Singapore

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity 5 Jul 2019

Singapore Airlines Group

Analyst

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No smoke without fire

- SIA Engineering's share price spike seems to be indicating the possibility of privatisation by parent SIA
- M&A/privatisation activities have gained momentum of late in the Singapore market
- SIA has enough firepower to effect the deal, which should be accretive to SIA at the right price
- Upgrade SIA Engineering stock to BUY with a revised TP of S$3.01, after factoring in privatisation premium

What's New

Privatisation chances back in focus. SIA Engineering's share price rose by more than 8% today on high volumes, closing at S$2.72. The stock's volatility was uncharacteristically high, which we believe could be fuelled by renewed talks of privatisation by parent Singapore Airlines (SIA). As discussed in our recent Group Research report "Spotlight on M&A", M&A and privatisation trends are back in the spotlight in the Singapore equity market of late. YTD in 2019, more than 10 companies have been privatised or are in the process of being bought out.

SIA Engineering's stock price has performed poorly of late, and could thus provide a value-for-money privatisation target for SIA. Over the last 12 months, SIA Engineering's share price has trended down 20% to S$2.51, before today's sharp rise. This was largely a result of uninspiring quarterly results and lower dividend expectations owing to challenging operating conditions for its core heavy maintenance segment amidst structural changes in the MRO industry.

Rationale for privatisation is pretty strong. SIA currently has close to 78% stake in its MRO unit, and the benefits of keeping SIA Engineering listed is not entirely apparent, given the low liquidity of the stock. Moreover, SIA Engineering does not really need to tap the equity capital markets for financing as it is a cash rich company, and does not have significant acquisitions under its belt. The company's operating results have also not been exciting of late, and returns to minority shareholders have thus been poor, with dividends falling y-o-y.

There are some advantages of remaining listed though. The separately listed status of SIA Engineering does provide it with an aura of independence. It can be argued that it is important for SIA Engineering to retain the perception of being an independent MRO provider as it has to bid for work from other airlines in addition to parent airline jobs. Roughly 40% of SIA Engineering's revenue is driven by non-SIA customers. But the question remains on how independent the market perceives it to be and whether it can continue to secure work solely on its superior capabilities and facilities despite its parent airline affiliation.

Pros and cons of SIA Engineering retaining listed status

Pros	• Perception of independence from parent airline group important to win third-party MRO work • Retains ability to tap markets for future investments needed to survive in changing MRO landscape
Cons	• Low free float and low trading liquidity • Absence of capital market transactions since listing • Have to incur listing-related costs • Loss of dividends to minority shareholders

Source: DBS Bank

At what price would a privatisation be likely to materialise? Based on our compiled data (see table below), companies that were privatised or delisted in the last three years were transacted at an average premium of about 15% over their last transacted price before the deal was announced. For deals announced in 2019, that average premium is around 20%. This premium is necessary to entice minority shareholders to liquidate and realise their entire investment, and it will depend on equity market conditions or the presence of alternative exit options for minority shareholders. In the recent past, for large-cap counters, we have seen privatisation premiums of 26% offered for M1 and a similar 26% offered for Indo Agri Resources. The most recent privatisation offer in the Singapore market, for steel trading company Hupsteel, involves a whopping 52% premium, which we believe is unlikely to materialise for SIA Engineering. Our best estimate is that the premium would be roughly 10-30% above last close, which would imply an offer price of between S$2.75 and S$3.26 per share.

Upgrade SIA Engineering to BUY, based on M&A/privatisation premium. We have been highlighting the possibility of SIA Engineering's share price benefitting from either a merger scenario with Singapore-based peer ST Aerospace or privatisation by parent SIA for a while (Details in our report "Sea of Change" dated 6 August 2015). This has been the key upside risk to our recent call on SIA Engineering and given that the possibility has re-emerged, we again impute a 20% privatisation premium in our TP, which is thus raised to S$3.01. Current valuations for SIE are at multi-year lows at about 17x forward PE and dividend yield is healthy at close to 4.5%. Hence, downside risks are limited even if the privatisation does not materialise.

A privatisation by SIA would be mildly positive for its earnings in the short term, though it may limit SIA Engineering's growth in the long term. On the other hand, it would allow SIA time and room to restructure or streamline SIA Engineering as needed. It would cost SIA S$748m to privatise SIA Engineering at S$3.01 per share for the remaining shares it does not already own (22.2%). Assuming cost of debt of 3% and six months' contribution in FYE Mar '20, this would provide a marginal uplift of 1% to SIA's FY20F earnings and 2% to its FY21F earnings.

