

Advancer Global Limited

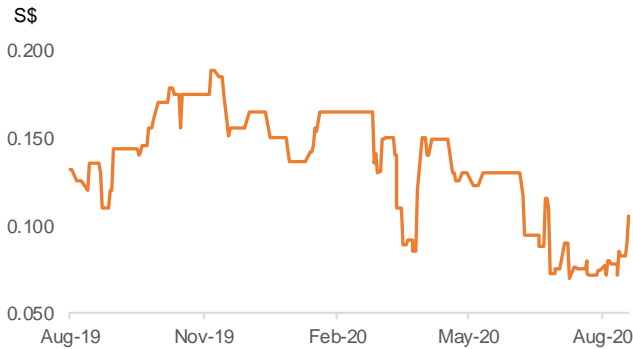
Date: 20 August 2020

BUY

ADGL SP

Price: S\$0.105 (as at 19 August 2020)

Target Price: S\$0.134
(+27.6%)



Share price	1M	3M	6M	1Y
Advancer Global	40.0%	-19.2%	-36.4%	-22.2%
Catalist Index	17.1%	43.1%	25.2%	21.0%

Market capitalisation	S\$26.4 million		
Current Price	S\$0.105		
Shares outstanding	251.4 million		
Free Float	18.0%		
Major shareholder	Fullcast Holdings	25.8%	
	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

Lam Wang Kwan +65 6232 3237

lamwk@saccapital.com.sg

1H20 Results Review

Revenue declined across all business segments due to outbreak of coronavirus. Advancer Global saw its revenue fall S\$6.8 million or 19.7% to S\$27.6 million in 1H20. However, earnings were upheld by an increase in other operating income, mainly contributed by an increase in government grants and credit schemes, including Wage Credit Scheme, Jobs Support Scheme and rental rebate from landlords as a result of property tax remission. Overall, the Group recorded a net profit of S\$2.2 million for 1H20 as compared to S\$0.5 million in 1H19.

Robust balance sheet to tide through difficult period. Advancer Global had net cash of S\$28.1 million as of 30 June 2020. This is essential in helping the Group to ride out the general slowdown in the industry and also provides the war-chest necessary for the Group to pursue acquisition targets and to engage in business transformation and digitalisation strategies.

Lower earnings estimates. As a result of the depressed gross margin and a general decline in market condition, we have lowered our earnings estimates to S\$0.4 million for both FY21E and FY22E.

Maintain Buy with a lower target price of S\$0.134. The group has embarked on M&A to broaden its service offerings and extend into new markets. Backed by net cash of S\$28.1m (60.5% of net assets), it has the war chest to pursue acquisition targets. We ascribe a 10x PE (ex-cash) to FY21E earnings to arrive at our revised target price of S\$0.134 per share. The Group has declared an interim dividend of 0.59 Singapore cents per share for 1H20.

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

Key Financials

Year ended December	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue (S\$'000)	50,909	65,260	67,283	56,194	71,500	74,745
Growth (%)	13.7%	28.2%	3.1%	-20.8%	5.5%	6.0%
Gross profit (S\$'000)	13,555	18,857	17,283	12,904	16,886	17,628
Gross margin (%)	26.6%	28.9%	25.7%	23.0%	23.6%	23.6%
Profit before tax (S\$'000)	3,300	3,375	1,516	3,060	487	494
Net profit (S\$'000)	2,675	3,056	1,336	2,629	418	424
Growth (%)	-38.8%	14.2%	-56.3%	96.8%	-84.1%	1.5%
Net margin (%)	5.3%	4.7%	2.0%	4.7%	0.6%	0.6%
Basic EPS (S\$ cents)	1.5	1.7	0.6	1.0	0.2	0.2
P/E (ex-cash) (x)	6.0	0.3	1.6	-1.2	0.1	2.7
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

1H20 Results Review

Revenue Breakdown

Revenue breakdown (S\$m)	1H20	1H19
Employment Services	3.8	6.4
Building Management	15.3	18.7
Security Services	8.6	9.2
Total	27.6	34.4

