

shopper360 Limited

The key to win consumers' dollars



StocksBnB.com

SINGAPORE | CONSUMER | TRADING NOTE

13 June 2018

- Contracts from new and existing clients, and expanded media portfolio would drive FY19e earnings; **Expect Core earnings to grow at 20% p.a. in FY18-19e**
- First mover advantage in Southeast Asia's final frontier via strategic partnership with Myanmar's leading modern retail chain
- Initiate with **Trading BUY** and **TP of S\$0.33**; Undemanding valuations with adjusted trailing-PE of 5.8x, vs global peers' 13.0x

Company Overview

shopper360 Limited ("S360") is a well-established shopper marketing services provider in the retail and consumer goods industries in Malaysia with 30 years of experience in the in-store advertising industry.

It has a strong client base of local and multi-national customers including *Nestle, Colgate-Palmolive, F&N Beverage, Fonterra, Samsung, U Mobile* and *Huawei*; and strong network of retail partners such as *Giant, Cold Storage, Econsave, The Store, Billion, MYDIN, Aeon*, and convenience chain store such as *99 Speedmart*, as well as pharmacy chains.

Investment Thesis

- Stronger FY19, driven by new contracts with higher margin.** It has secured c.40% of its order books with existing clients by end-1HFY18, which will be executed through 2HFY18 and 1HFY19. In addition, new customers acquired, including the media concession rights for *Shell* and *MyNews*, creative agency contract for *Burger King* Singapore, as well as media reseller rights for *Spotify* Malaysia, provide visibility of earnings for FY19. We expect more contracts could be secured in FY19 via acquisition of new customers (especially non-FMCG clients), cross-selling to existing customers and introduction of new services.
- Foray into new countries – Myanmar and Singapore.** Its business model is highly scalable with minimal CapEx. The Group could also leverage on its Malaysian network of clients to win contracts in these new geographical locations. We believe that its strategic partnership with Pahtama Group (Myanmar's leading modern retail chain) provide S360 first mover advantage in Myanmar and allows the Group to capitalize on the potential of this fast growing market. Myanmar business should start to contribute in FY19.
- Poised for digital economy.** The *Spotify* contract provides a new platform for more digital marketing services contracts. Meanwhile, its proprietary mobile loyalty program (*Shopwave*) and its investment into an automated sales ordering system (*Boostorder*), expanded its digital and technological offerings.
- Supportive macro backdrop.** Rising consumer affluence, increasingly sophisticated consumer as well as intensifying competition in Malaysia, Singapore and Myanmar would drive higher demand for marketing and promotional activities.
- Attractive valuation.** Currently below its IPO price (Listed on Catalist on 30 Jun-17 at S\$0.29). Adjusting for the listing and listing related expenses, it is currently trading at trailing 12M P/E of 5.8x, as compared its global peers' average trailing 12M P/E of 13.0x.

Management noted that the recent negative news on its regional director, Mr Samuel Chan, does not have any impact on the Group's financial and business operations.

Initiate with a Trading Buy with target price of S\$0.33, based on estimated 14.0 RM cents FY19 EPS (4.70 SCents) and forward PER of 7.0x. This implies an **upside of 87.0%** (with dividends) from its last closing price.

TRADING BUY

LAST CLOSE PRICE	SGD 0.18
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.33
TOTAL RETURN	87.0%

COMPANY DATA

BLOOMBERG CODE	S360 SP
O/S SHARES (MN) :	114
MARKET CAP (USD mn / SGD mn) :	15 / 21
52 - WK HI/LO (USD) :	0.39 / 0.18
3M Average Daily T/O (mn) :	0.01

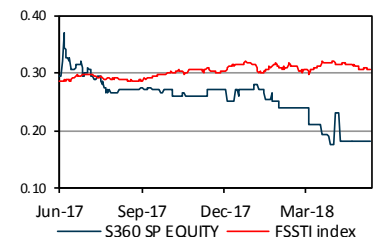
MAJOR SHAREHOLDERS (%)

REKAWEB COM SDN BHD	37.79%
KOPERASI PERMODALAN FELDA	20.29%
ANGELINA OOI	4.31%
OOI LOON KUM	2.14%
CARES	1.58%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(14.3)	(33.3)	n.a.
STI RETURN	(3.28)	0.31	9.41

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E May	FY16	FY17	FY18e	FY19e
Revenue (RM mn)	113.5	132.5	140.9	162.4
EBITDA (RM mn)	18.4	14.2	16.4	23.0
EBIT (RM mn)	17.3	12.6	14.7	21.0
PATMI, adj. (RM mn)	8.4	11.1	11.1	16.0
EPS, adj. (RM)	7.33	9.72	9.73	13.96
EPS, adj. (SGD)	2.42	3.08	3.27	4.70
PER, adj. (x)	n.a.	10.2	5.5	3.8
P/BV, (x)	n.a.	4.0	1.4	1.1
DPS (SGD Cents)	0.00	0.30	0.66	0.94
Div Yield (%)	0.0%	1.0%	3.6%	5.2%
ROE (%)	23.5%	39.3%	24.9%	27.8%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 7.0x

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Business Overview

shopper360 Limited ("S360") is a well-established shopper marketing services provider in the retail and consumer goods industries in Malaysia with 30 years of experience in the in-store advertising industry.

It maximizes reach to shoppers, increases brand awareness for its customers, and enhance the entire shopper journey, converting shopper to buyer, as well as to build in loyalty, retention and repeat purchase.

- A customer buying process describes the journey a consumer goes through before purchasing a product or services.
- A consumer can purchase directly from the brand (supplier) or a retailer (the brand's distribution channel).
- In a competitive climate, it is crucial to maintain an active and healthy name, as well as to develop a loyal customer base.
- A brand/retailer would typically **engage four agencies to market to final consumers**
 - (i) Below the line advertising, which involved samplings activities and events management, and brand activation
 - (ii) Media agency, which bundles media channels (or advertising mediums) and brands
 - (iii) Creative agency, which creates the designs for branding and provides visual content
 - (iv) Digital agency, which provides screen-based products and services

Figure 1: Relationship between brands, retailers and consumers

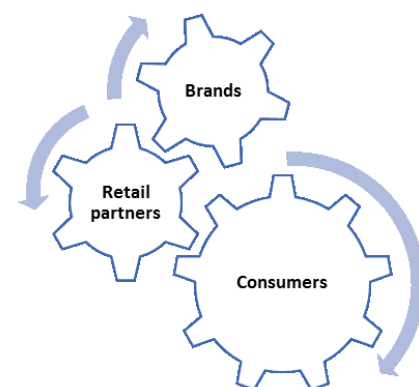
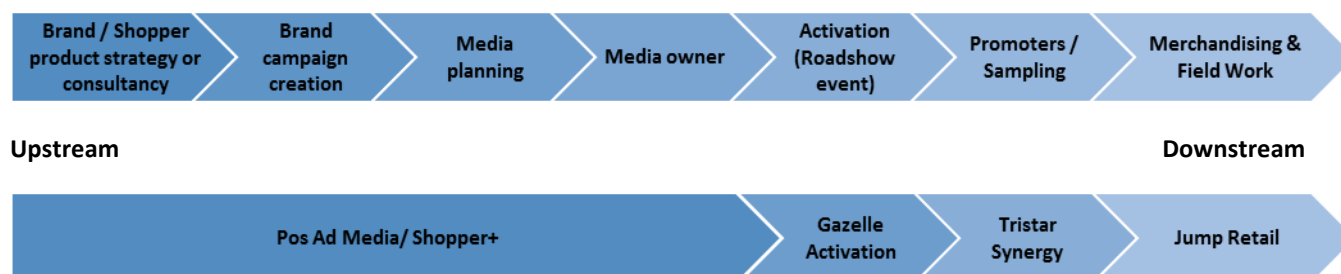


Figure 2: S360 provides a one-stop solution, covering all typical marketing strategies required for brand positioning