Impact on SIA from SIE privatisation

SIA Engineering market cap (S$m)			
% free float			
Price as of close of business (S$) (on 3 July)	**2.51**		
Privatisation premium	**10%**	**20%**	**30%**
Privatisation price paid by SIA (S$ per share)	2.75	3.01	3.26
Privatisation price paid by SIA (S$m)	683	748	810
Impact to SIA (6 months contribution)			
FY20 Earnings pre-transaction	930	930	930
FY20 Earnings post-transaction	940	939	938
Earnings accretion (%)	1%	0.9%	0.8%
ROE pre-transaction	7.0%	7.0%	7.0%
ROE post-transaction	7.0%	7.0%	7.0%
Net gearing pre-transaction	60.7%	60.7%	60.7%
Net gearing post-transaction	65.3%	65.8%	66.2%

Source: DBS Bank estimates

Key privatisation and takeover deals announced (2017 – 2019 YTD)

Company	Date announced	Offer details	Offer price	Last close prior to offer	Premium/ (Discount)
Healthway Medical Corp	07-Feb-17	Voluntary cash offer by Lippo-linked group at S$0.042 per share.	S$0.042	S$0.040	5%
Auric Pacific	07-Feb-17	Privatization offer by controlling shareholder, (Riady family) at S$1.65 cash per share.	S$1.650	S$1.455	13%
Spindex (not successful)	09-Feb-17	Proposed privatisation of Spindex by founder via a Scheme of Arrangement at S$0.85 per share.	S$0.850	S$0.700	21%
Spindex	03-Mar-17	Scheme was terminated. Founder announced a mandatory general offer at S$0.85 per share, after crossing the 30% take-over threshold.	-	-	-
Spindex	03-Mar-17	Following the offer announcement, Star Engineering, a subsidiary of Northstar Equity Partners, announced a potential offer at higher than S$0.85 per share. However, Star Engineering did not put forward a firm offer or a specific offer price.	-	-	-
International Healthway Corp	16-Feb-17	Mandatory cash offer by major shareholder OUE at S$0.106 per share.	S$0.106	S$0.104	2%
Kingboard Copper Foil	03-Mar-17	1st attempt: Voluntary offer by the Kingboard Chemical group at S$0.40 cash per share.	S$0.400	S$0.340	18%
Nobel Design	02-May-17	Privatisation offer by CEO-led team at S$0.51 per share.	S$0.510	S$0.470	9%
United Engineers (lapsed)	13-Jul-17	Privatisation offer by Yanlord-led consortium at S$2.60 per share.	S$2.600	S$2.710	-4%
Global Logistics Properties	14-Jul-17	Privatisation by consortium at S$3.38 per share.	S$3.380	S$2.700	25%
Poh Tiong Choon Logistics	20-Sep-17	Founder made privatisation offer at S$1.30 per share.	S$1.300	S$1.280	2%
Rotary Engineering	02-Oct-17	Privatisation offer by Chairman at S$0.46 per share.	S$0.460	S$0.380	21%
Cogent Holdings	03-Nov-17	Privatisation offer by Cosco Shipping at S$1.02 per share.	S$1.020	S$0.970	5%
CWG International	28-Dec-17	Privatisation offer by Chairman and CEO at S$0.195 per share.	S$0.195	S$0.153	27%
Tat Hong Holdings	11-Jan-18	Privatisation offer by Group CEO and private equity fund at S$0.50 per share.	S$0.500	S$0.460	9%
Lee Metal Group	21-Feb-18	Offer by BRC Asia at S$0.42 per share.	S$0.420	S$0.410	2%
