

## Singapore

## Highlighted Companies

**China SunSine Chemical Holdings**  
**ADD, TP S\$0.38, S\$0.30 close**

China SunSine is the largest producer of rubber accelerators in the world, and largest producer of insoluble sulphur in the PRC. The company has remained profitable since its IPO in 2007.

**Fu Yu Corp Ltd**  
**ADD, TP S\$0.21, S\$0.20 close**

Fu Yu is a one-stop plastic components supplier with more than 40 years' experience. The company has strong net cash position, and offers 7.8% dividend yield (FY20F).

## Summary Valuation Metrics

	Dec-20F	Dec-21F	Dec-22F
<b>P/E (x)</b>			
China SunSine Chemical Holdings	7.26	5.50	4.39
Fu Yu Corp Ltd	11.55	10.27	9.27
<b>P/BV (x)</b>			
China SunSine Chemical Holdings	0.54	0.50	0.46
Fu Yu Corp Ltd	0.91	0.89	0.87
<b>Dividend Yield</b>			
China SunSine Chemical Holdings	3.84%	4.05%	4.05%
Fu Yu Corp Ltd	8.08%	8.08%	8.08%

# SmallCaps

## Surviving Covid-19

- If the Covid-19 outbreak lasts till the end of 2020, we think the manufacturing sector can survive given their net cash balance sheets.
- Value emerging in Fu Yu (zero debt) and China SunSine (89% of share price backed by net cash); upgrade to Add from Hold previously.
- Conversely, we believe the construction sector could face cash flow issues if projects are delayed. Downgrade Yongnam to Hold from Add previously.

### Be mindful of highly geared companies

Covid-19 outbreak has raised concerns that SMEs (Small Medium Enterprises) and even bigger companies will face a liquidity crunch as business dwindles on efforts to contain the outbreak.

### Potential survivors: upgrade CSSC, Fu Yu

We see value emerging in the manufacturing sector as all our covered companies are in a net cash position. China SunSine/Valuetronics are both debt-free with 89%/88% of their share prices backed by net cash. On valuation grounds, we upgrade China SunSine (trading at trough P/BV) and Fu Yu (7.8% dividend yield) from Hold to Add. In Fu Yu's case, 1 s.d. below P/BV of 0.69x (FY15-20F) translates into S\$0.15, a level that may not be reached as dividend yield then would be 10.6%. GFC trough valuations suggest more downside for Valuetronics, but its c.9% yield underpins our Hold call.

### Downgrades : Jumbo, mm2, Yongnam (YNH)

The most geared small caps under our coverage are Centurion, BRC Asia and Japfa, all of whom we believe will be able to weather the downturn given their positive cash flow generation. We are more concerned about Yongnam and mm2, thus downgrading both from Add to Hold. We cut our EPS forecasts for YNH due to our expectation of a slower ramp-up of strutting projects, and mm2 on core production delay, concert cancellation and recent entertainment ban. Potential cash flow stress is a key risk to watch out for. We see limited downside for YNH given its orderbook recovery from a multi-year low and valuation close to its trough P/BV, while there is still value in mm2's assets with restructuring as a potential catalyst. Hence, both our recommendations favour a Hold rather than Reduce. Jumbo is also downgraded from Add to Hold due to the impact from measures by the government to minimise the spread of Covid-19. The small-caps sector trades at a CY21F P/E of 10.7x. Key risk is the negative impact from the Covid-19 outbreak.

### Not rated stocks - names to watch

Small-cap names outside our coverage with net cash accounting for more than 50% of its current market cap, profitable and cash generative for the past three years include 1) Chuan Hup Holdings, 2) Innotek Ltd, and 3) Duty Free Intl. Companies with FY19 net gearing of more than 200% (Figure 12) include Aspiat and Del Monte Pacific.

## Analyst(s)


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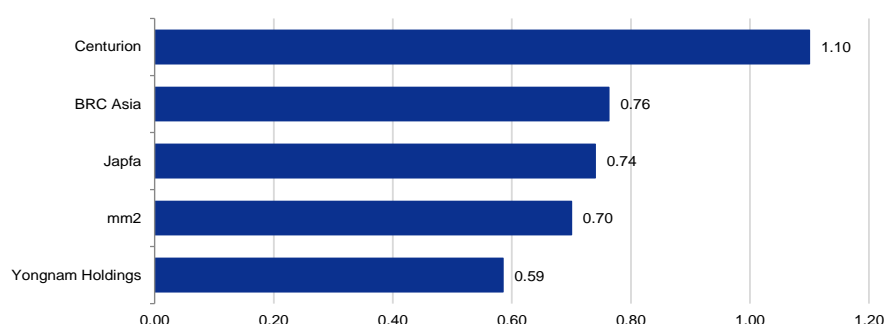
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**Figure 1: Companies with projected FY20F net gearing of more than 0.50x**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Surviving Covid-19

### Net cash companies will survive

#### Net cash - manufacturing sector ►

In the manufacturing sector, all the companies under our coverage have net cash balance sheets with some having zero borrowings. As such, we think these companies will not face cash flow issues even if the Covid-19 outbreak extends till the end of 2020F. We also note that the average dividend yield for FY20F for the manufacturing sector is 6.5%.

Figure 2: Manufacturing sector in net cash position\* as at Dec 2019

Company	Cash (S\$ m)	Debt (S\$ m)	Net Cash (S\$ m)	NCPS & (S\$)	NCPS as % of closing price#
Valuetronics Holdings	195.4	0.0	195.4	0.45	88%
Fu Yu Corp	88.5	0.0	88.5	0.12	58%
Frencken Group	122.4	53.2	69.2	0.16	29%
Silverlake Axis	224.1	44.4	179.8	0.07	28%
AEM Holdings	107.7	0.0	107.7	0.40	24%
ISDN Holdings	41.9	28.6	13.3	0.03	21%
UMS Holdings	34.4	9.3	25.1	0.05	8%
Riverstone Holdings	43.0	4.3	38.7	0.05	6%
Sunningdale Tech	38.0	27.5	10.5	0.02	3%

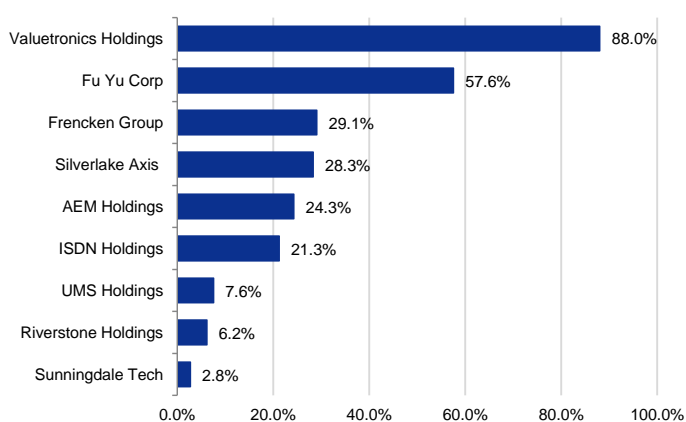
\* based on latest full year balance sheet data.

& net cash per share.

# closing price on 26 Mar 2020.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: c.88% of Valuetronics share price is backed by its net cash as at 26 Mar 2020



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Amongst manufacturing stocks, we note that **Valuetronics** offers an attractive dividend yield of c.9% and the highest margin of safety with net cash position representing 90% of its market cap. The group announced that while over 80% of its employees in China have resumed work, widening virus transmission, travel bans and city lockdowns in its major markets have led to factory shutdowns at some of its suppliers and end customers. We expect wider repercussions from these and potential global slowdown in consumer demand, and trim our FY21F EPS by 20.0%, resulting in a lower target price of S\$0.50; we keep our Hold rating unchanged. We believe improving revenue visibility and new customer/product wins could pose upside risks to our Hold call and re-rate the stock post the Covid-19 outbreak resolution. Downside risks: higher costs of material and growing economic uncertainty. Upside risk is better than expected orders from customers.

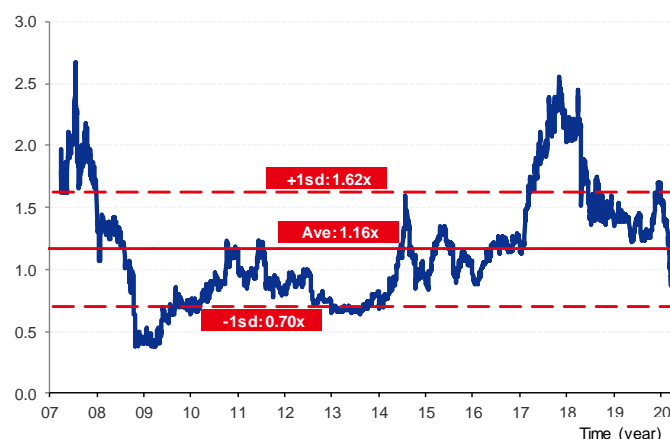
Valuetronics traded at a record-low (1 s.d. below historical mean) of 3.3x forward P/E and 0.7x P/BV during the 2008-09 global financial crisis (Figures 4-5), which was compounded by its Danshui plant flooding and goodwill impairment due to a poor acquisition. In the worst case scenario, those trough valuations imply entry prices of S\$0.26 and S\$0.35, respectively.

Figure 4: VALUE's historical 12-mth forward core P/E (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 5: VALUE's historical 12-mth rolling P/BV (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

We see value emerging for **Fu Yu** as we think earnings risks are being reflected in its share price de-rating. The share price has fallen 32% from its 52-week high of S\$0.285 (17 Jan 2020). Hence, we upgrade our recommendation from Hold to Add even after our 16-23% earnings cuts to factor in lower revenue. Our non-consensus earnings downgrades are in response to lockdowns arising from the Covid-19 outbreak and concerns of weaker end demand as global economic growth slows.

Our revised TP is lowered to S\$0.21 (from S\$0.26), based on Gordon Growth derived P/BV multiple of 0.95x (previously 1.16x) to reflect the ROE decline as earnings fall in the midst of the Covid-19 outbreak. Projected FY20F dividend yield is 8.5%. We estimate Fu Yu's net cash position as at end FY20F to be S\$93.7m (zero debt balance sheet). As at end 26 Mar 2020, net cash was 61% of Fu Yu's market cap. Downside risks are unfavourable foreign exchange movements, increased competition and the worsening Covid-19 outbreak.

Figure 6: Key changes

Company	Recommendation		Target price (S\$)	
	Old	New	Old	New
Fu Yu	Hold	Add	0.26	0.21
Valuetronics	Hold	Hold	0.62	0.50

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Earnings revisions – Fu Yu

	Old			New			% chg		
	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F
Revenue (S\$ m)	199.5	206.2	212.6	175.4	184.2	193.4	(12.1)	(10.7)	(9.0)
Pre-tax profit (S\$ m)	22.1	23.7	25.2	17.0	19.1	21.2	(23.1)	(19.4)	(16.0)
Net profit (S\$ m)	16.8	18.0	19.1	12.9	14.5	16.1	(23.0)	(19.5)	(16.0)
EPS (S\$)	0.022	0.024	0.025	0.017	0.019	0.021	(23.0)	(19.5)	(16.0)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Earnings revisions - Valuetronics

Earnings Revision	FY2020F			FY2021F			FY2022F		
	Old	New	% change	Old	New	% change	Old	New	% change
<b>Valuetronics (FYE March)</b>									
<b>Revenue (HK\$m)</b>	<b>2,544</b>	<b>2,544</b>	<b>0.0%</b>	<b>2,777</b>	<b>2,374</b>	<b>-14.5%</b>	<b>3,011</b>	<b>3,011</b>	<b>0.0%</b>
Consumer electronics (CE)	1,126	1,126	0.0%	1,239	1,070	-13.6%	1,320	1,320	0.0%
Industrial & Commercial Electronics (ICE)	1,417	1,417	0.0%	1,538	1,304	-15.2%	1,692	1,692	0.0%
Gross Margin (%)	14.9%	14.9%	0.0%	14.9%	14.9%	0.0%	14.9%	14.9%	0.0%
EBITDA (HK\$m)	221	221	0.0%	250	206	-17.8%	287	287	0.0%
Core Net Profit (HK\$m)	166	166	0.0%	187	150	-20.0%	207	207	0.0%
Core EPS (HK\$)	0.38	0.38	0.0%	0.43	0.34	-20.0%	0.48	0.48	0.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

## Net cash – other companies ►

For other small cap stocks under our coverage, **China Sun sine (CSSC)** and **China Aviation Oil (CAO)** stood out with 89%/79% of their share prices backed by their net cash position.

Figure 9: Other small cap coverage in net cash position\* as at Dec 2019

Company	Cash (S\$ m)	Debt (S\$ m)	Net		
			Cash (S\$ m)	NCPS & (S\$)	NCPS as % of closing price#
China Sun sine Chemical Hldgs	256.0	0.0	256.0	0.26	89%
China Aviation Oil Ltd	549.3	0.0	549.3	0.64	79%
Boustead Singapore Ltd.	258.6	62.8	195.8	0.40	68%
Penguin Int'l Ltd	59.9	0.1	59.8	0.27	65%
Hrmetgroup Ltd	266.2	0.0	266.2	0.26	61%
Jumbo Group Ltd.	46.6	0.0	46.6	0.07	36%
Boustead Projects Ltd.	113.5	62.4	51.1	0.16	27%
Dyna-Mac Holdings Ltd	27.2	13.3	13.9	0.01	19%
Biolidics Limited	8.0	0.4	7.7	0.03	16%

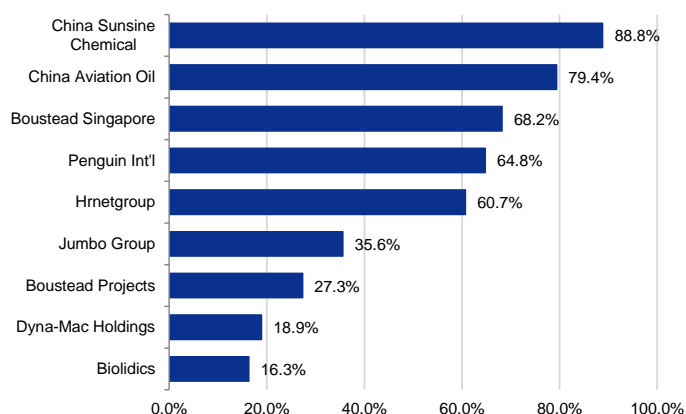
\* based on latest quarter balance sheet data.

& net cash per share.

# closing price on 26 Mar 2020.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: CSSC & CAO have high net cash backing as at Dec 2019

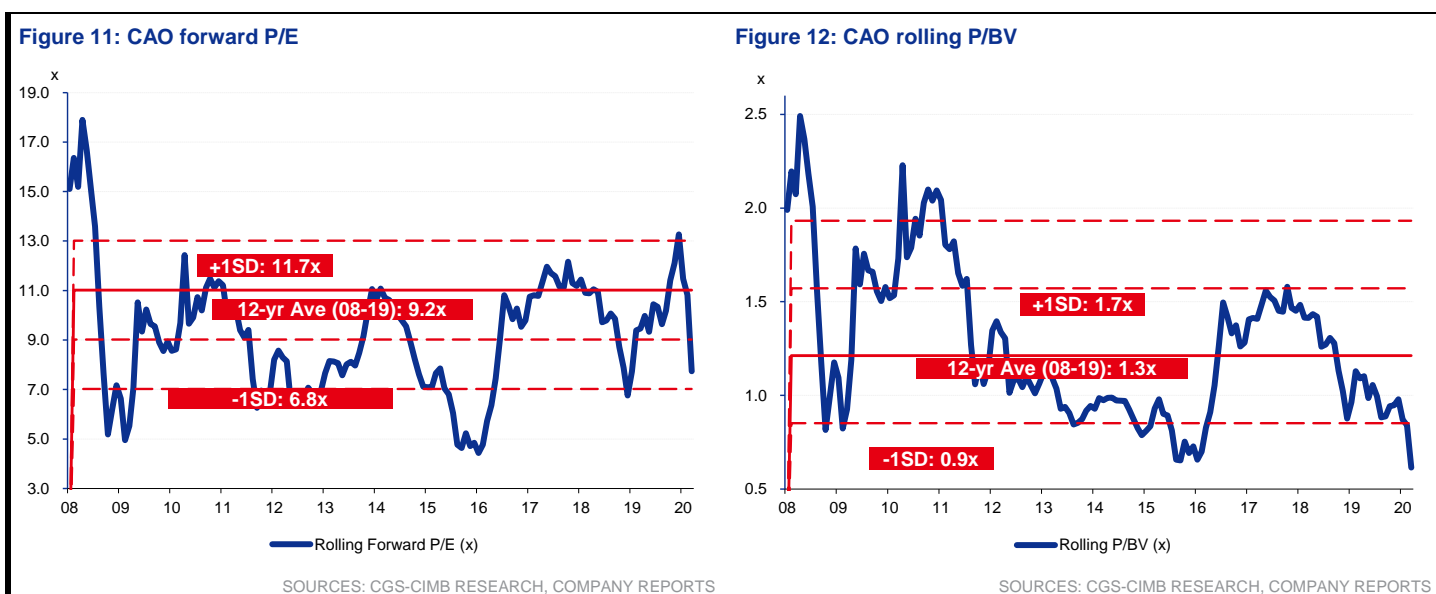


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We determine S\$0.265 as the trough price for **China Sun sine**, based on our bear-case FY20F BVPS forecast of Rmb2.67/share; pegged to CSSC's historical trough P/BV of 0.52x. Downside risk is cushioned by its FY20F net cash of S\$0.21/share. We believe that CSSC's near-term challenging outlook has been more than priced in by the market, and recommend long-term investors accumulate at this level. We upgrade CSSC from Hold to Add on a valuation basis. We cut FY20-22F EPS forecasts (base case) by 21.8-36.5% to

factor in lower ASP and margin assumptions; our lower TP of S\$0.38 is based on 0.72x FY20F P/BV (-0.75 s.d. of historical mean). Key risks include prolonged macro weakness and worse-than-expected pricing competition.

**China Aviation Oil** is trading at 6x FY21F EPS (closer to troughs of 4.4x in FY16 – the last crude oil crisis) post share price falling 32% YTD. China has recently limited the quantum of international flights into China while intense volatility could cap near-term trading activities, in our view. In the wake of the slowdown in global travel and uncertainties in the oil product industry we now forecast FY20F EPS to fall c.38% yoy, and ascribe a lower PER of 6.5x on FY21F EPS, resulting in a lower TP of S\$0.86. We reiterate our Hold rating as we still like CAO's healthy balance sheet and FY21F dividend yield of c.5%. CAO traded at a record-low of 4.4x forward P/E and 0.65x P/BV during the 2014-16 crude oil price crisis. Upside risks include a swifter recovery in China's international travel, faster recovery in global travel and less uncertainty in the oil markets (which could translate to higher earnings). Downside risks include a prolonged Covid-19 impact and lower dividends.



We also downgrade **Jumbo** from Add to Hold, as stringent measures by the government to minimise the spread of Covid-19 has resulted in a steep drop in footfall for its restaurants. Jumbo has rolled out multiple initiatives to cushion revenue loss and tightened cost control measures, but we believe that a steep earnings decline in FY20F is inevitable. Lowering our SSSG assumptions to factor in the impact from Covid-19, our FY20-22F EPS is cut by 19%-83%. Jumbo's balance sheet is strong with net cash position that accounts for c.36% of its market cap as at 26 Mar 2020. We lowered our TP to S\$0.22, based on 11.5x FY21F P/E (2 s.d. below Jumbo's historical average).

**Figure 13: Key changes**

Company	Recommendation		Target price (S\$)	
	Old	New	Old	New
China Aviation Oil	Hold	Hold	1.25	0.86
China SunSine	Hold	Add	0.42	0.38
Jumbo	Add	Hold	0.47	0.22

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 14: Earnings revisions – China Aviation Oil**

FYE Dec (US\$m)	New			Previous			Change		
	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F
Revenue	11,029	14,896	16,624	18,076	20,058	21,072	(39.0)	(25.7)	(21.1)
GP	31.7	42.8	47.8	51.9	56.2	59.0	(39.0)	(23.8)	(19.0)
GP Margins (%)	0.29	0.29	0.29	0.29	0.28	0.28	-	2.6	2.6
JV and Assoc contributions	42.3	59.4	64.8	51.7	61.7	65.2	(18.3)	(3.8)	(0.6)
<b>Net profit</b>	<b>61.6</b>	<b>84.7</b>	<b>93.1</b>	<b>82.8</b>	<b>93.7</b>	<b>99.3</b>	<b>(25.6)</b>	<b>(9.7)</b>	<b>(6.2)</b>
<b>Core EPS</b>	<b>7.1</b>	<b>9.8</b>	<b>10.8</b>	<b>9.6</b>	<b>10.8</b>	<b>11.5</b>	<b>(25.6)</b>	<b>(9.7)</b>	<b>(6.2)</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 15: Earnings revisions - China Sunshine**

Earnings revision (Rmbm)	FY20F			FY21F			FY22F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	2,663	2,549	-4.3%	3,152	2,891	-8.3%	3,576	3,229	-9.7%
EBITDA	494	359	-27.3%	600	453	-24.5%	663	552	-16.8%
Net profit	316	201	-36.5%	388	265	-31.7%	425	332	-21.8%
Core net profit	316	201	-36.5%	388	265	-31.7%	425	332	-21.8%
Core EPS (Rmb cents)	32.4	20.6	-36.5%	39.7	27.1	-31.7%	43.5	34.0	-21.8%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 16: Earnings revisions - Jumbo**

Earnings revision (S\$m)	FY20F			FY21F			FY22F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	166.3	115.0	-30.9%	172.6	161.6	-6.3%	177.2	167.0	-5.8%
EBITDA	23.1	8.6	-62.7%	24.5	21.4	-12.5%	25.5	22.2	-13.0%
Net profit	14.1	2.4	-83.1%	14.9	12.0	-18.9%	15.5	12.5	-19.5%
Core net profit	14.1	2.4	-83.1%	14.9	12.0	-18.9%	15.5	12.5	-19.5%
Core EPS (S\$ cents)	2.2	0.4	-83.1%	2.3	1.9	-18.9%	2.4	1.9	-19.5%

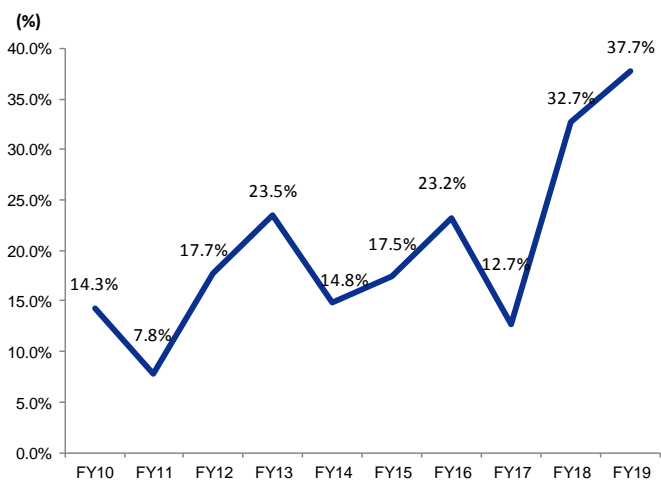
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

## Net debt companies

### Construction sector ➤

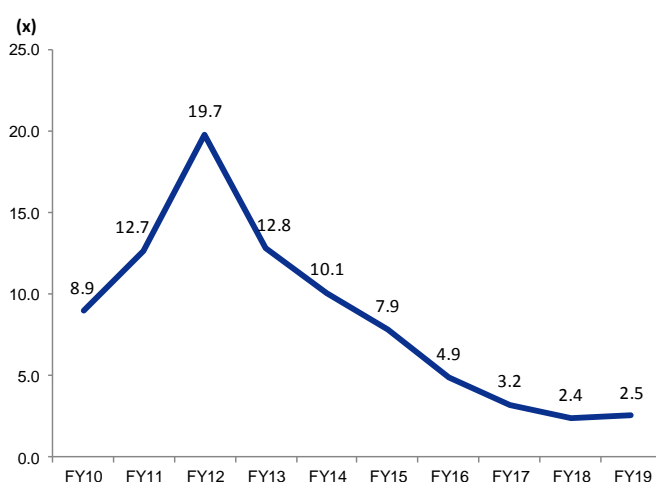
Given the prolonged weakness and the ensuing lower profitability in the construction sector over the past three years, construction players generally have weaker interest coverage ratios. We noticed that net gearing of construction companies in Singapore has also trended up in recent years.

