

Samurai 2k (SGX:1C3): TP \$1.05

Team Name: Samurai
Team No: 681
Team Leader: Thomas Choo

08/08/19

Market Cap / Price: S\$95.6m / S\$0.87
52 Wk Low / High: S\$0.72 / S\$1.60
Beta / Yield: 0.171/ 0.575%

HY20 Rev Projection: RM49m
HY20 EPS Projection: 9.5sen
FY20 Rev Projection: RM95.3m
FY20 EPS Projection: 12.6sen

Fundamentals

Drivers / Catalysts:

- Unique product – 2K aerosol paint
- Growing two-wheelers population
- Excellent marketing strategies
- Possible earnings surprise - More than expected sales from India

Management:

- CEO: Mr Ong Yoke Eng
 - Founder, Inventor and Marketer of Samurai 2k
- COO: Ms Lim Lay Yong
 - Oversee daily operations of group
- CFO: Ms Sia Shu Yee
 - Joined Samurai in August 2015

Financials:

- Latest FY19 Recap: Rev (-21%), EPS (-16.7%)
- This HY20 Expectation: Rev +26%. EPS +23.8%.

Competition/Distribution/Production:

- For 1K paint or conventional paint products, there is little differentiation. Many players who compete mainly on range of colours and price
- Samurai one of the very few players worldwide with 2k aerosol paint technology
- Patented technology – Competitors difficult to replicate
- Roadshows/Product demos to end consumers

Industry overview and comparison:

- Global auto refinishing market worth US\$15b. Asia pacific consist of US\$5b
- Combined 500m of two wheelers population in Southeast Asia and India by 2020

Recent Corporate Announcements of Interest:

- Feb 2019: Distributorship agreement for India
- Aug 2019: Patent in Japan granted

Risks:

- Negative operating cash flows for the past three financial years. This is due to funds being reinvested for expansion to build market share and brand equity
- Essentially single product company even though has range of colours and special effects paint. Crucial to build brand loyalty.

Bottom Line: Through research and innovation, Samurai has developed their unique 2k aerosol paint. Together with a well worked marketing plan, Samurai will continue to grow their market share in Southeast Asia and India. The growing two wheelers population in the region will no doubt bodes well for Samurai.

Valuation

This Year P/E: 27.4x vs STI=15x
Next Year P/E : 20.7x vs STI=14x
Comps: P/E : 29.5x

The Year EPS Growth: -16.7% vs STI=12%
Next Year EPS Growth: 32.6% vs STI=12%

Valuation Methodology/Thesis:

- Given the high growth nature of Samurai, we have chosen to use the PE model.

Bottom Line: We are valuing Samurai at a TP of \$1.05 based on 25X FY20 PE bench marking to peers

Samurai 2k

8th August 2019

Price: S\$0.87 TP: S\$1.05 (+20%)



One Product Champion

Unique Product – Patented 2k Aerosol Paint

Huge Addressable Markets

Excellent Marketing Execution

Potential earnings In India

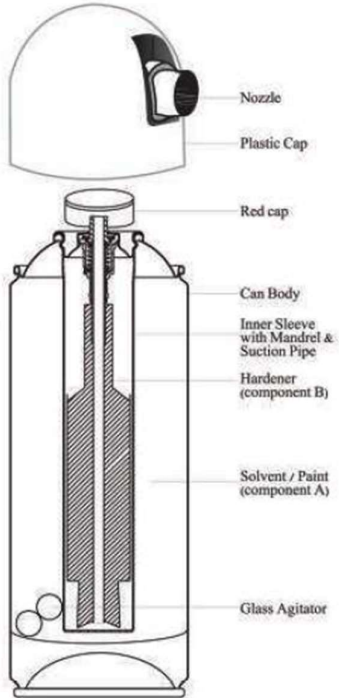
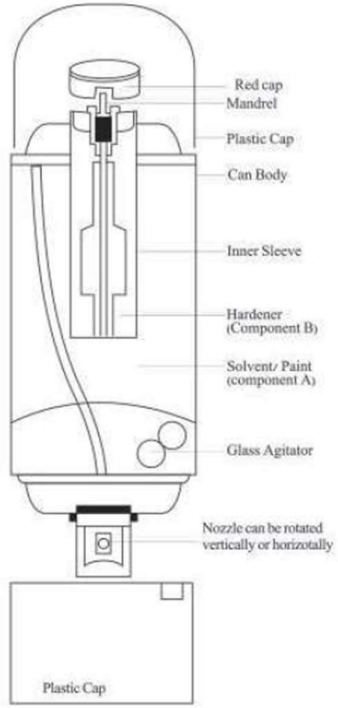
Financial Highlights	Mar-17 (Actual)	Mar-18 (Actual)	Mar-19 (Actual)	Mar-20 (Forecast)
Revenue (RM Millions)	39,350	90,014	72,605	95,314
Operating Profit	4,285	15,635	13,220	17,355
Net Profit	1,843	11,703	10,441	13,630
EPS (RM sen)	2.2	11.4	9.5	12.6
Dividend (S\$)	-	0.006	0.005	0.005
PE	119.0	22.9	27.4	20.7