Source: Company data, SAC Capital

Cost Breakdown

Cost breakdown (S\$m)	1H20	1H19
Cost of Services	20.8	25.7
Administrative Expenses	8.6	8.5

Source: Company data, SAC Capital

Gross Margin Breakdown

Gross Margin (%)	1H20	1H19
Employment Services	45.2	43.5
Building Management	23.7	23.5
Security Services	16.8	15.9
Total	24.5	25.2

Source: Company data, SAC Capital

Revenue declined across all business segments due to the outbreak of coronavirus. Advancer Global saw its revenue fall S\$6.8 million or 19.7% to S\$27.6 million in 1H20. The employment services division witnessed a decrease in the number of foreign domestic workers (“FDW”) being placed out to households due to the worldwide travel controls which restricted FDW from entering Singapore. The Group had also closed all its branches during the Circuit Breaker period but had since reopened 2 out of its 6 branches. As a result of the COVID-19 outbreak, the building management division experienced a drop in service income received from stewarding and cleaning, pest control and fumigation as well as landscaping rendered to customers across residential, commercial properties, hotels and restaurants, while the security services division saw service income from security projects at Changi airport, shipyard, schools and commercial properties decrease.

Higher manpower costs continue to depress Advancer Global’s margins. 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 lays 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. As a result, this has further depressed gross margin to 24.5% in 1H20 as compared to 25.2% in 1H19.

Earnings were upheld by an increase in other operating income, which increased by S\$4.0 million to S\$4.6 million in 1H20. This was mainly contributed by an increase in government grant and credit scheme, including Wage Credit Scheme, Jobs Support Scheme and rental rebate from landlords as a result of property tax remission, amounting to S\$4.4 million for 1H20 as compared to S\$0.4 million from a year ago. Overall, the Group recorded a net profit of S\$2.2 million for 1H20 as compared to S\$0.5 million in 1H19. The Group had declared an interim one-tier dividend of 0.59 Singapore cent per share for 1H20.

Robust balance sheet to tide through difficult period. Advancer Global had net cash of S\$28.1 million as of 30 June 2020. The Group’s strong financial position is essential in helping it to ride out the general slowdown in the industry as a result of the COVID-19 pandemic. At the same time, it also provides the war-chest necessary for the Group to pursue acquisition targets and to engage in business transformation and digitalisation strategy to increase its competitiveness amongst its competitors.

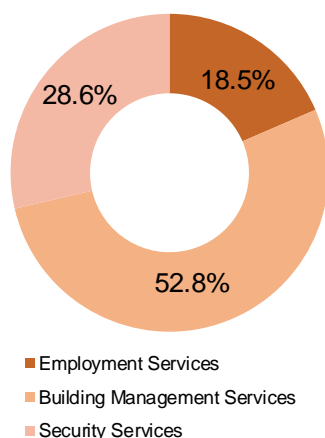
1H20 Results Review

Lowering our earnings estimates. As a result of the depressed gross margin and a general decline in market condition, we have lowered our earnings estimates to S\$0.4 million for both FY21E and FY22E. 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\$0.134. 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\$28.1m (60.5% of net assets), it has the war-chest to pursue acquisition targets. We ascribe a 10x PE (ex-cash) to FY21E earnings to arrive at a revised target price of S\$0.134 per share. This represents an upside of 34.0% from the current share price. For 1H20, the Group has also declared an interim dividend of 0.59 Singapore cents per share.

Company Background

Revenue Breakdown (FY2019)



Source: Company data, SAC Capital

- 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 Capital

Income Statement (\$S'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020F	2021F	2022F
Revenue	65,260	67,283	56,194	71,500	74,745
Cost of sales	(46,403)	(50,000)	(43,290)	(54,614)	(57,117)
Gross Profit	18,857	17,283	12,904	16,886	17,628
Other operating income	1,320	1,668	4,701	1,559	1,630
Administrative expenses	(16,701)	(17,438)	(14,324)	(17,868)	(18,679)
Operating Profit	3,476	1,513	3,281	578	580
Share of profit from JV	0	76	(80)	50	55
Finance costs	(101)	(73)	(141)	(141)	(141)
Profit before tax	3,375	1,516	3,060	487	494
Income tax	(262)	(121)	(383)	(61)	(62)
Profit for the year/period	3,113	1,395	2,678	426	432
Profit attributable to owners of company	3,056	1,336	2,629	418	424