Tat Hong Holdings	26-Apr-18	Privatisation offer by Group CEO and private equity fund at revised offer price of S$0.55 per share.	S$0.550	S$0.460	20%
CH Offshore	10-Aug-18	Offer by Baker Technology at S$0.13 per share	S$0.130	S$0.130	0%
Delong Holdings	27-Sep-18	Offer by Chairman and CEO at S$7 per share	S$7.000	S$6.870	2%
M1	27-Sep-18	Privatisation offer by Konnectivity, jointly owned by Keppel Corp and SPH, at S$2.06 per share.	S$2.060	S$1.630	26%
Cityneon	29-Oct-18	Cash offer by founder Mr Ron Tan, together with Mr Johnson Ko, at S$1.30 per share	S$1.300	S$1.260	3%
Wheelock Properties	19-Jul-18	Cash offer by major shareholder and holding company, Wheelock & Co, at S$2.10 per share.	S$2.100	S$1.740	21%
PCI Ltd	04-Jan-19	Acquisition by global investment fund, Pagani Holdings, at S$1.33 per share.	S$1.330	S$1.040	28%
Declout	07-Jan-19	Voluntary offer by Kyowa, a leading Japanese conglomerate in the construction and supply of telecommunications infrastructure, electrical, civil and environmental engineering services, systems solutions and integration services, at S$0.13 per share	S$0.130	S$0.110	18%
Courts Asia	18-Jan-19	Voluntary offer by Nojima, an electrical appliance retail chain listed on the Tokyo Stock Exchange, at S$0.205 per share	S$0.205	S$0.152	35%
Fabchem	15-Mar-19	Mandatory cash offer at S$0.158 per share, after acquiring stake from substantial shareholder	S$0.158	S$0.158	0%
Challenger Technologies (lapsed)	20-Mar-19	Exit offer by founder at S$0.56 per share	S$0.560	S$0.530	6%
Kingboard Copper Foil	04-Apr-19	2nd attempt: Voluntary offer by the Kingboard Chemical group at S$0.60 cash per share.	S$0.600	S$0.550	9%
OUE Commercial REIT/OUE Hospitality Trust	08-Apr-19	Merger of OUE Commercial REIT and OUE Hospitality Trust	-	-	-
Indo Agri Resources (lapsed)	11-Apr-19	Privatisation offer by parent PT Indofood Sukses Makmur at S$0.28 per share. The offer price was raised to S$0.3275 per share. Despite the revision, the offer was lapsed with 88-08% acceptance, short of the 90% level for the deal to proceed.	S$0.328	S$0.260	26%
800 Super Holdings	06-May-19	Founder made privatisation offer at S$0.90 per share.	S$0.900	S$0.775	16%
JEP Holdings	13-May-19	Mandatory cash offer by UMS Holdings at S$0.15 per share, after increasing stake to 38.8%	S$0.150	S$0.156	-4%
Memtech International	14-May-19	Privatisation offer by founder at S$1.35 per share.	S$1.350	S$1.090	24%
Boardroom	15-May-19	Privatisation offer by major shareholder, GK Goh at S$0.88 per share.	S$0.880	S$0.770	14%
Millennium & Copthorne Hotels plc	07-Jun-19	Privatisation offer by major shareholder, City Developments at 685 pence per share.	685 pence	500 pence	37%
Hupsteel	28-Jun-19	Privatisation offer by founder at S$1.20 per share.	S$1.200	S$0.790	52%
Average Premium / (Discount) :-					
2017					12%
2018					10%
2019 (YTD)					20%
All (2017 - 2019 YTD)					15%