About the Company

Samurai is a leading aerosol spray paint manufacturer with a focus on the automotive refinishing and refurbishing industry. Samurai manufacture both 1K and 2K aerosol paint. 1K paint is essentially conventional paint. The unique and competitive advantage that Samurai has is their patented and innovative 2K paint, introduced in 2015. 2K paint is paint that requires a hardener and is more corrosive resistant compared to 1K paint. 2k paint is preferred over 1K paint as vehicles are constantly exposed to the elements produced through the ever-changing harsh environment. Samurai business is built on the DIY concept. The objective is to get the motorist to DIY-paint their own vehicles on an either aesthetic or preventive basis instead of sending to a workshop for a professional paint job. The 2K aerosol paint is of comparable quality to the professionals, yet at significant costs savings and at a fraction of the time required.

Unique Product – Patented 2k Aerosol Paint

The most commonly available aerosol paint product in the market is the 1K aerosol paint. This is the conventional product which contains only the paint solution. 2K paint on the other hand contains a hardener component mixed with the paint solution, which provides longer, improved and better protection to the vehicle for a longer period.

Dual Head 2K System Aerosol Spray Paint	Single Head 2K System Aerosol Spray Paint
Physical Properties	
<p>Each aerosol can has (2) openings, with one (1) opening located at the top and bottom of the aerosol body.</p> <p>The can body is filled with the paint solution. One end of the can body is integrated with an inner sleeve that contains hardener, while the opposite end is crimped with a valve set that is completed with a spray nozzle.</p>	<p>Like a normal single component aerosol can, the aerosol body has (1) opening head and is filled with paint ("Component A"). However, the same opening is integrated with an inner sleeve which contains hardener ("Component B") with a build-in mandrel and suction pipe. The mandrel works to rupture the inner sleeve, mixing Component A and Component B, and the mixed Components A and B will be discharged simultaneously through the suction pipe.</p>
	

Source: Samurai IPO Prospectus

Comparison between various technologies:

Parameters	Aerosol Spray 1K	Aerosol Spray 2K (single head)	Aerosol Spray 2K (double head)	Spray Gun	Airbrush
Composition (paint, hardener)	Paint	(Paint + hardener) in one can	(Paint + hardener) in one can	Paint + Hardener	Paint + Hardener
Relative Gloss	Least	Medium	Medium	Best	Best
Relative drying time	Medium	Best	Best	Least	Least
Relative ease of use	Easy	Easy	Medium	Difficult	Difficult
Application Spread	Specially used for spot repairs	Good for metallic parts and DIY applications	Good for metallic parts and DIY applications	Good for metallic parts and DIY applications	Good for all types of two-wheelers
Average Price (to end consumer)	Approximately \$ 1.5 to \$2 per can. Around \$15-\$20 per two-wheeler (DIY)	N/A	\$ 7-9 per can Around \$25 per two wheeler (DIY)	Around \$50 per two-wheeler for basic paint	Around \$50 per two-wheeler for basic paint

Parameters	Aerosol Spray 1K	Aerosol Spray 2K (single head)	Aerosol Spray 2K (double head)	Spray Gun	Airbrush
Average Volume Required per Bike	10-12 cans for full repainting	2-4 cans for full repainting	2-4 cans for full repainting	-	-