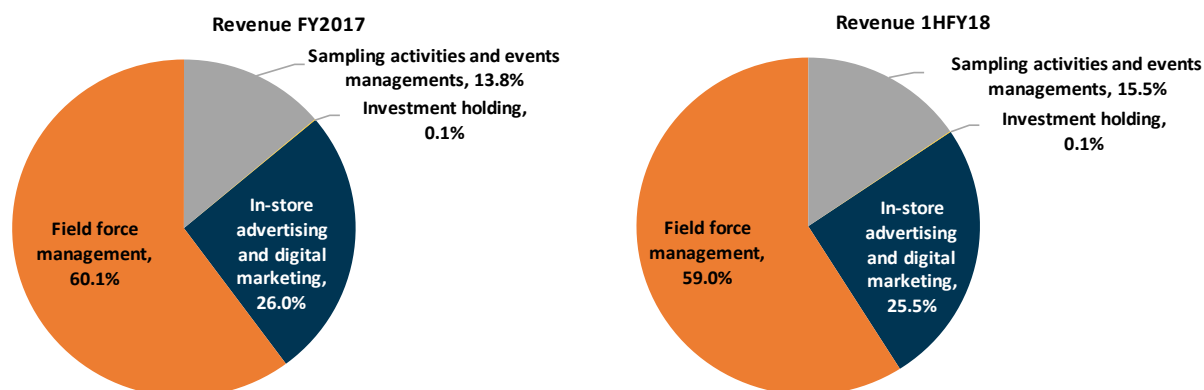


The one-stop solution for brands and retailers

S360 comprises 3 main segments that capture the entire value chain:

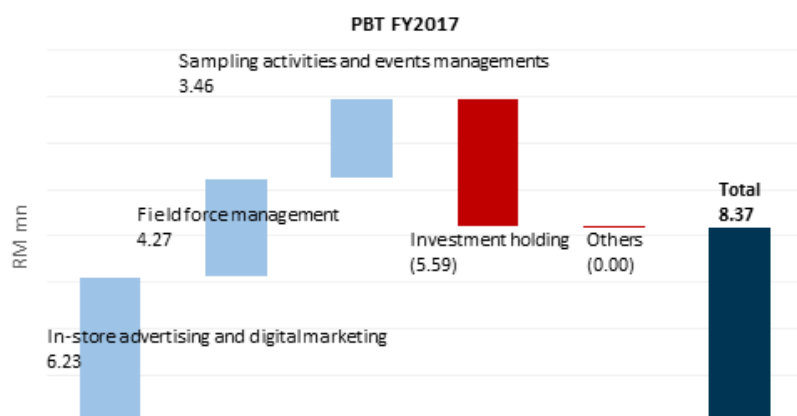
- 1. In-store advertising and digital marketing**
 - (a) **Pos Ad Media:** Entice shoppers through strategic point of sales media format
 - (b) **Shopper+:** Connect with shoppers O2O (Online to Offline and vice versa) using insight, tech and creative marketing
- 2. Field force management**
 - (a) **Jump Retail:** Manage customers' field force to provide brand visibility and product presence in-store
- 3. Sampling activities and events management**
 - (a) **Tristar Synergy:** Engage shoppers at a personal level by organising in-store sampling and promotional booths as well as events and roadshows
 - (b) **Gazelle Activation:** Excite shoppers and consumers with the best of brand experience through activation

Figure 3: Revenue by Business Segments



Source: Company, PSR

Figure 4: PBT by Business Segments



Source: Company, PSR

Competitive strength

- “One-stop” shopper marketing services group that connects customers with its retail partners**
 - Able to provide a full suite of advertising, marketing and shopper engagement services
 - Understands the needs of both shoppers and retailers (both brands and retail partners), the Group can provide a more comprehensive and customised solution to reach optimal results (higher outreach to shoppers, greater visibility of the products, thereby optimising sales for its customers)
 - Provide consultation supported by in-house research
- 30 years of experience in the in-store advertising industry**
 - Pos Ad is the pioneer in in-store advertising in Malaysia since 1986
 - Jump Retail is one of the leading retail field force management companies in Malaysia
 - Experienced management team
 - Strong brand equity. Accolades include twice the winner of Enterprise 50 award, and Top 10 in SME100 2014's Malaysia Fast Moving Companies
- Strong network of retail partners**
 - Retail partners comprising hypermarkets and supermarkets such as *Giant*, *Cold Storage*, *Econsave*, *The Store*, *Billion*, *MYDIN*, *Aeon*, and convenience chain stores such as *99 Speedmart*, as well as chain pharmacies
 - Giant* and *99 Speedmart* have been its partner for more than 5 years
 - Access to in-store advertising space in over 1,900 retail outlets across 183 towns in Malaysia (as at 17 May 2017)

4. High retention rates of customers and a wide client base in Malaysia

- Clientele expanded over the years from local customers in the FMCG industry to local and MNC customer in both FMCG and non-FMCG industries, including F&B, personal care, home care, telecommunication, technology and pharmaceutical
- Its current client base of local and multi-national customers includes *Nestle, Colgate-Palmolive, F&N Beverage, Fonterra, Samsung, U Mobile* and *Huawei*
- *Nestle* has been a long-standing customer since 2002

Revenue mix of Global to Local client is at 80:20

It is crucial to retain these major customers (e.g. Nestle, Samsung and Huawei), as each of them contribute more than 10% to the Group's revenue

Investment Thesis

– Steady and visible revenue stream, with earnings growth potential

1. Expecting stronger FY19 earnings from higher margin contracts

(a) New projects with higher margin to be executed in 2HFY18 and into FY19

- Awarded the media concession rights for *Shell* (one of the largest petrol-mart chain in Malaysia) and *MyNews* (one of the largest retail convenience store chain in Malaysia). These ramped up its in-store advertising network coverage by over 50%. Its retail advertising channel increased from 1,900 to 2,900 outlets.
- Expanded sampling activities beyond FMCG and in-store sampling into out-of-store sales promoters for one of the largest telecommunication companies in Malaysia.
- Secured c.40% of order books from existing clients by end 1HFY18. These contracts will be executed in 2HFY18 to 1HFY19.
- 1HFY18 Revenue +6% YoY but PBT -21.0% YoY. However, we believe that the higher margin projects secured would underpin 2HFY18 and FY19e earnings growth.

Appointed as the creative agency for Burger King Singapore. Burger King in SG & MY has the same owner as 99 Speedmart in MY; further evidenced the importance of strong retail partner and customer network.

Both In-store advertising and digital marketing, and Sampling activities and events managements have higher margins compared to Field force management.

(b) Healthy pipeline beyond FY18

- **Cross-sell its existing range of services**, provide a cost efficient solution to customers and enable them to streamline their process. S360 could offer both above the line (non-targeted, wide reach) and below the line (one-to-one, close touch) marketing strategies to its existing clients.
- **Expansion of clients' business also underpins the demand for marketing services.** For example, 99 Speedmart has reached its 1,000 stores milestone in 2017 and targets to reach 2,000 stores in the next 3 to 5 years.
- **Continue to acquire new FMCG customers as well as to increase non-FMCG clientele base.** Broaden their exposure to different categories of products, such as personal care and beauty products by end-2018.
- **Extend its retail advertising network** to shopping malls by end-2018. Additionally, the Group aims to add more media space in convenience stores and neighbourhood supermarkets. This is to ride on the shift in consumer preference for proximity shopping and industry move towards smaller format stores.
- **Provision of new services**, such as expansion into digital and OOH (out-of-home) channels, as well as more providing value-added services. Value-added services, such as market insights, retail consultation, and customised solutions to cater to customers' requirements. These services could command a premium, thus lifting its margins.

e.g. Nestle engaged shopper360 in Pos Ad (in-store advertisement), Jump Retail (inventory management), and Tristar Synergy (sampling events and roadshows).