Source: DBS Bank, Bloomberg Finance L.P.

SIA Engineering

Version 17 | Bloomberg: SIE SP | Reuters: SIAE.SI

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DBS Group Research . Equity

5 Jul 2019

BUY Upgrade from HOLD

Last Traded Price (4 Jul 2019): S$2.72 (**STI :** 3,372.25)

Price Target 12-mth: S$3.01 (11% upside) (Prev S$2.60)

Analyst
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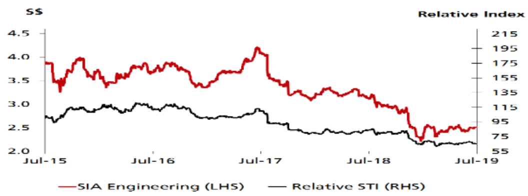
What's New

- Share price spike seems to indicate possibility of privatisation by parent SIA
- This is in line with the recent spurt of M&A/privatisation activities in Singapore
- SIA has enough firepower to effect the deal
- Upgrade to BUY with higher TP of S$3.01, which factors in privatisation premium

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2018A	2019A	2020F	2021F
Revenue	1,095	1,021	1,010	1,029
EBITDA	245	244	246	252
Pre-tax Profit	209	179	199	206
Net Profit	187	161	179	183
Net Pft (Pre Ex.)	170	180	179	183
Net Pft Gth (Pre-ex) (%)	(1.8)	5.5	(0.7)	2.6
EPS (S cts)	16.6	14.3	15.9	16.3
EPS Pre Ex. (S cts)	15.2	16.0	15.9	16.3
EPS Gth Pre Ex (%)	(2)	6	(1)	3
Diluted EPS (S cts)	16.5	14.2	15.8	16.2
Net DPS (S cts)	13.0	11.0	12.0	13.0
BV Per Share (S cts)	132	136	141	145
PE (X)	16.4	19.0	17.1	16.7
PE Pre Ex. (X)	17.9	17.0	17.1	16.7
P/Cash Flow (X)	56.3	40.6	46.8	33.1
EV/EBITDA (X)	10.7	10.6	10.5	10.1
Net Div Yield (%)	4.8	4.0	4.4	4.8
P/Book Value (X)	2.1	2.0	1.9	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.3	10.7	11.5	11.4
Earnings Rev (%):		0	0	0
Consensus EPS (S cts):		N/A	14.9	15.7
Other Broker Recs:		B: 2	S: 0	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Renewed optimism on privatisation

Upgrade to BUY in view of privatisation potential. We believe SIA Engineering (SIE) could be back in focus as a potential privatisation target. As discussed in our recent Group Research report "Spotlight on M&A", M&A and privatisation trends are revving up in the Singapore equity market of late. YTD in 2019, more than 10 companies have been privatised or are in the process of being bought out. Given SIE's rather uninspiring stock price performance over the last 12 months (down by about 20% to S$2.51, before today's sharp rise), parent SIA could thus view current valuations as attractive for privatisation. The rationale for privatisation is also pretty strong, in our view, as SIA currently has close to a 78% stake in its MRO unit, and the benefits of keeping SIE listed is not entirely apparent, given the low liquidity of the stock. Moreover, SIE does not really need to tap the equity capital markets for financing as it is a cash rich company, and does not have significant acquisitions under its belt. SIA would only need to fork out S$748m for the privatisation, and this would not affect its gearing too materially while being mildly earnings accretive.

Where we differ: Current valuations for SIE are at multi-year lows at about 17x forward PE and dividend yield is healthy at close to 4.5%. Hence, downside risks are limited even if the privatisation does not materialise. The stock is currently trading cum-dividend with an 8-Sct final dividend for FY19 to be paid out later in July.

Potential catalyst: Potential privatisation exercise by parent SIA could be the key near-term catalyst. Otherwise, upside could come from investments in JVs in the region or outright acquisitions, which offer immediate accretion to earnings.

Valuation:

Factoring in 20% privatisation premium to prevailing share price level, we arrive at a higher TP of S$3.01 for SIE and upgrade the stock to BUY.

Key Risks to Our View:

Downside risk from lack of corporate activities and worse-than-expected operating results in subsequent quarters.

At A Glance

Issued Capital (m shrs)	1,119
Mkt. Cap (Sm/USm)	3,044 / 2,245
Major Shareholders (%)	
Temasek Holdings Pte Ltd	77.7
Free Float (%)	22.3
3m Avg. Daily Val (US$m)	0.51
ICB Industry : Industrials / Industrial Transportation	

DBS
Live more, Bank less

WHAT'S NEW

Potential corporate activity in the offing?

Privatisation chances back in focus. SIE's share price rose by more than 8% today (4 July) on high volumes, closing at S$2.72. The volatility of the stock was uncharacteristically high, which we believe could be fuelled by renewed talks of privatisation by parent Singapore Airlines (SIA). As discussed in our recent Group Research report "Spotlight on M&A", M&A and privatisation trends are back in the spotlight in the Singapore equity market of late. YTD in 2019, more than 10 companies have been privatised or are in the process of being bought out.

SIE's stock price has performed poorly of late, and could thus provide a value-for-money privatisation target for SIA. Over the last 12 months, SIE's share price has trended down 20% to S$2.51, before today's sharp rise. This was largely a result of uninspiring quarterly results and lower dividend expectations owing to challenging operating conditions for its core heavy maintenance segment amidst structural changes in the MRO industry.

Rationale for privatisation is pretty strong. SIA currently has close to a 78% stake in its MRO unit, and the benefits of keeping SIE listed is not entirely apparent, given the low liquidity of the stock. Moreover, SIE does not really need to tap the equity capital markets for financing as it is a cash rich company, and does not have significant acquisitions under its belt. The company's operating results have also not been exciting of late, and returns to minority shareholders have thus been poor, with dividends falling y-o-y.

