

# 800 Super Holdings Ltd

Transitional pains



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SINGAPORE | INDUSTRIALS | 1Q19 RESULTS

13 November 2018

- Revenue 4.6% lower than expected, PATMI 51% lower than estimate
- We under-estimated the purchase of supplies and disposal charge by 23%
- Returned to profit after 4Q18 surprise loss; underpinned by QoQ improvement in core business
- Downgrade to Neutral; new target price of \$0.80 (previously \$1.03) as we slash FY19e and FY20e earnings estimate by 45% and 43% respectively

## Results at a glance

(SGD mn)	1Q19	1Q18	YoY	Comments
Revenue	43.0	40.0	+7.6%	Contributions from Pasir Ris-Bedok contract, Iwash Laundry, biomass plant and sludge treatment plant
EBITDA	5.67	7.56	-25.1%	15% higher variable cost out-paced revenue growth, resulted in lower margin of 13.2% from 18.9%
EBIT	2.55	5.30	-51.8%	16% higher opex out-paced revenue growth, resulted in lower margin of 5.9% from 13.2%
PATMI	1.74	4.40	-60.4%	Lower margin of 4.0% from 11.0%

Source: Company, PSR

## The Positives

- Sequential improvement in EBITDA, indicating that utilisation of fixed assets has picked-up.** EBITDA increased QoQ by \$3.70mn to \$5.67mn, but fixed depreciation increased QoQ by only \$62,000 to \$3.12mn. Recall that there was a surprise loss in 4Q FY18 due to ramp-up phase of new projects. Nonetheless, EBITDA is still lower YoY, because of new projects that are coming online now, that were not present a year ago.
- Employee benefits expense kept under control.** Labour is the largest cost component (49% of opex), and it was 1.6% lower YoY despite the higher revenue. The Company attributed this to labour productivity.
- Pasir Ris-Bedok Public PWC contract has begun contributing.** The Pasir Ris-Bedok public waste collection (PWC) sector is an amalgamation of the former Pasir Ris-Tampines and Bedok sectors. 800 Super took over the Pasir Ris-Tampines sector since July 2018, and contributed under \$3mn of revenue this quarter by our estimate. Subsequent to the quarter, 800 Super has taken over the Bedok sector in November, which would contribute ~\$2mn additional revenue by our estimate, in 2Q FY19.

## The Negatives

- Higher than expected purchase of supplies and disposal charge.** The increase in this cost item had out-paced revenue growth in both absolute and percentage terms. It grew \$4.3mn or +75% YoY. We expect this expense item to remain elevated, as the Bedok PWC sector kicks-in November onwards.
- YoY margins compression as projects are starting-up and not fully contributing.** We understand that the sludge treatment plant is about 50% utilised, and consequently, the biomass plant is also not operating at full capacity. The energy generated by the biomass plant is used to power the sludge treatment plant. Utilisation of the biomass plant will increase in tandem with power demand from the sludge treatment facility as volumes increase. We believe that Iwash is an additional source of drag to margins, as it is currently not performing well.
- YoY weaker balance sheet, but expected.** Debt/equity ratio increased substantially YTD from 1.05 times to 1.24 times. We see the debt/equity ratio improving sequentially due to back-loaded revenue recognition as projects ramp-up during the FY. We expect a lower debt/equity ratio of 1.17 times by 4Q FY19. Current ratio has actually improved YTD from 0.84 times to 0.98 times, albeit remaining in a net current liability position. We also expect short-term liquidity returning to net current asset position.

## Neutral (Downgraded)

LAST CLOSE PRICE	SGD 0.79
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.80
TOTAL RETURN	3.8%

## COMPANY DATA

BLOOMBERG CODE:	ESH SP
O/S SHARES (MN):	178.8
MARKET CAP (USD mn / SGD mn):	102 / 140
52 - WK HI/LO (SGD):	128 / 0.6
3M Average Daily T/O (mn):	0.25

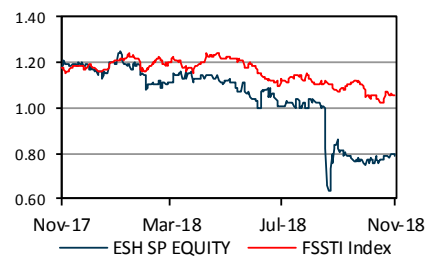
## MAJOR SHAREHOLDERS (%)