Secured non-FMCG clients such as Universal Music and Spotify.

Secured MyNews in 2018.

Figure 5: Example of out-of-home advertisement for Spotify overseas



Source: Adweek.com

2. Foray into new geographical locations, in particular, Myanmar and Singapore by end-2018

- With minimal CapEx (capital expenditure), the Group can replicate its Malaysia business model into new geographical locations.
- Also, the Group could leverage on its Malaysian network of clients to win clients such as *Asahi*, *Nestle*, *Universal Music*, *99 Speedmart* and *Spotify* outside of Malaysia.

(a) First mover advantage in Myanmar

Golden opportunities in the Golden land

- Change in socio demographic, including rising consumer affluence and higher education level, have led to more sophisticated clientele. Consumers are increasingly leveraging on the various source of information before making their purchasing decisions.
- Currently, word-of-mouth is the most common advertising medium in Myanmar. Meanwhile, 1) Higher internet and mobile penetration rates; 2) Urbanization and shift towards modern trade channels; and 3) Improving infrastructure and logistics network, would bring a structural change to this underdeveloped retail landscape.

We believe this provides an opportunity for the Group to ride on this tailwind. Higher demand but underserved market imply higher take-up rate for and more room to grow.

60:40 JV with Pahtama Group Co., Ltd. (since Nov-17) allows the Group to capitalize on Myanmar's potential

- Pahtama Group is one of the largest and fastest growing distribution companies in the FMCG sector in Myanmar. It has have over 30,000 accounts covered with 1,000 employees nationwide.
- Under the JV (Joint Venture) agreement, Pahtama Group will grant the JV Co., a right of first and last offer to outsource all of its marketing, advertising and promotional opportunities and/or projects to the JV Co. It will also share its clientele and customer profiles with the Group.
- Highly scalable with low CapEx. The Group intends to bring the full suite of services into Myanmar. It has established a sales office in Myanmar with 2 sales person, with capital outlay of US\$30,000.
- A seamless entry for sampling and promoter activities in Myanmar. The JV Co. has been awarded an exclusive in-store advertising concession rights for all 144 City Mart supermarkets.

We expect the Myanmar business to start contributing to the bottom line in FY19.

City Mart Holdings Company Limited is an affiliate of Pahtama Group. It is the largest modern retail group in Myanmar. It has a leadership position in each of its retail formats: supermarkets, pharmacies, bookstores, baby stores, convenience stores and bakery & coffee shops.

(b) Singapore, a more sophisticated market with advanced marketing capabilities

- While Singapore is a mature market as compared to other countries in the region, it is still an important market to embark on as MNC brands consider Singapore as a platform to build a regional brand image.
- **We believe that the main growth driver will come from digital marketing.** Thanks to the fast internet connection, as well as high internet and mobile penetration rates, Singapore has a high adoption of digital media. 77% of Singaporeans are active social media users, according to "Digital in 2017" from Hootsuite (see Figure 6). 800,000 new users came on board in 2017, +22% YoY.
- Ahead of its plan to establish an office in Singapore, it has already secured a creative agency contract with *Burger King Singapore*. It is also in the midst of approaching other retailers and brands.

JAN 2017

DIGITAL IN SINGAPORE

A SNAPSHOT OF THE COUNTRY'S KEY DIGITAL STATISTICAL INDICATORS

TOTAL POPULATION	INTERNET USERS	ACTIVE SOCIAL MEDIA USERS	UNIQUE MOBILE USERS	ACTIVE MOBILE SOCIAL USERS
5.74 MILLION	4.71 MILLION	4.40 MILLION	4.89 MILLION	4.00 MILLION
URBANISATION: 100%	PENETRATION: 82%	PENETRATION: 77%	PENETRATION: 85%	PENETRATION: 70%

SOURCES: POPULATION: UNITED NATIONS; U.S. CENSUS BUREAU; INTERNET: INTERNETWORLDSTATS; (U.S.) INTERNETWORLDSTATS; CIA WORLD FACTBOOK; FACEBOOK; NATIONAL REGULATORY AUTHORITIES; SOCIAL MEDIA AND MOBILE SOCIAL MEDIA: FACEBOOK, TENCENT, WORKTATTE, INTERNETWORLDSTATS, KAKAO, NAVEE; NBS; OTHER COUNTRY DATA: EUROPEAN COMMISSION; DIGITAL MEDIA: SOCIAL INTELLIGENCE; FORUMS AND POLICY ANALYSTS; AND GOOGLE DATA.

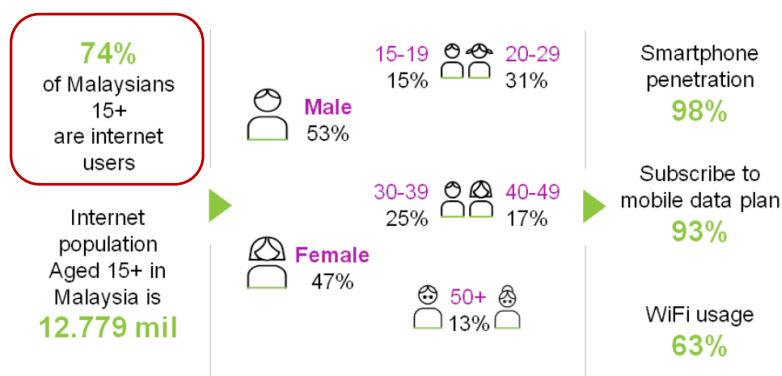
we are social

Hootsuite

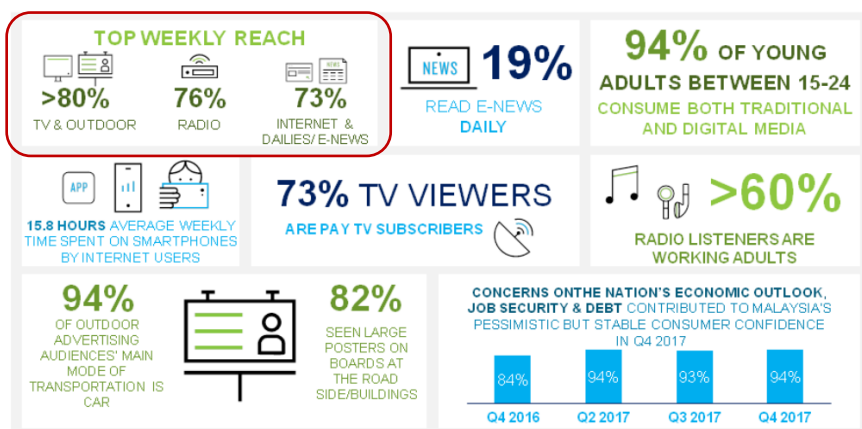
3. Digitizing its offerings; poised for the Digital Economy

- Figure 7: Lower internet penetration in Malaysia (74%) compared to Singapore (82%)**

MALAYSIAN INTERNET USERS – WHO ARE THEY?

