

Advancer Global Limited

Date: 31 August 2021

HOLD (previously Buy)

BBG	ADGL SP	
Market Cap	S\$34.7 m	
Price (27 August 2021)	S\$0.130	
52-week range	S\$0.090 – S\$0.200	
Target Price	S\$0.128	
Shares Outstanding	251.2 m	
Free Float	17.9%	
Major Shareholder	Fullcast Holdings	25.9%
	Chin Swee Siew	15.2%
	Chin Mui Hiong	15.0%
	Chin Mei Yang	12.3%
	Ong Eng Tiang	8.0%
	Jaleel Mohd Abdul	5.6%

P/BV (06/21)	0.8x
Net Debt to EBITDA (12/20)	Zero Debt

Source: Company data, Bloomberg, SAC Capital

Analyst

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Manpower crunch the biggest bugbear

1H21 revenue of S\$30.0m (+8.5% yoy) were below our estimates (42.0% of our FY21E forecasts). Cleaning and building management services (+13%) and security services (+6%) enjoyed demand driven by virus preventive measures. Placement of domestic helpers (-5%) was hurt by entry restrictions into Singapore. This segment now account for just 12% of revenue. Bottomline slipped into a loss of S\$0.9m.

The results reflect the industry-wide constraints that Advancer faces: 1) Border controls and COVID resurgence in some source countries resulted in a high degree of uncertainty in foreign manpower supply; and 2) the cost of human capital has surged from higher cost to retain existing staff, the government-mandated Progressive Wage Model that stipulates a minimum wage, 3% annual increase and bonus for cleaning, security and landscaping work, and training expenses for local workers to fill the slack. Gross margin dipped 5.4ppt to 21.8%. Despite this, it generated positive operating cash flow of S\$3m, or S\$0.012/share.

While the demand for building management and security services remains firm, Advancer has turned cautious in tenders to ensure that it can meet the manpower requirements and sustain margins in the face of rising costs. Given this, we expect forward revenue growth to be subdued. Gradual border re-opening is likely to take place towards end 2021, but we see return to pre-pandemic order only from late 2022.

Revise to HOLD to reflect softer earnings outlook with a lower target price of S\$0.128, which translates to 0.7x of FY22E book. We now expect FY21E and FY22E to report net loss of S\$1.8m and S\$1.7m (previous forecast were net profit of S\$0.4m and S\$0.4m), respectively. It has a clean balance sheet with net cash of S\$23m (S\$0.091/share). The downside risks to our earnings estimates lie in COVID on-off lockdowns in the source countries, cost increase from more preventive measures and pivot towards automation.

Year ended Dec (S\$'mil)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	67.3	70.9	56.4	62.7	67.8
EBIT	1.5	0.8	5.2	(1.7)	(1.0)
Net profit	1.3	0.5	4.5	(1.8)	(1.7)
EPS (S\$ cents)	0.64	0.19	1.80	(0.70)	(0.43)
DPS (S\$ cents)	0.40	-	1.38	-	-
Net Cash / (Debt)	25.4	25.0	27.0	23.0	21.1
Valuation					
EBIT Margin (%)	2.2	1.1	9.2	(2.7)	(1.5)
ROIC (%)	6.8	2.6	20.1	(5.8)	(3.3)
EV/EBITDA (x)	2.7	2.3	0.9	17.9	7.0
P/E (x)	20.3	68.4	7.2	N/A	N/A
Dividend Yield (%)	3.1	-	10.6	-	-

Manpower crunch the biggest bugbear

Revenue Breakdown

Revenue (S\$m)	1H21	1H20
Employment Services	3.6	3.8
Building Management	17.3	15.3
Security Services	9.1	8.6
Total	30.0	27.6

Gross Profit Breakdown

Gross profit (S\$m)	1H21	1H20
Employment Services	1.6	1.7
Building Management	3.6	3.6
Security Services	1.2	1.4
Total	6.4	6.8

Source: Company Data, SAC Capital

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Facing headwind. The results reflect the industry-wide constraints that Advancer faces: 1) Border controls and COVID resurgence in some source countries resulted in a high degree of uncertainty in foreign manpower supply; and 2) the cost of human capital has surged from higher cost to retain existing staff, the Progressive Wage Model that stipulates a minimum wage, 3% annual increase and bonus for cleaning, security and landscaping work, and training expenses for local workers to fill the slack. Gross margin dipped 5.4ppt to 21.8%. Despite this, it generated positive operating cash flow of S\$3m, or S\$0.012/share.

While the demand for building management and security services remains firm, Advancer has turned cautious in tenders to ensure that it can meet the manpower requirements and sustain margins in the face of rising costs. Given this, we expect forward revenue growth to be subdued. Gradual border re-opening is likely to take place towards end 2021, but we see return to pre-pandemic order only from late 2022.