YONG SEONG INVESTMENT PTE	67.6%
KOH YONG LEE	2.8%
HOCK SEONG LEE	2.8%
CHENG CHYE LEE	2.4%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	7.3	(19.0)	(31.3)
STIRETURN	(2.7)	(6.7)	(6.8)

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Jun	FY 17	FY 18	FY 19e	FY 20e
Revenue (SGD mn)	57	51	81	86
PATMI (SGD mn)	17.1	9.2	7.9	8.3
EPS (cents)	9.58	5.12	4.40	4.65
P/E, adj. (x)	13.8	20.7	17.8	16.9
BVPS (cents)	45.1	46.8	50.0	53.2
P/B (x)	2.93	2.26	1.57	1.48
DPS (cents)	4.0	1.0	1.5	2.0
Div. Yield (%)	3.0	0.9	1.9	2.5

Source: Company Data, PSR est.

## VALUATION METHOD

DCF (WACC: 6.9%; Terminal g: 15%)

Richard Leow, CFA, CFTe, FRM (+65 6212 1848)

Research Analyst

richardleowwt@phillip.com.sg

## Outlook

The outlook for FY19 is muted. In our recent reports, we had been stating our expectation of near-term PATMI weakness due to transitional ramp-up of new projects. Despite the additional revenue recognition, margins expansion has not been as rapid as we had expected. Integration downtime is also likely to arise for the new Tuas South laundry plant (refer to Appendix). However, we do see a *general* trend of improving margins and cash-flow in the coming quarters, though not necessarily sequentially. We expect earnings this year to be lower than last year, but maintain our forecast of 1.5 cent full year dividend (higher than last year's 1 cent) in view of the better cash-flow.

The outlook for FY20 is positive. We expect an earnings recovery in FY20. Cash-flow to improve significantly due to the high-operating leverage (significant non-cash adjustment for depreciation), coupled with the significant reduction in capex. Ending cash balance to increase significantly, raising the possibility of a much higher dividend declared in FY20. We forecast 2 cents dividend for FY20, but hold the belief that the Company has the *ability* to declare 4 cents dividend in FY20.

## Downgrade from BUY to Neutral; new target price of \$0.80 (previously \$1.03)

We raise our estimates for purchase of supplies and disposal charge. Our FY19e and FY20e earnings estimates are consequently slashed by 45% and 43% respectively. Our target price gives an implied FY19e forward P/E multiple of 18.2x.

## Appendix

According to the FY18 Annual Report, the Group has made capital commitments to construct a laundry plant at Tuas West. It is expected to commence operations in 3Q FY19. We understand that capex is between \$7mn and \$8mn. The laundry plant will make use of automation to be manpower-lean; and will utilise steam energy from the sludge treatment plant for the laundry process. The laundry plant will focus on the hospitality sector, tapping on the trend of hotels outsourcing its laundry requirements.

## Financials

### Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Revenue</b>	<b>156.4</b>	<b>156.9</b>	<b>151.1</b>	<b>181.2</b>	<b>186.5</b>
Other income	0.4	0.4	0.5	0.4	0.4
<b>EBITDA</b>	<b>27.9</b>	<b>30.6</b>	<b>22.9</b>	<b>24.2</b>	<b>25.2</b>
Depreciation & Amortisation	(8.2)	(9.0)	(10.1)	(13.5)	(14.1)
<b>EBIT</b>	<b>19.7</b>	<b>21.6</b>	<b>12.8</b>	<b>10.7</b>	<b>11.1</b>
Net Finance (Expense)/Inc	(1.0)	(0.7)	(0.8)	(1.6)	(1.6)
Other items	(0.13)	(0.10)	(0.20)	(0.04)	-
<b>Profit Before Tax</b>	<b>18.6</b>	<b>20.8</b>	<b>11.7</b>	<b>9.1</b>	<b>9.5</b>
Taxation	(1.9)	(3.7)	(2.6)	(1.2)	(1.2)
<b>Profit After Tax</b>	<b>16.7</b>	<b>17.1</b>	<b>9.1</b>	<b>7.8</b>	<b>8.3</b>
- Non-controlling interest	-	(0.03)	(0.04)	(0.04)	(0.03)
<b>PATMI</b>	<b>16.7</b>	<b>17.1</b>	<b>9.2</b>	<b>7.9</b>	<b>8.3</b>