Source: Samurai IPO Prospectus

2K paint has the following advantages over 1K paint (Source: SprayMax):-

- Higher durability than 1K
- Smoother finish
- Improved resistant to scratches

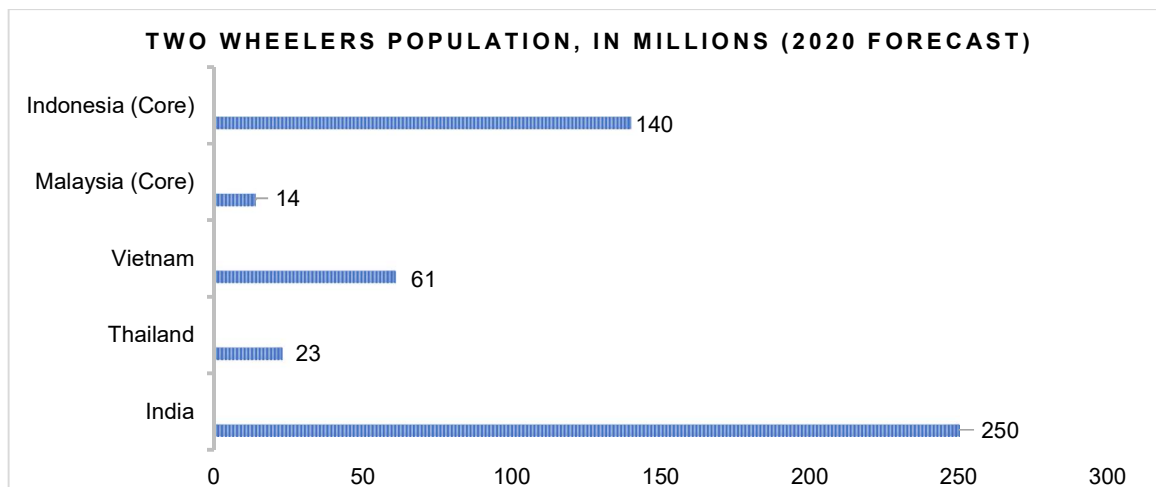
Online search of 2K Aerosol paint resulted in less than five brands worldwide. The closest competitor could be this prominent manufacturer, SprayMax, a German paint private company which came up with their 2K Aerosol technology in 2000. However, their offices (shown on SprayMax website) seems to indicate that their markets are in Europe and North America, which has no opposing effect to Samurai who is currently targeting Southeast Asia and India.

Through research and innovation, Samurai has developed their own 2K paint in an aerosol can. The technology has been patented in 12 countries. As per Samurai IPO prospectus, Samurai is the only player with 2K Aerosol paint in Malaysia, Vietnam and Indonesia. An online search for 2K Aerosol paint in these countries also seems to indicate that Samurai is the only available brand.

Markets & Execution

The global automotive refinishing market is worth a total of US\$15b with Asia Pacific accounting for US\$5b.

Samurai operates mainly in Southeast Asia with Indonesia and Malaysia as their core markets, contributing 53.6% and 34% of the revenue for FY19 respectively. Samurai is currently focusing on two wheelers (motorbikes, scooters etc). They have recently entered India with the distributorship agreement signed in February 2019. Samurai aims to ride on the increasing motorcycle population in the coverage region. A snapshot of the current motorcycle population is as shown below.



Source: Frost & Sullivan, FAMI, MOSPI & Samurai Internal Estimates

Samurai is currently one of the very few players that has a 2K aerosol paint in the Southeast Asia markets. A unique product is half the battle won. To engage the end consumers, Samurai works with the distributors to organise product demonstrations to groups of bikers. Besides encouraging the bikers to have a hands-on experience, Samurai also periodically hold competitions for creative designs. Such marketing tactics have proved extremely successful in both Malaysia and Indonesia. This strategy is being replicated elsewhere in the rest of Southeast Asia and India.

First Mover Advantage

Samurai operates in a highly competitive environment. Within the 1K aerosol paint segments, there is very little product differentiation with players competing mainly on range of colours and price. Some of the players include Nippon Paint, DPI and PT RJ London. Samurai enjoys first mover advantage for 2K aerosol paints. Samurai were the first to introduce 2K aerosol paints to the Malaysia and Indonesia markets. The patented technology for Samurai 2K aerosol paints ensure that competitors will have to come up with their own 2K aerosol design, providing lead time for Samurai to build their brand equity.