There are some advantages of remaining listed though. The separately listed status of SIE does provide it with an aura of independence. It can be argued that it is important for SIE to retain the perception of being an independent MRO provider as it has to bid for work from other airlines in addition to parent airline jobs. Roughly 40% of SIE's revenue is driven by non-SIA customers. But the question remains on how independent the market perceives it to be and whether it can continue to secure work solely on to its superior capabilities and facilities despite its parent airline affiliation.

Pros and cons of SIA Engineering retaining listed status

Pros	• Perception of independence from parent airline group important to win third-party MRO work • Retains ability to tap markets for future investments needed to survive in changing MRO landscape
Cons	• Low free float and low trading liquidity • Absence of capital market transactions since listing • Have to incur listing-related costs • Loss of dividends to minority shareholders

Source: DBS Bank

At what price would a privatisation be likely to happen?
Based on our compiled data, companies that were privatised or delisted in the last three years were transacted at an average premium of about 15% over their last transacted price before the deal was announced. For deals announced in 2019, that average premium is around 20%. This premium is necessary to entice minority shareholders to liquidate and realise their entire investment, and it will depend on equity market conditions or the presence of alternative exit options for minority shareholders.

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CRITICAL DATA POINTS TO WATCH

Critical Factors

Close to 60% of top line is driven by parent SIA. This is mainly due to legacy reasons, as SIE was born as the in-house MRO operations centre of SIA before it was independently listed in 2000. The growth and maintenance cycle of SIA's fleet therefore strongly impacts SIE's core businesses of Line Maintenance, Heavy Maintenance and Fleet Management.

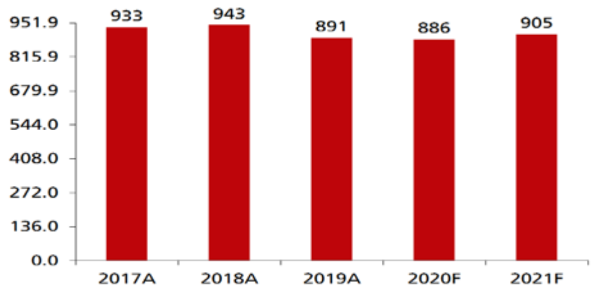
Line Maintenance division largely driven by Changi Airport traffic. SIE already captures around 80% of the line maintenance market at Changi Airport, and thus market share gains are unlikely. We estimate flights handled by SIE to grow by c.3% annually in FY20 and FY21. In the longer term, continued growth of Singapore as a tourism hub to the region and the addition of capacity via the upcoming Terminals 4 and 5, as well as expansion into other regions (e.g. recent moves into Japan) should help drive line maintenance revenues and earnings.

Heavy maintenance headwinds prevail in near term. The Heavy Maintenance segment faces headwinds due to the phasing in of newer aircraft with longer maintenance cycles and less need for maintenance by virtue of just being new; Base Maintenance annual revenues had declined by c.20% from FY13-FY17.

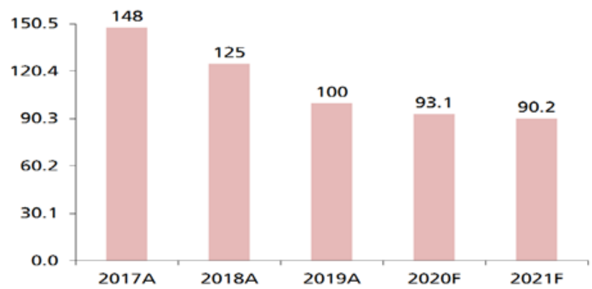
SIE's partnerships with airframe OEMs provide a first-mover advantage. SIE incorporated a fleet management JV with Boeing in 2015, and in 2016 inked another airframe MRO JV with Airbus. These deals will give SIE a strong foothold in securing fleet management and MRO work in Asia Pacific derived from the airframe OEM's total care programmes, which have been gaining traction with airlines. While MRO providers now have to carve out some of the pie to airframe OEMs, SIE's JV agreements are a bet that the volumes allocated to the JVs will more than offset the sharing of profits. By positioning itself as an OEM partner early in the game, SIE should benefit in the long term from the territorial exclusivity granted to it.

