

Advancer Global Limited

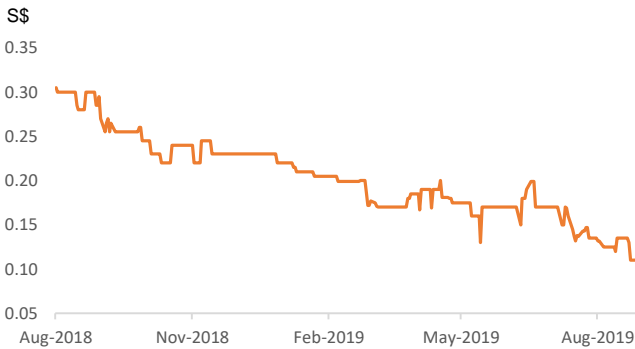
Date: 29 August 2019

BUY

ADGL SP

Price: S\$0.120 (as at 28 August 2019)

Target Price: S\$0.200
(+66.7%)



Share price	1M	3M	6M	1Y
Advancer Global	-11.1%	-29.4%	-30.2%	-57.9%
Catalist Index	-7.6%	-5.2%	-9.9%	-28.7%

Market capitalisation	S\$30.2 million								
Current Price	S\$0.120								
Shares outstanding	251.4 million								
Free Float	11.0%								
Major shareholder	<table border="0"> <tr><td>Fullcast Holdings</td><td>25.8%</td></tr> <tr><td>Chin Swee Siew</td><td>15.1%</td></tr> <tr><td>Chin Mui Hong</td><td>14.9%</td></tr> <tr><td>Chin Mei Yang</td><td>12.3%</td></tr> </table>	Fullcast Holdings	25.8%	Chin Swee Siew	15.1%	Chin Mui Hong	14.9%	Chin Mei Yang	12.3%
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Chin Swee Siew	15.1%								
Chin Mui Hong	14.9%								
Chin Mei Yang	12.3%								
Recommendation of other brokers	N/A								

Source: Company data, Bloomberg, SAC Advisors

Analyst

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1H19 revenue rose 4.8%, margins affected by higher manpower costs

Advancer Global grew 1H revenue by 4.8% to S\$34.4m, with contributions from newly-acquired operating units. However, gross profit fell 3.2% to S\$8.7m due to higher cost for manpower, the backbone of its core service offerings comprising cleaning, landscaping, security services and domestic help recruitment.

Net profit fell by a steeper 69.4% to S\$0.5m, further dampened by lower government grant and marginal S\$0.1m loss from associates (1H18: profit S\$0.3m). Nevertheless, this is a positive turnaround from net loss of S\$0.3m in 2H18, as the group gained operating leverage with higher orders secured.

Lower earnings estimates. While topline was in line with our projections, 1H19 net profit of S\$0.5m fell short of our earlier FY19 estimate of S\$2.2m. We are therefore lowering our FY19E net earnings estimates by 25% to S\$1.6m, and roll out FY20E net earnings estimates of S\$2.1m.

Maintain Buy with a lower target price of S\$0.20. The group has embarked on M&A to broaden its service offerings and extend into new markets. Backed by net cash of S\$24.6m (55.5% of net assets), it has the war chest to pursue acquisition targets. We ascribe a 10x PE (ex-cash) to FY20E earnings to arrive at our revised target price of S\$0.20 per share.

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
Revenue	50,909	65,260	67,283	70,503	74,378
% Growth	13.7%	28.2%	3.1%	4.8%	5.5%
Gross profit	13,555	18,857	17,283	18,110	19,105
Gross margin (%)	26.6%	28.9%	25.7%	25.7%	25.7%
Profit before tax	3,300	3,375	1,516	1,810	2,383
Net profit	2,675	3,056	1,336	1,635	2,139
% Growth	-38.8%	14.2%	-56.3%	22.4%	30.8%
Net margin (%)	5.3%	4.7%	2.0%	2.3%	2.9%
Basic EPS (S\$ cents)	1.5	1.7	0.6	0.7	0.9
P/E (ex-cash) (x)	9.6	8.5	5.9	3.5	2.5
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash