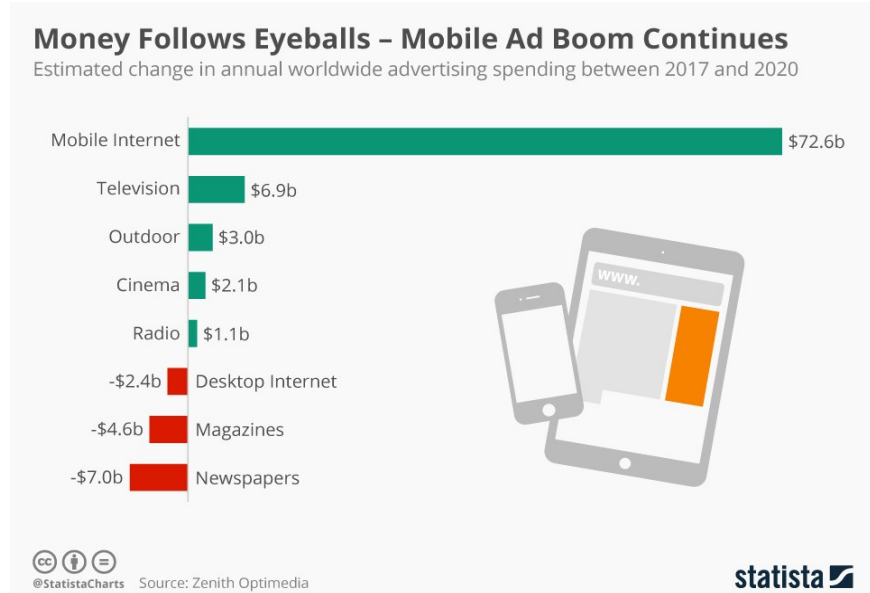


SNAPSHOT: MALAYSIA MEDIA LANDSCAPE 2017



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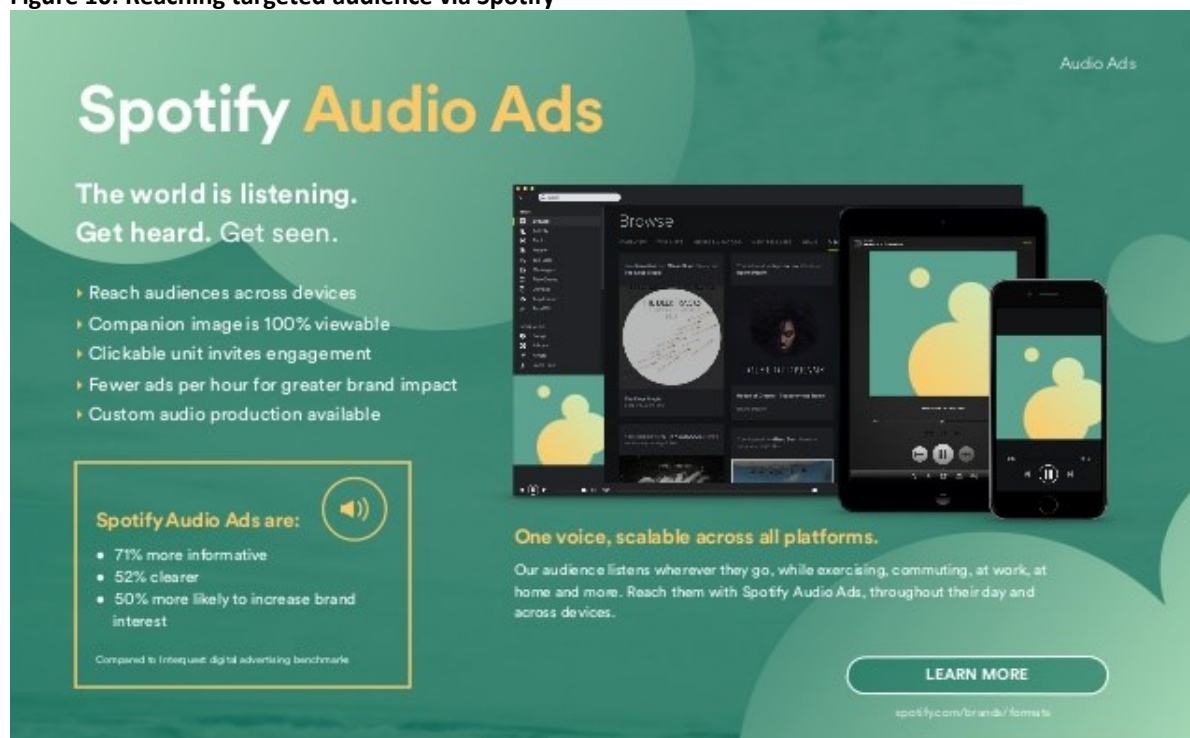
Figure 9: Malaysia offers more room to grow before catching up with the global trend



(a) Won official media reseller rights for a digital content platform (*Spotify* in Malaysia) in 1HFY18

- Enhanced its portfolio of media with the addition of digital media to its advertising channels.
- A boost to its media revenue and customer pool expansion.** Not only that this would connect S360 to a broader non-FMCG clientele base (*Spotify*'s existing customers), the contract will also provide S360's current customers (mostly FMCG) more opportunities to engage a younger audience.

Figure 10: Reaching targeted audience via Spotify



Source: Spotify for Brands Global Media Kit

(b) One app to rule them all

- *Shopwave* is the Group's self-developed mobile loyalty program.
- For shoppers, it is a hassle-free convenient option (it aggregated a group of retailers from a fragmented loyalty programmes landscape into one mobile app). It also enhances shopping experience as shoppers could obtain product information simply by scanning the product's bar code.
- For its retailers or brands, the app acts as a digital marketing tool and helps to drive online to in-store purchase. The app sends push notifications to shoppers about special offers and shoppers could purchase the deal in-app to redeem in-store. Its reward program enhances customer loyalty as well as promotes repeat visits.
- It currently offers brands and retailers to **white-label** and brands their very own loyalty platform using location-based technology. It plans to provide brand owners with the service of reaching shoppers through activation touchpoints (i.e. pop-up stores) using beacon technology.
- The app also enables data collection to analyse consumer behaviour, on which promotion or product appeals to them.

Shopwave is a proprietary app that engages shoppers with rewards in the form of "wave points" when shoppers purchase certain products or scan barcodes of certain products, thereby increasing brand awareness for its brand owners. Shoppers could redeem the points for gifts.

Figure 11: Shopwave mobile app



Source: Company

(c) Scaling up its digital and technological offerings on B2B application

11% interest on Boostorder, an automated sales ordering system

- *Boostorder* is a cross platform B2B commerce solutions provider. It is a common platform for automated sales ordering which helps customers to accelerate product deployment, promote sales and improve retail experience.
- The estimated market size in Malaysia for B2B software automation is c.MYR1.3bn with approximately 67,000 active businesses. *Boostorder* aims to convert at least 1% or RM13.5mn of the market into recurring revenue. Currently, *Boostorder* processes RM10mn worth of B2B sales orders monthly and helps 12,000 distributors manage and fulfil orders of more than 40,000 SKUs listed on its platform.

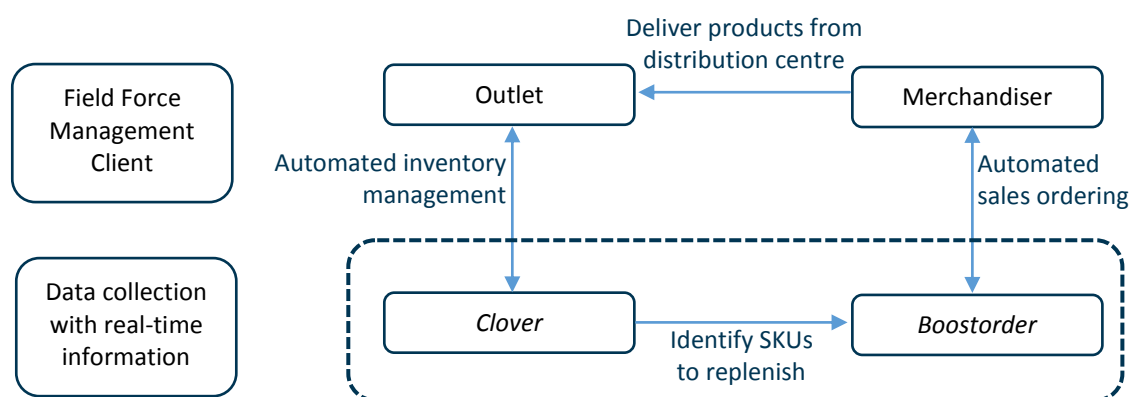
Complementary to its existing proprietary software

- *Clover* is the company's self-developed field force system, which automates operations management, data gathering and reporting. This Field force automation system provides near real-time information and ground reports to drive retail operations and facilitate strategic planning.
- The Group can now **offer end-to-end merchandising and sales services to its clients from Field force management segment**. Speed to market and sales optimization become more efficient through data collection from both merchandisers and promoters (see Figure 12).
- The systems also act as business intelligence tools for more insightful and informed decision at the retail floor – not only for the clients but also enhanced the Group's retail consulting capabilities.