**Figure 17: Median net gearing (%) of Singapore-listed construction players**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 18: Median interest coverage ratio (x) of Singapore-listed construction players**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The Covid-19 outbreak could potentially tighten cash flow further for construction companies should their pace of construction activities slow down significantly. Thus far, we note that most construction works are still ongoing, albeit at a slightly slower pace, due to: 1) manpower shortage, arising from the various travel restrictions imposed, and 2) supply chain disruptions for building materials and equipment, notably from China and Malaysia. BRC Asia, a reinforced steel supplier with a c.60% market share (by volume) of steel re-bars in Singapore, said that its volume deliveries fell by 5-10% in Feb 2020 due to lower construction activities; we think could be a rough gauge of the Covid-19 outbreak impact on the sector to date.

In our view, harder hit projects include: 1) certain infrastructure works that are more reliant on Chinese workers (c.10% of overall construction workforce), 2) residential projects with structural works involving prefabricated, prefinished volumetric construction (PPVC) modules or precast concrete carcasses, as well as 3) late-stage construction works reliant on supply of finishing from China (lifts, floor tiles, toilet fittings etc.).

While we expect construction companies to make up for the slack later in the year, slower construction activities in 1H20F will lead to lower progress payment for construction companies, which may strain cash flow of highly levered companies. This increases credit risk, with contractors potentially defaulting on their obligation. We therefore caution investors to avoid highly-g geared companies, as well as companies with high-dependence on a single project.

To help ease contractors' potential cash flow concerns that could arise due to Covid-19, Building & Construction Authority (BCA) announced that Government Procuring Entities (GPEs) will be accepting fortnightly payment claims, in lieu of monthly payment claims, for their public sector construction projects. Contractors could also submit claims for Extension of Time (EOT) under the contract provisions, should they assess that work progress has been delayed due to the impact of Covid-19 after having taken all necessary mitigating measures.

We project both BRC Asia and Yongnam to have a net gearing ratio exceeding 0.50x for FY20F.

**Figure 19: Construction companies with FY20F net gearing > 0.50x**

Company	Net debt (\$\$ m)	Net gearing (x)	Cash from operations (\$\$ m)	Interest coverage ratio (x)
BRC Asia Ltd	220.6	0.76	49.3	7.7
Yongnam Holdings	112.1	0.59	15.0	Loss

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We estimate that 78% (\$238.7m) of **BRC Asia's** total borrowings consist of trust receipts (repayable within a year) issued for inventory procurement (BRC typically holds up to four months' worth of inventory on hand). The remaining bank loans (22% of total borrowings) are mainly attributable to the acquisition of Lee Metal (Unlisted) as at end FY19

We believe that BRC Asia is able to manage its debt given its strong cash flow generation. BRC Asia generated S\$77.0m of free cash flow in FY19, which implies free cash flow interest coverage ratio of 8.0x. We also expect BRC Asia to have minimal capex in FY20F.

We have an Add rating on BRC, with TP of S\$2.05, based on 1.65x CY20F P/BV. We like the company for its market leadership in Singapore's reinforced steel industry, earnings visibility that is riding on the recovery in home market demand, and improving balance sheet strength. Re-rating catalysts include a stronger margin expansion; downside risks include slower volume growth due to weaker construction activities amid the Covid-19 outbreak and counterparty credit risks

**Yongnam's** outstanding loans at end Dec-19 consists of 32.9% in short term borrowings, 57.3% in long term borrowings and 9.8% in convertible bonds (due May 2021F). Yongnam reported a loss of S\$47.0m at the EBIT level in FY19. Its operating cash flow to interest coverage ratio in FY19 was 2.4x. Should its construction works/collection of progress payments be delayed materially, Yongnam could see greater stress on its cash flow, in our view.

We downgrade Yongnam from Add to Hold. Notwithstanding Yongnam's orderbook recovery from a multi-year low, we revised our FY20-21F EPS forecasts lower by 78-146% due to the slower-than-expected ramp-up of strutting projects. Our TP is consequently lowered to S\$0.09, pegged to 0.24x FY20F P/BV (1.2 s.d. below its 10-year historical average).

Why is Yongnam not a Reduce? During the construction down cycle in 2016 (the industry suffered from a dearth of construction projects then) Yongnam troughed at a P/BV of 0.21x. As our TP, pegged at 0.24x P/BV is already close to its trough P/BV, we see limited downside risk to its share price currently, hence our Hold recommendation. Upside risks include further announcements of contract wins. Key downside risks to our call include project delays.

**Figure 20: Key changes**

Company	Recommendation		Target price (\$\$)	
	Old	New	Old	New
mm2	Add	Hold	0.32	0.13
Yongnam	Add	Hold	0.28	0.09

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS



Figure 21: Earnings revisions – mm2

Earnings Revision mm2 (FYE March)	FY2020F			FY2021F			FY2022F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (S\$m)	294.1	232.5	-21.0%	311.7	212.7	-31.7%	333.8	259.7	-22.2%
Production & distribution related (S\$m)	103.3	80.8	-21.8%	108.5	84.8	-21.8%	113.9	89.1	-21.8%
Post-production (S\$m)	9.0	7.0	-22.2%	10.0	7.0	-30.0%	11.0	11.0	0.0%
Cinema (S\$m)	107.8	91.7	-15.0%	113.2	77.9	-31.2%	118.8	89.6	-24.6%
Unusual/ Entertainment (S\$m)	74.0	53.0	-28.4%	80.0	43.0	-46.3%	90.0	70.0	-22.2%
Gross Margin (%)	46%	46%	0%	46%	46%	1%	45%	46%	1%
Core net profit (S\$m)	32.4	22.9	-29.3%	38.5	23.9	-37.8%	43.1	35.0	-18.9%
Core PATMI (S\$m)	20.9	14.6	-30.1%	26.0	16.9	-35.0%	29.1	23.6	-19.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 22: Earnings revisions - Yongnam

Earnings revision (S\$m)	FY20F			FY21F		
	Old	New	% chg	Old	New	% chg
Revenue	314.4	214.7	-31.7%	311.3	258.1	-17.1%
EBITDA	69.5	35.7	-48.6%	70.5	49.9	-29.2%
Net profit	18.9	-8.7	146.0%	19.7	4.3	-78.4%
Core net profit	18.9	-8.7	146.0%	19.7	4.3	-78.4%
Core EPS (S cents)	3.6	-1.7	146.0%	3.8	0.8	-78.4%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

## Net debt companies – other coverage ►

For other companies under our coverage, our projected FY20F net gearing ratio for Centurion and Japfa are above 1.0x. mm2 is the third highest geared company in Figure 11 below at 0.70x for FY20F. For Japfa, on a total equity (including its minority interest) basis, our projected FY20F the net gearing ratio is a lower 0.74x.

Figure 23: Other coverage with FY20F net gearing > 0.30x

(S\$ m)	Net debt	Net gearing (x)	CFO*	ICR (x) #
Centurion	727.0	1.10	66.0	2.9
Japfa	1,644.3	0.74	645.8	3.1
mm2	222.0	0.70	9.0	3.4
Overseas Education	59.0	0.40	27.0	3.3
CSE Global	65.2	0.34	4.5	11.3

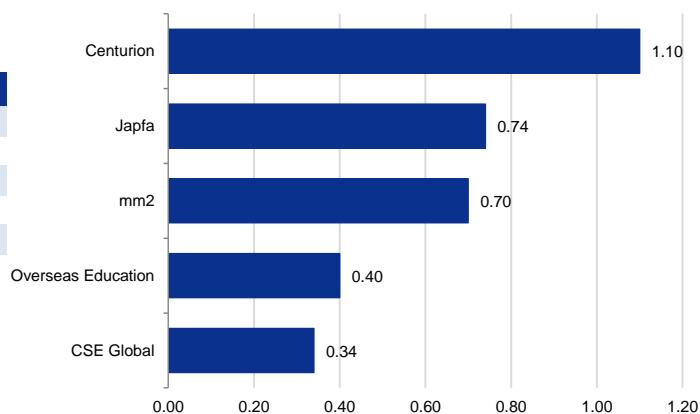
\* cash from operations

# interest coverage ratio

& net gearing ratio of 1.06x (common equity), 0.74x (total equity)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Centurion's FY20F net gearing is above 1.0x



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Centurion (Add, TPS\$0.58)** is one of the most leveraged stocks among our coverage, with projected net gearing ratio of 1.1x for FY20F. However, of the S\$739m borrowings at end 2019, about 92% is long term debt, with average debt maturity profile of around seven years. We estimate FY20-22F interest coverage ratios to be within its debt covenant threshold at 2.9-3.1x.

In FY19, the purpose-built student accommodation (PBSA) contributed S\$19m (or c.27%) to Centurion's operating profit. In the worst case scenario of a severe drop in student occupancy and profitability halving, the group would still be able to service its financing costs (c.S\$29m p.a.) with its yearly operating cash flow of S\$60m-70m, in our view. We see less risk for its purpose-built workers accommodation (PBWA) segment (which accounts for S\$52m or 73% of FY19 group operating profit) as the demand and supply conditions in Singapore remain tight. We think both the PBSA and PBWA segments are potentially counter-cyclical, and its diversified presence across Singapore, the UK, Australia and Malaysia could help buffer against macro challenges. Hence, our Add rating for the stock remains intact.

Our target price of S\$0.58 is based on DCF valuation (WACC: 4.9%, LTG: 1%). Downside risks to our Add rating include worsening Covid-19 situation, as well as significant slowdown in O&G (Oil & Gas) and construction sectors. Risk of dividend cuts could materialise in the event of material earnings decline, as we think the group will keep to its historical track record of 40-50% payout ratio (no dividend policy).

For **Japfa (Add, TPS\$0.95)**, we forecast its FY20F net gearing ratio to be 0.74x (based on total equity) which is below the company's target net gearing ratio of less than 1.1x. Our TP is based on 12x FY21F EPS (close to 5-year average mean). Japfa is in a highly cyclical business. Risks are i) downturn in Vietnam swine prices; ii) lower Indonesia poultry segment earnings; and iii) wider losses in its consumer segment.

As at end-Dec 2019, short terms loans due in FY20F account for c.42% (US\$583.5m) of JAP's total borrowings (US\$1.38bn); and are predominantly working capital loans that could be refinanced and contingent on business performance, in our view. Within the remaining long term debts (US\$798m) we estimate c.US\$260m (c.US\$253m represents an acquisition loan; c.US\$10m is an IDR bond) are due in FY21F.

In a bear case scenario, we think net gearing could rise closer to 1.0x (based on total equity) if FY20F revenues are impacted by lower consumption in the key markets of Indonesia/ Vietnam/China and/or if the company maintains its capital expenditure. However, thus far Japfa has managed to survive its last two slowdowns - in 2014 it suffered from weak Indo poultry business; ii) in 2017 both its Indo poultry and Vietnam swine segment were impacted negatively due to oversupply issues. As such, they may be able to avert any cash crunch, especially as they still have leeway towards their targeted max net gearing ratio, in our view.

We think **mm2 Asia (Hold, TPS\$0.13)** is susceptible to both earnings and balance sheet risks. Apart from a working capital-intensive business, we expect it to record FY20F net gearing of 0.73x (net debt of S\$211m). While the cinemas in Singapore and Malaysia are its cash-generating assets, they also came with high leverage upon acquisition, and are impacted by postponement of scheduled Hollywood mega-movie releases based on its recent announcement, as well as the Singapore government's ban on entertainment outlets from 26 Mar till 30 Apr. Unusual Productions (its 39.2% subsidiary) also faces cancellations of large scale events and concerts in Singapore and abroad as a result of the Covid-19 outbreak, which will further hamper its cash flow.

About 74% of mm2's total borrowings at end Sep-19 is long-term debt, though we note that a portion of its liabilities will be due by 2021F (*S\$50m 7% MTN, and S\$48m 2% convertible debt securities to be redeemed by Feb 2021F*). On our estimates, its FY20F net debt to EBITDA level of 2.2x could be at risk from earnings decline and unexpected production delay (debt covenant ratio of less than 3x), while its FY20F interest coverage ratio is decent at c.3x. With a cash balance of only S\$18.6m at end Sep-19, we think mm2's cash flow may be affected by its ability to collect its trade receivables.

We cut our FY20-22F earnings estimates for mm2 by 19.0-35.0%, resulting in a lower SOP-based target price of S\$0.14. We downgrade the stock from Add to Hold. Despite the share price de-rating, we still see some value in its assets, hence our Hold recommendation. Upside risk is faster recovery from Covid-19 and strategic M&A/corporate action while downside risk is the worsening of the Covid-19 outbreak.

## Not rated stocks ▶

We also screened through other Singapore-listed small cap stocks with market cap between US\$50m and US\$1bn (excluding REITS and finance-related companies) using a) net cash as a percentage of market cap, and b) net gearing position.

Figure 11 shows small-cap names outside our coverage with net cash accounting for more than 50% of its current market cap. Companies on the list that has also demonstrated a track record of being profitable and cash flow generative for the past three years include 1) **Chuan Hup**, 2) **Innotek** and 3) **Duty Free Intl**.

**Figure 25: Small cap names with net cash accounting for >50% of market cap**

Company name	Bloomberg ticker	Last price (LC \$)	Market Cap (US\$ m)	Net cash as % of market cap	Profitable for last 3 years	Positive OCF for last 3 years	Positive FCF for last 3 years
Creative Tech	CREAF SP	1.66	91.2	124.8%	No	No	No
Chuan Hup Holdings	CH SP	0.20	129.9	102.8%	Yes	Yes	Yes
NSL Ltd	NSL SP	0.69	180.3	88.3%	No	Yes	No
PEC Ltd	PEC SP	0.42	74.0	71.2%	Yes	No	No
Yeo Hiap Seng	YHS SP	0.75	314.4	65.4%	Yes	Yes	No
Hock Lian Seng	HLSH SP	0.26	91.4	75.9%	Yes	Yes	No
Innotek Ltd	INNOT SP	0.35	56.0	61.9%	Yes	Yes	Yes
Duty Free Intl	DFIL SP	0.13	109.0	60.0%	Yes	Yes	Yes
Hai Leck Holdings	HLCK SP	0.42	60.4	67.0%	Yes	Yes	No
Hanwell Holdings	HANW SP	0.17	64.7	58.1%	Yes	Yes	No

As of 26 Mar 2020

OCF = Operating cash flow, FCF = Free cash flow

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 12 shows selected small-cap names outside our coverage with net gearing ratio exceeding 50%.

**Figure 26: Small-cap names with net gearing ratio of more than 0.50x (50%)**

Company name	Bloomberg ticker	Last price (LC \$)	Market cap (US\$ m)	Net gearing (FY19)	Interest coverage ratio <1.5 over the past 3 years?	OCFICR <1 over the past 3 years?	FCFICR <1 over the past 3 years?
Aspial Corp Ltd	ASP SP	0.16	216.9	251.8%	Yes	Yes	Yes
Del Monte Pac Ltd	DELM SP	0.09	125.1	242.4%	Yes	No	No
TA Corp Ltd	TACL SP	0.15	55.8	227.9%	Yes	Yes	Yes
Oxley Holdings	OHL SP	0.22	648.0	214.4%	No	Yes	Yes
Gallant Venture	GALV SP	0.11	409.9	201.7%	Yes	No	No
Halcyon Agri Corp	HACL SP	0.35	390.5	183.2%	Yes	Yes	Yes
Tuan Sing Holdings	TSH SP	0.22	182.3	137.5%	Yes	No	No
Asian Pay Television	APTT SP	0.11	119.7	133.5%	No	Yes	Yes
Singhaiyi Group	SHG SP	0.07	194.5	123.3%	Yes	No	No
Fragrance Group	FRAG SP	0.11	554.0	116.6%	No	Yes	Yes
MYP Ltd	MYP SP	0.10	110.3	116.1%	Yes	Yes	Yes
OUE Lippo Health	IHC SP	0.04	108.8	114.2%	Yes	Yes	Yes
Geo Energy	GERL SP	0.08	78.3	104.5%	Yes	Yes	Yes
Hatten Land	HATT SP	0.07	66.5	100.8%	Yes	Yes	Yes
Amara Holdings	AMA SP	0.31	122.7	90.2%	No	Yes	Yes
Heeton Holdings	HTON SP	0.25	83.6	89.6%	Yes	No	No
Koh Brothers	KOH SP	0.15	44.1	87.0%	Yes	Yes	Yes
GSH Corp	GSH SP	0.23	315.0	83.6%	Yes	Yes	Yes
Mewah International	MII SP	0.20	208.9	66.4%	Yes	No	Yes
Banyan Tree Holdings	BTH SP	0.25	143.9	62.0%	Yes	Yes	Yes
Ausgroup Ltd	AUSG SP	0.02	44.8	61.7%	Yes	Yes	Yes
OUE Ltd	OUE SP	1.04	661.9	56.6%	Yes	No	Yes

As of 26 Mar 2020

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

## CGS-CIMB Research small cap coverage ➤

Figure 27: CGS-CIMB Research Small-cap universe

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)		
						CY20F	CY21F		CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	
<b>Consumer</b>																	
Delfi Ltd	DELFI SP	Hold	0.72	2.30	307	na	na	na	na	na	na	na	na	na	na	na	na
Japfa Ltd	JAP SP	Add	0.41	0.95	590	5.2	4.9	-2.0%	0.55	0.50	11.6%	10.7%	4.7	4.5	3.5%	3.5%	
Jumbo Group Limited	JUMBO SP	Hold	0.21	0.22	92	27.3	10.8	na	1.99	1.76	7.3%	17.3%	7.2	3.5	2.7%	6.5%	
<b>Average</b>						<b>16.2</b>	<b>7.9</b>	<b>-2.0%</b>	<b>1.27</b>	<b>1.13</b>	<b>9.4%</b>	<b>14.0%</b>	<b>6.0</b>	<b>4.0</b>	<b>3.1%</b>	<b>5.0%</b>	
<b>Healthcare</b>																	
Biolidics Ltd	BLD SP	Add	0.27	0.32	49	na	60.0	na	7.88	6.97	-14.8%	12.3%	na	35.3	0.0%	0.0%	
Q&M Dental Group	QNM SP	Reduce	0.37	0.40	205	21.2	17.5	na	2.34	2.19	11.3%	12.9%	7.9	7.2	2.4%	2.9%	
Raffles Medical Group	RFMD SP	Add	0.78	0.98	995	27.8	23.8	1.4%	1.67	1.66	6.3%	7.0%	16.1	14.3	3.2%	3.5%	
Talkmed Group Ltd	TKMED SP	Hold	0.43	0.68	399	na	na	na	na	na	na	na	na	na	na	na	
<b>Average</b>						<b>24.5</b>	<b>33.8</b>	<b>1.4%</b>	<b>3.97</b>	<b>3.61</b>	<b>0.9%</b>	<b>10.7%</b>	<b>12.0</b>	<b>18.9</b>	<b>1.9%</b>	<b>2.1%</b>	
<b>Oil Equipment and Services</b>																	
China Aviation Oil	CAO SP	Hold	0.86	0.86	516	8.4	6.1	-2.3%	0.59	0.55	7.2%	9.3%	-12.3	-10.0	3.6%	4.9%	
CSE Global	CSE SP	Add	0.35	0.45	124	9.0	8.6	-6.9%	0.98	0.95	11.4%	11.2%	5.6	5.2	8.0%	8.0%	
Dyna-Mac Holdings Ltd	DMHL SP	Add	0.07	0.13	53	13.5	na	na	0.70	na	5.3%	na	1.9	na	0.0%	na	
Pacific Radiance	PACRA SP	Reduce	0.10	0.07	52	na	na	na	na	na	na	na	na	na	na	na	
Penguin Int'l Ltd	PBS SP	Add	0.41	0.82	63	4.3	4.2	4.0%	0.49	0.45	12.0%	11.1%	0.8	0.2	4.6%	4.7%	
Valliance Holdings Limited	VALZ SP	Add	0.04	0.07	17	na	na	na	na	na	na	na	na	na	na	na	
<b>Average</b>						<b>8.8</b>	<b>6.3</b>	<b>-1.7%</b>	<b>0.69</b>	<b>0.65</b>	<b>9.0%</b>	<b>10.5%</b>	<b>-1.0</b>	<b>-1.5</b>	<b>4.0%</b>	<b>5.9%</b>	
<b>Technology</b>																	
AEM Holdings Ltd	AEM SP	Add	1.67	2.71	317	7.3	6.9	-1.1%	2.50	1.96	40.3%	31.9%	3.6	2.8	3.4%	3.6%	
Frænken Group Ltd	FRKN SP	Add	0.58	1.06	171	5.7	5.4	-0.1%	0.75	0.68	14.0%	13.2%	2.7	2.3	5.2%	5.2%	
Fu Yu Corp Ltd	FUYU SP	Add	0.20	0.21	105	11.5	10.3	5.8%	0.91	0.89	8.2%	8.8%	2.5	2.1	8.1%	8.1%	
ISDN Holdings Ltd	ISDN SP	Add	0.15	0.23	45	7.7	6.4	16.0%	0.40	0.38	5.4%	6.1%	2.7	2.3	3.4%	4.0%	
Silverlake Axis Ltd	SILV SP	Hold	0.25	0.38	446	9.3	8.7	na	2.80	2.34	32.4%	29.5%	4.4	3.9	5.7%	6.3%	
Sunningdale Tech Ltd	SUNN SP	Hold	0.84	1.10	112	10.1	9.1	31.6%	0.43	0.43	4.4%	4.8%	3.4	3.0	9.6%	9.6%	
UMS Holdings Ltd	UMSH SP	Add	0.63	1.08	234	7.3	6.9	10.5%	1.25	1.14	18.2%	17.3%	5.3	4.6	6.4%	6.4%	
Valuetronics Holdings Ltd	VALUE SP	Hold	0.51	0.50	156	7.8	6.2	7.1%	0.96	0.90	12.6%	15.0%	0.5	0.5	9.0%	9.0%	
<b>Average</b>						<b>8.3</b>	<b>7.5</b>	<b>10.0%</b>	<b>1.25</b>	<b>1.09</b>	<b>16.9%</b>	<b>15.8%</b>	<b>3.1</b>	<b>2.7</b>	<b>6.3%</b>	<b>6.5%</b>	
<b>Others</b>																	
Boustead Projects Limited	BOCJ SP	Add	0.64	1.24	140	5.8	5.5	na	0.60	0.55	10.8%	10.3%	3.4	2.9	2.3%	2.3%	
Boustead Singapore Ltd	BOCS SP	Add	0.60	1.00	205	7.5	6.9	na	0.78	0.73	10.9%	11.0%	3.8	3.2	5.0%	5.0%	
BRC Asia Ltd	BRC SP	Add	1.13	2.05	185	5.9	6.0	na	0.89	0.82	15.6%	14.2%	6.0	5.2	7.1%	7.1%	
China Sunshine Chemical Holdings	CSSC SP	Add	0.30	0.38	205	7.3	5.5	-4.0%	0.54	0.50	7.7%	9.4%	1.3	1.1	3.8%	4.1%	
HRnetGroup Limited	HRNET SP	Hold	0.43	0.58	303	10.4	8.8	4.9%	1.27	1.19	12.7%	13.9%	3.1	2.2	4.8%	5.7%	
Overseas Education Ltd	OEL SP	Add	0.27	0.42	79	13.1	12.5	3.6%	0.82	0.83	6.3%	6.6%	5.8	5.5	10.2%	10.2%	
mm2 Asia	mm2 SP	Hold	0.12	0.13	100	8.7	6.5	13.8%	0.59	0.54	7.1%	8.7%	3.8	2.9	0.0%	0.0%	
Riverstone Holdings	RSTON SP	Add	0.99	1.30	512	14.1	12.9	11.6%	2.48	2.21	19.1%	18.2%	9.0	8.1	2.8%	3.1%	
Centurion Corporation Ltd	CENT SP	Add	0.40	0.58	233	8.6	7.7	5.1%	0.54	0.52	6.5%	6.9%	12.4	11.3	5.8%	6.5%	
Yongnam Holdings	YNH SP	Hold	0.09	0.09	33	na	11.0	na	0.25	0.24	-4.6%	2.2%	4.1	2.8	0.0%	0.0%	
<b>Average</b>						<b>9.0</b>	<b>8.3</b>	<b>4.2%</b>	<b>0.88</b>	<b>0.81</b>	<b>9.2%</b>	<b>10.1%</b>	<b>5.3</b>	<b>4.5</b>	<b>4.2%</b>	<b>4.4%</b>	
<b>Small-cap sector average</b>						<b>10.6</b>	<b>10.7</b>	<b>5.0%</b>	<b>1.33</b>	<b>1.23</b>	<b>10.7%</b>	<b>12.3%</b>	<b>4.2</b>	<b>4.9</b>	<b>4.5%</b>	<b>5.0%</b>	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG  
DATA AS AT 31 MAR 2020

