

Advancer Global Limited

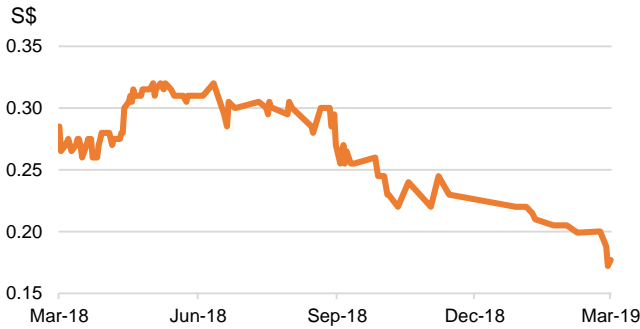
Date: 21 March 2019

BUY

ADGL SP

Price: S\$0.170 (as at 20 March 2019)

Target Price: S\$0.30
(+74.3%)



Share price	1M	3M	6M	1Y
Advancer Global	(13.7)%	(23.0)%	(30.6)%	(37.9)%
Catalist Index	(0.9)%	(7.5)%	(19.2)%	(35.1)%

Market capitalisation	S\$42.7 million		
Current Price	S\$0.170		
Shares outstanding	251.4 million		
Free Float	10.8%		
Major shareholder	Fullcast Holdings	25.9%	
	Chin Miu Hiong	15.6%	
	Chin Swee Siew	15.1%	
	Chin Mei Yang	12.3%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Advisors

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FY2018 Results Review

Cost increase dampened profit. Advancer Global grew revenue by 3.1% to S\$67.3 million for FY2018. However, gross profit dropped 8.3% to S\$17.3 million due to increase in manpower-related costs. This translates to lower gross profit margin at 25.7% in FY2018, against 28.9% in FY2017. Administrative expenses also rose 4.4% to S\$17.4 million due to increased administrative costs, bad debt written-off at cleaning and pest controls businesses and increased advertising fees. As a result, net profit fell 56.3% to S\$1.3 million, which was 51% below our estimates.

Downward revisions of earnings estimates. Factoring in a slowdown in the foreign employment sourcing business, we lowered our revenue growth projections by 4.7% point and 5.4% point to 10.0% and 8.1% for FY2019E and FY2020E respectively. We also expect the increased business costs to be capped at FY18's level, hence gross margin to be maintained at FY18's 25.7%.

Maintain Buy but lower target price to S\$0.30. Higher business costs and slower projected revenue growth led to a lower DCF-backed target price of S\$0.30 (from S\$0.36). This represents an ex-cash PE of 20.7x and 18.9x FY19E and FY20E respectively, which we think is justified given its resilient and cash generative business. Advancer has embarked on a M&A trail to add service offerings and extend customer reach. Building management and security services business will fuel growth, and higher contribution from waste management associate, G3 Environmental Private Limited. The stock is trading at 1x book, which is 60% backed by cash.

Key risks: Exposure to laws, regulations and policies of originating countries, ability to seek out M&A targets at attractive valuations.

Key Financials

Year ended December (S\$'000)	FY2016A	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Revenue	50,909	65,260	67,283	74,031	80,058	85,718
% Growth	13.7%	28.2%	3.1%	10.0%	8.1%	7.1%
Gross profit	13,555	18,857	17,283	19,016	20,564	22,018
Gross margin (%)	26.6%	28.9%	25.7%	25.7%	25.7%	25.7%
Profit before tax	3,300	3,375	1,516	2,541	2,765	2,980
Net Profit	2,675	3,056	1,336	2,239	2,436	2,626
% Growth	(38.8)%	14.2%	(56.3)%	67.6%	8.8%	7.8%
Net margin (%)	5.3%	4.7%	2.0%	3.0%	3.0%	3.1%
Basic EPS (S\$ cents)	1.5	1.7	0.6	0.9	1.0	1.0
P/E (ex-cash) (x)	12.9	11.4	12.5	6.5	5.9	5.6
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

FY2018 results in review

Revenue Breakdown By Segment

Revenue breakdown (\$mil)	FY18	FY17
Employment Services	12.5	13.2
Building Management	36.1	37.1
Security Services	18.7	15.0
Total	67.3	65.3

Cost Breakdown

Cost breakdown (\$mil)	FY18	FY17
Cost of Services	50.0	46.4
Administrative Expenses	17.4	16.7

Increase in costs dampened profit. Advancer Global achieved revenue growth of 3.1% to S\$67.3 million for FY18. The increase was due mainly to higher revenue from the Security Services Business, offset by the decline in revenue from the Building Management and Employment Services. However, gross profit fell 8.3% to S\$17.3 million, weighed down by manpower costs such as higher average recruitment costs for Employment Services Business, increased average salaries of security guards for Security Services Business, and increase in direct labour costs for pest control for Building Management Business. This translates to an overall lower gross profit margin at 25.7% in FY18, compared with 28.9% in FY17. At the same time, administrative expenses rose 4.4% to S\$17.4 million due to increased administrative staff costs, bad debt written-off at cleaning and pest controls businesses, and higher advertising fees. Net profit fell 56.3% to S\$1.3 million, a result of lower gross margins and higher administrative expenses.