Clover is its proprietary field force system developed in 2012.

It enables data collection in-field using smart devices daily, with data reaching customers' key stakeholders near real time on a daily basis. Such data relates to stocks and promotions display compliance with customers' plans, out of stock, stock expiry and competitor information (including competitors' pricing and competitors' share of shelf space).

Figure 12: Linking Clover with Boostorder will close the loop between merchandising and sales



Source: PSR

(d) Hype up customers' experience with latest marketing technology trends

- Customers' experience matters. By incorporating augmented reality technology, Gazelle Activation offers new and interactive consumer experience, thus effectively increase sales and raise brand awareness.

See Appendix 4 for some of the interesting marketing technology trends.

4. Supportive macro backdrop

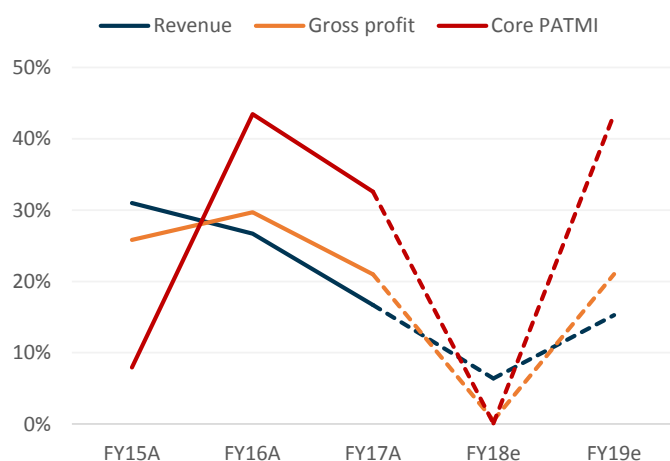
- Retail Group Malaysia expects retail sales in Malaysia to grow by 6% in 2018, spurred by post general election euphoria, higher trade and stronger Malaysia Ringgit.
- Expects higher demand for marketing and promotional activities.** Given the increasing need for shopper insights and planning, as well as intensifying competition, both brands and retailers are investing in shopper engagement and experience. FMCG companies are focusing more on sales promotional activities, product innovation and e-commerce to drive growth. Meanwhile, retailers are putting more effort in improving the in-store experience to drive foot traffic into their stores.
- The Group is well positioned to capture the 17mn shoppers in Peninsular Malaysia, via both online and offline. Based on 2016 survey conducted by the Group, it helps its clients to reach out to approximately 7 out of 10 shoppers in Malaysia.

Forecast Assumptions

We expect the new revenue streams from (a) Myanmar business operations, (b) newly acquired media concession rights for *Shell*, *MyNews* and *Spotify*; and (c) newly acquired contract as the creative agency for *Burger King*, would drive In-store advertising and digital marketing segment. These contracts will also improve its revenue mix, lifting its overall margins and thus its profitability in FY19e.

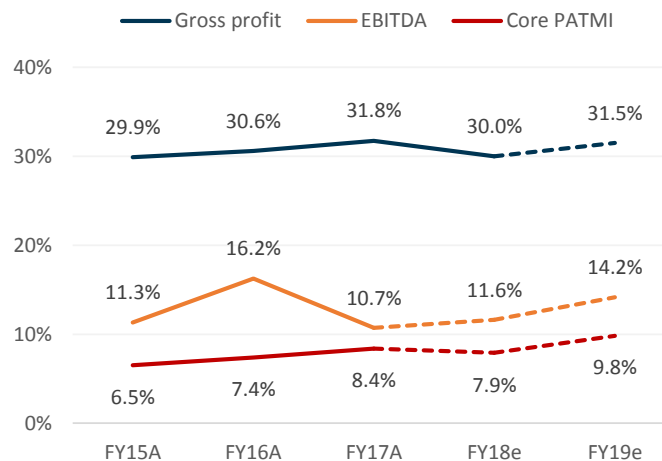
On the other hand, we also expect higher headcount in Myanmar and Singapore to weigh on its profitability for In-store advertising and digital marketing. Meanwhile, we believe that competitive pricing would keep margins from Field force management and Sampling activities and event management in check.

Figure 13: FY19e Earnings growth driven by new contracts



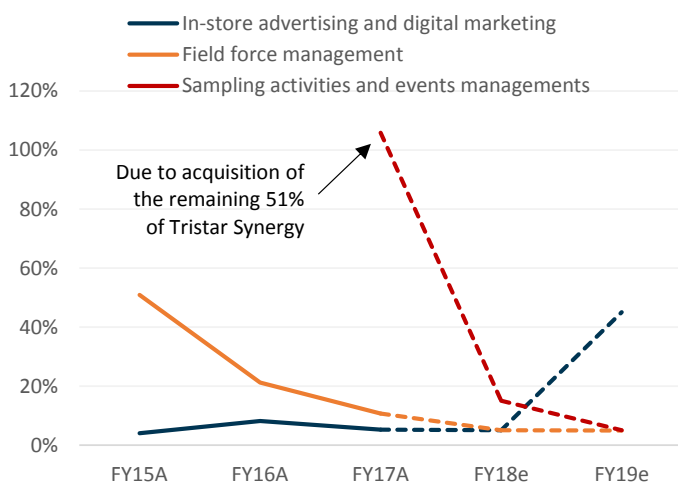
Source: Company, PSR

Figure 14: Margins improve on better sales mix



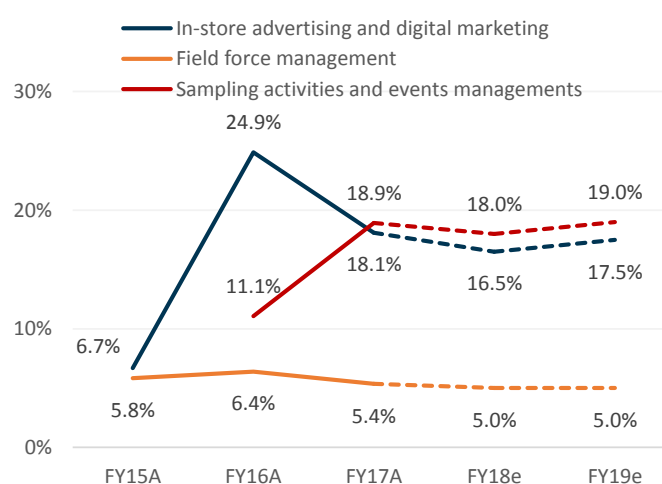
Source: Company, PSR

Figure 15: Higher contribution from In-store advertising and digital marketing; while growth from other business segments to normalize



Source: Company, PSR

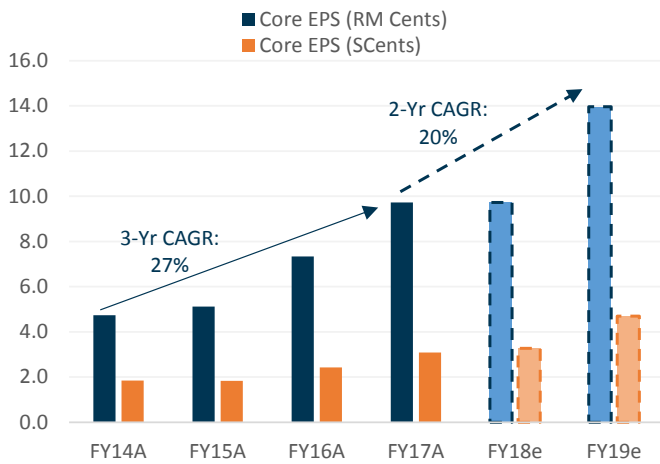
Figure 16: Potential margin pressures from headcount costs and competition