JVs/associates contribute roughly 55-60% to the bottom line. SIE has 26 associates and JVs in eight countries, with engine overhaul centres comprising the bulk of JV/associate revenues. The phasing out of older generation engine models and extended maintenance intervals for their successors was a dampener initially for SIE's key engine MRO centres Eagle Services Asia and SAESL. But of late a resurgence in the engine MRO cycle and additional workload from the problematic Trent 1000 engines have boosted the profits of the engine shops.

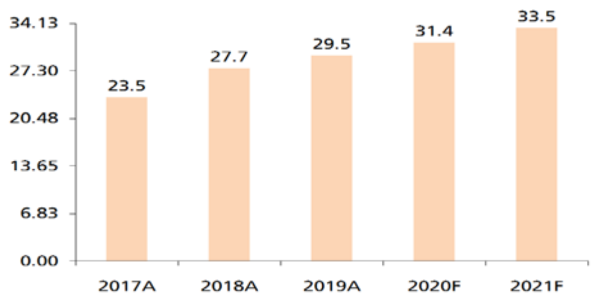
Airframe overhaul and line maintenance revenue



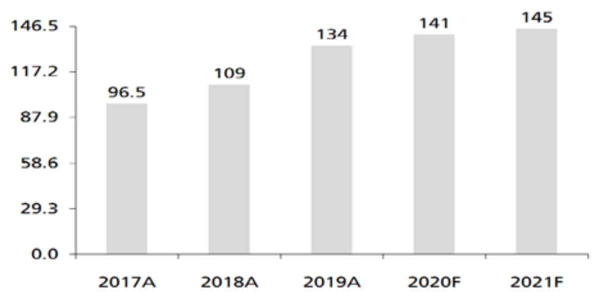
Fleet management revenue



Engine & component revenue



Profit from associates & JVs



Source: Company, DBS Bank

Balance Sheet:

Balance sheet provides headroom for investments and M&A. SIE is currently in a net cash position with about S$502m of net cash reserves on its balance sheet as at end-FY19. Thus, should attractive opportunities arise, SIE could utilise its cash reserves for investments in JVs or outright M&A, which could help drive long-term growth.

Share Price Drivers:

Privatisation and other corporate activities are catalysts. Given the structural challenges in the heavy maintenance industry, SIA's share price has remained fairly weak over the last two years. Given the lacklustre returns to minority shareholders, it could be worthwhile for parent SIA to consider privatising SIE at current low valuation levels, and focus its energy on using SIE's strong balance sheet and cash flows into other complementary businesses if SIE's core MRO business is not yielding the desired returns. A combination of SIE and ST Aerospace is also possible, to consolidate Singapore's credentials as an aviation hub, and realise synergies in the form of bigger scale, cost efficiencies and breadth of offerings, but looks less probable at this stage.

Key Risks:

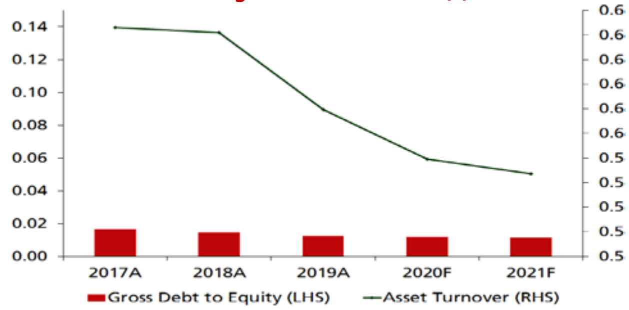
Continued erosion of heavy maintenance revenues. As newer aircraft – with longer check intervals and lower man-hours required overall, owing to hardier aluminium/composite materials used in airframes and interiors – continue to account for a larger proportion of the global fleet, there is a risk that SIE does not capture a large enough share of the growing Asia Pacific fleet, which would ideally serve to offset the declining MRO revenue from these newer aircraft.

Competition risk: MROs in neighbouring countries, which incurs lower labour costs than SIE, are investing in new capacity. Also, new JVs and associates, such as the Boeing fleet management JV, carry the risk of cannibalising some of the group's existing revenue lines, which could slow growth.