Cash Flow Statement (\$S'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020F	2021F	2022F
Profit before tax	3,375	1,516	3,060	487	494
Depreciation & amortisation	1,155	1,237	1,150	690	861
Change in working capital	(1,466)	(591)	2,495	(2,458)	(509)
Others	(150)	138	(162)	30	24
Net Cash (used in)/ from operations	2,914	2,300	8,118	668	2,952
Purchase of PPE	(886)	(732)	(976)	(1,172)	(1,406)
Acquisition of subsidiary	(1,152)	-	-	-	-
Others	(3,964)	(3,565)	-	-	-
Net Cash (used in)/ from investing	(6,002)	(4,297)	(3,201)	(3,397)	(3,631)
Net change in equity	4,816	22,121	-	-	-
Net change in debt	(279)	(630)	(141)	(141)	(141)
Dividends paid	(1,654)	(916)	(933)	(269)	(271)
Net Cash (used in)/ from financing	2,883	19,970	(1,074)	(410)	(412)

Balance Sheet (\$S'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020F	2021F	2022F
As at 31 Dec					
Cash and bank balances	8,033	26,006	29,494	26,356	25,265
Trade and other receivables	16,622	17,463	13,899	17,685	18,488
Inventories	38	547	600	757	792
Other assets	0	0	0	0	0
Total current assets	24,693	44,016	43,994	44,798	44,544
Property, Plant and Equipment	2,511	2,645	2,808	3,290	3,834
Goodwill on consol.	5,489	5,489	5,585	5,585	5,585
Investment in associate	2	78	414	464	519
Other non-current assets	1,696	1,031	20	20	20
Total non-current assets	9,698	9,243	12,445	13,282	14,025
Total assets	34,391	53,259	56,439	58,080	58,569
Bank borrowings	630	24	29	29	29
Trade and other payables	9,608	7,446	5,676	7,161	7,489
Other current liabilities	635	435	1,689	1,689	1,689
Total current liabilities	10,873	7,905	8,040	9,525	9,853
Total non-current liabilities	1,453	1,244	2,489	2,489	2,489
Total liabilities	12,326	9,149	10,529	12,014	12,342
Share Capital	18,378	40,607	40,607	40,607	40,607
Retained earnings	6,163	6,237	8,171	8,464	8,761
Treasury shares	0	(223)	(223)	(223)	(223)
Capital reserve	(2,920)	(2,870)	(2,850)	(2,850)	(2,850)
Equity attributable to shareholders	21,621	43,751	45,705	45,998	46,295
Non-controlling interests	444	359	205	69	(67)

Ratios

	Fiscal Year Ended 31 December				
	2018	2019	2020F	2021F	2022F
Profitability (%)					
Operating profit margin	5.3%	2.2%	5.8%	0.8%	0.8%
Profit before tax margin	5.2%	2.3%	5.4%	0.7%	0.7%
Profit after tax margin	4.7%	2.0%	4.7%	0.6%	0.6%
Liquidity (x)					
Current ratio	2.3	5.6	5.5	4.7	4.5
Quick ratio	2.3	5.5	5.4	4.6	4.4
Interest coverage ratio	34.4	20.7	23.3	4.1	4.1
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	6.2	16.4	10.0	63.1	62.2
P/E (ex-cash)	6.0	0.3	-1.2	0.1	2.7
P/E (ex-cash) at target price	9.5	8.2	3.1	19.2	18.9
P/B	1.2	0.6	0.6	0.6	0.6
Returns					
Return on equity	16.4%	4.1%	5.9%	0.9%	0.9%
Return on capital employed	17.1%	4.4%	7.0%	1.2%	1.2%
Dividend payout ratio	49.1%	62.5%	30.0%	30.0%	30.0%

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