### Per share data (cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS	9.36	9.58	5.12	4.40	4.65
DPS	2.50	4.00	1.00	1.50	2.00
BVPS	39.39	45.09	46.82	50.05	53.15

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Net income	16.7	17.1	9.1	7.8	8.3
Adjustments	11.3	13.4	14.1	16.3	16.9
WC changes	7.5	2.5	(5.0)	(1.2)	(0.2)
Cash generated from ops	35.5	33.0	18.2	23.0	25.0
Others	(2.8)	(3.4)	(2.4)	(2.8)	(2.8)
<b>Cashflow from ops</b>	<b>32.7</b>	<b>29.6</b>	<b>15.8</b>	<b>20.2</b>	<b>22.2</b>
<b>CFI</b>					
CAPEX, net	(12.9)	(24.6)	(56.1)	(33.2)	(5.6)
Others	(0.03)	(0.35)	(5.46)	-	-
<b>Cashflow from investments</b>	<b>(12.9)</b>	<b>(24.9)</b>	<b>(61.5)</b>	<b>(33.2)</b>	<b>(5.6)</b>
<b>CFF</b>					
Share issuance, net	-	0.02	-	-	-
Loans, net of repayments	(5.6)	6.0	32.5	16.0	(5.0)
Dividends	(3.6)	(6.3)	(5.4)	(1.8)	(2.7)
Others	-	-	(0.9)	-	-
<b>Cashflow from financing</b>	<b>(9.1)</b>	<b>(0.3)</b>	<b>26.3</b>	<b>14.2</b>	<b>(7.7)</b>
<b>Net change in cash</b>	<b>10.7</b>	<b>4.4</b>	<b>(19.5)</b>	<b>1.2</b>	<b>9.0</b>
Effects of exchange rates	(0.1)	0.1	(0.0)	-	-
<b>CCE, end</b>	<b>20.6</b>	<b>25.1</b>	<b>5.6</b>	<b>6.8</b>	<b>15.7</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

### Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	84	99	166	186	177
Others	1	1	1	1	1
<b>Total non-current assets</b>	<b>85</b>	<b>101</b>	<b>167</b>	<b>187</b>	<b>179</b>
Trade receivables	34	30	35	42	43
Cash	21	25	6	7	16
Others	2	2	2	2	2
<b>Total current assets</b>	<b>56</b>	<b>57</b>	<b>42</b>	<b>51</b>	<b>61</b>
<b>Total Assets</b>	<b>141</b>	<b>158</b>	<b>210</b>	<b>238</b>	<b>239</b>
<b>LIABILITIES</b>					
Trade payables	21	20	32	38	39
Short term loans	11	11	19	2	2
Others	3	3	1	1	1
<b>Total current liabilities</b>	<b>35</b>	<b>34</b>	<b>52</b>	<b>41</b>	<b>42</b>
Long term loans	35	41	71	104	99
Others	1	2	4	4	4
<b>Total non-current liabilities</b>	<b>36</b>	<b>43</b>	<b>74</b>	<b>107</b>	<b>102</b>
<b>Total Liabilities</b>	<b>71</b>	<b>77</b>	<b>126</b>	<b>148</b>	<b>144</b>
<b>EQUITY</b>					
Non-controlling interests	-	(0)	(0)	(0)	(0)
<b>Shareholder Equity</b>	<b>70</b>	<b>81</b>	<b>84</b>	<b>90</b>	<b>95</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (x), adj.	7.3	13.8	20.7	17.8	16.9
P/B (x)	1.7	2.9	2.3	1.6	1.5
EV/EBITDA (x), adj.	5.3	8.6	11.9	9.9	8.9
Dividend Yield (%)	3.7	3.0	0.9	1.9	2.5