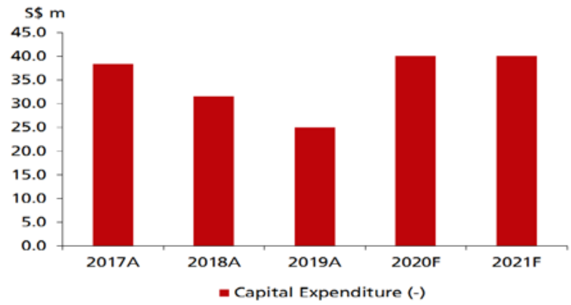
Company Background

SIA Engineering (SIE) is a leading regional aircraft maintenance, repair and overhaul (MRO) company with bases in Singapore and Philippines. A comprehensive cluster of JVs with renowned OEMs allows it to provide a full suite of MRO services.

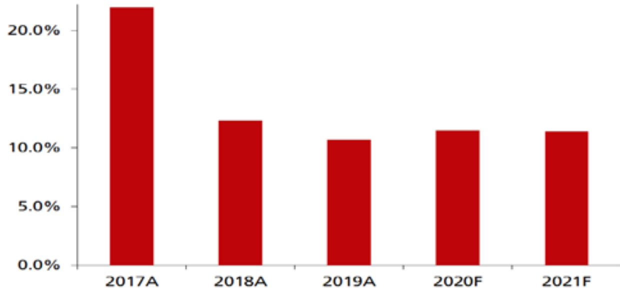
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenues (S$m)					
Airframe overhaul and	933	943	891	886	905
Fleet management	148	125	100	93.1	90.2
Engine & Component	23.5	27.7	29.5	31.4	33.5
Total	1,104	1,095	1,021	1,010	1,029

Income Statement (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenue	1,104	1,095	1,021	1,010	1,029
Cost of Goods Sold	(1,011)	(1,016)	(964)	(959)	(975)
Gross Profit	**93.3**	**78.8**	**56.8**	**51.5**	**53.5**
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	**93.3**	**78.8**	**56.8**	**51.5**	**53.5**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	96.5	110	134	141	145
Net Interest (Exp)/Inc	6.40	4.10	7.10	7.10	7.31
Exceptional Gain/(Loss)	159	16.1	(18.9)	0.0	0.0
Pre-tax Profit	**355**	**209**	**179**	**199**	**206**
Tax	(17.9)	(21.1)	(18.1)	(19.9)	(20.6)
Minority Interest	(4.8)	(1.2)	(0.1)	(1.0)	(2.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**332**	**187**	**161**	**179**	**183**
Net Profit before Except.	174	170	180	179	183
EBITDA	243	245	244	246	252
Growth					
Revenue Gth (%)	(0.8)	(0.8)	(6.8)	(1.0)	1.8
EBITDA Gth (%)	0.0	0.9	(0.2)	0.6	2.5
Opg Profit Gth (%)	(10.6)	(15.5)	(27.9)	(9.3)	3.7
Net Profit Gth (Pre-ex) (%)	(4.1)	(1.8)	5.5	(0.7)	2.6
Margins & Ratio					
Gross Margins (%)	8.5	7.2	5.6	5.1	5.2
Opg Profit Margin (%)	8.5	7.2	5.6	5.1	5.2
Net Profit Margin (%)	30.1	17.0	15.8	17.7	17.8
ROAE (%)	22.0	12.3	10.7	11.5	11.4
ROA (%)	17.9	10.1	8.8	9.5	9.5
ROCE (%)	5.5	4.4	3.2	2.8	2.9
Div Payout Ratio (%)	60.9	78.4	76.9	75.6	79.8
Net Interest Cover (x)	NM	NM	NM	NM	NM

Weakness in operating margins owing to lower revenues (operating leverage effect)

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	276	258	251	256	256
Cost of Goods Sold	(255)	(248)	(240)	(240)	(237)
Gross Profit	**21.2**	**10.2**	**11.3**	**15.9**	**19.4**
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	**20.6**	**10.2**	**11.3**	**15.9**	**19.4**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	25.0	32.4	30.0	39.4	32.3
Net Interest (Exp)/Inc	1.10	1.50	1.80	1.80	2.00
Exceptional Gain/(Loss)	15.2	0.0	0.10	(18.9)	(0.1)
Pre-tax Profit	**61.9**	**44.1**	**43.2**	**38.2**	**53.6**
Tax	(6.3)	(3.5)	(4.9)	(4.6)	(5.1)
Minority Interest	(0.6)	(0.1)	(0.3)	(0.5)	0.80
Net Profit	**55.0**	**40.5**	**38.0**	**33.1**	**49.3**
Net profit bef Except.	39.8	40.5	37.9	52.0	49.4
EBITDA	60.3	56.3	54.6	68.6	64.8
Growth					
Revenue Gth (%)	2.0	(6.8)	(2.5)	1.8	0.0
EBITDA Gth (%)	(18.2)	(6.6)	(3.0)	25.6	(5.5)
Opg Profit Gth (%)	9.6	(50.5)	10.8	40.7	22.0
Net Profit Gth (Pre-ex) (%)	(27.6)	1.8	(6.4)	37.2	(5.0)
Margins					
Gross Margins (%)	7.7	4.0	4.5	6.2	7.6
Opg Profit Margins (%)	7.5	4.0	4.5	6.2	7.6
Net Profit Margins (%)	19.9	15.7	15.1	12.9	19.3