Singapore

**HOLD** (no change)

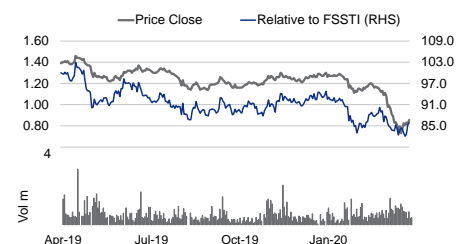
Consensus ratings\*: Buy 2 Hold 2 Sell 0

Current price:	\$S\$0.86
Target price:	\$S\$0.86
Previous target:	\$S\$1.25
Up/downside:	0.3%
CGS-CIMB / Consensus:	-38.7%
Reuters:	CNAO.SI
Bloomberg:	CAO SP
Market cap:	US\$516.1m
	\$S\$735.5m
Average daily turnover:	US\$0.46m
	\$S\$0.64m
Current shares o/s:	866.2m
Free float:	28.9%

\*Source: Bloomberg

**Key changes in this note**

- FY20F EPS reduced by 25.6%.
- FY21F EPS reduced by 9.7%.
- FY22F EPS reduced by 6.2%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	-25	-32.7	-36.2
Relative (%)	-7.4	-9.7	-13.4

<b>Major shareholders</b>	% held
China National Aviation Fuel Grp	51.0
BP PLC	20.1

**Analyst(s)**



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# China Aviation Oil

## Stay grounded

- China has limited the quantum of international flights to China while intense volatility could cap near-term trading activities. We lower our FY20-22F EPS.
- Despite share price diving 32% YTD, we think it is too early to accumulate aviation/travel-related stocks aggressively.
- We reiterate our Hold call and lower our TP, now based on a reduced 6.5x (close to its -1 s.d. from long-term average mean) on FY21F EPS.

### Heightened slowdown in China's air travel

According to news articles, the Civil Aviation Authority of China (CAAC) is limiting the number of international flights to and from China, is directing Chinese carriers to maintain only one route to any country while limiting the number of flights to one per week, effective 29 March. Additionally, on 24 Mar 2020, the International Air Transport Association (IATA) updated that it estimated 2020's Revenue Passenger Kilometers (RPKs) of Asia Pacific carriers to decline 37% yoy, higher than the 13% loss it estimated at end-Feb 2020. All these point to slower international jet fuel demand for China, at least in 1H20F, and lower refueling volumes in CAO's key associate, Shanghai Pudong International Airport Aviation Fuel Supply (SPIA), in our view.

### Muted trading activities on oil product industry volatility

CAO's trading activities are led by physical demand for the underlying product (minimal speculative trading) due to its rigorous trading risk mitigation policies. Given the near-term uncertainty with regards to demand for jet fuel and other oil products, trading activities could be capped, in our view.

### Lower FY20-22F EPS warranted

In the wake of the dramatic slowdown in global travel and uncertainties in the oil product industry, we now forecast a steeper drop in revenues, gross profits and SPIA earnings. We forecast FY20F EPS to fall 38% yoy but recover to grow 37% in FY21F. Overall, we cut our FY20F/FY21F/FY22F EPS forecasts by 25.6%/9.7%/6.2%.

### Valuations closer to last trough but still too early; reiterate Hold

CAO is trading at 6x FY21F EPS (closer to trough of 4.4x forward PER in FY16, the previous crude oil crisis). Whilst this potentially prices in the downside risks in forward earnings, we think the near-term uncertainties, especially for the travel-related industries and oil product markets, make it too early to invest. As we still see CAO as a longer-term proxy for China's growing outbound travel and like its healthy balance sheet and FY21F dividend yield of c.5%, we reiterate our Hold call. Our lower TP is now based on 6.5x FY21F P/E (from 8.5x previously), close to its -1 s.d. level from FY08-19 average mean. Upside risks include a swifter recovery in China's international travel, faster recovery in global travel and less uncertainty in the oil markets (which could translate to higher earnings). Downside risks include a prolonged Covid-19 impact and lower dividends.

### Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (US\$m)	20,612	20,343	11,029	14,896	16,624
Operating EBITDA (US\$m)	30.00	38.88	20.95	28.33	31.61
Net Profit (US\$m)	93.86	99.83	61.63	84.66	93.13
Normalised EPS (US\$)	0.11	0.12	0.07	0.10	0.11
Normalised EPS Growth	9.6%	6.4%	(38.3%)	37.4%	10.0%
FD Normalised P/E (x)	5.54	5.21	8.43	6.14	5.58
DPS (US\$)	0.033	0.035	0.021	0.029	0.032
Dividend Yield	5.56%	5.80%	3.56%	4.89%	5.38%
EV/EBITDA (x)	(4.98)	(5.59)	(12.28)	(10.00)	(10.56)
P/FCFE (x)	5.79	8.55	24.38	11.52	7.26
Net Gearing	(46.5%)	(44.9%)	(42.7%)	(41.8%)	(43.2%)
P/BV (x)	0.68	0.62	0.59	0.55	0.52
ROE	12.6%	12.4%	7.2%	9.3%	9.6%
% Change In Normalised EPS Estimates			(25.6%)	(9.7%)	(6.2%)
Normalised EPS/consensus EPS (x)			0.58	0.73	0.93

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Stay grounded

**Figure 1: The IATA now expects 38% fall in global RPKs and US\$252bn less in passenger revenues in 2020 vs. 2019. Asia Pacific carriers to see a 37% slowdown in RPKs**

Region of airline registration	RPKs 2020 % yoy	Passenger revenue \$ billion 2020 vs. 2019 levels
Asia-Pacific	-37%	-88
North America	-27%	-50
Europe	-46%	-76
Middle East	-39%	-19
Africa	-32%	-4
Latin America	-41%	-15
Industry	-38%	-252

SOURCES: CGS-CIMB RESEARCH, IATA Coronavirus: Third Impact Assessment Report

**Figure 2: Earnings Revisions**

FYE Dec (US\$m)	New			Previous			Change		
	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F
Revenue	11,029	14,896	16,624	18,076	20,058	21,072	(39.0)	(25.7)	(21.1)
GP	31.7	42.8	47.8	51.9	56.2	59.0	(39.0)	(23.8)	(19.0)
GP Margins (%)	0.29	0.29	0.29	0.29	0.28	0.28	-	2.6	2.6
JV and Assoc contributions	42.3	59.4	64.8	51.7	61.7	65.2	(18.3)	(3.8)	(0.6)
<b>Net profit</b>	<b>61.6</b>	<b>84.7</b>	<b>93.1</b>	<b>82.8</b>	<b>93.7</b>	<b>99.3</b>	<b>(25.6)</b>	<b>(9.7)</b>	<b>(6.2)</b>
<b>Core EPS</b>	<b>7.1</b>	<b>9.8</b>	<b>10.8</b>	<b>9.6</b>	<b>10.8</b>	<b>11.5</b>	<b>(25.6)</b>	<b>(9.7)</b>	<b>(6.2)</b>

CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: CAO forward P/E**

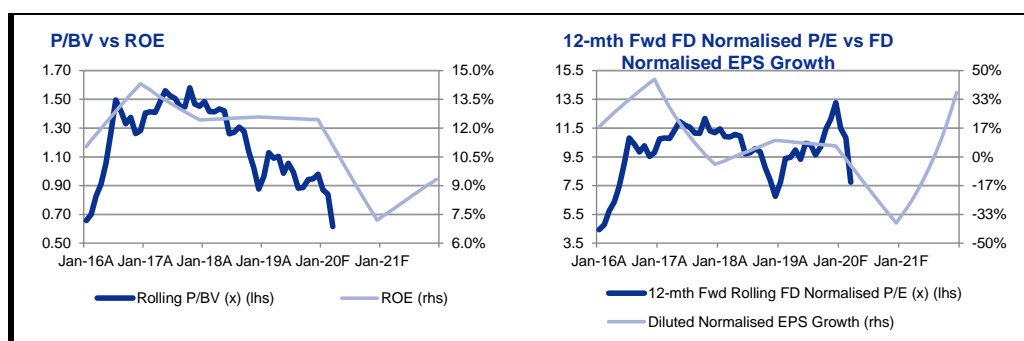


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: CAO rolling P/BV**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**

**Profit & Loss**

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>20,612</b>	<b>20,343</b>	<b>11,029</b>	<b>14,896</b>	<b>16,624</b>
<b>Gross Profit</b>	<b>50</b>	<b>58</b>	<b>32</b>	<b>43</b>	<b>48</b>
<b>Operating EBITDA</b>	<b>30</b>	<b>39</b>	<b>21</b>	<b>28</b>	<b>32</b>
Depreciation And Amortisation	(1)	(1)	(1)	(1)	(1)
<b>Operating EBIT</b>	<b>29</b>	<b>38</b>	<b>20</b>	<b>27</b>	<b>31</b>
Financial Income/(Expense)	(1)	3	3	3	4
Pretax Income/(Loss) from Assoc.	72	66	42	59	65
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>101</b>	<b>106</b>	<b>66</b>	<b>90</b>	<b>99</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>101</b>	<b>106</b>	<b>66</b>	<b>90</b>	<b>99</b>
Taxation	(7)	(7)	(4)	(6)	(6)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>94</b>	<b>100</b>	<b>62</b>	<b>85</b>	<b>93</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
<b>Net Profit</b>	<b>94</b>	<b>100</b>	<b>62</b>	<b>85</b>	<b>93</b>
Normalised Net Profit	94	100	62	85	93
<b>Fully Diluted Normalised Profit</b>	<b>94</b>	<b>100</b>	<b>62</b>	<b>85</b>	<b>93</b>

**Cash Flow**

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>30.0</b>	<b>38.9</b>	<b>20.9</b>	<b>28.3</b>	<b>31.6</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	147.6	5.4	(3.6)	(33.8)	(15.1)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(20.6)	9.2	8.5	8.7	9.3
Net Interest (Paid)/Received	(4.6)	(2.7)	(2.5)	(2.6)	(2.8)
Tax Paid	(1.5)	(0.8)	(4.1)	(5.6)	(6.2)
<b>Cashflow From Operations</b>	<b>150.8</b>	<b>49.9</b>	<b>19.2</b>	<b>(4.9)</b>	<b>16.9</b>
Capex	(13.1)	(0.6)	(0.4)	(0.4)	(0.4)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	71.9	11.5	2.5	50.5	55.1
<b>Cash Flow From Investing</b>	<b>58.9</b>	<b>10.9</b>	<b>2.1</b>	<b>50.0</b>	<b>54.6</b>
Debt Raised/(repaid)	(120.0)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(29.1)	(28.5)	(18.5)	(25.4)	(27.9)
Preferred Dividends					
Other Financing Cashflow	(3.1)	(12.2)	(2.5)	(2.6)	(2.8)
<b>Cash Flow From Financing</b>	<b>(152.3)</b>	<b>(40.6)</b>	<b>(21.0)</b>	<b>(28.0)</b>	<b>(30.7)</b>
Total Cash Generated	57.4	20.2	0.3	17.1	40.9
<b>Free Cashflow To Equity</b>	<b>89.7</b>	<b>60.8</b>	<b>21.3</b>	<b>45.1</b>	<b>71.6</b>
<b>Free Cashflow To Firm</b>	<b>214.3</b>	<b>63.6</b>	<b>23.8</b>	<b>47.7</b>	<b>74.3</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



**BY THE NUMBERS... cont'd**
**Balance Sheet**

(US\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	358	379	379	396	437
Total Debtors	862	894	682	922	1,029
Inventories	111	59	32	43	48
Total Other Current Assets	0	145	145	145	145
<b>Total Current Assets</b>	<b>1,330</b>	<b>1,476</b>	<b>1,238</b>	<b>1,505</b>	<b>1,658</b>
Fixed Assets	5	5	5	4	4
Total Investments	311	362	402	411	420
Intangible Assets	2	2	1	1	1
Total Other Non-Current Assets	5	24	24	24	24
<b>Total Non-current Assets</b>	<b>323</b>	<b>392</b>	<b>432</b>	<b>440</b>	<b>449</b>
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	876	862	620	837	933
Other Current Liabilities		156	156	156	156
<b>Total Current Liabilities</b>	<b>876</b>	<b>1,018</b>	<b>776</b>	<b>992</b>	<b>1,089</b>
Total Long-term Debt	0	4	4	4	4
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Total Provisions	8	12	12	12	12
<b>Total Liabilities</b>	<b>884</b>	<b>1,033</b>	<b>791</b>	<b>1,008</b>	<b>1,105</b>
Shareholders' Equity	769	835	878	937	1,003
Minority Interests					
<b>Total Equity</b>	<b>769</b>	<b>835</b>	<b>878</b>	<b>937</b>	<b>1,003</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	26.7%	(1.3%)	(45.8%)	35.1%	11.6%
Operating EBITDA Growth	45.4%	29.6%	(46.1%)	35.2%	11.6%
Operating EBITDA Margin	0.146%	0.191%	0.190%	0.190%	0.190%
Net Cash Per Share (US\$)	0.41	0.43	0.43	0.45	0.50
BVPS (US\$)	0.89	0.96	1.01	1.08	1.16
Gross Interest Cover	6.29	13.76	7.98	10.43	11.14
Effective Tax Rate	6.65%	6.20%	6.20%	6.20%	6.20%
Net Dividend Payout Ratio	30.8%	30.2%	30.0%	30.0%	30.0%
Accounts Receivables Days	17.10	15.75	26.15	19.65	21.41
Inventory Days	2.84	1.52	1.51	0.92	1.00
Accounts Payables Days	17.18	15.61	24.59	17.84	19.44
ROIC (%)	12.6%	35.0%	18.2%	24.3%	21.0%
ROCE (%)	4.06%	5.36%	2.97%	3.63%	3.78%
Return On Average Assets	5.30%	5.50%	3.29%	4.49%	4.41%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% chg, main prod./serv.)	35.6%	-6.9%	-23.4%	14.4%	6.5%
Vol. sales grth (% main prod./serv)	-6.6%	6.0%	-29.3%	18.1%	4.8%
No. Of Petrol Stations	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

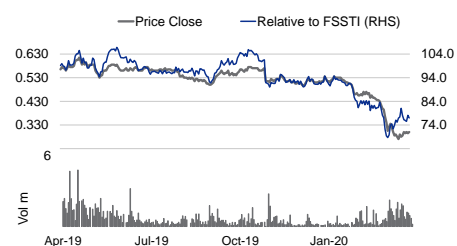
## Singapore

**ADD** (previously HOLD)

Consensus ratings*:	Buy 1	Hold 1	Sell 0
Current price:	S\$0.30		
Target price:	S\$0.38		
Previous target:	S\$0.42		
Up/downside:	28.0%		
CGS-CIMB / Consensus:	-8.6%		
Reuters:	CHSN.SI		
Bloomberg:	CSSC SP		
Market cap:	US\$204.8m		
	S\$291.9m		
Average daily turnover:	US\$0.17m		
	S\$0.23m		
Current shares o/s:	976.3m		
Free float:	35.0%		
*Source: Bloomberg			

**Key changes in this note**

- FY20-22F EPS forecast cut by 21.8%-36.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-30.2	-41.8	-46.9
Relative (%)	-12.6	-18.8	-24.1

Major shareholders	% held
Success More Group Limited	63.3

**Analyst(s)**

**ONG Khang Chuen, CFA**

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# China Sun sine Chemical Holdings

## Valuation play

- We determine S\$0.265 as a trough price for China Sun sine. Upgrade to Add from Hold on a valuation basis; accumulate for long-term.
- CSSC is a global leader in the supply of rubber accelerators, and has been consistently profitable, with positive operating cash flow since IPO in 2007.
- Near-term outlook remains challenging, but we believe CSSC could emerge stronger from this crisis given its more robust balance sheet vs. peers.

### Upgrade to Add on valuation basis

We determine S\$0.265 as a trough point for CSSC, based on our bear-case FY20F BVPS forecast of Rmb2.67/share; pegged to CSSC's historical trough P/BV of 0.52x. Downside risk is cushioned by its FY20F net cash of S\$0.21/share. We believe that CSSC's near-term challenging outlook has been more than priced in by the market, and recommend long-term investors accumulate at this level. We upgrade CSSC from Hold to Add on a valuation basis. We cut FY20-22F EPS forecasts (base case) by 21.8-36.5% to factor in lower ASP and margin assumptions; our lower TP of S\$0.38 is based on 0.72x FY20F P/BV (-0.75 s.d. of historical mean).

### What are you buying into?

CSSC is the largest producer of rubber accelerators in the world and the largest producer of insoluble sulphur in the PRC, according to the company's 2018 annual report. CSSC supplies two-thirds of the global top 75 global tyre makers including Bridgestone, Michelin, Goodyear and Pirelli. Since its IPO in 2007, CSSC has consistently been profitable, with a positive operating cash flow.

### Why was it previously a Hold?

We see a challenging near-term outlook for CSSC. Specifically, we see continued ASP weakness for CSSC in 1H20, as the company plans to prioritise sales volume over margins. Downstream demand is expected to remain weak as Chinese tyre manufacturers run at low utilisation rates, given 1) continued global macro uncertainties impacting auto demand, and 2) Covid-19 temporarily impacting supply chains in China. Meanwhile on the supply side, we are also observing intensifying competition as several competitors invest in new capacity. Nevertheless, with a more robust balance sheet vs. peers, we believe CSSC is in a good position to tide through the near-term industry weakness, and emerge stronger post the Covid-19 crisis.

### Re-rating catalysts/Key risks

Re-rating catalyst is a recovery of CSSC's margin spreads. Key risks include prolonged macro weakness and worse-than-expected pricing competition.

Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (Rmbm)	3,283	2,692	2,549	2,891	3,229
Operating EBITDA (Rmbm)	803.9	528.0	358.6	453.2	551.6
Net Profit (Rmbm)	641.3	388.9	200.9	265.0	332.4
Core EPS (Rmb)	0.61	0.38	0.21	0.27	0.34
Core EPS Growth	72.6%	(38.6%)	(45.2%)	31.9%	25.4%
FD Core P/E (x)	2.44	3.99	7.26	5.50	4.39
DPS (Rmb)	0.14	0.05	0.06	0.06	0.06
Dividend Yield	9.04%	3.33%	3.84%	4.05%	4.05%
EV/EBITDA (x)	0.53	0.34	1.31	1.13	0.77
P/FCFE (x)	2.79	4.10	NA	93.57	9.80
Net Gearing	(44.7%)	(50.0%)	(36.4%)	(32.4%)	(32.4%)
P/BV (x)	0.63	0.57	0.54	0.50	0.46
ROE	29.5%	15.0%	7.6%	9.4%	10.9%
% Change In Core EPS Estimates			(36.5%)	(31.7%)	(21.8%)
CGS-CIMB/Consensus EPS (x)			0.57	0.70	0.77

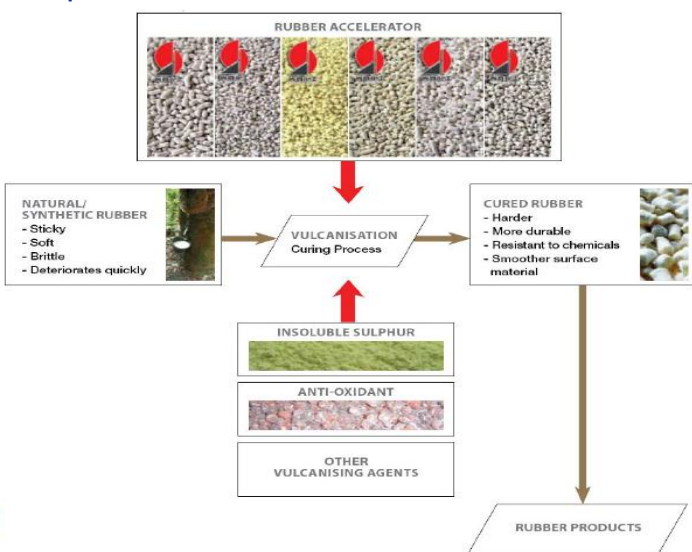
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

# Valuation play

## What are you buying into?

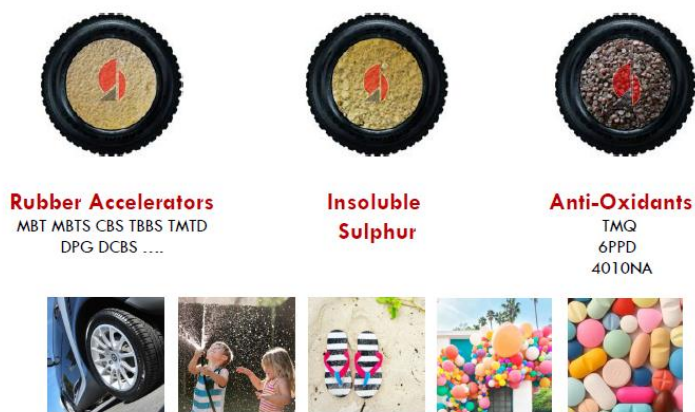
China Sunshine was established in 1977, and is primarily engaged in the production of rubber chemicals which comprise rubber accelerators (RAC), insoluble sulphur (IS) and antioxidants (AO). These are essential rubber chemicals that are used in the production of rubber and rubber-related products. The bulk of its chemicals are sold to tyre makers that consume most of the global supply of rubber, driven by the growth in the global automotive industry. According to the company, every 100 tonnes of rubber produced consumes six tonnes of rubber chemicals.