Source: Company, PSR

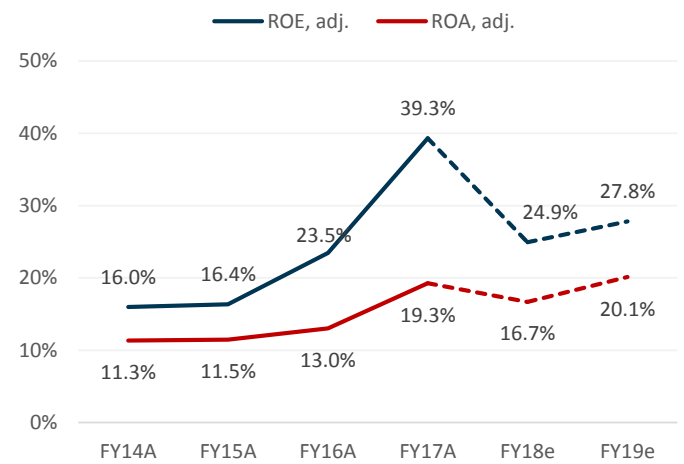
Figure 17: Core Earnings grew at 27% p.a. in FY14-17; and expected to grow at 20% p.a. in FY18-19

Figure 18: Double-digit ROE and ROA



Note: Core EPS excluded non-recurring items

Source: Company, PSR



Source: Company, PSR

Valuation

Initiate with a Trading Buy with a target price of S\$0.33, based on estimated 14.0 RM cents FY19 EPS (4.70 SCents) and forward PER of 7.0x. This implies an **upside of 87.0%** (with dividends) from its last closing price.

As there are no comparable listed peers in Malaysia and Singapore, we compared it against the 'Big 4' advertising agencies: Omnicom Group, WPP Group, Publicis Groupe, and Interpublic Group. We applied a 40% discount to its global peers' average forward PER, considering its smaller operating scale and higher liquidity risk.

Adjusting for the listing and listing related expenses, it is currently trading at trailing 12M P/E of 5.8, as compared its global peers' average trailing 12M P/E of 13.0x.

The Group is flushed with cash, ready for any potential acquisition or expansion opportunities. As at 30 Nov-17, with little debt, it stood at a net cash position of RM13.1mn, representing c.16% of its market cap.

The Group has no dividend policy, but it pledged to pay out at least 20% of its PATMI in FY17-18. It declared a dividend of 0.3 Singapore cents per share in FY17, implying c.20% payout based on EPS of 1.49 Singapore cents (Note: Adjusted FY17 EPS was at 3.21 Singapore cents). We expect FY18e dividend to be at least double of FY17's at 0.66 Singapore cents, in view of an improved earnings prospect.

Figure 19: Initiate with a S\$0.33 target price

Item	
EPS FY19e (RM Cents)	14.0
<i>FX rate: MYR/SGD</i>	<i>2.97</i>
EPS FY19e (SCents)	4.7
Market Cap Weighted Average P/E FY19e (ex. S360)	12.2
<i>40% Discount due to liquidity risk and smaller scale</i>	<i>7.3</i>
P/E multiple used	7.0
Target price (S\$)	0.33
FY19e dividends (S\$)	0.01
Closing price	0.18
Potential upside (ex. Dividend)	83.3%

Company	FYE	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA FY1	P/S FY1	EV/S FY1	P/E P/E	P/E FY1	P/B	Div Yield (%)	Net D/E (%)	ROE (%)
SHOPPER360 LTD	05/2017	21	16	n.a.	n.a.	n.a.	9.4	n.a.	2.2	1.7	Net Cash	16.1
Market Cap Weighted Average				8.4	1.2	1.4	13.0	12.2	3.5	3.8	32.1	26.6
Omnicom Group Inc	12/2017	22,757	26,806	8.3	1.1	1.3	14.5	13.3	6.5	3.1	39.3	46.6
Interpublic Group of Cos Inc/The	12/2017	12,126	14,448	8.9	1.2	1.4	16.9	13.7	4.3	3.3	23.4	26.7
WPP PLC	12/2017	27,908	36,859	8.1	1.0	1.4	8.6	10.5	1.7	4.8	45.0	19.3
Publicis Groupe SA	12/2017	20,882	22,047	8.4	1.4	1.5	15.1	12.4	2.2	3.5	12.1	14.4

Source: Bloomberg, PSR

Investment Risks

1. **Intensifying competition and increasing operating costs**, especially labour and rental costs could crimp profit growth.

Figure 20: Low barrier to entry

- Barriers include the need for a large pool of skilled personnel, operational efficiencies, track record, long standing business relationships, reputation and credibility
- Competition from local and global companies

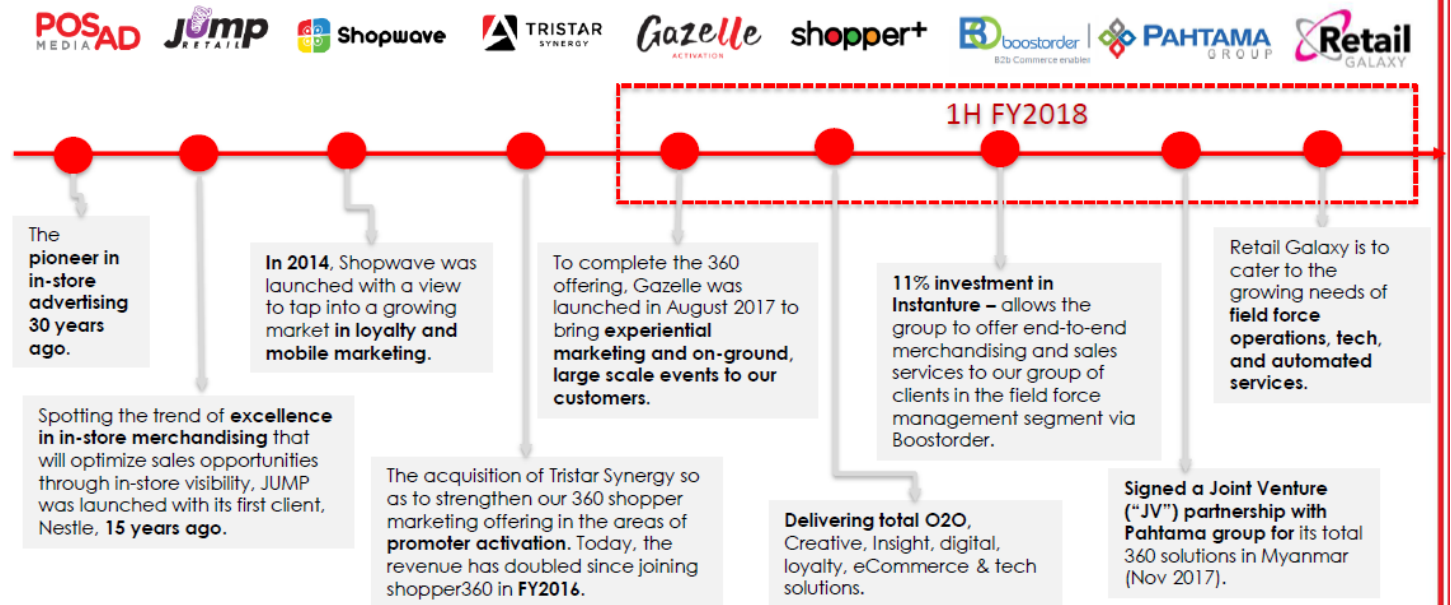
Business	Competitors in MY (primarily) & SG
In-store advertising	<ul style="list-style-type: none"> ▪ MagiqAds Sdn Bhd (under ActMedia, OMG Asia Group) ▪ Runcit Media Sdn Bhd
Field force management	<ul style="list-style-type: none"> ▪ Captivate Sdn Bhd ▪ DKSH Smollan Field Marketing (Malaysia) Sdn Bhd ▪ IMAXX Merchandising Sdn Bhd
Sampling activities and events management	<ul style="list-style-type: none"> ▪ ePromode Sdn Bhd ▪ Captivate Sdn Bhd ▪ Geometry Global Malaysia Sdn Bhd ▪ Forth Dimension Events Sdn Bhd

Source: Company

2. **Dependent on the network size of its retail partners.** The Group will not be able to acquire new contracts or customers if it fails to retain or expand its media channels.
3. **High customer concentration risk.** As mentioned, its major customers (e.g. Nestle, Samsung and Huawei) contribute >10% each to the Group's revenue. Cancellation, termination, or unfavourable renegotiation terms and conditions of concessions, franchises and key contracts could hurt the business operations.
4. **Foreign exchange risk: SGD against the functional currency of the Group, MYR.** S360's operational activities are substantially carried out in MYR in Malaysia.