Downward adjustments in estimates. The 51% miss in the bottom line prompted a downward revision in our financial forecast of the Group. Taking into consideration the slowdown in the employment services business, we downgraded our revenue growth projections by 4.7% point and 5.4% point to 10.0% and 8.1% for FY19E and FY20E respectively. Accounting for the higher costs of business, we also lowered the gross profit margin from 28.7% to 25.7%, similar to that in FY18. We have also provided for higher administrative expenses.

Maintain Buy with a lower target price of S\$0.30. Taking in account the higher business costs and moderating the overall growth of the group, we have lowered our DCF-backed target price to S\$0.30 from S\$0.36 previously. This represents an ex-cash PE of 20.7x and 18.9x FY19E and FY20E respectively, which we think is justified given its defensive business and proven mergers and acquisition track record. Furthermore, Advancer is also in a net cash position, with a war chest of more than S\$26 million in cash and cash equivalents. We expect Facility Management Services (consisting of the Group's Security Services and Building Management segments) to fuel growth, along with higher contribution from its stake in its waste management associate, G3 Environmental Private Limited. The stock is trading at 1x book, which is 60% backed by cash. Maintain BUY.

Recent developments

Advancer Global acquired landscaping company to expand facilities management services

In Nov 2018, Advancer Global acquired a 76% stake in a landscaping company, Country Cousins Pte Ltd, for S\$171,000. The purchase was priced at 2.6x book value and 3.75x PE.

Established in 2014, Country Cousins offers a range of professional services such as landscape planting, care and maintenance services comprising of garden installation and maintenance, grass cutting, tree felling and pruning in Singapore. It serves a wide array of customers including schools and tertiary institutions, offices and commercial spaces, private residential homes and public gardens.

Country Cousins' business complements well with the Group's services in outdoor living spaces. The acquisition will facilitate the Group's entry into aqua-scapes and pond-scapes, further extending its service offerings for landscaping solutions. Advancer will tap on Country Cousins' track record to bid for landscaping jobs, which increasingly form a part of facilities management contract.

SAC Advisors Forecast Summary

Revenue by segment (S\$'000)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	12,818	12,627	13,151	12,471	12,346	12,346	12,531
Building Management	20,090	24,753	37,135	36,124	39,917	43,110	46,128
Security Services	11,886	13,529	14,974	18,688	21,772	24,602	27,062
Total Revenue	44,794	50,909	65,260	67,283	74,035	80,058	85,722

Revenue % (Y-Y)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	10.20%	-1.49%	4.15%	-5.17%	-1.00%	0.00%	1.50%
Building Management	18.46%	23.21%	50.02%	-2.72%	10.50%	8.00%	7.00%
Security Services	14.07%	13.82%	10.68%	24.80%	16.50%	13.00%	10.00%
Total	14.82%	13.65%	28.19%	3.10%	10.03%	8.14%	7.07%

Revenue breakdown (%)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	28.6%	24.8%	20.2%	18.5%	16.7%	15.4%	14.6%
Building Management	44.8%	48.6%	56.9%	53.7%	53.9%	53.8%	53.8%
Security Services	26.5%	26.6%	22.9%	27.8%	29.4%	30.7%	31.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Gross profit breakdown (S\$'000)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	5,819	5,523	6,139	5,647	5,643	5,446	5,428
Building Management	4,253	6,042	9,597	8,560	9,602	10,810	11,928
Security Services	1,804	1,990	3,121	3,076	3,772	4,309	4,663
Total	11,876	13,555	18,857	17,283	19,016	20,565	22,019

Gross profit % (Y-Y)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	31.7%	-5.1%	11.2%	-8.0%	-0.1%	-3.5%	-0.3%
Building Management	81.5%	42.1%	58.8%	-10.8%	12.2%	12.6%	10.3%
Security Services	-14.9%	10.3%	56.8%	-1.4%	22.6%	14.2%	8.2%
Total	33.7%	14.1%	39.1%	-8.3%	10.0%	8.1%	7.1%