**Figure 1: Rubber chemicals needed to speed up production of rubber products**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Rubber chemical products offered by Sunshine**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Serving the top global tyre makers ➤

According to management, Sunshine serves over 1,000 customers globally and two-thirds of the global top 75 tyre makers. Products are sold to renowned tyre manufacturers in the world and in China, including nine of the world's top 10 tyre manufacturers, such as Bridgestone Corporation (5108 JP, Not Rated), Michelin Group (Cie Generale des Etablissements Michelin, ML FP, Not Rated), Goodyear Tire & Rubber (GT US, Not Rated), Pirelli & C (PPAMF US, Not Rated) and Sumitomo Rubber Industries (5110 JP, Not Rated), and some of the leading tyre manufacturers in China, such as GITI Tire (600182 CH, Not Rated) and Shandong Hengfeng Rubber & Plastic Co Ltd (Unlisted).

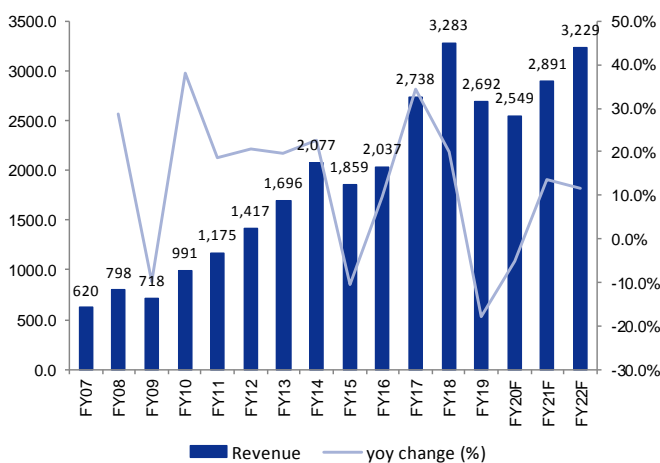
**Figure 3: Renowned tyre brands in Sunsine's customer base**



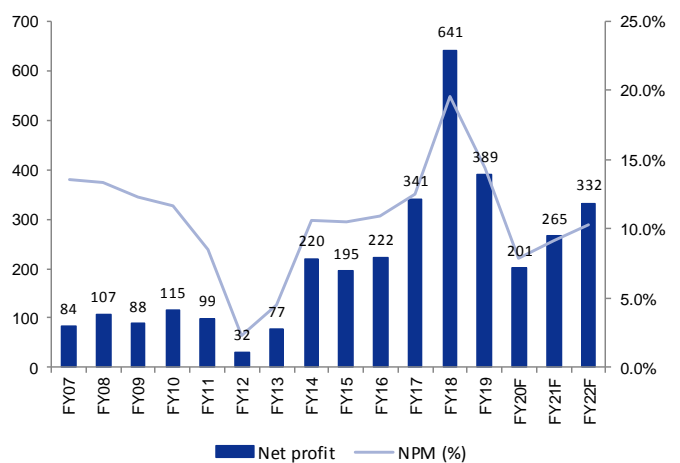
**Consistently profitable and operating cash flow positive since listing in 2007 ➤**

Since its listing in 2007, Sunsine has consistently delivered positive net profits every year, with net profit rising at a 13.6% CAGR from Rmb83.8m in FY07 to Rmb388.9m in FY19. This compares to its revenue CAGR of 13.0%, rising from Rmb619.5m in FY07 to Rmb2,691.6m in FY19.

**Figure 4: Revenue trend**



**Figure 5: Net profit and net margin trend**

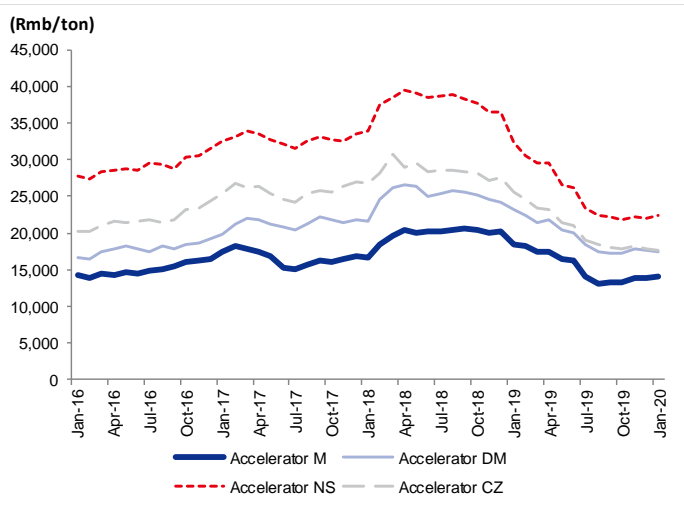


## Why was it previously a Hold?

### Near-term outlook remains challenging ➤

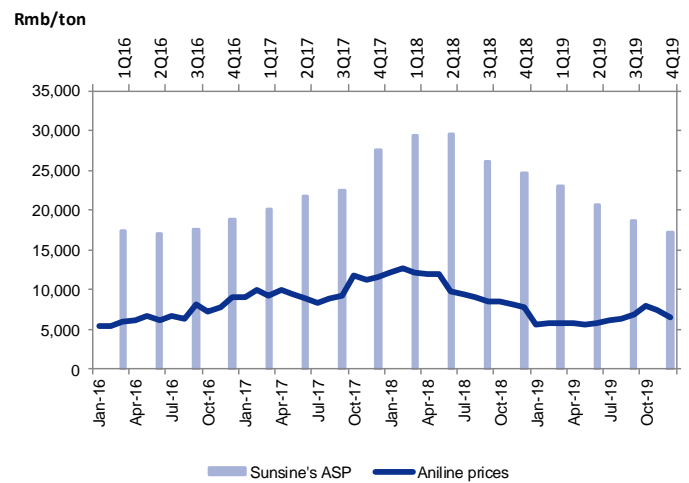
We see continued ASP weakness for China Sunshine in 1H20, as the company plans to prioritise sales volume over margins. Downstream demand is expected to remain weak as Chinese tyre manufacturers run at low utilisation rates, given 1) continued macro uncertainties impacting auto demand, and 2) Covid-19 temporarily impacting supply chain in China. Meanwhile on the supply side, we are also observing intensifying competition as several competitors invest in new capacity. Nevertheless, with a more robust balance sheet vs. peers, we believe CSSC is in a good position to tide through the near-term weakness, and emerge stronger post the Covid-19 crisis.

Figure 6: Price trend of key rubber accelerators in China



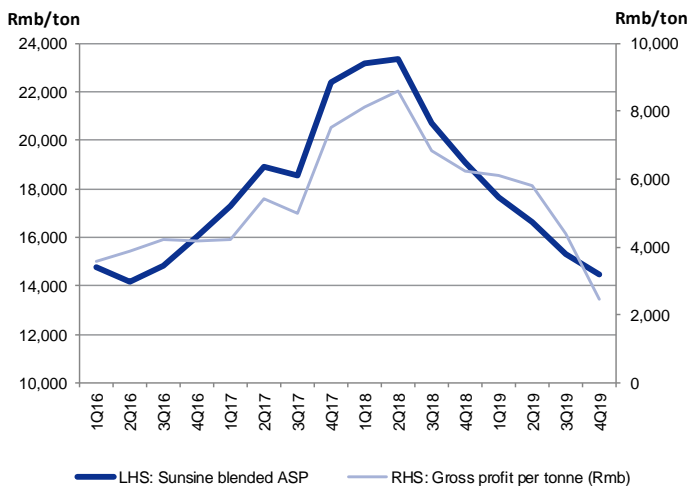
SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 7: Aniline prices vs. Sunsine's ASP for rubber accelerators



SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

Figure 8: Sunsine's blended ASP and gross profit per tonne



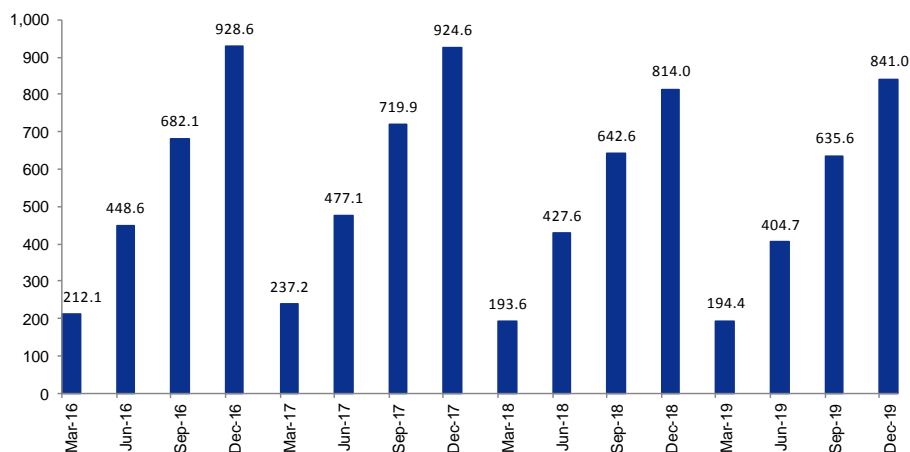
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Aniline prices vs. Brent



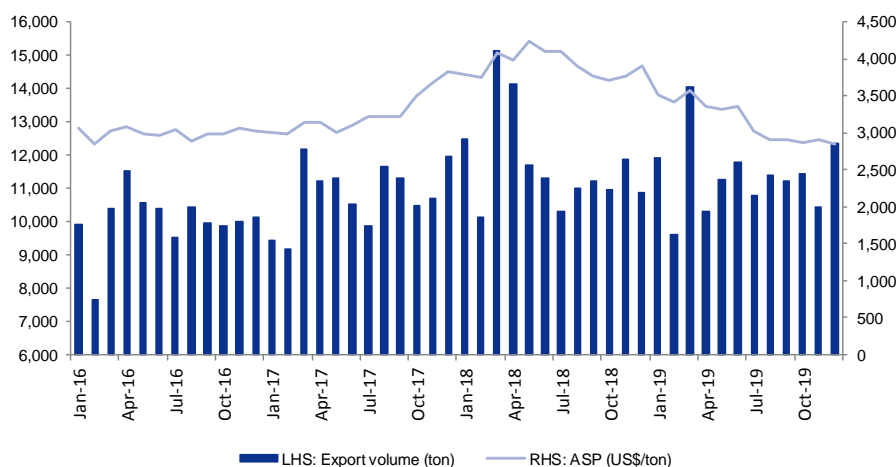
SOURCES: CGS-CIMB RESEARCH, CEIC, BLOOMBERG

**Figure 10: YTD rubber tyre sales volume in China (millions)**



SOURCES: CGS-CIMB RESEARCH, NATIONAL BUREAU OF STATISTICS

**Figure 11: Monthly export data of rubber accelerators (China)**



SOURCES: CGS-CIMB RESEARCH, CHINA PETROLEUM AND CHEMICAL INDUSTRY FEDERATION

### FY20F a year of investment ➤

Despite the tough operating environment, Sunshine continued to operate near full capacity in 4Q19, likely due to gains in its customers' wallet share. Leveraging on its superior product quality and balance sheet strength, Sunshine plans to further invest in capacity expansion this year to grab market share. Current plans include a 20kt rubber accelerator capacity expansion by 2H20F, and 30kt each of insoluble sulphur and anti-oxidant by FY21F.

## Upgrade to Add on valuation basis

We cut our FY20-22F EPS forecasts by 21.8-36.5% to factor in lower ASP and margin assumptions, in light of the uncertain macroeconomic environment globally. We also tabled our bull, bear and base case scenarios for China Sunshine in Fig 13 below.

Figure 12: Earnings revision

Earnings revision (Rmbm)	FY20F			FY21F			FY22F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	2,663	2,549	-4.3%	3,152	2,891	-8.3%	3,576	3,229	-9.7%
EBITDA	494	359	-27.3%	600	453	-24.5%	663	552	-16.8%
Net profit	316	201	-36.5%	388	265	-31.7%	425	332	-21.8%
Core net profit	316	201	-36.5%	388	265	-31.7%	425	332	-21.8%
Core EPS (Rmb cents)	32.4	20.6	-36.5%	39.7	27.1	-31.7%	43.5	34.0	-21.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

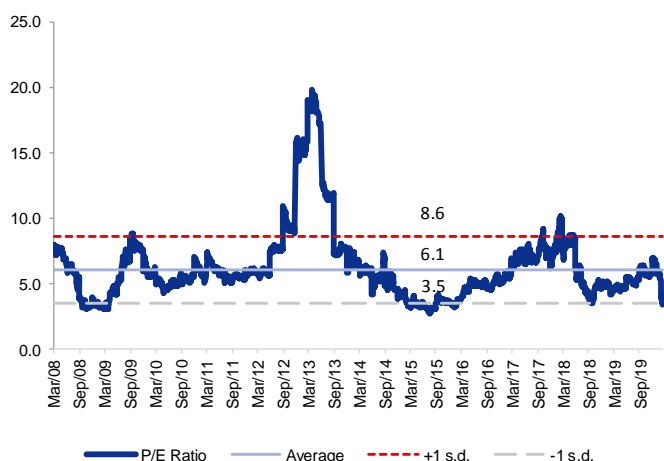
Figure 13: Bull, bear and base case scenarios for China Sunshine (FY20F)

FYE Dec (Rmb m)	Bull case	Base case	Bear case
Revenue	2,662.8	2,548.7	2,441.6
Net profit	316.4	200.9	96.1
BVPS (end-FY20F)	2.90	2.78	2.67
P/BV (x)	0.79	0.72	0.52
Target price (S\$)	0.44	0.38	0.27

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We determine S\$0.265 as a trough price for CSSC, based on our the bear-case FY20F BVPS forecast of Rmb2.67/share; pegged to CSSC's historical trough P/BV of 0.52x. Downside risk is cushioned by an FY20F net cash of S\$0.21/share. We believe that CSSC's near-term challenging outlook has been more than priced in by the market, and recommend long-term investors accumulate at this level. We upgrade CSSC from Hold to Add on a valuation basis; our lower TP of S\$0.38 is based on 0.72x FY20F P/BV (-0.75 s.d. of historical mean).

Figure 14: Historical P/E trend



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 15: Historical P/BV trend



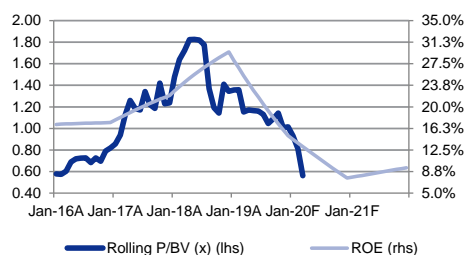
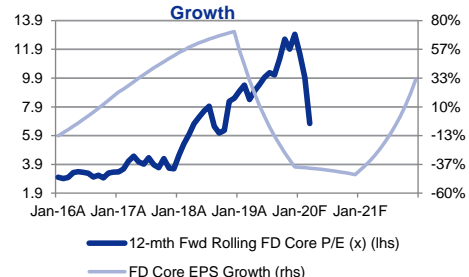
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 16: Peers Comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY20F	P/E (x) CY21F	3-year EPS CAGR (%)	P/BV (x) CY20F	Recurring ROE (%) CY20F	EV/EBITDA (x) CY20F	EV/EBITDA (x) CY21F	Dividend Yield (%) CY20F
China Sunshine Chemical Hold	CSSC SP	ADD	0.30	0.38	205	7.3	5.5	-4.0%	0.54	7.7%	1.3	1.1	3.8%
<b>Rubber chemical peers</b>													
Shandong Yanggu Huatai	300121 CH	Not rated	7.50	na	411	11.7	9.4	33.2%	1.49	11.1%	6.5	4.7	4.9%
Eastman Chemical Co	EMN US	Not rated	46.58	na	6,330	7.0	6.2	16.0%	0.99	14.2%	6.6	6.2	5.7%
LANXESS AG	LXS GY	Not rated	35.39	na	3,384	10.1	8.0	29.5%	1.02	10.0%	5.4	4.9	2.8%
<b>Simple average (rubber chemical peers)</b>						<b>9.6</b>	<b>7.8</b>	<b>26.2%</b>	<b>1.17</b>	<b>11.8%</b>	<b>6.2</b>	<b>5.2</b>	<b>4.5%</b>
<b>Tyre manufacturers</b>													
Anhui Zhongding	000887 CH	Not rated	9.74	na	1,675	12.2	10.4	na	1.25	9.5%	9.4	8.0	3.1%
Shandong Linglong Tyre Co L	601966 CH	Not rated	19.87	na	3,359	13.0	11.0	11.0%	1.89	14.6%	8.8	7.8	2.5%
Bridgestone Corp	5108 JP	Not rated	3,172	na	21,036	9.9	9.1	-2.9%	0.91	9.3%	4.2	3.9	5.0%
Yokohama Rubber	5101 JP	Not rated	1,301	na	2,050	6.3	5.8	-3.9%	0.47	7.2%	5.0	4.7	4.9%
Cie Generale des Etab.	ML FP	Not rated	80.42	na	15,707	8.8	7.5	5.9%	1.03	11.7%	4.5	4.1	4.9%
Goodyear Tire & Rubber Co/TI	GT US	Not rated	5.82	na	1,354	8.2	3.9	na	0.32	2.5%	4.4	4.1	11.0%
Cooper Tire & Rubber Co	CTB US	Not rated	16.30	na	819	7.0	4.8	na	0.61	8.1%	2.5	2.1	2.6%
Apollo Tyres Ltd	APTY IN	Reduce	79.40	133.5	601	6.3	5.2	na	0.43	6.9%	4.1	3.7	4.9%
Cheng Shin Rubber Ind	2105 TT	Not rated	30.45	na	3,258	18.1	16.9	na	1.18	6.6%	6.5	6.2	4.0%
Hankook Tire & Technology	161390 KS	Hold	18,750	32,000	1,906	4.7	3.8	na	0.31	6.7%	1.8	1.5	2.4%
Kumho Tire Co Inc	073240 KS	Not rated	3,060	na	714	na	31.2	na	0.64	0.6%	8.5	7.8	na
Nexen Tire Corp	002350 KS	Not rated	4,675	na	371	4.6	3.7	-12.9%	0.29	7.2%	3.6	3.3	2.2%
<b>Simple average (tyre manufacturers)</b>						<b>9.0</b>	<b>9.4</b>	<b>-0.6%</b>	<b>0.78</b>	<b>7.6%</b>	<b>5.3</b>	<b>4.8</b>	<b>4.3%</b>

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG



**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>3,283</b>	<b>2,692</b>	<b>2,549</b>	<b>2,891</b>	<b>3,229</b>
<b>Gross Profit</b>	<b>1,126</b>	<b>781</b>	<b>675</b>	<b>768</b>	<b>868</b>
<b>Operating EBITDA</b>	<b>804</b>	<b>528</b>	<b>359</b>	<b>453</b>	<b>552</b>
Depreciation And Amortisation	-98	-114	-107	-121	-136
<b>Operating EBIT</b>	<b>706</b>	<b>414</b>	<b>252</b>	<b>332</b>	<b>416</b>
Financial Income/(Expense)	5	13	-1	-1	-1
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>712</b>	<b>427</b>	<b>251</b>	<b>331</b>	<b>415</b>
Exceptional Items	48	26	0	0	0
<b>Pre-tax Profit</b>	<b>760</b>	<b>453</b>	<b>251</b>	<b>331</b>	<b>415</b>
Taxation	-118	-64	-50	-66	-83
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>641</b>	<b>389</b>	<b>201</b>	<b>265</b>	<b>332</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>641</b>	<b>389</b>	<b>201</b>	<b>265</b>	<b>332</b>
Recurring Net Profit	601	367	201	265	332
<b>Fully Diluted Recurring Net Profit</b>	<b>601</b>	<b>367</b>	<b>201</b>	<b>265</b>	<b>332</b>

**Cash Flow**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>803.9</b>	<b>528.0</b>	<b>358.6</b>	<b>453.2</b>	<b>551.6</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(2.0)	20.1	(20.2)	(90.9)	(89.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(72.1)	(24.1)	0.0	0.0	0.0
Net Interest (Paid)/Received	5.3	12.7	(0.5)	(0.5)	(0.5)
Tax Paid	(84.1)	(121.1)	(50.2)	(66.3)	(83.1)
<b>Cashflow From Operations</b>	<b>651.0</b>	<b>415.6</b>	<b>287.7</b>	<b>295.6</b>	<b>378.7</b>
Capex	(129.7)	(72.4)	(530.0)	(280.0)	(230.0)
Disposals Of FAs/subsidiaries	0.2	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	5.3	13.2	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(124.2)</b>	<b>(59.2)</b>	<b>(530.0)</b>	<b>(280.0)</b>	<b>(230.0)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	(2.1)	(19.6)	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(58.5)	(135.5)	(50.8)	(56.5)	(59.1)
Preferred Dividends					
Other Financing Cashflow	9.1	7.3	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(51.5)</b>	<b>(147.8)</b>	<b>(50.8)</b>	<b>(56.5)</b>	<b>(59.1)</b>
Total Cash Generated	475.3	208.6	(293.1)	(40.9)	89.6
<b>Free Cashflow To Equity</b>	<b>526.8</b>	<b>356.4</b>	<b>(242.3)</b>	<b>15.6</b>	<b>148.7</b>
<b>Free Cashflow To Firm</b>	<b>526.8</b>	<b>356.9</b>	<b>(241.8)</b>	<b>16.1</b>	<b>149.2</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	1,039	1,280	987	946	1,035
Total Debtors	761	693	663	752	840
Inventories	217	247	257	291	323
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>2,016</b>	<b>2,220</b>	<b>1,907</b>	<b>1,989</b>	<b>2,199</b>
Fixed Assets	691	650	1,073	1,231	1,326
Total Investments	0	0	0	0	0
Intangible Assets	40	49	49	49	49
Total Other Non-Current Assets	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>731</b>	<b>699</b>	<b>1,122</b>	<b>1,280</b>	<b>1,375</b>
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	341	323	283	316	347
Other Current Liabilities	81	24	24	24	24
<b>Total Current Liabilities</b>	<b>422</b>	<b>347</b>	<b>308</b>	<b>340</b>	<b>371</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	9	9	9	9
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>422</b>	<b>357</b>	<b>317</b>	<b>349</b>	<b>380</b>
Shareholders' Equity	2,326	2,562	2,712	2,920	3,193
Minority Interests	0	0	0	0	0
<b>Total Equity</b>	<b>2,326</b>	<b>2,562</b>	<b>2,712</b>	<b>2,920</b>	<b>3,193</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	19.9%	(18.0%)	(5.3%)	13.4%	11.7%
Operating EBITDA Growth	42.2%	(34.3%)	(32.1%)	26.4%	21.7%
Operating EBITDA Margin	24.5%	19.6%	14.1%	15.7%	17.1%
Net Cash Per Share (Rmb)	1.06	1.31	1.01	0.97	1.06
BVPS (Rmb)	2.37	2.62	2.78	2.99	3.27
Gross Interest Cover	N/A	827.8	503.1	663.5	831.9
Effective Tax Rate	15.6%	14.1%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	22.4%	13.4%	27.8%	22.3%	17.8%
Accounts Receivables Days	81.90	98.53	97.36	89.37	90.03
Inventory Days	36.33	44.36	49.20	47.07	47.48
Accounts Payables Days	53.41	63.43	59.20	51.48	51.20
ROIC (%)	56.8%	32.2%	19.5%	19.1%	21.0%
ROCE (%)	35.0%	17.5%	9.5%	11.8%	13.6%
Return On Average Assets	24.1%	12.4%	6.8%	8.4%	9.7%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% chg, main prod./serv.)	19.3%	-27.6%	-12.5%	3.0%	3.0%
Unit sales grth (% , main prod./serv.)	-0.1%	6.0%	6.8%	6.4%	6.0%
Util. rate (% , main prod./serv.)	95.7%	91.0%	80.6%	85.7%	90.8%
ASP (% chg, 2ndary prod./serv.)	5.6%	-21.3%	-6.5%	3.0%	3.0%
Unit sales grth (% ,2ndary prod/serv)	15.6%	16.1%	0.0%	25.0%	20.0%
Util. rate (% , 2ndary prod/serv)	85.9%	99.7%	99.7%	62.3%	74.8%
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Singapore

**ADD** (previously HOLD)

Consensus ratings\*: Buy 3 Hold 1 Sell 0

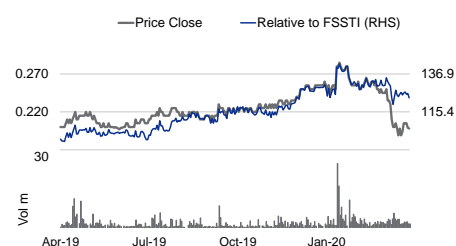
Current price:	S\$0.20
Target price:	S\$0.21
Previous target:	S\$0.26
Up/downside:	4.8%
CGS-CIMB / Consensus:	-32.5%

Reuters:	FUYU.SI
Bloomberg:	FUYU SP
Market cap:	US\$104.6m
	S\$149.1m
Average daily turnover:	US\$0.59m
	S\$0.81m
Current shares o/s:	753.0m
Free float:	59.7%

\*Source: Bloomberg

**Key changes in this note**

- ▶ FY20F EPS reduced by 23%.
- ▶ FY21F EPS reduced by 19.5%.
- ▶ FY21F EPS reduced by 16.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-19.2	-22.4	-1
Relative (%)	-1.6	0.6	21.8

Major shareholders	% held
Tam Wai	12.9
Ho Nee Kit	12.9
Ching Heng Yang	11.8

**Analyst(s)**

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# Fu Yu Corp Ltd

## Downside risks getting priced in

- We think economic impact of Covid-19 and production disruptions will impact our FY20-22F forecasts negatively.
- Our earnings cuts reflect such concerns but we opine that GFC trough valuation is unlikely to be revisited.
- With earnings risk getting priced in, we upgrade Fu Yu from Hold to Add.

