross Profit	31,691	45,289	38,420	41,794	45,530
Finance expenses	(11,896)	(29,605)	(17,342)	(17,342)	(17,342)
Administrative expenses	(53,945)	(50,255)	(66,049)	(67,676)	(71,966)
Other items	80,287	(140)	34,108	38,500	43,322
Total Return Before Tax	46,137	(34,711)	(10,863)	(4,724)	(456)
Taxation	(2,042)	(2,443)	(217)	(94)	(9)
Total Return After Tax	44,095	(37,154)	(11,080)	(4,819)	(465)
EBIT	58,033	(5,106)	6,479	12,618	16,886
EBITDA	67,649	8,519	21,705	26,133	28,896

Per unit data

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
NAVPS (US\$)	0.38	0.27	0.35	0.35	0.35
EPU (US\$ cents)	2.33	(1.96)	(0.50)	(0.22)	(0.02)

Cash Flow

Y/E Sept, (\$'000)	FY18	FY19	FY20e	FY21e	FY22e
CFO					
Net income	45,111	(37,154)	(11,080)	(4,819)	(465)
Adjustments	(73,193)	62,289	32,249	29,277	26,443
WC changes	28,255	(41,007)	(38,373)	13	(55,176)
Cash generated from ops	173	(15,872)	(17,204)	24,472	(29,197)
Others	(1,551)	(833)	(217)	(94)	(9)
Cashflow from ops	(1,378)	(16,705)	(17,422)	24,377	(29,206)
CFI					
Additions to development properties	(137,224)	(74,684)	(21,900)	-	-
Additions to IP	(56,510)	(610)	-	-	-
Additions to PPE	(23,252)	(20,836)	-	-	-
Others	(44,396)	(39,031)	-	-	-
Cashflow from investments	(261,382)	(135,161)	(21,900)	-	-
CFF					
Proceeds from issuance of units	82,150	-	108,600	-	-
Proceeds from borrowings, net	105,256	123,338	(27,600)	-	-
Interest paid	(12,511)	(21,768)	(17,398)	(17,398)	(17,398)
Others	40,932	55,382	-	-	-
Cashflow from financing	215,827	156,952	63,602	(17,398)	(17,398)
Net change in cash	(46,933)	5,086	24,281	6,980	(46,604)
Cash at the start of the period	63,603	10,776	15,835	40,116	47,095
Currency translation	(1,825)	(27)	-	-	-
Others	17,734	14,146	14,146	14,146	14,146
Ending cash	32,579	29,981	54,262	61,241	14,637

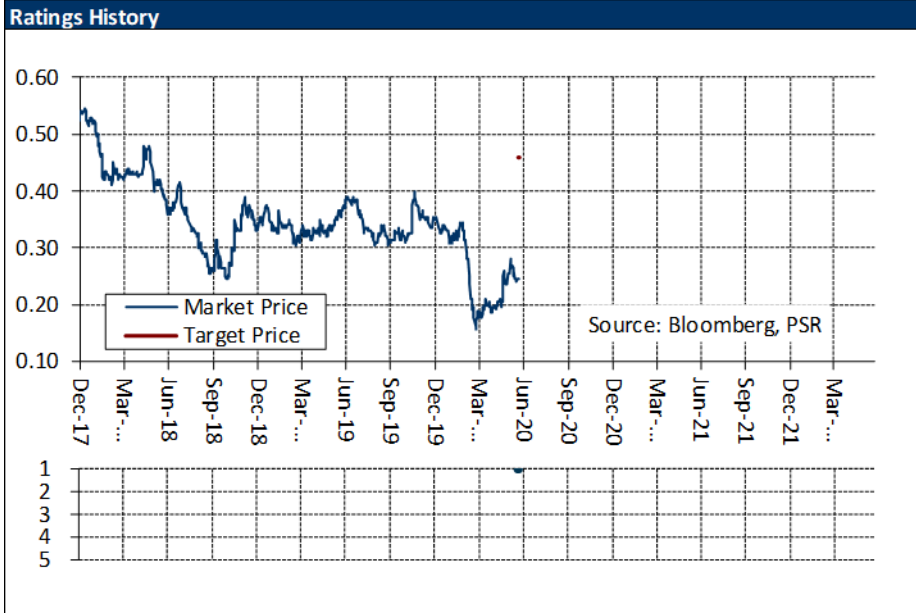
Balance Sheet

Y/E Sept, (\$'000)	FY18	FY19	FY20e	FY21e	FY22e
ASSETS					
Investment properties	366,637	242,960	264,860	264,860	264,860
Land development rights (NC)	210,144	149,130	149,130	149,130	149,130
PPE	71,563	118,347	104,117	91,598	80,584
Others	189,247	147,454	159,912	147,182	160,713
Total non-current assets	837,591	657,891	678,019	652,770	655,287
Development properties	330,028	290,276	426,550	324,024	481,327
Trade receivables	98,167	76,495	133,899	86,400	149,976
CCE	32,579	29,981	54,262	61,241	14,637
Inventories	26,061	19,287	34,247	20,606	37,724
Others	134,758	149,950	149,950	149,950	149,950
Total current assets	621,593	565,989	798,907	642,222	833,614
Total Assets	1,459,184	1,223,880	1,476,926	1,294,992	1,488,901
LIABILITIES					
Trade payables	136,214	75,208	224,492	82,594	243,958
ST borrowings	128,302	106,500	78,900	78,900	78,900
Others	5,313	16,944	16,944	16,944	16,944
Total current liabilities	269,829	198,652	320,336	178,438	339,802
LT borrowings	185,004	238,796	238,796	238,796	238,796
Others	104,770	98,042	132,475	98,989	134,972
Total non-current liabilities	289,774	336,838	371,271	337,785	373,768
Total liabilities	559,603	535,490	691,608	516,223	713,570
Net assets	899,581	688,390	785,318	778,769	775,331
Represented by:					
Share Capital	674,396	514,736	623,336	623,336	623,336
Retained profits	96,057	51,158	38,508	30,981	26,565
Others	129,128	122,496	123,474	124,452	125,430
Total equity	899,581	688,390	785,318	778,769	775,331

Valuation Ratios

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
P/NAV (x)	0.71	1.18	0.74	0.74	0.75
P/E (x)	11.61	-16.10	-49.34	-113.44	-1176.10
EV/EBITDA (x)	14.33	128.67	47.28	39.01	36.89
Growth & Margins (%)					
Growth					
Revenue	-	-8.6%	18.9%	4.7%	7.3%
Gross profit	-	42.9%	-15.2%	8.8%	8.9%
EBITDA	-	-87.4%	154.8%	20.4%	10.6%
EBIT	-	-108.8%	-226.9%	94.7%	33.8%
Margins					
Gross profit margin	31.8%	49.8%	35.5%	36.9%	37.5%
EBITDA margin	67.9%	9.4%	20.1%	23.1%	23.8%
EBIT margin	58.2%	-5.6%	6.0%	11.1%	13.9%
Key Ratios					
ROE	4.9%	-5.4%	-1.4%	-0.6%	-0.1%
ROA	3.0%	-3.0%	-0.8%	-0.4%	0.0%
Gearing (%)	38.4%	43.8%	46.8%	39.9%	47.9%

Source: Company, Phillip Securities Research (Singapore) Estimates



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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