Furthermore, to enhance brand loyalty, Samurai has been embarking on product demonstrations all over the country to engage the end consumers. An online search of 2K paint on Google and Youtube resulted in Samurai overwhelmingly dominating this space.

Management

Samurai is headed by Mr Ong Yoke En, who is the CEO and executive director, who has more than 20 years of experience in the Aerosol industry. He is the founder, inventor and marketer. Other key management include Ms Lim Lay Yong, the COO, who oversee the daily operations of the group and Ms Sia Shu Yee, the CFO.

Production & Distribution

Samurai production is located in Johor with two factories capable of producing 24 million cans a year. FY19 produced between 13 million to 15 million aerosol cans. This capacity is sufficient to support the current growth.

These cans are sold to distributors, wholesalers and retailers in the various regions. Samurai relies on this network to reach the end consumers.

Future Plans

Samurai plans to enter the United States, the largest market in the world, estimated to be worth US\$4b. At this stage, Samurai is in the process of learning to understand the American market better so as to be able to map out a more effective marketing strategy that takes into consideration the different weather, culture and rules and regulations of different states in the US.

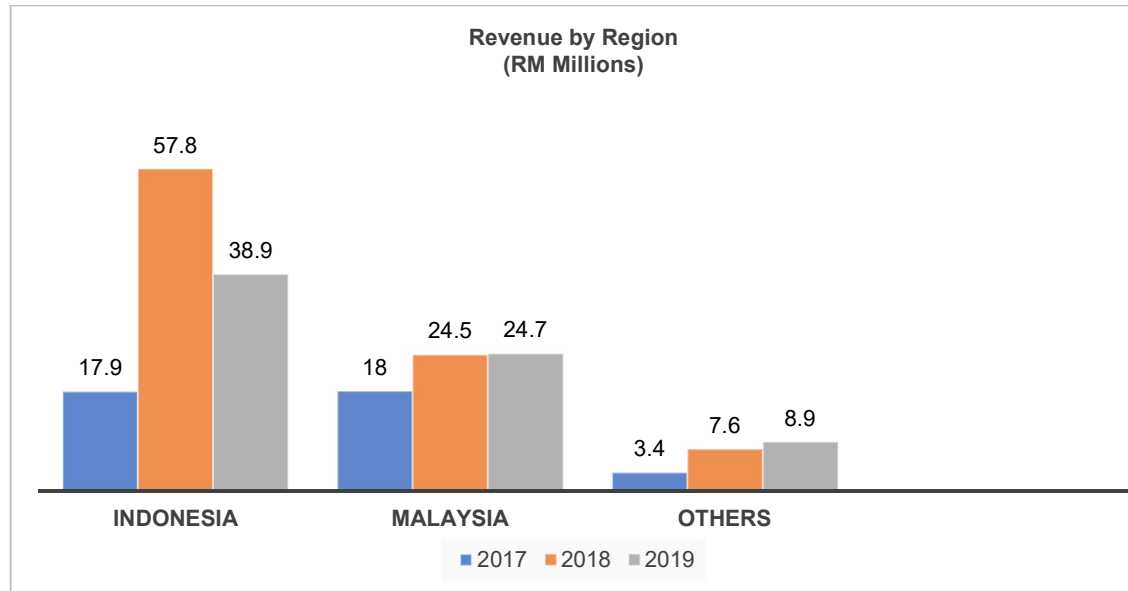
Risks

Due to Samurai rapid and aggressive expansion to build on its first mover advantage, the group has been experiencing negative operating cash flows for the past three years. Though there has been no major issue in trade receivables, it is still prudent to have continued review on their cashflows and debtors.