Balance Sheet (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	316	288	261	247	234
Invts in Associates & JVs	542	544	559	586	614
Other LT Assets	65.3	67.7	60.4	60.4	60.4
Cash & ST Invts	602	500	522	537	571
Inventory	147	230	220	246	251
Debtors	87.5	70.9	81.2	80.4	81.8
Other Current Assets	142	104	143	143	143
Total Assets	**1,901**	**1,804**	**1,845**	**1,900**	**1,955**
ST Debt	4.00	4.60	6.70	6.70	6.70
Creditor	250	222	220	217	221
Other Current Liab	24.9	20.6	19.3	20.7	21.4
LT Debt	21.9	17.3	12.6	12.6	12.6
Other LT Liabilities	26.4	24.2	23.1	23.1	23.1
Shareholder's Equity	1,540	1,484	1,529	1,583	1,632
Minority Interests	34.0	31.3	35.4	36.4	38.4
Total Cap. & Liab.	**1,901**	**1,804**	**1,845**	**1,900**	**1,955**
Non-Cash Wkg. Capital	101	162	205	232	233
Net Cash/(Debt)	576	478	502	518	552
Debtors Turn (avg days)	29.5	26.4	27.2	29.2	28.8
Creditors Turn (avg days)	91.0	89.8	88.5	88.0	86.8
Inventory Turn (avg days)	57.5	71.6	90.1	93.9	98.5
Asset Turnover (x)	0.6	0.6	0.6	0.5	0.5
Current Ratio (x)	3.5	3.7	3.9	4.1	4.2
Quick Ratio (x)	2.5	2.3	2.5	2.5	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	147.9	144.3	129.5	207.3	207.3
Z-Score (X)	8.4	8.2	8.1	8.1	8.1

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	355	209	179	199	206
Dep. & Amort.	52.8	56.3	53.4	53.5	53.5
Tax Paid	(20.4)	(19.2)	(21.2)	(18.5)	(19.9)
Assoc. & JV Inc/(loss)	(96.5)	(110)	(134)	(141)	(145)
Chg in Wkg.Cap.	29.7	(71.4)	(19.0)	(28.4)	(2.0)
Other Operating CF	(189)	(10.4)	17.2	0.0	0.0
Net Operating CF	132	54.3	75.4	65.3	92.3
Capital Exp.(net)	(38.3)	(31.6)	(25.0)	(40.0)	(40.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	3.80	(11.1)	2.10	0.0	0.0
Div from Assoc & JV	62.4	105	108	114	117
Other Investing CF	196	1.60	(2.4)	0.0	0.0
Net Investing CF	224	63.5	82.9	73.6	77.0
Div Paid	(135)	(202)	(134)	(124)	(135)
Chg in Gross Debt	(8.7)	(2.4)	(3.4)	0.0	0.0
Capital Issues	0.0	(7.4)	0.0	0.0	0.0
Other Financing CF	(6.1)	(4.6)	0.20	0.0	0.0
Net Financing CF	(150)	(216)	(138)	(124)	(135)
Currency Adjustments	2.30	(3.9)	1.10	0.0	0.0
Chg in Cash	208	(102)	21.9	15.2	34.4
Opg CFPS (S cts)	9.08	11.2	8.40	8.33	8.39
Free CFPS (S cts)	8.32	2.02	4.48	2.25	4.65

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Jul 18	3.20	3.92	BUY
2:	12 Nov 18	2.81	2.94	HOLD
3:	11 Feb 19	2.39	2.70	HOLD
4:	14 May 19	2.42	2.60	HOLD
5:	25 May 19	2.41	2.60	HOLD

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Suvro Sarkar

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 5 Jul 2019 07:46:09 (SGT)
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