APPENDIX 1: Company Milestones

Company Milestones



Source: Company

APPENDIX 2: Summary of Business Segment

Segment	Company	Description
In-store advertising and digital marketing	Pos Media	<ul style="list-style-type: none"> Provide in-store advertising services to brand owners of consumer products in its retail partners Securing media space from its retail partners and leases advertising space to the brand owners, recommend types of advertising mediums as well as provide necessary installation and maintenance services thereafter Provides design and content inputs for brand owners' advertising campaigns as a value-added service
	Shopper+	<ul style="list-style-type: none"> Automated field force reporting (PRISM, CLOVER) Mobile development Virtual Reality and Augmented Reality Shopwave mobile app (Loyalty Platform) – A proprietary app that engages shoppers with rewards in the form of “wave points” when shoppers purchase certain products or scan barcodes of certain products (to obtain product information), thereby increasing brand awareness for its brand owners; shoppers could redeem the points for gifts
Field force management	Jump Retail	<ul style="list-style-type: none"> Over 1,400 contract staff to ensure merchandises are replenished on time Merchandising itinerary and route scheduling POSM (Point-Of-Sale Materials) storage and allocation Provides recruitment and management of merchandisers (responsible for stock taking and product replenishment in stores), visual merchandisers (responsible for the display of products and marketing collaterals in stores) and field representatives (responsible for maintaining the relationship with retail partners) In-class training and field coaching Handles payroll for the merchandisers and field representatives on behalf of customers Clover field force automation system provides business intelligence to optimise business efficiency
	Retail Galaxy	<ul style="list-style-type: none"> To cater the demand for competitors of existing clients under Jump's portfolio (e.g. Fonterra in Jump vs Dutch Lady in Retail Galaxy)
Sampling activities and events management	Tristar Synergy	<ul style="list-style-type: none"> Recruiting, training and managing promoters for products Assist in securing event locations, rent warehouses and manage logistics Designs and produces merchandise which is given out as gifts for customers' sampling and promotion activities
	Gazelle Activation	<ul style="list-style-type: none"> Specialize in shopper activation

Source: Company

APPENDIX 3: Board of Directors

Name	Designation	Description
Chew Sue Ann	Executive Chairman and Group Managing Director	<ul style="list-style-type: none"> Appointed since 27 Dec-16, after being a Member of the board of directors of Pos Ad (2004), and Executive chairman of Pos Ad (2011) Daughter of the founder of the Group, the late Mr Raymond Chew Over 14 years of experience in consumer goods marketing Member of the board of directors of IACT College (2009), and the Executive Chairman of IACT College (2011-16) Brand Analyst in Temporal Brand Consulting Sdn Bhd (2004-05) Category Assistant Manager at Kraft Foods Singapore Pte Ltd (2011) Bachelor of Science in Business Administration from BIOLA University
James Ling Wan Chye	Executive Director – Corporate Finance and Strategy	<ul style="list-style-type: none"> Over 14 years of experience in corporate finance in PriceWaterhouseCoopers (New Zealand) and in Fonterra One of his key achievements was in releasing NZD\$200mil worth of cash over two years across the Fonterra business in the Asia Middle-East region Chartered Accountant (CAANZ)
Hew Koon Chan	Lead Independent Non-Executive Director	<ul style="list-style-type: none"> Process Engineer in Texas Instruments Singapore Pte Ltd (1986-88) Investment Analyst and rose through the ranks to become an investment director at Seavi Venture Services Pte Ltd (1988-2004) Established Integer Capital Pte Ltd in 2004 Presently sits on the boards of various SGX listed companies, namely Roxy-Pacific Holdings Ltd and Nordic Group Ltd, Far East Group Limited and DeClout Limited Bachelor of Engineering (Mechanical) from the National University of Singapore; Graduate Diploma in Financial Management from the Singapore Institute of Management; and Certified Diploma in Accounting and Finance from the Association of Chartered Certified Accountants (UK)
Zaffary Bin Ab Rashid	Non-Independent Non-Executive Director	<ul style="list-style-type: none"> 18 years of investment experience in KPF Currently a Non-Executive Director of Pos Ad; the Senior General Manager of Investments and Business at Koperasi Permodalan FELDA Malaysia Berhad; Non-executive director of Gold Coin (M) Group Sdn. Bhd., Felda Vegetable Oil Product Sdn Bhd, KPF Palm Oil Mill Sdn Bhd and Alternate Director of Plastic Centre Sdn Bhd BSc. in Economics and Finance from the Southern New Hampshire University, USA
Margaret Yong	Independent Non-Executive Director	<ul style="list-style-type: none"> Over 30 years of experience in the media and marketing industry Advertising Space Sales in Sin Chew Jit Poh (1975-83) Media Planner in Union45 Sdn Bhd (1983-91) Media Director in Saatchi & Saatchi (1991-98) Managing Director of CIA Medianetwork Malaysia Sdn Bhd, and CEO of MEC (1998-2006) Head of Media, Marketing and Facilities for Tune Group Sdn Bhd (2006-Current) Council member of the Malaysia National Publisher Association (MNPA) since 1990, and Council member of the Malaysian Media Specialist Association since 1998 Audit Chairman and Vice President of the Audit Bureau of Circulation (2010-12) Currently serving her 2 years term as the president of the Malaysia Advertisers Association Bachelor of Arts (Hons) from the University of Malaya
Wong Chin Chin	Independent Non-Executive Director	<ul style="list-style-type: none"> Over 25 years of experience in legal practice and is currently a partner at Messrs. Adnan Sundra & Low, a law firm in Malaysia Bachelor of Laws (Honours) from the University of Sydney, Australia Advocate & Solicitor of the High Court of Malaya since 1991

Source: Company

APPENDIX 4: Interesting marketing technology trends for retail

1. Digital signage

- Digital signage kiosks place across retail stores
- Provides shoppers up-to-date information and ongoing promotions, allows shoppers to print coupons on the promotional offerings running
- Provide retailers or brands centralized management of in-store product content and promotions, which will be automatically updated across stores

2. Beacon marketing

- Connects with consumers while they are in-store
- The indoor mobile marketing platform triggers messages and offers from the retailers and brands into the customer's smartphone while they are inside the store
- High targeting capability and helps drive sales as well as information to shoppers

3. Interactive touch display and sales assistance

- Act as virtual sales assistants that help shoppers in locating the brand and assisting with the offers and about the wide range available in the store

4. Image search

- Allow the shopper to search the merchandise assortment on the website of the store by taking and submitting a picture of the desired item. The visual search will take the customer to similar items on the retailer's website, where they can be purchased bridging the online and offline store environments.