### Covid-19 disrupts operations

Fu Yu has announced that it will be closing its factories in Johor and Penang from 18 Mar 20 to 31 Mar 20 to adhere to the Movement Control Order (MCO) issued by the Malaysian government. The group will resume operations if customers are able to obtain exemptions. In addition, the group has been able to house half of its Malaysian workforce (affected by the MCO) in Singapore. Fu Yu also updated that its factories in China have already resumed normal operations. Ongoing travel restrictions and disruptions in the supply chain amid the Covid-19 situation may still hinder its customers' operations in China. The company expects these temporary closures to have an impact on 1Q20 revenue. The first quarter is also a seasonally slower quarter.

### Non-consensus earnings cuts

As more countries respond to the Covid-19 outbreak with lockdowns, the global manufacturing supply chain will feel the impact. In addition, the economic outlook has weakened and with that, consumer demand would be reduced in the short-term. We estimate that c.68% of Fu Yu's revenue is derived from consumer/automobile/printing/communications segments. This in addition to the short-term impact from factory closures leads us to cut FY20F revenue /net profit to 13%/33% below Bloomberg consensus estimates (excluding our forecasts).

### GFC trough valuation unlikely to be revisited

During the global financial crisis (GFC), Fu Yu hit a trough P/BV of 0.20x in 2009. However, we think the risk that this trough valuation will be revisited is low as then, Fu Yu suffered losses in both FY08 and FY09. Today, Fu Yu is a much leaner company so we are still expecting the company to remain profitable over our FY20-22F forecast period.

### Upgrade to Add as earnings risk gets priced in

We think our revenue-driven earnings cuts are being priced in by the market. We lower our TP to S\$0.21, based on Gordon Growth derived P/BV multiple of 0.95x (previously 1.16x) to reflect the ROE decline as earnings fall in the midst of the Covid-19 outbreak. Projected FY20F dividend yield is 8.1%. We estimate Fu Yu's net cash position as at end FY20F to be S\$93.7m (zero debt balance sheet). As at end 23 Mar, net cash was 69% of Fu Yu's market cap. Re-rating catalyst is faster-than-expected recovery from Covid-19 disruptions. Downside risks are unfavourable foreign exchange movements, increased competition and the worsening Covid-19 outbreak.

**Financial Summary**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (S\$m)	197.7	194.1	175.4	184.2	193.4
Net Profit (S\$m)	11.89	12.69	12.91	14.51	16.08
Core EPS (S\$)	0.016	0.017	0.017	0.019	0.021
Core EPS Growth	166%	7%	2%	12%	11%
FD Core P/E (x)	12.54	11.75	11.55	10.27	9.27
Price To Sales (x)	0.75	0.77	0.85	0.81	0.77
DPS (S\$)	0.016	0.016	0.016	0.016	0.016
Dividend Yield	8.08%	8.08%	8.08%	8.08%	8.08%
EV/EBITDA (x)	4.39	2.72	2.44	1.96	1.50
P/FCFE (x)	8.08	5.81	8.61	8.29	7.44
Net Gearing	(51.1%)	(54.1%)	(57.0%)	(59.7%)	(63.0%)
P/BV (x)	0.91	0.91	0.91	0.89	0.87
ROE	7.22%	7.74%	7.87%	8.76%	9.52%
% Change In Core EPS Estimates			(23.0%)	(19.5%)	(16.0%)
CGS-CIMB/Consensus EPS (x)			0.69	0.74	0.79

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Earnings revisions**

	Old			New			% chg		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Revenue (S\$ m)	199.5	206.2	212.6	175.4	184.2	193.4	(12.1)	(10.7)	(9.0)
Pre-tax profit (S\$ m)	22.1	23.7	25.2	17.0	19.1	21.2	(23.1)	(19.4)	(16.0)
Net profit (S\$ m)	16.8	18.0	19.1	12.9	14.5	16.1	(23.0)	(19.5)	(16.0)
EPS (S\$)	0.022	0.024	0.025	0.017	0.019	0.021	(23.0)	(19.5)	(16.0)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Fu Yu performance in past crises**

(\$ m)	yoy change (%)	
	Revenue	Net profit
<u>Asian currency crisis</u>		
1998	-17.2	(64.6)
1999	27.3	145.4
<u>Global financial crisis</u>		
2008	-20.5	Loss
2009	-28.8	Loss

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: Target price derivation**

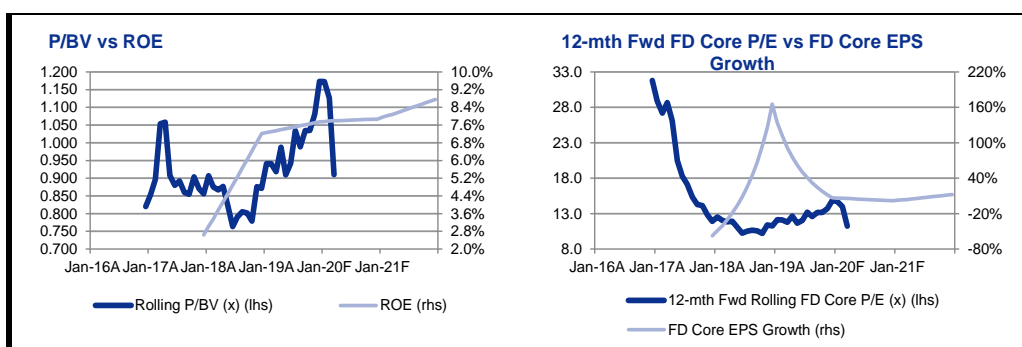
		Comments
Cost of equity	9.2%	
ROE	8.7%	Average ROE over FY20-22F
G	0.0%	Terminal growth rate assumed
ROE - G	8.7%	A
COE - G	9.2%	B
Theoretical P/BV	0.95	C = A/B (Based on Gordon Growth Model)
FY20F BVPS (S\$)	0.218	D
<b>TP (S\$)</b>	<b>0.207</b>	= C x D
Implied FY21F P/E (x)	10.8	
Risk free rate	1.75%	Assumed
Return on market	10.0%	Assumed
Equity risk premium	8.3%	
Beta	0.900	Assumed
Cyclicality premium	0.0%	
Cost of equity	9.175%	E
Implied fair P/E (x)	10.9 = 1/E	
Last price (S\$)	0.198	
Upside	4.80%	F
FY20F DPS (S\$)	0.0160	
Dividend yield	8.08%	G
Total return	12.88%	H = F + G
<b>Recommendation</b>	<b>Add</b>	
FY20F NCPS (S\$)	0.124	
As % of share price	62.9%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Valuation scenarios**

Scenario	P/BV (x)	FY20F BVPS (S\$)	TP (S\$)	Comments
GFC trough valuation is revisited	0.20	0.218	0.044	Unlikely. We forecast FY20F NCPS at S\$0.124.
- 1 SD P/BV over FY15-20F	0.69	0.218	0.151	
Average P/BV over FY15-20F	0.85	0.218	0.186	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**

**Profit & Loss**

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>197.7</b>	<b>194.1</b>	<b>175.4</b>	<b>184.2</b>	<b>193.4</b>
<b>Gross Profit</b>	<b>42.3</b>	<b>49.9</b>	<b>48.9</b>	<b>51.1</b>	<b>53.4</b>
<b>Operating EBITDA</b>	<b>14.8</b>	<b>22.3</b>	<b>22.7</b>	<b>25.2</b>	<b>27.6</b>
Depreciation And Amortisation	(7.0)	(11.7)	(12.0)	(12.4)	(12.8)
<b>Operating EBIT</b>	<b>7.8</b>	<b>10.7</b>	<b>10.6</b>	<b>12.7</b>	<b>14.8</b>
Financial Income/(Expense)	0.0	(0.5)	(0.5)	(0.5)	(0.5)
Pretax Income/(Loss) from Assoc.	(0.8)	(0.2)	0.0	0.0	0.0
Non-Operating Income/(Expense)	8.9	6.2	6.8	6.8	6.8
<b>Profit Before Tax (pre-EI)</b>	<b>15.9</b>	<b>16.2</b>	<b>17.0</b>	<b>19.1</b>	<b>21.2</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>15.9</b>	<b>16.2</b>	<b>17.0</b>	<b>19.1</b>	<b>21.2</b>
Taxation	(3.7)	(3.5)	(4.1)	(4.6)	(5.1)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax</b>	<b>12.2</b>	<b>12.7</b>	<b>12.9</b>	<b>14.5</b>	<b>16.1</b>
Minority Interests	(0.3)	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>11.9</b>	<b>12.7</b>	<b>12.9</b>	<b>14.5</b>	<b>16.1</b>
Recurring Net Profit	11.9	12.7	12.9	14.5	16.1
<b>Fully Diluted Recurring Net Profit</b>	<b>11.9</b>	<b>12.7</b>	<b>12.9</b>	<b>14.5</b>	<b>16.1</b>

**Cash Flow**

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	14.84	22.31	22.68	25.16	27.59
Cash Flow from Inv. & Assoc.	0.80	0.21	0.00	0.00	0.00
Change In Working Capital	3.09	2.64	2.33	(1.24)	(1.30)
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	6.99	11.65	12.04	12.41	12.79
Other Operating Cashflow	(1.90)	(8.40)	(8.40)	(9.20)	(9.60)
Net Interest (Paid)/Received	1.60	1.25	1.35	1.35	1.35
Tax Paid	(2.10)	(2.30)	(4.08)	(4.58)	(5.08)
<b>Cashflow From Operations</b>	<b>23.32</b>	<b>27.36</b>	<b>25.92</b>	<b>23.89</b>	<b>25.75</b>
Capex	(7.23)	(7.28)	(10.40)	(7.70)	(7.50)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/Investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	2.37	5.59	1.80	1.80	1.80
<b>Cash Flow From Investing</b>	<b>(4.86)</b>	<b>(1.69)</b>	<b>(8.60)</b>	<b>(5.90)</b>	<b>(5.70)</b>
Debt Raised/(repaid)	0.00	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(12.05)	(12.05)	(12.05)	(12.05)	(12.05)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	(21.37)	(5.11)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(33.42)</b>	<b>(17.16)</b>	<b>(12.05)</b>	<b>(12.05)</b>	<b>(12.05)</b>
Total Cash Generated	(14.97)	8.51	5.27	5.95	8.00
<b>Free Cashflow To Equity</b>	<b>18.46</b>	<b>25.67</b>	<b>17.32</b>	<b>17.99</b>	<b>20.05</b>
<b>Free Cashflow To Firm</b>	<b>18.46</b>	<b>26.12</b>	<b>17.77</b>	<b>18.44</b>	<b>20.50</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(S\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	83.9	88.5	93.7	99.7	107.7
Total Debtors	56.4	51.7	48.1	50.5	53.0
Inventories	16.9	16.4	15.2	15.9	16.7
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>157.3</b>	<b>156.5</b>	<b>157.0</b>	<b>166.2</b>	<b>177.4</b>
Fixed Assets	44.8	54.0	52.4	47.7	42.4
Total Investments	8.7	8.4	7.9	7.9	7.9
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.8	0.2	0.2	0.2	0.2
<b>Total Non-current Assets</b>	<b>54.3</b>	<b>62.6</b>	<b>60.4</b>	<b>55.7</b>	<b>50.4</b>
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	43.0	40.9	38.4	40.4	42.4
Other Current Liabilities	3.5	5.7	5.7	5.7	5.7
<b>Total Current Liabilities</b>	<b>46.5</b>	<b>46.7</b>	<b>44.2</b>	<b>46.1</b>	<b>48.1</b>
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	1.0	8.8	8.8	8.8	8.8
<b>Total Non-current Liabilities</b>	<b>1.0</b>	<b>8.8</b>	<b>8.8</b>	<b>8.8</b>	<b>8.8</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>47.5</b>	<b>55.4</b>	<b>53.0</b>	<b>54.9</b>	<b>56.9</b>
Shareholders' Equity	164.1	163.6	164.5	167.0	171.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>164.1</b>	<b>163.6</b>	<b>164.5</b>	<b>167.0</b>	<b>171.0</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	1.40%	(1.81%)	(9.65%)	5.00%	5.00%
Operating EBITDA Growth	6.8%	50.4%	1.7%	10.9%	9.7%
Operating EBITDA Margin	7.5%	11.5%	12.9%	13.7%	14.3%
Net Cash Per Share (S\$)	0.11	0.12	0.12	0.13	0.14
BVPS (S\$)	0.22	0.22	0.22	0.22	0.23
Gross Interest Cover	N/A	23.68	23.65	28.32	32.91
Effective Tax Rate	23.4%	21.7%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	101%	95%	93%	83%	75%
Accounts Receivables Days	109.7	101.6	104.1	97.6	97.6
Inventory Days	40.62	42.15	45.64	42.69	42.61
Accounts Payables Days	106.3	106.2	114.8	108.1	107.9
ROIC (%)	10.1%	14.7%	14.1%	17.8%	21.7%
ROCE (%)	4.49%	6.50%	6.49%	7.69%	8.76%
Return On Average Assets	5.45%	6.10%	6.12%	6.81%	7.35%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP Change (% , Main Product)	1.4%	-14.7%	-15.0%	5.0%	5.0%
Unit sales growth (% , main prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	16.6%	5.0%	-12.5%	5.0%	5.0%
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Singapore

**HOLD** (previously ADD)

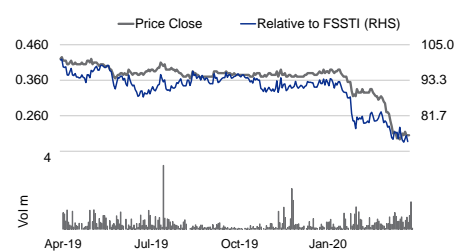
Consensus ratings\*: Buy 1 Hold 3 Sell 0

Current price:	S\$0.21
Target price:	S\$0.22
Previous target:	S\$0.47
Up/downside:	6.4%
CGS-CIMB / Consensus:	-6.5%
Reuters:	JUMB.SI
Bloomberg:	JUMBO SP
Market cap:	US\$92.12m
	S\$131.3m
Average daily turnover:	US\$0.08m
	S\$0.11m
Current shares o/s:	640.7m
Free float:	29.2%

\*Source: Bloomberg

**Key changes in this note**

FY20-22F EPS forecasts cut by 19-83%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-32.8	-46.1	-51.2
Relative (%)	-15.2	-23.1	-27.5

Major shareholders	% held
JBO Holdings Pte Ltd	45.5
Sim Chye Hock	10.0
Tan Gee Jian	6.6

**Analyst(s)**

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# Jumbo Group Limited

## Brace for a long winter

- Stringent measures by the government to minimise the spread of Covid-19 has resulted in lower footfall in Jumbo stores.
- Jumbo has rolled out multiple initiatives to cushion revenue loss and tighten cost control but a steep earnings decline in FY20F is inevitable.
- Downgrade from Add to Hold; our TP is lowered to S\$0.22, based on 11.5x FY21F P/E (2 s.d. below Jumbo's historical average).

### Suffering amid Covid-19 outbreak

Over the past 2 months, the Singapore government has progressively rolled out multiple advisories to minimise the spread of Covid-19. Currently, all travellers entering Singapore will be issued a 14-day Stay Home Notice (SHN) while local residents are urged to avoid non-essential trips out of homes. With 1) the steep drop in tourist arrivals, and 2) locals dining out less, Jumbo has observed lower footfall in its local stores. We are also still seeing weakness in its China operations as consumer sentiment remains low due to macro uncertainties.

### What is Jumbo doing to ease the pain?

Jumbo has been carrying out more promotional activities to draw local crowds to its stores. It has also developed a new Bento set to boost its online food delivery offerings and has been increasing collaboration with delivery platforms to drive online growth. Meanwhile, cost-saving measures include controlled overtime hours, reduced reliance on part-time workers, no-pay leave and shorter operating hours. Jumbo is also actively negotiating with landlords to secure rental reliefs.

### Lowering assumptions

Factoring in the impact from Covid-19, we forecast the SSSG decline to worsen in Apr (-65% yoy) and expect the situation to only gradually improve in July. With our lowered SSSG assumption, our FY20-22F EPS is cut by 18.9-83.1%. We now forecast Jumbo to record a 25.2% revenue decline in FY20F. Given most of its operating expenses are relatively fixed, the operating deleverage could cause Jumbo's net profit to fall by c.80% in FY20F, based on our forecasts.

### Downgrade to Hold with lower TP of S\$0.22

Jumbo's balance sheet remains strong with a net cash position, which will help it weather the Covid-19 crisis. Its cash position accounts for c.35% of current market cap. Its share price has fallen 48% YTD, pricing in the impact from Covid-19, in our view. Due to a tough FY20F outlook ahead, we downgrade Jumbo from Add to Hold. Our TP is lowered to S\$0.22, based on 11.5x FY21F P/E (2 s.d. below Jumbo's historical mean). Upside risks include earlier-than-expected SSSG recovery while downside risks include prolonged social distancing measures to contain the Covid-19 outbreak.

**Financial Summary**

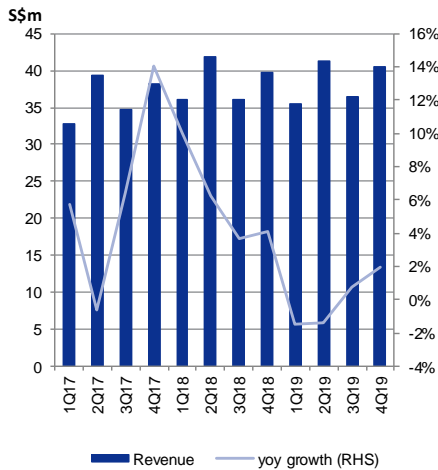
	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
Revenue (S\$m)	153.7	153.6	115.0	161.6	167.0
Operating EBITDA (S\$m)	18.04	20.21	8.62	21.40	22.19
Net Profit (S\$m)	10.62	11.67	2.37	12.05	12.46
Core EPS (S\$)	0.017	0.018	0.004	0.019	0.019
Core EPS Growth	(25%)	10%	(80%)	407%	3%
FD Core P/E (x)	12.39	11.27	55.30	10.90	10.54
DPS (S\$)	0.012	0.012	0.003	0.013	0.014
Dividend Yield	5.85%	5.85%	1.46%	6.34%	6.83%
EV/EBITDA (x)	4.91	4.34	10.35	3.60	3.11
P/FCFE (x)	29.33	17.10	24.61	9.63	8.20
Net Gearing	(67.6%)	(65.3%)	(67.8%)	(74.7%)	(80.8%)
P/BV (x)	2.01	1.91	2.07	1.79	1.69
ROE	16.3%	17.4%	3.6%	17.6%	16.5%
% Change In Core EPS Estimates			(83.1%)	(18.9%)	(19.5%)
CGS-CIMB/Consensus EPS (x)			0.26	0.99	1.14

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



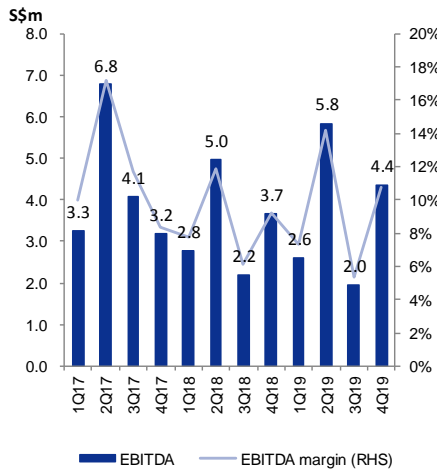
# Brace for a long winter

Figure 1: Historical revenue



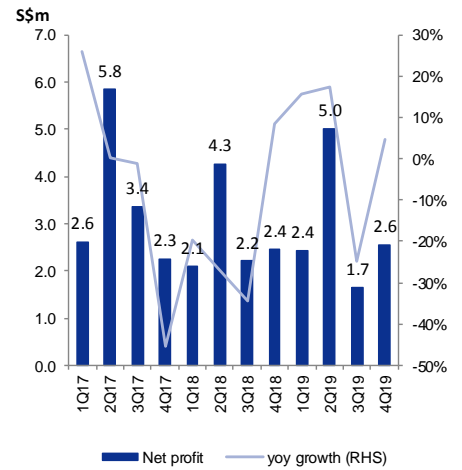
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Historical EBITDA and EBITDA margin



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Quarterly net profit



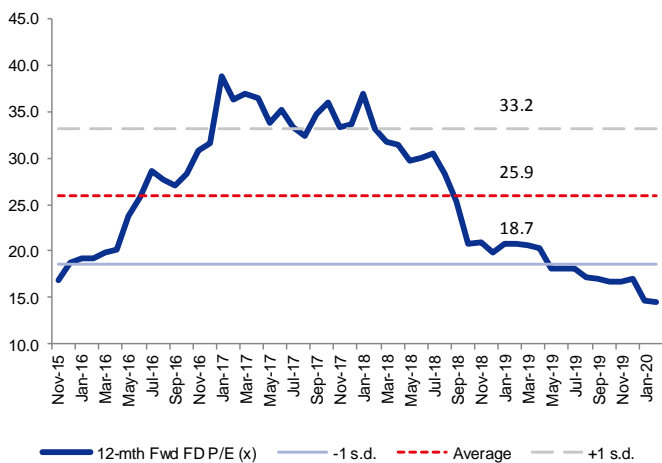
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision table