1H19 revenue grew by 4.8% but net profit shrunk

Revenue Breakdown By Segment

Revenue breakdown (S\$m)	1H19	1H18
Employment Services	6.4	6.0
Building Management	18.7	17.6
Security Services	9.2	9.2
Total	34.4	32.8

Cost Breakdown

Cost breakdown (S\$m)	1H19	1H18
Cost of Services	25.7	23.8
Administrative Expenses	8.5	8.2

Revenue rose 4.8% on higher contract delivery. Advancer Global achieved revenue growth of 4.8% to S\$34.4m in 1H19. Domestic help recruitment achieved a higher number of placements to households in Singapore. The building management division booked 6.3% higher service income from new and ad-hoc stewarding services and facilities management contracts. Newly-acquired 76%-owned Country Cousins began contributing in 1H19. Security services income also grew marginally.

Higher manpower costs remain a millstone around Advancer's neck. Singapore's Ministry of Manpower put forth the Progressive Wage Model (PWM), which stipulates a step-up in the minimum wage of workers in the cleaning sector over 4 years from July 2018, with an annual increase of up to 7.1%. The PWM also lay out the base salary and continuous training plan for workers in the landscape sector (from Jan 2019) and security guards (from Jan 2020). The aim is to raise the standard of the industry and encourage automation.

This has a direct impact on margins derived from building management and security services. Advancer also paid higher recruitment cost to overseas recruiters for domestic help recruitment. This led to lower gross margin at 25.2% in 1H19 (1H18: 27.3%).

Earnings were weighed down by lower government grant and S\$0.1m loss from associates (1H18: profit S\$0.3m). Net earnings fell 69.4% to S\$0.5m. This is however an improvement from net loss of S\$0.3m in 2H18.

Lowering our earnings estimates. Although the topline was in line, 1H19 earnings only met with 22% of our previous projection of S\$2.2m. We have lowered our FY19E earnings estimates to S\$1.6m to take into account lower gross margin, and roll out FY20E estimate of S\$2.1m. Due to high level of operating leverage in its business, higher order flows can potentially lift margins and earnings.

Maintain Buy with revised target price of S\$0.20. Advancer's strategy has always been to grow inorganically through mergers and acquisitions and to penetrate new markets via JVs. With net cash of S\$24.6m (55.5% of net assets), it has the war-chest to pursue acquisition targets. We ascribe a 10x PE (ex-cash) to FY20E earnings to arrive at a revised target price of S\$0.20 per share. This represents an upside of 66.7% from the current share price.

SAC Advisors Forecast Summary

Fiscal Year Ended 31 December						
Revenue by segment (S\$'000)	2015	2016	2017	2018	2019E	2020E
Employment Services	12,818	12,627	13,151	12,471	12,602	12,728
Building Management	20,090	24,753	37,135	36,124	39,213	41,840
Security Services	11,886	13,529	14,974	18,688	18,688	19,809
Total Revenue	44,794	50,909	65,260	67,283	70,503	74,377

Fiscal Year Ended 31 December						
Revenue % (Y-Y)	2015	2016	2017	2018	2019E	2020E
Employment Services	10.2%	-1.5%	4.1%	-5.2%	1.1%	1.0%
Building Management	18.5%	23.2%	50.0%	-2.7%	8.6%	6.7%
Security Services	14.1%	13.8%	10.7%	24.8%	0.0%	6.0%
Total	14.8%	13.7%	28.2%	3.1%	4.8%	5.5%

Fiscal Year Ended 31 December						
Revenue breakdown (%)	2015	2016	2017	2018	2019E	2020E
Employment Services	28.6%	24.8%	20.2%	18.5%	17.9%	17.1%
Building Management	44.8%	48.6%	56.9%	53.7%	55.6%	56.3%
Security Services	26.5%	26.6%	22.9%	27.8%	26.5%	26.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fiscal Year Ended 31 December						
Gross profit breakdown (S\$'000)	2015	2016	2017	2018	2019E	2020E
Employment Services	5,819	5,523	6,139	5,647	5,702	5,678
Building Management	4,253	6,042	9,597	8,560	9,213	9,540
Security Services	1,804	1,990	3,121	3,076	3,195	3,902
Total	11,876	13,555	18,857	17,283	18,110	19,120