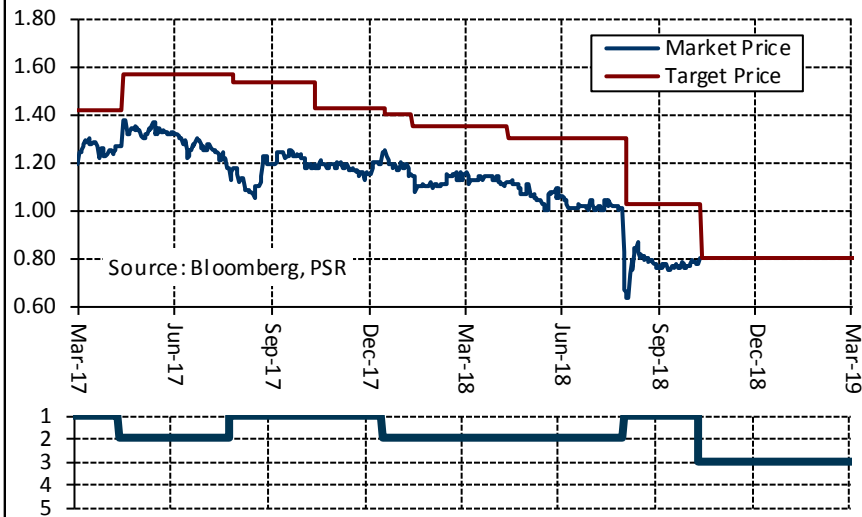
### Growth & Margins (%)

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth</b>					
Revenue	11.5%	0.3%	-3.7%	19.9%	2.9%
EBITDA	3.2%	9.6%	-25.3%	5.7%	4.3%
EBIT	-1.6%	9.4%	-40.8%	-16.6%	4.0%
Net Income	37.6%	2.3%	-46.5%	-14.1%	5.7%
<b>Margins</b>					
EBITDA margin	17.9%	19.5%	15.1%	13.3%	13.5%
EBIT margin	12.6%	13.8%	8.5%	5.9%	5.9%
Net Profit Margin	10.7%	10.9%	6.1%	4.3%	4.5%

### Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE (%)	26.2%	22.7%	11.1%	9.1%	9.0%
ROA (%)	12.7%	11.4%	5.0%	3.5%	3.5%
Debt-to-Equity (x)	0.65	0.65	1.06	1.17	1.05
Net Debt or (Net Cash)	25.2	26.9	83.5	98.3	84.3
Net Gearing (x)	0.36	0.33	1.00	1.10	0.89

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

## Contact Information (Singapore Research Team)

## Head of Research

Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)

## Marketing &amp; Operations

Teo Pei Ling – [teopl@phillip.com.sg](mailto:teopl@phillip.com.sg)

## Banking and Finance

Tin Min Ying – [tinmy@phillip.com.sg](mailto:tinmy@phillip.com.sg)

## Oil &amp; Gas | Energy

Chen Guangzhi – [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)

## Telco | Technology

Alvin Chia – [alvinchiawy@phillip.com.sg](mailto:alvinchiawy@phillip.com.sg)

## Transport | REITs (Industrial)

Richard Leow – [richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)

## China/HK Equity

Zheng Jieyuan – [zhengjy@phillip.com.sg](mailto:zhengjy@phillip.com.sg)

## REITs (Commercial, Retail, Healthcare) | Property

Tara Wong – [tarawongsi@phillip.com.sg](mailto:tarawongsi@phillip.com.sg)

## US Equity

Edmund Xue – [edmundxueji@phillip.com.sg](mailto:edmundxueji@phillip.com.sg)

## Contact Information (Regional Member Companies)

## SINGAPORE

## Phillip Securities Pte Ltd

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

## JAPAN

## Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

## THAILAND

## Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

## UNITED STATES

## Phillip Capital Inc

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

## INDIA

## PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

## CAMBODIA

## Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

## MALAYSIA

## Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

## INDONESIA

## PT Phillip Securities Indonesia

ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

## FRANCE

## King &amp; Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## AUSTRALIA

## Phillip Capital Limited

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## TURKEY

## PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

## HONG KONG

## Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

## CHINA

## Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

## UNITED KINGDOM

## King &amp; Shaxson Capital Limited

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## SRI LANKA

## Asha Phillip Securities Limited

No. 60, 5th Lane,  
Colombo 3, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

## DUBAI

## Phillip Futures DMCC

Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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