Earnings revision (S\$m)	FY20F			FY21F			FY22F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	166.3	115.0	-30.9%	172.6	161.6	-6.3%	177.2	167.0	-5.8%
EBITDA	23.1	8.6	-62.7%	24.5	21.4	-12.5%	25.5	22.2	-13.0%
Net profit	14.1	2.4	-83.1%	14.9	12.0	-18.9%	15.5	12.5	-19.5%
Core net profit	14.1	2.4	-83.1%	14.9	12.0	-18.9%	15.5	12.5	-19.5%
Core EPS (S\$ cents)	2.2	0.4	-83.1%	2.3	1.9	-18.9%	2.4	1.9	-19.5%

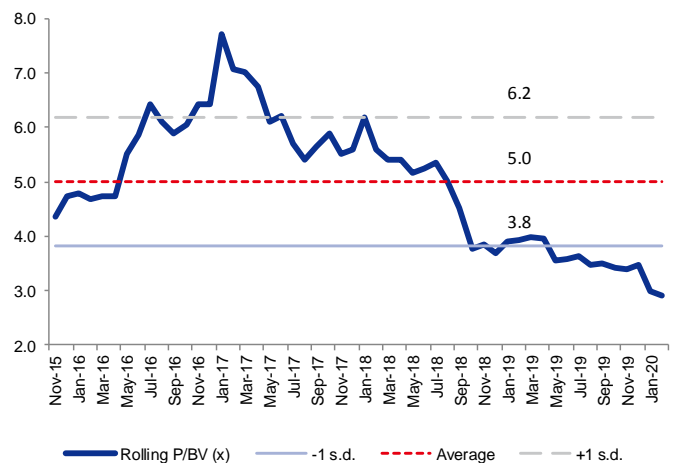
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Jumbo's historical P/E trend



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: Jumbo's historical P/BV trend

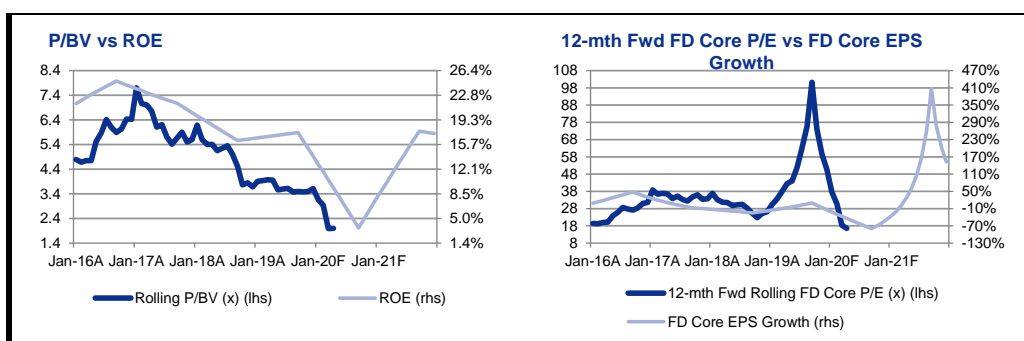


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 7: Peers Comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY20F	P/E (x) CY21F	3-year EPS CAGR (%)	P/BV (x) CY20F	Recurring ROE (%) CY20F	EV/EBITDA (x) CY20F	EV/EBITDA (x) CY21F	Dividend Yield (%) CY20F
Jumbo Group Limited	JUMBO SP	HOLD	0.21	0.22	92	9.2	8.8	na	1.72	19.4%	3.1	2.6	2.7%
<b>Singapore Restaurants/Food courts</b>													
BreadTalk Group Ltd	BREAD SP	Not rated	0.74	na	289	45.9	40.8	na	2.86	4.5%	4.8	4.6	0.7%
Koufu Group Ltd	KOUFU SP	Not rated	0.58	na	222	11.3	11.1	6.9%	2.74	24.7%	3.6	3.5	4.3%
Kimly Ltd	KMLY SP	Not rated	0.19	na	151	9.5	9.5	-6.0%	2.29	23.6%	4.8	4.6	5.3%
Japan Foods Holding Ltd	JFOOD SP	Not rated	0.29	na	35	13.3	13.2	-35.6%	1.53	10.9%	7.4	6.5	7.2%
<b>Simple average</b>						<b>20.0</b>	<b>18.6</b>	<b>-11.5%</b>	<b>2.35</b>	<b>15.9%</b>	<b>5.1</b>	<b>4.8</b>	<b>4.4%</b>
<b>Regional Restaurants</b>													
Minor International	MINT TB	Add	16.80	22.60	2,372	32.0	14.9	1.6%	1.00	3.3%	8.8	6.8	1.6%
Jollibee Foods Corp	JFC PM	Hold	103.2	206.0	2,234	17.4	14.6	13.5%	2.12	12.6%	9.0	8.0	1.9%
MK Restaurant Group	M TB	Hold	47.25	64.00	1,330	18.5	16.5	2.6%	3.05	17.0%	9.5	8.9	5.5%
Cafe de Coral Holdings Ltd	341 HK	Not rated	13.50	na	1,020	17.7	15.2	-32.5%	2.36	13.7%	10.1	8.9	5.5%
Berjaya Food Berhad	BFD MK	Add	1.19	1.63	97	19.6	16.7	na	1.19	6.1%	3.0	2.4	3.6%
<b>Simple average (ex Jollibee)</b>						<b>21.9</b>	<b>15.8</b>	<b>-9.4%</b>	<b>1.90</b>	<b>10.0%</b>	<b>7.8</b>	<b>6.8</b>	<b>4.0%</b>

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG

**BY THE NUMBERS**

**Profit & Loss**

(\$m)	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
<b>Total Net Revenues</b>	<b>153.7</b>	<b>153.6</b>	<b>115.0</b>	<b>161.6</b>	<b>167.0</b>
<b>Gross Profit</b>	<b>96.6</b>	<b>97.9</b>	<b>73.3</b>	<b>103.0</b>	<b>106.4</b>
<b>Operating EBITDA</b>	<b>18.0</b>	<b>20.2</b>	<b>8.6</b>	<b>21.4</b>	<b>22.2</b>
Depreciation And Amortisation	(4.8)	(5.4)	(5.6)	(5.8)	(6.0)
<b>Operating EBIT</b>	<b>13.2</b>	<b>14.8</b>	<b>3.0</b>	<b>15.6</b>	<b>16.2</b>
Financial Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Pretax Income/(Loss) from Assoc.	(0.1)	(0.8)	(1.0)	(0.8)	(0.6)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>13.1</b>	<b>14.0</b>	<b>2.0</b>	<b>14.8</b>	<b>15.6</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>13.1</b>	<b>14.0</b>	<b>2.0</b>	<b>14.8</b>	<b>15.6</b>
Taxation	(2.9)	(3.1)	(0.4)	(3.3)	(3.4)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>10.2</b>	<b>10.9</b>	<b>1.6</b>	<b>11.5</b>	<b>12.2</b>
Minority Interests	0.4	0.8	0.8	0.5	0.3
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>10.6</b>	<b>11.7</b>	<b>2.4</b>	<b>12.0</b>	<b>12.5</b>
Recurring Net Profit	10.6	11.7	2.4	12.0	12.5
<b>Fully Diluted Recurring Net Profit</b>	<b>10.6</b>	<b>11.7</b>	<b>2.4</b>	<b>12.0</b>	<b>12.5</b>

**Cash Flow**

(\$m)	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
<b>EBITDA</b>	<b>18.04</b>	<b>20.21</b>	<b>8.62</b>	<b>21.40</b>	<b>22.19</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	0.96	-2.88	-0.03	-1.90	-0.15
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-0.20	0.14	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	-3.09	-2.88	-0.44	-3.26	-3.43
<b>Cashflow From Operations</b>	<b>15.71</b>	<b>14.59</b>	<b>8.15</b>	<b>16.24</b>	<b>18.61</b>
Capex	-6.22	-6.13	-2.81	-2.60	-2.60
Disposals Of FAs/subsidiaries	0.12	0.01	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-5.13	-0.79	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>-11.22</b>	<b>-6.91</b>	<b>-2.81</b>	<b>-2.60</b>	<b>-2.60</b>
Debt Raised/(repaid)	0.00	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares	1.31	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	-10.91	-7.69	-7.69	-1.92	-8.33
Preferred Dividends					
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>-9.60</b>	<b>-7.69</b>	<b>-7.69</b>	<b>-1.92</b>	<b>-8.33</b>
Total Cash Generated	-5.11	-0.01	-2.35	11.72	7.68
<b>Free Cashflow To Equity</b>	<b>4.48</b>	<b>7.69</b>	<b>5.34</b>	<b>13.64</b>	<b>16.01</b>
<b>Free Cashflow To Firm</b>	<b>4.48</b>	<b>7.69</b>	<b>5.34</b>	<b>13.64</b>	<b>16.01</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(S\$m)	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
Total Cash And Equivalents	47.02	47.01	44.66	56.38	64.06
Total Debtors	11.72	14.11	10.56	14.84	15.33
Inventories	1.54	1.71	1.03	1.44	1.49
Total Other Current Assets	0.00	0.00	0.00	0.00	0.00
<b>Total Current Assets</b>	<b>60.28</b>	<b>62.83</b>	<b>56.24</b>	<b>72.67</b>	<b>80.88</b>
Fixed Assets	20.81	21.76	18.97	15.77	12.37
Total Investments	0.00	0.00	0.00	0.00	0.00
Intangible Assets	0.78	0.78	0.78	0.78	0.78
Total Other Non-Current Assets	6.09	4.96	3.96	3.16	2.56
<b>Total Non-current Assets</b>	<b>27.68</b>	<b>27.51</b>	<b>23.72</b>	<b>19.72</b>	<b>15.72</b>
Short-term Debt	0.00	0.00	0.00	0.00	0.00
Current Portion of Long-Term Debt					
Total Creditors	13.79	13.47	9.20	12.00	12.39
Other Current Liabilities	4.37	4.52	4.52	4.52	4.52
<b>Total Current Liabilities</b>	<b>18.15</b>	<b>17.99</b>	<b>13.72</b>	<b>16.52</b>	<b>16.91</b>
Total Long-term Debt	0.00	0.00	0.00	0.00	0.00
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.00	0.00	0.00	0.00	0.00
<b>Total Non-current Liabilities</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Total Provisions	0.30	0.37	0.37	0.37	0.37
<b>Total Liabilities</b>	<b>18.45</b>	<b>18.36</b>	<b>14.09</b>	<b>16.89</b>	<b>17.28</b>
Shareholders' Equity	65.38	68.66	63.35	73.47	77.60
Minority Interests	4.13	3.32	2.52	2.02	1.72
<b>Total Equity</b>	<b>69.51</b>	<b>71.98</b>	<b>65.86</b>	<b>75.49</b>	<b>79.32</b>

**Key Ratios**

	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
Revenue Growth	5.9%	(0.0%)	(25.2%)	40.6%	3.3%
Operating EBITDA Growth	(18%)	12%	(57%)	148%	4%
Operating EBITDA Margin	11.7%	13.2%	7.5%	13.2%	13.3%
Net Cash Per Share (S\$)	0.073	0.073	0.070	0.088	0.100
BVPS (S\$)	0.10	0.11	0.10	0.11	0.12
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	22.0%	22.2%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	72.5%	65.9%	80.9%	69.1%	72.0%
Accounts Receivables Days	24.64	30.68	39.26	28.68	32.98
Inventory Days	9.66	10.67	12.04	7.70	8.86
Accounts Payables Days	76.30	89.31	99.53	66.05	73.57
ROIC (%)	77.3%	64.8%	11.9%	72.3%	83.1%
ROCE (%)	19.1%	20.8%	4.4%	22.0%	20.8%
Return On Average Assets	11.9%	12.2%	1.8%	13.4%	12.9%

**Key Drivers**

	Sep-18A	Sep-19A	Sep-20F	Sep-21F	Sep-22F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	2.3%	3.3%	-28.5%	50.3%	3.9%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	23.1%	-13.1%	-9.7%	5.0%	0.0%
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Singapore

**HOLD** (previously ADD)

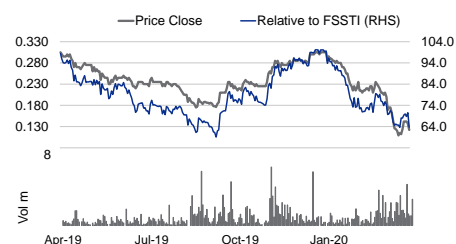
Consensus ratings\*: Buy 1 Hold 1 Sell 1

Current price:	S\$0.12
Target price:	S\$0.13
Previous target:	S\$0.32
Up/downside:	3.4%
CGS-CIMB / Consensus:	14.7%
Reuters:	MM2A.SI
Bloomberg:	MM2 SP
Market cap:	US\$99.55m
	S\$141.9m
Average daily turnover:	US\$0.15m
	S\$0.21m
Current shares o/s:	1,163m
Free float:	36.4%

\*Source: Bloomberg

**Key changes in this note**

- ▶ FY20F EPS decreased by 30.1%.
- ▶ FY21F EPS decreased by 35.0%.
- ▶ FY22F EPS decreased by 19.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-44.6	-60	-60
Relative (%)	-27	-37	-37.2

Major shareholders	% held
Wee Chye Ang	45.9
Yeo Khoo Seng	9.2
Starhub Ltd	8.6

**Analyst(s)**

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# mm2 Asia

## No show for now

- We cut our FY20-22F EPS to factor in extended Covid-19 impact across all its subsidiaries. Downgrade the stock from Add to Hold with a lower TP.
- Apart from earnings risks in a prolonged virus situation, we also turn wary of its leveraged balance sheet and working capital-intensive business.
- Share price has de-rated significantly but we see some value in mm2's assets. Successful asset restructuring and faster recovery are key catalysts.

### Severely hit by Covid-19 and government measures

mm2's entire value chain of content creation has not been spared by the Covid-19 spread: its core content production operations in North Asia, Singapore and Malaysia were halted as countries imposed lockdowns and implemented movement restrictions, while its event-organising subsidiary (Unusual Productions) also faced cancellations/deferment of large-scale concerts. Such disruptions, coupled with pent-up demand for quality content, are likely to underpin the growth in the group's core business order book and concert pipeline when the virus situation improves, in our view.

### Entertainment venues shut, mega movie releases held back

We expect the untimely outbreak of Covid-19 to hurt mm2's cinema operations given that its fiscal 4Q is seasonally the strongest. Apart from the reschedule of Hollywood mega-movie releases, we expect the recent ban on entertainment outlets in Singapore until at least 30 Apr to further weigh on its FY21F earnings. Meanwhile, management has implemented cost-cutting initiatives and seeks to tap on available government support packages, as well as negotiate for rental rebates to cushion the impact.

### High leverage is a rising concern...

With the temporary closure of its cash-generating cinema assets and a 0.87x net gearing as of end-2QFY20, mm2 could be exposed to both earnings and balance sheet risks, in our view. About 74% of its total borrowings at end-Sep 19 were long term, though c.\$98m liabilities will be due by 2021F. While there is no immediate cashflow concern based on its recent announcement on collection of trade receivables and our projected FY20F interest coverage ratio of c.3x for mm2, we remain cautious on funding for its future projects, receivables' collectability and debt repayment issues should the situation drag on.

### Downgrade from Add to Hold with EPS cuts

We slash our FY20-22F EPS by 19.0-35.0% and lower our valuation multiples to account for disruptions across the various segments; our SOP-based TP falls to S\$0.13. Downgrade from Add to Hold on near-term earnings weakness. Even with the recent share price decline, we still see value in mm2's assets. Faster recovery from Covid-19 and successful asset restructuring are key re-rating catalysts for the stock. Downside risks: balance sheet mismanagement and unexpected production delays.

**Financial Summary**

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Revenue (S\$m)	192.0	266.2	232.5	212.7	259.7
Operating EBITDA (S\$m)	62.9	75.1	94.8	97.3	115.2
Net Profit (S\$m)	22.40	19.14	14.58	16.90	23.57
Core EPS (S\$)	0.020	0.016	0.013	0.015	0.020
Core EPS Growth	14.5%	(16.8%)	(23.8%)	16.0%	39.5%
FD Core P/E (x)	6.16	7.41	9.73	8.39	6.02
DPS (S\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	2.19	5.27	4.34	3.69	2.73
P/FCFE (x)	31.25	1.13	NA	2.40	2.57
Net Gearing	(13.1%)	76.7%	72.9%	48.5%	27.8%
P/BV (x)	0.79	0.66	0.62	0.58	0.53
ROE	17.0%	9.7%	6.6%	7.1%	9.2%
% Change In Core EPS Estimates			(30.1%)	(35.0%)	(19.0%)
CGS-CIMB/Consensus EPS (x)			0.78	1.04	1.13

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Earnings Revision Table**

Earnings Revision	FY2020F			FY2021F			FY2022F		
	Old	New	% change	Old	New	% change	Old	New	% change
mm2 (FYE March)									
Revenue (S\$m)	294.1	232.5	-21.0%	311.7	212.7	-31.7%	333.8	259.7	-22.2%
Production & distribution related (S\$m)	103.3	80.8	-21.8%	108.5	84.8	-21.8%	113.9	89.1	-21.8%
Post-production (S\$m)	9.0	7.0	-22.2%	10.0	7.0	-30.0%	11.0	11.0	0.0%
Cinema (S\$m)	107.8	91.7	-15.0%	113.2	77.9	-31.2%	118.8	89.6	-24.6%
Unusual/ Entertainment (S\$m)	74.0	53.0	-28.4%	80.0	43.0	-46.3%	90.0	70.0	-22.2%
Gross Margin (%)	46%	46%	0%	46%	46%	1%	45%	46%	1%
Core net profit (S\$m)	32.4	22.9	-29.3%	38.5	23.9	-37.8%	43.1	35.0	-18.9%
Core PATMI (S\$m)	20.9	14.6	-30.1%	26.0	16.9	-35.0%	29.1	23.6	-19.0%

SOURCE: CIMB RESEARCH, COMPANY

**Figure 2: SOP-based valuation**

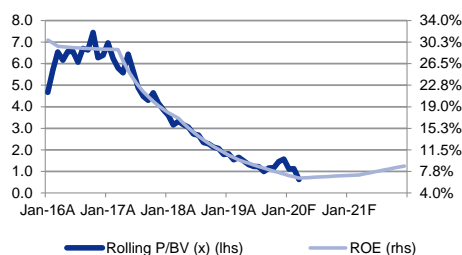
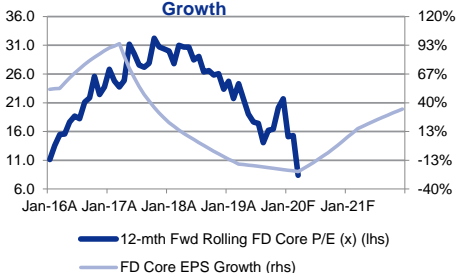
Net profit breakdown by segment	Stake	FY3/20 (S\$m)	FY3/21 (S\$m)	CY21F (S\$m)	Applied P/E multiple (x)	Valuation basis	CY21F Value (S\$m)	Per share (\$)
Core production and distribution	100.0%	5.7	9.0	10.9	6.0	60% discount to sector average	65.6	0.06
Vividthree	41.5%	2.2	2.1	3.1	-	Market value	7.1	0.01
Cinema operations	100.0%	2.8	2.8	3.5	6.0	50% discount to sector average	21.1	0.02
Unusual Productions	39.2%	11.7	9.5	14.0	-	Market value	52.9	0.05
<b>Total</b>		<b>22.3</b>	<b>23.4</b>	<b>31.6</b>			<b>146.7</b>	<b>0.13</b>
Core PATMI		14.6	16.9	21.9				
Shares outstanding (m)							1,162.8	
Equity Value per share (S\$)								<b>0.13</b>
Implied CY21F P/E based on TP								6.7

SOURCES: CGS-CIMB, COMPANY REPORTS

**Figure 3: Peers Comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x) CY20F	Core P/E (x) CY21F	3-year EPS CAGR (%)	P/BV (x) CY20F	P/BV (x) CY21F	Recurring ROE (%) CY20F	Recurring ROE (%) CY21F	Dividend Yield (%) CY20F	Dividend Yield (%) CY21F
mm2 Asia	mm2 SP	HOLD	0.12	0.13	100	8.7	6.5	13.8%	0.6	0.5	7.1%	8.7%	na	na
<b>Movie/ TV production</b>														
Alibaba Pictures Group Ltd	1060 HK	Not rated	1.03	na	3,562	43.4	22.6	na	1.6	1.5	3.7%	6.5%	na	na
Zhejiang Talent Television & F	300426 CH	Not rated	4.74	na	281	na	na	na	na	na	na	na	na	na
Zhejiang Huace Film & TV Co Lt	300133 CH	Not rated	7.79	na	1,934	24.5	20.4	na	2.0	1.9	7.5%	8.5%	0.4%	0.5%
Studio Dragon Corp	253450 KS	Hold	78,300	95,000	1,805	55.3	45.6	na	4.6	4.2	8.8%	9.7%	0.0%	0.0%
CJ ENM	035760 KS	Reduce	98,100	145,000	1,765	13.4	12.0	na	0.7	0.7	5.6%	5.9%	1.0%	1.1%
Huayi Brothers Media Corp	300027 CH	Not rated	3.58	na	1,412	18.8	13.9	na	1.0	0.9	6.3%	6.3%	0.3%	0.4%
Comcast Corp	CMCSA US	Not rated	34.64	na	157,717	11.0	10.2	11.0%	1.7	1.6	16.2%	15.6%	2.6%	2.9%
Walt Disney Co/The	DIS US	Not rated	98.12	na	177,150	19.9	16.0	-7.7%	1.9	1.8	8.8%	11.0%	2.5%	2.3%
Fox Corp	FOX US	Not rated	21.65	na	13,359	8.1	6.9	11.7%	na	na	15.6%	na	1.5%	2.0%
<b>Simple average</b>						<b>24.3</b>	<b>18.5</b>	<b>5.0%</b>	<b>1.9</b>	<b>1.8</b>	<b>9.0%</b>	<b>9.1%</b>	<b>1.2%</b>	<b>1.3%</b>
<b>Cinema Theatres</b>														
Wanda Film Holding Co Ltd	002739 CH	Not rated	16.80	na	4,938	20.4	17.6	na	1.9	1.7	10.1%	10.7%	0.7%	0.9%
Village Roadshow Ltd	VRL AU	Not rated	0.98	na	114	7.8	6.2	36.4%	0.8	0.7	6.5%	8.0%	6.4%	9.4%
Orange Sky Golden Harvest Ente	1132 HK	Not rated	0.25	na	89	na	na	na	na	na	na	na	na	na
Major Cineplex Group PCL	MAJOR TB	Add	13.50	30.00	369	11.2	na	na	1.8	na	16.5%	na	8.8%	na
<b>Simple average</b>						<b>13.1</b>	<b>11.9</b>	<b>na</b>	<b>1.5</b>	<b>1.2</b>	<b>11.0%</b>	<b>9.3%</b>	<b>5.3%</b>	<b>5.1%</b>
<b>Concert/ Events production</b>														
Unusual Ltd	UNU SP	Not rated	0.12	na	85	9.6	6.9	-25.4	1.5	1.3	20.1%	19.7%	na	na
Live Nation Entertainment Inc	LYV US	Not rated	43	na	9,212	127.0	66.7	na	na	5.8	3.4%	8.1%	0.0%	0.0%
YG Entertainment Inc	122870 KS	Not rated	23450	na	347	24.0	15.1	na	1.2	1.2	5.2%	7.9%	0.6%	0.7%
SM Entertainment Co Ltd	041510 KS	Not rated	19950	na	380	14.8	12.0	na	0.9	0.9	6.8%	7.7%	0.0%	0.0%
<b>Simple average</b>						<b>55.3</b>	<b>31.2</b>	<b>-25.4%</b>	<b>1.1</b>	<b>2.6</b>	<b>5.1%</b>	<b>7.9%</b>	<b>0.2%</b>	<b>0.2%</b>
<b>Simple average (overall excluding mm2)</b>						<b>30.9</b>	<b>20.5</b>	<b>-10.2%</b>	<b>1.5</b>	<b>1.9</b>	<b>8.4%</b>	<b>8.8%</b>	<b>2.2%</b>	<b>2.2%</b>