5. Digital price tags

- Allows retailers to update the prices on the computer and roll out across the store
- Price changes are received through wireless from the store's network; it ensures that the price displayed on the shelf and the one called up at the checkout counter are the same.
- Allows the store to offer discounts without having to put a new price label

6. Smart fitting room / AR fitting room

- **Smart fitting room:** Allows customers to scan merchandise items to view colors and sizes available with the help of wall-mounted tablets inside the fitting room. Customers can tap a button to call for assistance from a sales associate without leaving the room, to request for another color or size in items they like.
- **Augmented Reality fitting room:** Helps shoppers try on makeup or clothes virtually. A mirror backed by a screen that can add elements to the reflection. The system can blend in a layer of makeup or superimpose an item of clothing. It can also completely change the background of the mirror, transporting users to whatever location. Controlled lighting in the blended reality room makes the reflections look more convincing.

7. Interactive wall or floor

- Create large interactive surfaces with a projection or any other display technology
- Sensors and gesture tracking software enable corporate and brand engagement using branded games and interactive effects

Financials

Income Statement

Y/E May, MYR mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	89.6	113.5	132.5	140.9	162.4
Gross profit	26.8	34.8	42.1	42.3	51.2
EBITDA	10.1	18.4	14.2	16.4	23.0
Depreciation & Amortisation	0.9	1.1	1.6	1.7	2.0
EBIT	9.2	17.3	12.6	14.7	21.0
Other items	-	-	-	-	-
Net Finance Inc/(Exp)	(0.02)	(0.03)	(0.01)	(0.03)	(0.01)
Profit Before Tax	9.2	17.3	12.6	14.7	21.0
Taxation	(3.0)	(3.6)	(4.2)	(3.5)	(5.0)
Profit - continuing operations	6.2	13.7	8.4	11.1	16.0
Profit - discontinued operation	0.6	0.4	(1.4)	-	-
Profit After Tax	6.8	14.1	7.0	11.1	16.0
- Non-controlling interest	0.0	0.8	1.8	-	-
PATMI, reported	6.7	13.3	5.1	11.1	16.0
PATMI, adj.	5.8	8.4	11.1	11.1	16.0

Per share data (MYR Cents)

Y/E May	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	5.89	11.63	4.50	9.74	13.97
EPS, adj.	5.11	7.33	9.72	9.73	13.96
DPS	-	-	0.95	1.95	2.79
BVPS	31.24	31.25	24.72	39.02	50.19

Per share data (SGD Cents)

Y/E May	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	2.11	3.84	1.43	3.28	4.70
EPS, adj.	1.83	2.42	3.08	3.27	4.70
DPS	-	-	0.30	0.66	0.94
BVPS	11.19	10.31	7.83	13.13	16.89

* Exchange rate (MYR/SGD) 2.79 3.03 3.16 2.97 2.97

Cash Flow

Y/E May, MYR mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	9.8	17.8	11.2	14.7	21.0
Adjustments	0.3	(3.9)	3.4	1.5	1.7
WC changes	(2.1)	(0.2)	(5.1)	(8.7)	(2.9)
Tax paid	(3.6)	(4.1)	(5.1)	(3.5)	(5.0)
Others	-	-	-	-	-
Cashflow from ops	4.3	9.6	4.4	3.9	14.8
CFI					
CAPEX, net	(1.6)	(3.8)	(2.2)	(2.4)	(2.8)
Others	5.9	12.7	2.0	0.2	0.2
Cashflow from investments	4.3	9.0	(0.3)	(2.2)	(2.5)
CFF					
Loans, net of repayments	(0.1)	(0.4)	(0.1)	(0.0)	(0.0)
Dividends	(5.1)	(6.0)	(16.1)	(9.8)	(3.2)
Others	(0.0)	(0.0)	(0.9)	15.0	(0.0)
Cashflow from financing	(5.3)	(6.4)	(17.0)	5.1	(3.2)
Net change in cash	3.4	12.2	(12.9)	6.9	9.0
CCE, end	8.2	20.4	7.5	14.4	23.4

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 May, MYR mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	5.0	5.3	5.6	6.3	7.1
Intangibles	0.5	2.5	2.5	2.5	2.5
Others	2.0	1.4	0.2	0.2	0.2
Total non-current assets	7.5	9.3	8.3	9.0	9.8
Accounts receivables	28.5	32.3	40.2	41.7	44.5
Cash	8.2	20.4	7.5	14.4	23.4
Inventories	0.03	0.14	-	0.01	0.01
Others	6.9	2.3	1.6	1.6	1.6
Total current assets	43.6	55.2	49.3	57.7	69.5
Total Assets	51.1	64.5	57.7	66.7	79.4
LIABILITIES					
Accounts payables	14.5	25.6	28.7	21.5	21.3
Short term loans	0.0	0.1	0.1	0.1	0.0
Others	-	0.6	0.4	0.4	0.4
Total current liabilities	14.6	26.3	29.2	21.9	21.8
Long term loans	0.2	0.1	0.1	0.0	0.0
Others	0.3	0.2	0.1	0.1	0.1
Total non-current liabilities	0.5	0.4	0.2	0.2	0.1
Total Liabilities	15.1	26.7	29.4	22.1	21.9
EQUITY					
Non-controlling interests	0.2	2.1	-	-	-
Shareholder Equity	35.7	35.8	28.3	44.6	57.4

Valuation Ratios

Y/E May	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	n.a.	n.a.	10.2	5.5	3.8
P/B (X)	n.a.	n.a.	4.0	1.4	1.1
EV/EBITDA (X), adj.	n.a.	n.a.	7.5	2.9	1.6
Dividend Yield (%)	0.0%	0.0%	1.0%	3.6%	5.2%

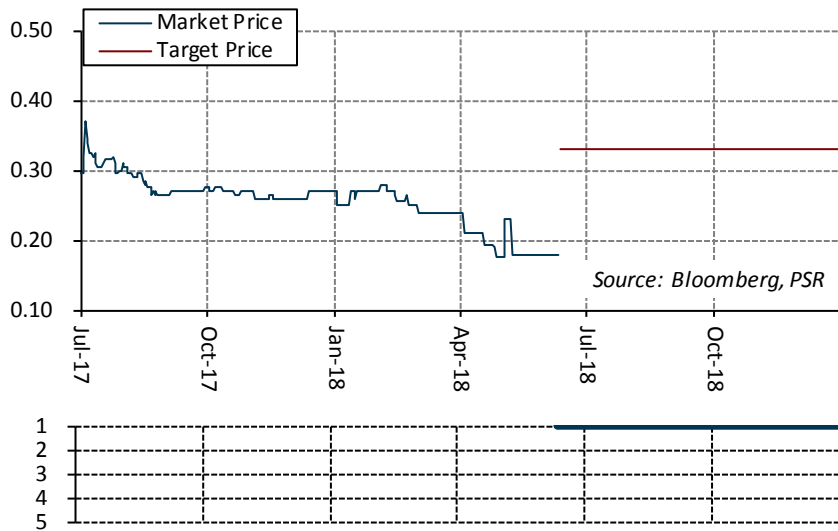
Growth & Margins (%)

Growth					
Revenue	31.0%	26.7%	16.7%	6.4%	15.3%
EBITDA	24.6%	82.0%	-23.1%	15.6%	40.3%
EBIT	28.3%	87.7%	-27.2%	16.6%	43.2%
Net profit, adj.	8.0%	43.5%	32.6%	0.1%	43.5%
Margins					
Gross margin	29.9%	30.6%	31.8%	30.0%	31.5%
EBITDA margin	11.3%	16.2%	10.7%	11.6%	14.2%
EBIT margin	10.3%	15.2%	9.5%	10.4%	13.0%
Net profit margin	6.5%	7.4%	8.4%	7.9%	9.8%

Key Ratios

ROE (%)	16.4%	23.5%	39.3%	24.9%	27.8%
ROA (%)	11.5%	13.0%	19.3%	16.7%	20.1%
Net Debt/(Cash)	(7.9)	(20.2)	(7.4)	(14.3)	(23.3)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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

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