Fiscal Year Ended 31 December						
Gross profit % (Y-Y)	2015	2016	2017	2018	2019E	2020E
Employment Services	31.7%	-5.1%	11.2%	-8.0%	1.0%	-0.4%
Building Management	81.5%	42.1%	58.8%	-10.8%	7.6%	3.6%
Security Services	-14.9%	10.3%	56.8%	-1.4%	3.9%	22.1%
Total	33.7%	14.1%	39.1%	-8.3%	4.8%	5.6%

Fiscal Year Ended 31 December						
Gross profit margin (%)	2015	2016	2017	2018	2019E	2020E
Employment Services	45.4%	43.7%	46.7%	45.3%	45.2%	44.6%
Building Management	21.2%	24.4%	25.8%	23.7%	23.5%	22.8%
Security Services	15.2%	14.7%	20.8%	16.5%	17.1%	19.6%
Total	26.5%	26.6%	28.9%	25.7%	25.7%	25.7%

Fiscal Year Ended 31 December						
Operating profit**	2015	2016	2017	2018	2019E	2020E
Operating Profit margin	11.1%	6.7%	5.3%	2.2%	2.6%	3.2%
Operating Profit growth y-y	74.7%	-31.6%	2.1%	-56.5%	18.9%	31.1%
Operating Profit (S\$'000)	4,978	3,406	3,476	1,513	1,800	2,360

Fiscal Year Ended 31 December						
Profit (%) (Y-Y)	2015	2016	2017	2018	2019E	2020E
Profit before tax	76.5%	-32.1%	2.3%	-55.1%	19.4%	31.6%
Profit after tax*	71.3%	-38.8%	14.2%	-56.3%	22.4%	31.6%

Fiscal Year Ended 31 December						
Profit Margin (%)	2015	2016	2017	2018	2019E	2020E
Profit before tax	10.9%	6.5%	5.2%	2.3%	2.6%	3.2%
Profit after tax*	9.8%	5.3%	4.7%	2.0%	2.3%	2.9%

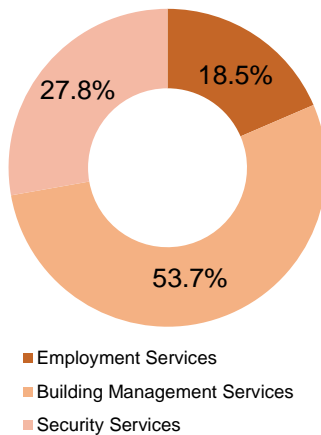
Source: Company data, SAC Advisors

* 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.
- There are three main business segments:
 - (a) **Employment Services:** Through its well-recognised brands, “Nation” and “Enreach”, Advancer Global Limited offers integrated and comprehensive employment solutions and services including sourcing, recruitment, training and deployment of foreign domestic workers (“**FDW**”) and foreign workers (“**FW**”).
 - (b) **Building Management Services:** Advancer Global Limited provides mainly integrated property management, security services, pest control, landscape, cleaning and stewarding services to hospitals, hotels, commercial and residential properties. This is done under its subsidiaries such as Master Clean Facility Services Pte. Ltd. (“**Master Clean**”), World Clean Facility Services Pte. Ltd. (“**World Clean**”), First Stewards Private Limited (“**First Stewards**”) and Newman & Goh Property Consultants Pte Ltd (“**NGPC**”), Newman & Associates Pte Ltd (“**NAPL**”), Premier Eco-Care Pte. Ltd. (“**Premier Eco-care**”) and Prestige Enviro-Care Pte. Ltd.
 - (c) **Security Services:** Advancer Global Limited provides mainly manpower for security solutions and services to residential, commercial and industrial properties, and security escort services. This is done under its subsidiaries, KC Security & Investigation Services Pte. Ltd. (“**KC Security**”), KH Security Agency Pte. Ltd (“**KH Security**”), Ashtree International Pte. Ltd. (“**Ashtree**”) 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 31 December			
	2017	2018	2019F	2020F
Revenue	65,260	67,283	70,503	74,377
Cost of sales	(46,403)	(50,000)	(52,393)	(55,257)
Gross Profit	18,857	17,283	18,110	19,120
Other operating income	1,320	1,668	1,748	1,844
Administrative expenses	(16,701)	(17,438)	(18,058)	(18,604)
Operating Profit	3,476	1,513	1,800	2,360
Share of profit from JV	0	76	84	96
Finance costs	(101)	(73)	(73)	(73)
Profit before tax	3,375	1,516	1,810	2,383
Income tax	(262)	(121)	(144)	(190)
Profit for the year/period	3,113	1,395	1,666	2,193
Profit attributable to owners of company	3,056	1,336	1,635	2,153