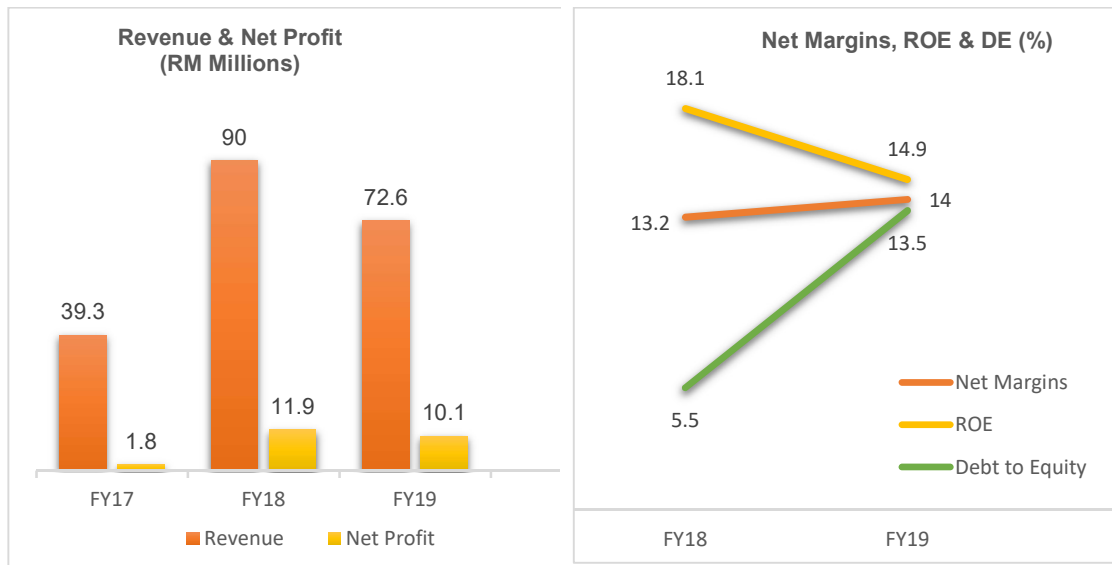
Samurai products consist of mainly 1K and 2K aerosol paint. Even though these products consist of a range of colours and special effects paints (eg hologram, crystal effects etc), ultimately Samurai is a single product company. It is unlike other paint companies that have other paint segments such as marine paint, wood furniture coatings and decorative coatings etc. Building up brand loyalty in the meantime would be crucial for Samurai in the long term.

Financials

In FY19, revenue in Indonesia decreased by 32.7%. The decrease was mainly due to lower sales volume. This was due in part to inventory building by buyers in FY18 to hedge against currency volatility and in anticipation of stronger two-wheeler sales.



ROE has been healthy for the last two years between 15% to 18%. The ROE has been impressive, considering that it was generated using little debt as demonstrated by the debt to equity ratios. Net margins were relatively stable in the last two years.



Valuation & Recommendations

There are currently no comparable peers in SGX. Four of the overseas listed players below are direct competitors of Samurai, none of which has any 2K aerosol product. DPI is a player in Malaysia, Precious Dragon operates in Vietnam, Toa Paint in Thailand and Nippon Paint in Indonesia.

Peers Comparison

Company	Price	Market Cap (S\$, m)	PE (Current Year)	P/BV	ROE	Div Yield (%)
Samurai	SGD 0.87	95.6	27.4	3.87	14.9	0.57
<u>Paint Peers</u>						
DPI	RM 0.155	25.1	15	1.03	6.9	-
Precious Dragon	HKD 1.40	57.8	8	1.44	18.9	-
Toa Paint	THB 38.75	3,510	43	8.29	20.1	0.95
Nippon Paint	JPY 4,585	19,460	27	2.48	9.5	1.36

We think that Samurai will continue to ride on this first mover advantage and continue to expand its market share. We believe that revenue will normalise in Indonesia for FY20. Besides the two core markets of Malaysia and Indonesia, we believe that growth will also come from Vietnam, Thailand and the Philippines. While Samurai has just established a beachhead in India in February 2019, marketing efforts are gaining traction and there could potentially be a surprise. However, we did not include this potential surprise in our valuation. Taking the above into account, we apply a 15% discount to the weighted PE average of its peers of 29.5x. Our TP is \$1.05 based on 25x FY20 PE. This is lower than its current PE of 27.4

The higher PE multiple over its similar size peers is justified given Samurai's unique product, first mover advantage and high growth in the years to come.

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