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG (As of 26 March 2020)

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
<b>Total Net Revenues</b>	<b>192.0</b>	<b>266.2</b>	<b>232.5</b>	<b>212.7</b>	<b>259.7</b>
<b>Gross Profit</b>	<b>87.3</b>	<b>124.2</b>	<b>107.3</b>	<b>98.3</b>	<b>119.9</b>
<b>Operating EBITDA</b>	<b>62.9</b>	<b>75.1</b>	<b>94.8</b>	<b>97.3</b>	<b>115.2</b>
Depreciation And Amortisation	(22.7)	(20.8)	(44.0)	(47.0)	(51.0)
<b>Operating EBIT</b>	<b>40.3</b>	<b>54.3</b>	<b>50.8</b>	<b>50.3</b>	<b>64.2</b>
Financial Income/(Expense)	(4.9)	(17.9)	(19.0)	(18.0)	(17.0)
Pretax Income/(Loss) from Assoc.	0.1	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	1.2	3.4	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>36.6</b>	<b>39.8</b>	<b>31.8</b>	<b>32.3</b>	<b>47.2</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>36.6</b>	<b>39.8</b>	<b>31.8</b>	<b>32.3</b>	<b>47.2</b>
Taxation	(7.1)	(11.1)	(8.9)	(8.4)	(12.3)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>29.5</b>	<b>28.7</b>	<b>22.9</b>	<b>23.9</b>	<b>35.0</b>
Minority Interests	(7.1)	(9.6)	(8.3)	(7.0)	(11.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>22.4</b>	<b>19.1</b>	<b>14.6</b>	<b>16.9</b>	<b>23.6</b>
Recurring Net Profit	22.4	19.1	14.6	16.9	23.6
<b>Fully Diluted Recurring Net Profit</b>	<b>22.4</b>	<b>19.1</b>	<b>14.6</b>	<b>16.9</b>	<b>23.6</b>

**Cash Flow**

(\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
EBITDA	62.9	75.1	94.8	97.3	115.2
Cash Flow from Inv. & Assoc.	(0.1)	(0.0)	0.0	0.0	0.0
Change In Working Capital	(57.3)	(55.0)	(65.2)	(6.9)	(25.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(0.0)	(2.2)	0.0	0.0	0.0
Other Operating Cashflow					
Net Interest (Paid)/Received	(4.5)	(17.6)	(19.0)	(18.0)	(17.0)
Tax Paid	(5.2)	(9.8)	(8.9)	(8.4)	(12.3)
<b>Cashflow From Operations</b>	<b>(4.1)</b>	<b>(9.5)</b>	<b>1.7</b>	<b>64.0</b>	<b>60.2</b>
Capex	(10.2)	(4.1)	(5.0)	(5.0)	(5.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(41.4)	10.3	(3.3)	0.0	0.0
Other Investing Cashflow	(0.0)	(22.9)	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(51.6)</b>	<b>(16.8)</b>	<b>(8.3)</b>	<b>(5.0)</b>	<b>(5.0)</b>
Debt Raised/(repaid)	60.2	151.7	0.0	0.0	0.0
Proceeds From Issue Of Shares	64.1	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>124.2</b>	<b>151.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Total Cash Generated	68.5	125.4	(6.7)	59.0	55.2
<b>Free Cashflow To Equity</b>	<b>4.4</b>	<b>125.4</b>	<b>(6.7)</b>	<b>59.0</b>	<b>55.2</b>
<b>Free Cashflow To Firm</b>	<b>(50.8)</b>	<b>(8.4)</b>	<b>12.3</b>	<b>77.0</b>	<b>72.2</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Total Cash And Equivalents	93.2	18.6	11.9	70.9	126.1
Total Debtors	107.9	180.7	134.8	135.7	147.8
Inventories	0.4	0.4	0.4	0.4	0.4
Total Other Current Assets	34.7	88.0	92.1	93.4	94.8
<b>Total Current Assets</b>	<b>236.3</b>	<b>287.6</b>	<b>239.1</b>	<b>300.4</b>	<b>369.1</b>
Fixed Assets	42.1	36.4	35.6	34.6	33.4
Total Investments	2.6	2.8	2.8	2.8	2.8
Intangible Assets	299.2	333.3	366.6	352.7	355.9
Total Other Non-Current Assets	2.0	5.6	60.4	36.4	11.6
<b>Total Non-current Assets</b>	<b>345.9</b>	<b>378.1</b>	<b>465.4</b>	<b>426.5</b>	<b>403.7</b>
Short-term Debt	5.0	36.8	36.8	36.8	36.8
Current Portion of Long-Term Debt					
Total Creditors	273.0	131.4	69.3	67.6	78.7
Other Current Liabilities	13.0	27.4	42.4	42.4	42.4
<b>Total Current Liabilities</b>	<b>291.0</b>	<b>195.6</b>	<b>148.5</b>	<b>146.8</b>	<b>157.9</b>
Total Long-term Debt	61.0	186.2	186.2	186.2	186.2
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10.5	5.9	68.9	68.9	68.9
<b>Total Non-current Liabilities</b>	<b>71.4</b>	<b>192.1</b>	<b>255.1</b>	<b>255.1</b>	<b>255.1</b>
Total Provisions	11.3	11.5	11.5	11.5	11.5
<b>Total Liabilities</b>	<b>373.7</b>	<b>399.1</b>	<b>415.0</b>	<b>413.4</b>	<b>424.4</b>
Shareholders' Equity	178.6	214.2	228.7	245.6	269.2
Minority Interests	29.9	52.5	60.8	67.8	79.2
<b>Total Equity</b>	<b>208.5</b>	<b>266.6</b>	<b>289.5</b>	<b>313.4</b>	<b>348.4</b>

### Key Ratios

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Revenue Growth	101%	39%	(13%)	(8%)	22%
Operating EBITDA Growth	52.1%	19.4%	26.1%	2.7%	18.4%
Operating EBITDA Margin	32.8%	28.2%	40.8%	45.8%	44.4%
Net Cash Per Share (\$)	0.02	(0.18)	(0.18)	(0.13)	(0.08)
BVPS (\$)	0.15	0.18	0.20	0.21	0.23
Gross Interest Cover	8.17	3.04	2.67	2.80	3.78
Effective Tax Rate	19.4%	27.9%	28.0%	26.0%	26.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	146.6	197.9	248.3	232.0	199.3
Inventory Days	1.86	1.00	1.06	1.16	0.95
Accounts Payables Days	557.1	519.8	293.4	218.3	191.1
ROIC (%)	48.6%	27.1%	10.5%	8.7%	11.8%
ROCE (%)	20.6%	14.0%	10.0%	9.5%	11.5%
Return On Average Assets	9.21%	7.47%	6.11%	5.86%	6.93%

### Key Drivers

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
TV Adex Rate (% Change)	N/A	N/A	N/A	N/A	N/A
Average Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Non Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Programming Costs (% Change)	65.4%	4.9%	-17.7%	5.0%	5.0%
Newspaper adex rev. grth (%)	257.6%	123.7%	-9.0%	-15.0%	15.0%
Newspaper ASP (% Change)	N/A	N/A	N/A	N/A	N/A
Newspaper circulation grth (%)	N/A	N/A	N/A	N/A	N/A
Newsprint Cost (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## Singapore

**HOLD** (no change)

Consensus ratings\*: Buy 2 Hold 2 Sell 0

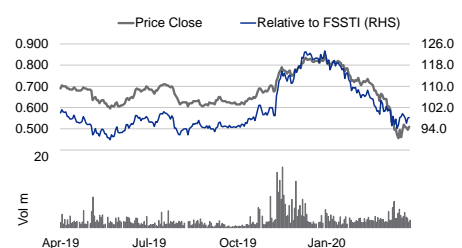
Current price:	S\$0.51
Target price:	S\$0.50
Previous target:	S\$0.62
Up/downside:	-2.8%
CGS-CIMB / Consensus:	-35.0%

Reuters:	VLUE.SI
Bloomberg:	VALUE.SP
Market cap:	US\$155.7m
	S\$221.9m
Average daily turnover:	US\$1.18m
	S\$1.64m
Current shares o/s:	434.0m
Free float:	74.3%

\*Source: Bloomberg

**Key changes in this note**

- ▶ FY21F revenue decreased by 14.5%.
- ▶ FY21F EPS decreased by 20.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-19.1	-37.8	-25
Relative (%)	-1.5	-14.8	-2.2

Major shareholders	% held
Chong Hing Tse	18.1
Hsbc	10.1
Kok Kit Chow	7.6

**Analyst(s)**

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# Valuetronics Holdings Ltd

## Cautious outlook

- VALUE turned cautious on disruptions from temporary factory shutdowns at some of its suppliers and end customers; we further trim our FY3/21F EPS.
- GFC trough valuations imply more downside, but this could be limited by its net cash of S\$0.42/shr (as of end-Sep 19) and 9% dividend yield.
- Reiterate Hold as we await better entry levels. Faster recovery in China vs. peers could benefit VALUE in terms of market share gains.

### Cautious tone on near-term outlook

On 23 Mar, VALUE reported that over 80% of its employees in China have resumed work, although the reduction in production days and capacity for the past 1.5 months is likely to result in a yoy decline in 2HFY3/20 profitability. The group further warned that widening virus transmission, travel bans and city lockdowns in its major markets have led to factory shutdowns at some of its suppliers and end customers. As of 1HFY20, North Asia, US and Europe accounted for 43%, 40% and 17% of VALUE's topline, respectively. We think there could be wider repercussions from global disruption in logistics and sub-component availability, as well as potential slowdown in consumer demand; hence, we lower our FY20F EPS by 20.0%. Should North Asia recover faster vs. other regions, we see upside to our earnings forecasts as VALUE could benefit from market share gains when the pent-up consumer demand returns.

### GFC trough valuations below S\$0.42/shr cash level

VALUE traded at a record low (1 s.d. below historical mean) of 3.3x forward P/E and 0.7x P/BV during the 2008 global financial crisis, which was compounded by its Danshui plant flooding and goodwill impairment due to a poor acquisition. In the worst-case scenario, those trough valuations imply entry prices of S\$0.26 and S\$0.35, respectively. Unlike then, the group is arguably on a stronger footing with a c.3x bigger revenue base (FY18-19: >HK\$2.8bn), an established track record of profitability and dividend payments as well as a robust net cash position (zero debt). Its net cash per share has grown from FY08's HK\$0.51 to HK\$2.36 as of 2Q20 (FY20F: HK\$2.50 even after factoring in maintenance capex and Vietnam expansion), representing c.90% of its current market cap.

### Await a lower entry level; reiterate Hold

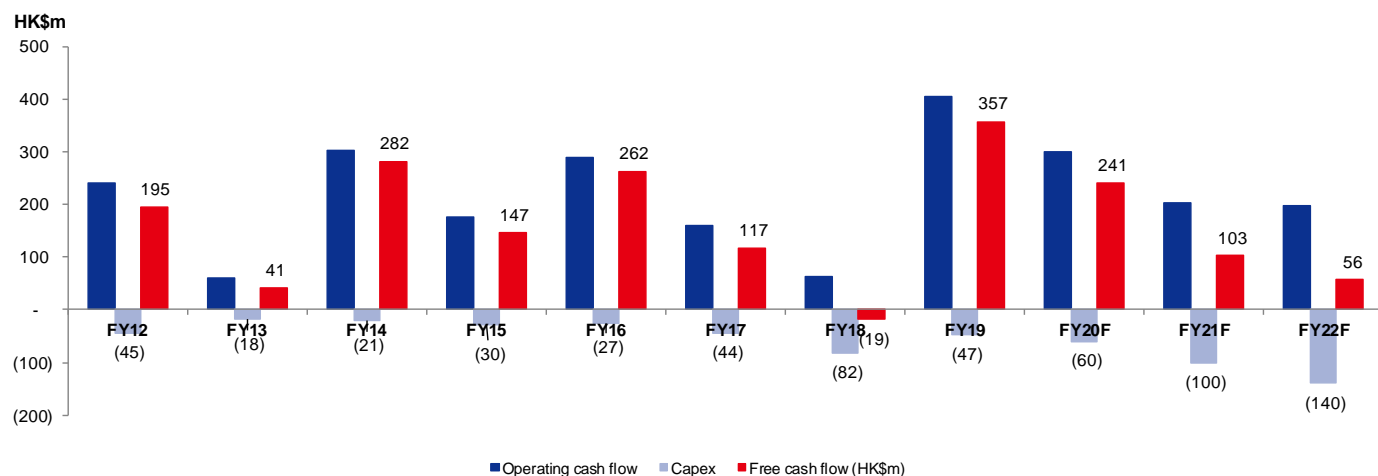
We believe VALUE's healthy balance sheet, cash-flow generating ability and attractive 9% dividend yield over FY20-22F could limit downside at current price levels. Reiterate Hold; our TP falls to S\$0.50 on EPS cut and pegged to its long-term historical mean of 6.2x CY21F P/E (prev. 7.5x, a discount to sector average). Downside risks include higher material costs and economic uncertainty. New customer or product wins and better revenue visibility are key re-rating catalysts for the stock.

**Financial Summary**

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Revenue (HK\$m)	2,854	2,829	2,544	2,374	3,011
Net Profit (HK\$m)	204.7	199.5	166.2	149.9	207.4
Core EPS (HK\$)	0.48	0.49	0.38	0.35	0.48
Core EPS Growth	31.0%	1.6%	(21.9%)	(9.8%)	38.4%
FD Core P/E (x)	5.80	5.69	7.26	8.05	5.81
Price To Sales (x)	0.41	0.42	0.47	0.51	0.40
DPS (HK\$)	0.27	0.25	0.25	0.25	0.25
Dividend Yield	9.73%	9.01%	9.01%	9.01%	9.01%
EV/EBITDA (x)	1.95	0.99	0.54	0.52	0.50
P/FCFE (x)	NA	3.58	4.61	9.96	16.68
Net Gearing	(63.2%)	(80.3%)	(89.1%)	(87.1%)	(78.1%)
P/BV (x)	1.12	1.04	0.99	0.96	0.89
ROE	20.5%	19.1%	14.0%	12.1%	15.9%
% Change In Core EPS Estimates			0.0%	(20.0%)	(0.0%)
CGS-CIMB/Consensus EPS (x)			0.97	0.86	1.09

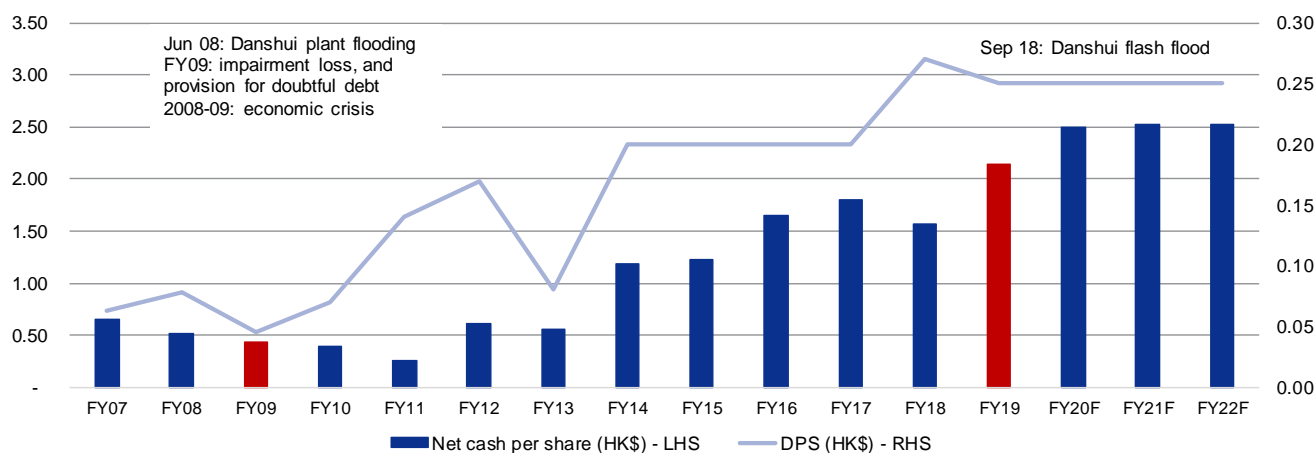
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: VALUE consistently records strong operating and free cash flow**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: VALUE continues to grow its net cash per share, which will be able to support its dividend payout**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: Earnings revision table**

Earnings Revision	FY2020F			FY2021F			FY2022F		
	Old	New	% change	Old	New	% change	Old	New	% change
<b>Valuetronics (FYE March)</b>									
<b>Revenue (HK\$m)</b>	2,544	2,544	0.0%	2,777	2,374	-14.5%	3,011	3,011	0.0%
Consumer electronics (CE)	1,126	1,126	0.0%	1,239	1,070	-13.6%	1,320	1,320	0.0%
Industrial & Commercial Electronics (ICE)	1,417	1,417	0.0%	1,538	1,304	-15.2%	1,692	1,692	0.0%
Gross Margin (%)	14.9%	14.9%	0.0%	14.9%	14.9%	0.0%	14.9%	14.9%	0.0%
EBITDA (HK\$m)	221	221	0.0%	250	206	-17.8%	287	287	0.0%
Core Net Profit (HK\$m)	166	166	0.0%	187	150	-20.0%	207	207	0.0%
Core EPS (HK\$)	0.38	0.38	0.0%	0.43	0.34	-20.0%	0.48	0.48	0.0%

SOURCE: CGS-CIMB RESEARCH, COMPANY

Figure 4: Historical 12-mth forward core P/E (x)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 5: Historical 12-mth rolling P/BV (x)

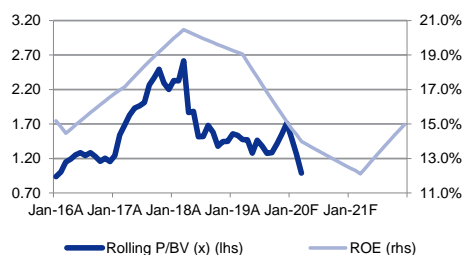
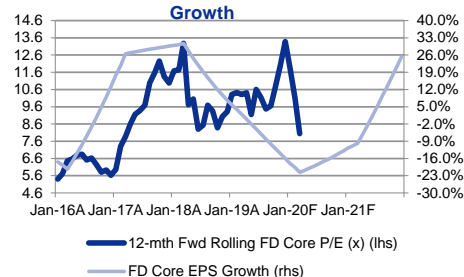


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: Peers Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY20F	P/E (x) CY21F	3-year EPS CAGR (%)	P/BV (x) CY20F	P/BV (x) CY21F	Recurring ROE (%) CY20F	Recurring ROE (%) CY21F	Dividend Yield (%) CY20F	Dividend Yield (%) CY21F
Valuetronics Holdings Ltd	VALUE SP	HOLD	0.51	0.50	158	7.7	6.2	7.1%	0.96	0.90	12.6%	15.0%	9.1%	9.1%
<b>Regional peers</b>														
Venture Corporation	VMS SP	Add	14.00	17.66	2,812	10.8	9.9	4.2%	1.51	1.40	14.8%	14.7%	5.0%	5.0%
Fu Yu Corp Ltd	FUYU SP	Hold	0.21	0.26	107	9.2	8.6	13.9%	0.92	0.89	10.3%	10.5%	7.8%	7.8%
Frencken Group Ltd	FRKN SP	Add	0.56	1.06	166	5.6	5.3	-0.1%	0.73	0.66	14.0%	13.2%	5.4%	5.4%
Sunningdale Tech Ltd	SUNN SP	Hold	0.84	1.10	112	10.1	9.1	31.6%	0.43	0.43	4.4%	4.8%	9.6%	9.6%
Hi-P International Ltd	HIP SP	Not rated	0.84	na	471	8.8	8.4	6.3%	1.01	0.94	12.1%	12.1%	3.8%	4.2%
Cal-Comp Electronics Thailand	CCET TB	Not rated	1.37	na	192	na	na	na	na	na	na	na	na	na
Hon Hai Precision Industry Co	2317 TT	Not rated	71.10	na	32,678	8.6	7.6	na	0.73	0.70	8.7%	9.3%	5.4%	6.0%
Benchmark Electronics Inc	BHE US	Not rated	19.92	na	732	16.4	12.8	na	na	na	na	7.0%	na	na
Celestica Inc	CLS US	Not rated	3.52	na	454	4.9	3.9	14.5%	0.33	0.32	6.3%	5.0%	0.0%	0.0%
Flex Ltd	FLEX US	Not rated	8.87	na	4,470	7.0	6.0	-25.9%	1.41	1.26	23.0%	24.5%	0.0%	0.0%
Jabil Inc	JBL US	Not rated	25.66	na	3,903	8.5	6.8	6.1%	2.01	1.86	27.7%	30.2%	1.3%	1.3%
<b>Simple average (exclude VALUE SP)</b>						<b>9.0</b>	<b>7.8</b>	<b>6.3%</b>	<b>1.01</b>	<b>0.94</b>	<b>13.5%</b>	<b>13.1%</b>	<b>4.3%</b>	<b>4.4%</b>

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG (as of 24 March 2020)

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(HK\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
<b>Total Net Revenues</b>	<b>2,860</b>	<b>2,841</b>	<b>2,546</b>	<b>2,378</b>	<b>3,017</b>
<b>Gross Profit</b>	<b>421</b>	<b>442</b>	<b>382</b>	<b>357</b>	<b>454</b>
<b>Operating EBITDA</b>	<b>259</b>	<b>269</b>	<b>221</b>	<b>206</b>	<b>287</b>
Depreciation And Amortisation	(38)	(45)	(53)	(55)	(66)
<b>Operating EBIT</b>	<b>222</b>	<b>224</b>	<b>169</b>	<b>151</b>	<b>221</b>
Financial Income/(Expense)	8	14	20	18	15
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>230</b>	<b>238</b>	<b>189</b>	<b>168</b>	<b>236</b>
Exceptional Items		(14)			
<b>Pre-tax Profit</b>	<b>230</b>	<b>224</b>	<b>189</b>	<b>168</b>	<b>236</b>
Taxation	(25)	(25)	(23)	(19)	(28)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>205</b>	<b>199</b>	<b>166</b>	<b>150</b>	<b>207</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>205</b>	<b>199</b>	<b>166</b>	<b>150</b>	<b>207</b>
Recurring Net Profit	205	212	166	150	207
<b>Fully Diluted Recurring Net Profit</b>	<b>205</b>	<b>212</b>	<b>166</b>	<b>150</b>	<b>207</b>