Gross profit margin (%)	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Employment Services	45.4%	43.7%	46.7%	45.3%	45.7%	44.1%	43.3%
Building Management	21.2%	24.4%	25.8%	23.7%	24.1%	25.1%	25.9%
Security Services	15.2%	14.7%	20.8%	16.5%	17.3%	17.5%	17.2%
Total	26.5%	26.6%	28.9%	25.7%	25.7%	25.7%	25.7%

Operating profit**	Fiscal Year Ended						
	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Operating Profit margin	11.1%	6.7%	5.3%	2.2%	3.4%	3.4%	3.4%
Operating Profit growth y-y	74.7%	-31.6%	2.1%	-56.5%	66.8%	8.1%	7.1%
Operating Profit (S\$'000)	4,978	3,406	3,476	1,513	2,523	2,728	2,921

Profit (%) (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	76.5%	-32.1%	2.3%	-55.1%	67.6%	8.8%	7.8%
Profit after tax*	71.3%	-38.8%	14.2%	-56.3%	67.6%	8.8%	7.8%

Profit margin (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	7.1%	10.9%	6.5%	5.2%	2.3%	3.4%	3.5%
Profit after tax*	6.5%	9.8%	5.3%	4.7%	2.0%	3.0%	3.0%

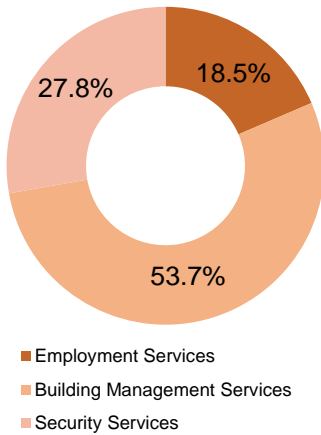
Source: Company data, SAC Advisors

* Profit attributable to owners of the Group

** In-house estimate

Company Background

Revenue Breakdown (FY2018)



Source: Company data, SAC Advisors

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- Its business is divided into three main business segments:
 - (a) **Employment Services:** Through its well-recognised brands, “Nation” and “Enreach”, Advancer offers integrated and comprehensive employment solutions and services including sourcing, recruitment, training and deployment of foreign domestic workers and foreign workers.
 - (b) **Building Management Services:** Advancer provides mainly integrated property management, security services, pest control, landscape, cleaning and stewarding services to hospitals, hotels, commercial and residential properties. This is performed at its subsidiaries such as Master Clean Facility Services Pte. Ltd., World Clean Facility Services Pte. Ltd., First Stewards Private Limited and Newman & Goh Property Consultants Pte Ltd, Newman & Associates Pte Ltd, Premier Eco-Care Pte. Ltd. and Prestige Enviro-Care Pte. Ltd.
 - (c) **Security Services:** Advancer provides mainly manpower for security solutions and services to residential, commercial and industrial properties, and security escort services. This is offered by its subsidiaries, KC Security & Investigation Services Pte. Ltd., KH Security Agency Pte. Ltd, Ashtree International Pte. Ltd. and AGS Integration Pte. Ltd.

Business Segment	Products / Services
Employment services	<ul style="list-style-type: none"> • Sourcing, recruiting, training and deployment of foreign workers and foreign domestic workers
Building management services	<ul style="list-style-type: none"> • Cleaning • Stewarding • Pest control • Property and facilities management services
Security services	<ul style="list-style-type: none"> • Security officers for events and premises • Security escort and bodyguard services • Consultation solution and services • Virtual guard and specialised IT solutions in security systems

Source: Company data, SAC Advisors

Income Statement (S\$'000)

	Fiscal Year Ended				
	FY2017	FY2018	FY2019F	FY2020F	FY2021F
Revenue	65,260	67,283	74,031	80,058	85,718
Cost of sales	(46,403)	(50,000)	(55,015)	(59,493)	(63,699)
Gross Profit	18,857	17,283	19,016	20,564	22,018
Other operating income	1,320	1,668	2,694	2,913	3,119
Administrative expenses	(16,701)	(17,438)	(19,187)	(20,749)	(22,216)
Operating Profit	3,476	1,513	2,523	2,728	2,921
Share of profit from JV	0	76	91	109	131
Finance costs	(101)	(73)	(73)	(73)	(73)
Profit before tax	3,375	1,516	2,541	2,765	2,980
Income tax	(262)	(121)	(203)	(221)	(238)
Profit for the year/period	3,113	1,395	2,338	2,544	2,742
Profit attributable to owners of company	3,056	1,336	2,239	2,436	2,626