Cash Flow Statement (\$S'000)

	Fiscal Year Ended 31 December			
	2017	2018	2019F	2020F
Profit before tax	3,375	1,516	1,810	2,383
Depreciation & amortisation	1,155	1,237	1,240	1,250
Change in working capital	(1,466)	(591)	1,334	(510)
Others	(150)	138	(155)	(213)
Net Cash (used in)/ from operations	2,914	2,300	4,230	2,910
Purchase of PPE	(886)	(732)	(975)	(1,170)
Acquisition of subsidiary	(1,152)	-	-	-
Others	(3,964)	(3,565)	-	-
Net Cash (used in)/ from investing	(6,002)	(4,297)	(975)	(1,170)
Net change in equity	4,816	22,121	-	-
Net change in debt	(279)	(630)	(73)	(73)
Dividends paid	(1,654)	(916)	(962)	(1,220)
Net Cash (used in)/ from financing	2,883	19,970	(1,035)	(1,293)

Balance Sheet (\$S'000)

	Fiscal Year Ended 31 December			
	2017	2018	2019F	2020F
As at 31 Dec				
Cash and bank balances	8,033	26,006	28,226	28,673
Trade and other receivables	16,622	17,463	17,858	18,839
Inventories	38	547	306	323
Other assets	0	0	0	0
Total current assets	24,693	44,016	46,391	47,836
Property, Plant and Equipment	2,511	2,645	2,948	3,311
Goodwill on consol.	5,489	5,489	5,489	5,489
Investment in associate	2	78	162	258
Other non-current assets	1,696	1,031	463	19
Total non-current assets	9,698	9,243	9,061	9,077
Total assets	34,391	53,259	55,452	56,913
Bank borrowings	630	24	24	24
Trade and other payables	9,608	7,446	8,935	9,424
Other current liabilities	635	435	435	435
Total current liabilities	10,873	7,905	9,394	9,883
Total non-current liabilities	1,453	1,244	1,244	1,244
Total liabilities	12,326	9,149	10,638	11,127
Share Capital	18,378	40,607	40,607	40,607
Retained earnings	6,163	6,237	7,055	8,131
Treasury shares	0	(223)	(223)	(223)
Capital reserve	(2,920)	(2,870)	(2,870)	(2,870)
Equity attributable to shareholders	21,621	43,751	44,569	45,645
Non-controlling interests	444	359	246	142

Ratios

	Fiscal Year Ended 31 December			
	2017	2018	2019F	2020F
Profitability (%)				
Operating profit margin	5.3%	2.2%	2.6%	3.2%
Profit before tax margin	5.2%	2.3%	2.6%	3.2%
Profit after tax margin	4.7%	2.0%	2.3%	2.9%
Liquidity (x)				
Current ratio	2.3	5.6	4.9	4.8
Quick ratio	2.3	5.5	4.9	4.8
Interest coverage ratio	34.4	20.7	24.7	32.3
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash
Valuation (x)				
P/E	8.0	21.1	20.7	15.8
P/E (ex-cash)	8.5	5.9	3.5	2.4
P/E (ex-cash) at target price	13.8	18.1	13.4	10.0
P/B	1.5	0.8	0.8	0.7
EV/EBITDA	5.9	3.1	2.1	1.6
Returns				
Return on equity	16.4%	4.1%	3.7%	4.8%
Return on capital employed	17.1%	4.4%	3.9%	5.1%
Dividend payout ratio	49.1%	62.5%	50.0%	50.0%

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Nil	Nil

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