**Cash Flow**

(HK\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
<b>EBITDA</b>	<b>259.1</b>	<b>268.9</b>	<b>221.5</b>	<b>205.5</b>	<b>286.9</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(192.1)	138.2	102.7	16.4	(61.3)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	(0.5)	(0.4)	0.0	0.0	0.0
Other Operating Cashflow	16.7	24.6	0.0	0.0	0.0
Net Interest (Paid)/Received	8.1	14.2	20.3	17.7	15.0
Tax Paid	(19.0)	(13.0)	(22.7)	(18.5)	(28.3)
<b>Cashflow From Operations</b>	<b>72.3</b>	<b>432.4</b>	<b>321.8</b>	<b>221.1</b>	<b>212.3</b>
Capex	(82.4)	(47.1)	(60.0)	(100.0)	(140.0)
Disposals Of FAs/subsidiaries	(51.4)	0.5	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(42.8)	(49.9)	0.0	0.0	0.0
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(176.6)</b>	<b>(96.5)</b>	<b>(60.0)</b>	<b>(100.0)</b>	<b>(140.0)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	19.9	9.4	0.0	0.0	0.0
Shares Repurchased	0.0	(3.9)	0.0	0.0	0.0
Dividends Paid	(114.1)	(107.2)	(108.5)	(108.5)	(108.5)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(94.2)</b>	<b>(101.6)</b>	<b>(108.5)</b>	<b>(108.5)</b>	<b>(108.5)</b>
Total Cash Generated	(198.5)	234.3	153.3	12.6	(36.2)
<b>Free Cashflow To Equity</b>	<b>(104.3)</b>	<b>336.0</b>	<b>261.8</b>	<b>121.1</b>	<b>72.3</b>
<b>Free Cashflow To Firm</b>	<b>(103.6)</b>	<b>336.6</b>	<b>262.6</b>	<b>121.9</b>	<b>73.1</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(HK\$m)	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Total Cash And Equivalents	671	930	1,084	1,096	1,060
Total Debtors	618	463	419	393	491
Inventories	386	302	326	305	386
Total Other Current Assets	0	0	0	0	0
<b>Total Current Assets</b>	<b>1,674</b>	<b>1,696</b>	<b>1,829</b>	<b>1,794</b>	<b>1,938</b>
Fixed Assets	210	210	217	263	337
Total Investments	50	62	62	62	62
Intangible Assets	34	46	46	45	45
Total Other Non-Current Assets	0	0	0	0	0
<b>Total Non-current Assets</b>	<b>294</b>	<b>318</b>	<b>325</b>	<b>370</b>	<b>444</b>
Short-term Debt	0	0	0	0	0
Current Portion of Long-Term Debt					
Total Creditors	865	747	830	799	917
Other Current Liabilities	34	98	98	98	98
<b>Total Current Liabilities</b>	<b>899</b>	<b>845</b>	<b>928</b>	<b>897</b>	<b>1,015</b>
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Provisions	7	9	9	9	9
<b>Total Liabilities</b>	<b>907</b>	<b>854</b>	<b>937</b>	<b>906</b>	<b>1,024</b>
Shareholders' Equity	1,062	1,159	1,217	1,258	1,357
Minority Interests					
<b>Total Equity</b>	<b>1,062</b>	<b>1,159</b>	<b>1,217</b>	<b>1,258</b>	<b>1,357</b>

**Key Ratios**

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
Revenue Growth	25.4%	(0.9%)	(10.1%)	(6.7%)	26.8%
Operating EBITDA Growth	31.8%	3.8%	(17.6%)	(7.2%)	39.6%
Operating EBITDA Margin	9.08%	9.50%	8.71%	8.66%	9.53%
Net Cash Per Share (HK\$)	1.56	2.14	2.50	2.53	2.44
BVPS (HK\$)	2.48	2.67	2.80	2.90	3.13
Gross Interest Cover	324.0	372.5	210.7	188.4	275.9
Effective Tax Rate	10.9%	11.0%	12.0%	11.0%	12.0%
Net Dividend Payout Ratio	56.6%	50.9%	65.3%	72.4%	52.3%
Accounts Receivables Days	68.37	65.78	59.68	58.38	50.40
Inventory Days	50.69	52.32	53.12	56.94	49.19
Accounts Payables Days	72.40	66.53	73.22	82.82	71.55
ROIC (%)	129%	64%	96%	188%	202%
ROCE (%)	22.9%	21.3%	15.8%	13.6%	18.0%
Return On Average Assets	10.4%	10.0%	7.0%	6.1%	8.5%

**Key Drivers**

	Mar-18A	Mar-19A	Mar-20F	Mar-21F	Mar-22F
ASP Change (% , Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (% , main prod)	41.6%	-16.9%	-3.0%	-5.0%	23.3%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	13.0%	14.6%	-15.0%	-8.0%	29.7%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Singapore

**HOLD** (previously ADD)

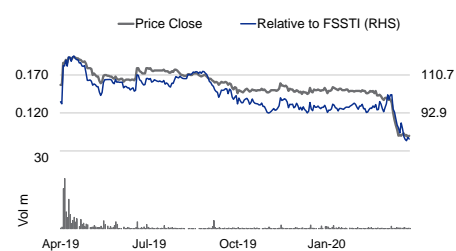
Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.090
Target price:	S\$0.090
Previous target:	S\$0.28
Up/downside:	0.1%
CGS-CIMB / Consensus:	-67.8%
Reuters:	YNAM.SI
Bloomberg:	YNH SP
Market cap:	US\$33.00m
	S\$47.03m
Average daily turnover:	US\$0.03m
	S\$0.03m
Current shares o/s:	522.6m
Free float:	64.8%

\*Source: Bloomberg

**Key changes in this note**

- FY20-21F EPS lowered by 78-146%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-37.5	-40	-42.3
Relative (%)	-19.9	-17	-19.5

Major shareholders	% held
Soon Yong Seow	20.5
Jaleel Mohd Abdul	7.0

**Analyst(s)**

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# Yongnam Holdings

## Not out of the woods yet

- With the commencement of more strutting projects, we expect Yongnam's losses to narrow further in 1H20F, in anticipation of a breakeven in 2H20F.
- However, Yongnam's ICR is weak due to low profitability. Should its project execution be delayed materially, we see potential stress on cash flow.
- Downgrade to Hold from Add with a lower TP of S\$0.09.

### Orderbook at a 5-year high

As at end-Dec 19, the orderbook stood at S\$405m, of which 35% involves the N103 North-South Corridor (NSC) works in a main contractor role, some 49% in specialist civil engineering, while the remaining 16% in steelworks and other works. About 40% of the orderbook (c.S\$160m) is slated for completion within FY20F. Management remains optimistic of further order wins in 2020F with the rollout of more transport infrastructure projects in Singapore, including NSC, Jurong Regional Line, Cross Island Line and Changi East development.

### Losses to narrow in FY20F

Revenue recognition in FY19 was low as projects, including NSC and Changi T5, were still in the early rollout phase. Yongnam's strut utilisation rate remained low at c.20% in 4Q19. With the commencement of more strutting projects on hand, including NSC (total of 4 contracts) and Changi East (2 contracts), we believe Yongnam's strut utilisation rate can return to a healthier level of c.35% in 2020F, allowing the company to better absorb overhead costs. Yongnam also came out leaner post its organisational restructuring in 4Q19; management estimates c.S\$8m cost savings per annum. We anticipate losses to narrow further in 1H20F, and look towards Yongnam achieving breakeven in 2H20F.

### Look out for Yongnam's weak interest coverage ratio (ICR)

Yongnam's outstanding loans at end Dec-19 consisted of short-term borrowings (32.9%), long-term borrowings (57.3%) and convertible bonds (9.8%, due May 2021). Yongnam reported a loss of S\$47.0m at the EBIT level in FY19, while its operating cash flow to interest coverage ratio in FY19 was 2.4x. Management said that its construction activities have not been impacted by the Covid-19 outbreak thus far. However, should its construction works/collection of progress payments be delayed materially in the coming months, we see potential stress on Yongnam's cash flow.

### Downgrade to Hold from Add with lower TP of S\$0.09

We downgrade Yongnam from Add to Hold. Notwithstanding Yongnam's orderbook recovery from a multi-year low, we revise our FY20-21F EPS forecasts lower by 78-146% due to the slower-than-expected ramp-up of strutting projects. Our TP is consequently lowered to S\$0.09, pegged to 0.24x FY20F P/BV (1.2 s.d. below its 10-year historical average). Upside risks include further announcements of contract wins. Key downside risks to our call include project delays.

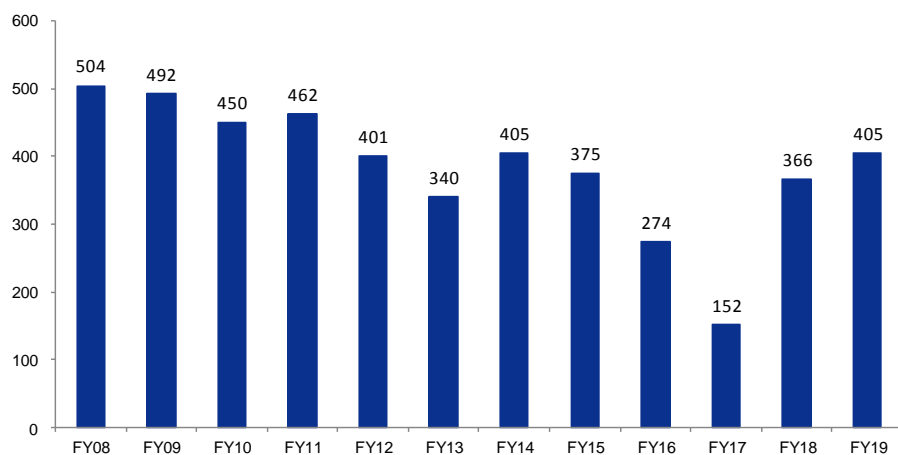
### Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (S\$m)	161.4	205.1	214.7	258.1	288.2
Operating EBITDA (S\$m)	-28.18	-13.96	35.72	49.89	51.87
Net Profit (S\$m)	-51.02	-53.05	-8.71	4.26	6.12
Core EPS (S\$)	-0.10	-0.10	-0.02	0.01	0.01
Core EPS Growth	190%	4%	(84%)		44%
FD Core P/E (x)	NA	NA	NA	11.03	7.68
DPS (S\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	4.18	2.80	2.47
P/FCFE (x)	7.18	NA	NA	6.42	5.16
Net Gearing	49.0%	53.4%	61.6%	55.8%	48.7%
P/BV (x)	0.19	0.23	0.25	0.24	0.23
ROE	(18.7%)	(23.4%)	(4.4%)	2.2%	3.1%
% Change In Core EPS Estimates			(146%)	(78%)	
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

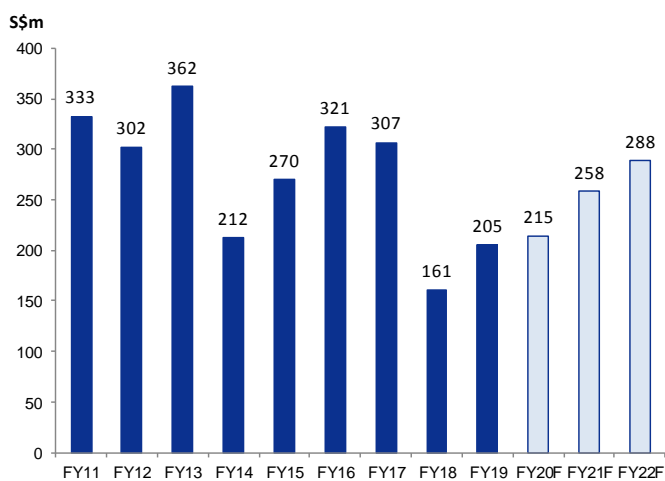
## Not out of the woods yet

Figure 1: Orderbook forecast for Yongnam (S\$ m)



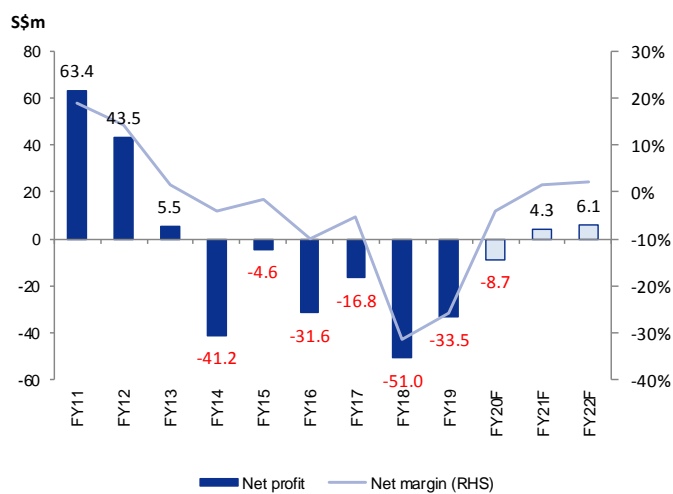
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Yongnam's revenue trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Yongnam's net profit and net margin forecasts



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision

Earnings revision (\$m)	FY20F			FY21F		
	Old	New	% chg	Old	New	% chg
Revenue	314.4	214.7	-31.7%	311.3	258.1	-17.1%
EBITDA	69.5	35.7	-48.6%	70.5	49.9	-29.2%
Net profit	18.9	-8.7	146.0%	19.7	4.3	-78.4%
Core net profit	18.9	-8.7	146.0%	19.7	4.3	-78.4%
Core EPS (S cents)	3.6	-1.7	146.0%	3.8	0.8	-78.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Historical P/BV trend



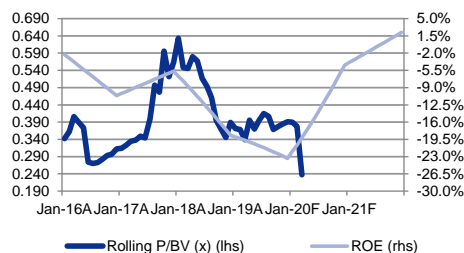
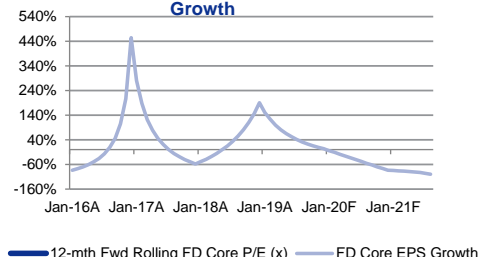
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: Peers Comparison

Company	Bloomberg Ticker	Price Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY19	P/E (x) CY20F	3-year EPS CAGR (%)	P/BV (x) CY19	Recurring ROE (%) CY19	Dividend Yield (%) CY19
<b>Yongnam Holdings</b>	<b>YNH SP</b>	<b>HOLD</b>	<b>0.09</b>	<b>0.09</b>	<b>33</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>0.23</b>	<b>-23.0%</b>	<b>0.0%</b>
<b>Contractors</b>											
KSH Holdings Ltd	KSHH SP	Not rated	0.30	na	116	22.0	na	na	na	na	na
Lian Beng Group Ltd	LBG SP	Not rated	0.36	na	125	5.5	na	na	na	na	na
OKP Holdings Ltd	OKP SP	Not rated	0.18	na	38	na	na	na	0.45	-0.3%	4.0%
Tiong Seng Holdings Ltd	TSNG SP	Not rated	0.16	na	48	6.6	na	na	0.25	4.0%	3.2%
Wee Hur Holdings Ltd	WHUR SP	Not rated	0.18	na	115	4.8	na	na	0.42	9.1%	4.4%
<b>Simple average</b>						<b>9.7</b>	<b>na</b>	<b>na</b>	<b>0.37</b>	<b>4.3%</b>	<b>3.9%</b>
<b>Equipments</b>											
Tiong Woon Corp Holding Ltd	TWC SP	Not rated	0.39	na	62	30.3	na	na	na	na	na
Sin Heng Heavy Machinery Lt	SHHM SP	Not rated	0.31	na	25	na	na	na	0.32	-1.1%	0.0%
<b>Simple average</b>						<b>30.3</b>	<b>na</b>	<b>na</b>	<b>0.32</b>	<b>-1.1%</b>	<b>0.0%</b>
<b>Simple average (ex Yongnam Holdings)</b>						<b>13.8</b>	<b>na</b>	<b>na</b>	<b>0.36</b>	<b>2.9%</b>	<b>2.9%</b>

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG



**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>161.4</b>	<b>205.1</b>	<b>214.7</b>	<b>258.1</b>	<b>288.2</b>
<b>Gross Profit</b>	<b>(45.9)</b>	<b>(13.7)</b>	<b>17.4</b>	<b>33.8</b>	<b>38.0</b>
<b>Operating EBITDA</b>	<b>(28.2)</b>	<b>(14.0)</b>	<b>35.7</b>	<b>49.9</b>	<b>51.9</b>
Depreciation And Amortisation	(29.9)	(33.0)	(35.0)	(35.0)	(35.0)
<b>Operating EBIT</b>	<b>(58.1)</b>	<b>(47.0)</b>	<b>0.7</b>	<b>14.9</b>	<b>16.9</b>
Financial Income/(Expense)	(8.0)	(12.3)	(12.7)	(12.7)	(12.7)
Pretax Income/(Loss) from Assoc.	0.1	0.4	1.5	1.5	1.5
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>(66.1)</b>	<b>(58.9)</b>	<b>(10.5)</b>	<b>3.7</b>	<b>5.6</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(66.1)</b>	<b>(58.9)</b>	<b>(10.5)</b>	<b>3.7</b>	<b>5.6</b>
Taxation	11.8	4.9	1.1	(0.4)	(0.6)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>(54.2)</b>	<b>(54.0)</b>	<b>(9.5)</b>	<b>3.3</b>	<b>5.1</b>
Minority Interests	3.2	0.9	0.8	1.0	1.1
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>(51.0)</b>	<b>(53.1)</b>	<b>(8.7)</b>	<b>4.3</b>	<b>6.1</b>
Recurring Net Profit	(51.0)	(53.1)	(8.7)	4.3	6.1
<b>Fully Diluted Recurring Net Profit</b>	<b>(51.0)</b>	<b>(53.1)</b>	<b>(8.7)</b>	<b>4.3</b>	<b>6.1</b>

**Cash Flow**

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	-28.18	-13.96	35.72	49.89	51.87
Cash Flow from Inv. & Assoc.					
Change In Working Capital	13.52	32.64	-9.03	-2.98	-0.97
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.77	22.91	-1.50	-1.50	-1.50
Net Interest (Paid)/Received	-8.03	-12.28	-12.73	-12.73	-12.73
Tax Paid	-0.02	-0.59	1.05	-0.37	-0.56
<b>Cashflow From Operations</b>	<b>-21.94</b>	<b>28.72</b>	<b>13.52</b>	<b>32.32</b>	<b>36.12</b>
Capex	-32.88	-26.95	-28.00	-28.00	-29.00
Disposals Of FAs/subsidiaries	18.03	12.69	3.00	3.00	2.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>-14.85</b>	<b>-14.27</b>	<b>-25.00</b>	<b>-25.00</b>	<b>-27.00</b>
Debt Raised/(repaid)	43.34	-23.22	4.45	0.00	0.00
Proceeds From Issue Of Shares	0.00	12.08	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	0.00	0.00	0.00	0.00	0.00
Preferred Dividends					
Other Financing Cashflow	-2.55	-8.85	-0.00	-0.00	0.00
<b>Cash Flow From Financing</b>	<b>40.79</b>	<b>-19.98</b>	<b>4.45</b>	<b>-0.00</b>	<b>0.00</b>
Total Cash Generated	4.01	-5.53	-7.03	7.32	9.12
<b>Free Cashflow To Equity</b>	<b>6.55</b>	<b>-8.77</b>	<b>-7.03</b>	<b>7.32</b>	<b>9.12</b>
<b>Free Cashflow To Firm</b>	<b>-28.75</b>	<b>26.75</b>	<b>1.25</b>	<b>20.05</b>	<b>21.85</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	14.3	9.1	3.6	12.4	23.0
Total Debtors	29.9	21.9	26.5	31.8	35.5
Inventories	45.4	27.1	24.3	27.7	30.8
Total Other Current Assets	73.8	90.5	90.5	90.5	90.5
<b>Total Current Assets</b>	<b>163.3</b>	<b>148.6</b>	<b>144.8</b>	<b>162.4</b>	<b>179.8</b>
Fixed Assets	314.8	260.9	252.4	243.9	236.9
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.1	53.6	55.1	56.6	58.1
<b>Total Non-current Assets</b>	<b>314.9</b>	<b>314.5</b>	<b>307.5</b>	<b>300.5</b>	<b>295.0</b>
Short-term Debt	47.1	40.5	45.0	45.0	45.0
Current Portion of Long-Term Debt					
Total Creditors	66.0	58.5	52.8	60.0	66.9
Other Current Liabilities	27.8	40.6	40.6	40.6	40.6
<b>Total Current Liabilities</b>	<b>140.9</b>	<b>139.7</b>	<b>138.4</b>	<b>145.6</b>	<b>152.5</b>
Total Long-term Debt	87.5	70.7	70.7	70.7	70.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3.2	61.2	61.2	61.2	61.2
<b>Total Non-current Liabilities</b>	<b>90.7</b>	<b>132.0</b>	<b>132.0</b>	<b>132.0</b>	<b>132.0</b>
Total Provisions	0.9	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>232.5</b>	<b>271.6</b>	<b>270.3</b>	<b>277.6</b>	<b>284.5</b>
Shareholders' Equity	253.8	200.6	191.8	196.1	202.2
Minority Interests	(8.1)	(9.1)	(9.8)	(10.8)	(11.9)
<b>Total Equity</b>	<b>245.7</b>	<b>191.5</b>	<b>182.0</b>	<b>185.3</b>	<b>190.4</b>

### Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	(47.4%)	27.1%	4.6%	20.3%	11.6%
Operating EBITDA Growth	(427%)	(50%)	N/A	40%	4%
Operating EBITDA Margin	(17.5%)	(6.8%)	16.6%	19.3%	18.0%
Net Cash Per Share (\$)	-0.23	-0.20	-0.21	-0.20	-0.18
BVPS (\$)	0.49	0.38	0.37	0.38	0.39
Gross Interest Cover	-7.23	-3.82	0.06	1.17	1.33
Effective Tax Rate	0.0%	0.0%	0.0%	10.0%	10.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	58.59	46.04	41.23	41.21	42.66
Inventory Days	73.89	60.44	47.72	42.28	42.68
Accounts Payables Days	130.0	103.8	103.2	91.7	92.6
ROIC (%)	(15.2%)	(12.7%)	0.2%	4.2%	4.8%
ROCE (%)	(15.1%)	(13.7%)	0.2%	5.0%	5.6%
Return On Average Assets	(9.56%)	(8.86%)	0.71%	3.50%	3.80%

### Key Drivers

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Outstanding Orderbook	366	405	425	392	329
Order Book Depletion	276	145	185	193	232
Orderbook Replenishment	N/A	N/A	N/A	N/A	N/A
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

#### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** –

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

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4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

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## Recommendation Framework

### Stock Ratings

Definition:

**Add** The stock's total return is expected to exceed 10% over the next 12 months.

**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

**Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

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**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

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### Country Ratings

Definition:

**Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

**Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

**Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.