Balance Sheet (S\$'000)

	Fiscal Year Ended				
	FY2017	FY2018	FY2019F	FY2020F	FY2021F
As at 31 Dec					
Cash and bank balances	8,033	26,006	28,098	28,330	28,102
Trade and other receivables	16,622	17,463	18,752	20,278	21,712
Inventories	38	547	322	348	373
Other assets	0	0	0	0	0
Total current assets	24,693	44,016	47,171	48,956	50,187
Property, Plant and Equipment	2,511	2,645	2,978	3,473	4,113
Goodwill on consol.	5,489	5,489	5,489	5,489	5,489
Investment in associate	2	78	169	279	410
Other non-current assets	1,696	1,031	463	19	19
Total non-current assets	9,698	9,243	9,099	9,259	10,031
Total assets	34,391	53,259	56,270	58,215	60,218
Bank borrowings	630	24	24	24	24
Trade and other payables	9,608	7,446	9,382	10,146	10,863
Other current liabilities	635	435	435	435	435
Total current liabilities	10,873	7,905	9,841	10,605	11,322
Total non-current liabilities	1,453	1,244	1,244	1,244	1,244
Total liabilities	12,326	9,149	11,085	11,849	12,566
Share Capital	18,378	40,607	40,607	40,607	40,607
Retained earnings	6,163	6,237	7,357	8,575	9,888
Treasury shares	0	(223)	(223)	(223)	(223)
Capital reserve	(2,920)	(2,870)	(2,870)	(2,870)	(2,870)
Equity attributable to shareholders	21,621	43,751	44,871	46,089	47,402
Non-controlling interests	444	359	314	277	249

Cash Flow Statement (S\$'000)

	Fiscal Year Ended				
	FY2017	FY2018	FY2019F	FY2020F	FY2021F
Profit before tax	3,375	1,516	2,541	2,765	2,980
Depreciation & amortisation	1,155	1,237	1,250	1,267	1,008
Change in working capital	(1,466)	(591)	873	(789)	(741)
Others	(150)	138	(221)	(257)	(296)
Net Cash (used in)/ from operations	2,914	2,300	4,442	2,986	2,950
Purchase of PPE	(886)	(732)	(1,014)	(1,318)	(1,648)
Acquisition of subsidiary	(1,152)	-	-	-	-
Others	(3,964)	(3,565)	-	-	-
Net Cash (used in)/ from investing	(6,002)	(4,297)	(1,014)	(1,318)	(1,648)
Net change in equity	4,816	22,121	-	-	-
Net change in debt	(279)	(630)	(73)	(73)	(73)
Dividends paid	(1,654)	(916)	(1,264)	(1,362)	(1,457)
Net Cash (used in)/ from financing	2,883	19,970	(1,337)	(1,435)	(1,530)

Ratios

	Fiscal Year Ended				
	FY2017	FY2018	FY2019F	FY2020F	FY2021F
Profitability (%)					
Operating profit margin	5.3%	2.2%	3.4%	3.4%	3.4%
Profit before tax margin	5.2%	2.3%	3.4%	3.5%	3.5%
Profit after tax margin	4.7%	2.0%	3.0%	3.0%	3.1%
Liquidity (x)					
Current ratio	2.3	5.6	4.8	4.6	4.4
Quick ratio	2.3	5.5	4.8	4.6	4.4
Interest coverage ratio	34.4	20.7	34.6	37.4	40.0
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	10.1	26.6	19.1	17.5	16.3
P/E (ex-cash)	11.4	12.5	6.5	5.9	5.6
P/E (ex-cash) at target price	21.7	36.3	20.7	18.9	17.7
P/B	1.9	1.0	0.9	0.9	0.9
EV/EBITDA	7.8	6.3	4.1	3.8	3.9
Cash Conversion Cycle					
Trade receivable days	77	92	92	92	92
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	77	62	62	62	62
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	16.4%	4.1%	5.1%	5.4%	5.6%
Return on capital employed	17.1%	4.4%	5.5%	5.8%	6.1%
Dividend payout ratio	49.1%	62.5%	50.0%	50.0%	50.0%

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Party	Quantum of position
Nil	Nil

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Company	Nature of business relation	Date of business relation
Advancer Global Limited	Continuing Sponsor	Ongoing relations
Advancer Global Limited	Introducer for secondary fund raising	August 2018

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Analyst name	Quantum of position
Nil	Nil

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