Building on its M&A strategy. Advancer continues to pursue inorganic growth through mergers and acquisitions to deepen its industry and geographical reach. Since our last update, ADGL had completed three acquisitions. These deals include:

- 1) Acquisition of 45% stake in e-commerce applications developer Eazable Pte. Ltd
- 2) Acquisition of 100% stake in property management and property valuation services provider HBA Group Property Consultants Pte. Ltd.
- 3) Acquisition of remaining 24% in landscape-related servicers provider Country Cousins Pte. Ltd.

These investment were made in an effort to expand the Group's building management business and to create synergistic value with the Group's existing services. The Group's M&A effort also looks to incorporate the use of technology in its services.

Revise to HOLD to reflect softer earnings outlook with a lower target price of S\$0.128, which translates to 0.7x of FY22E book. We now expect FY21E and FY22E to report net loss of S\$1.8m and S\$1.1m (previous forecast were net profit of S\$0.4m and S\$0.4m), respectively. It has a clean balance sheet with net cash of S\$23m (S\$0.091/share). The downside risks to our earnings estimates lie in COVID on-off lockdowns in the source countries, cost increase from more preventive measures and pivot towards automation.

Income Statement (\$\$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue	67.3	70.9	56.4	61.1	67.8
Cost of services	(50.0)	(53.9)	(43.5)	(48.8)	(51.9)
Gross profit	17.3	17.1	12.9	12.3	15.9
Other operating income	1.7	1.4	10.0	4.7	2.0
Administrative expenses	(17.4)	(17.7)	(17.7)	(18.6)	(19.5)
Share of profit from associate	0.1	(0.1)	(0.1)	(0.2)	(0.1)
Finance expenses	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Profit before tax	1.5	0.6	5.0	(2.0)	(1.8)
Income tax expense	(0.1)	(0.1)	0.0	0.0	0.0
Profit for the year	1.4	0.4	5.0	(2.0)	(1.8)
Profit/(loss) attributable to:					
Owners of the Company	1.3	0.5	4.5	(1.8)	(1.7)
Non-controlling interests	0.1	(0.0)	0.5	(0.2)	(0.1)
Basic and diluted earnings per share (\$\$ cents)	0.64	0.19	1.80	(0.70)	(0.61)

Cash Flow Statement (\$\$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Profit before tax	1.5	0.6	5.0	(2.0)	(1.7)
Depreciation charges	0.6	1.8	2.2	1.8	1.8
Amortisation	0.6	0.6	0.3	0.3	0.3
Share of profit of joint ventures	(0.1)	0.1	0.1	0.2	0.1
Others	0.2	0.0	(0.1)	0.1	0.6
Changes in working capital	(0.6)	(0.4)	(0.6)	(0.6)	(1.7)
Net Cash (used in)/ from operations	2.3	2.7	6.9	(0.2)	(0.7)
Purchase of PPE	(0.7)	(0.6)	(0.5)	(1.6)	(1.5)
Others	(3.2)	(0.5)	(0.8)	(2.7)	(0.1)
Net Cash (used in)/ from investing	(3.9)	(1.1)	(1.3)	(4.3)	(1.6)
Net change in debt	(0.9)	(1.4)	(1.8)	0.0	0.0
Net change in equity	21.5	0.0	0.0	0.0	0.0
Dividends paid	(0.9)	(0.5)	(1.7)	0.0	0.0
Others	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)
Net Cash (used in)/ from financing	19.6	(2.0)	(3.6)	(0.1)	(0.1)

Balance Sheet (\$\$'million)

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Cash and bank balances	26.0	25.7	27.6	23.0	20.6
Trade and Other Receivable	17.5	17.6	18.7	19.7	21.8
Inventories	0.5	0.9	1.0	1.1	1.2
Others	0.0	0.0	1.0	3.0	3.0
Total current assets	44.0	44.2	48.3	46.8	46.6
PPE	2.6	2.4	2.3	2.4	2.3
Goodwill on consolidation	5.5	5.6	5.4	6.1	6.1
ROU assets	0.0	3.0	2.3	2.1	1.9
Investment in associate	0.1	0.5	0.4	0.2	0.2
Others	1.0	0.6	1.3	1.0	0.9
Total non-current assets	9.2	12.0	11.8	11.9	10.9
Total assets	55.3	56.3	60.1	58.6	57.5
Bank Borrowings	0.0	0.0	0.0	0.0	0.0
Trade and Other Payables	6.9	7.3	8.2	8.7	9.2
Finance leases	0.1	1.5	1.5	1.5	1.5
Others	0.9	0.9	0.9	0.9	0.9
Total current liabilities	7.9	9.6	10.6	11.1	11.6
Bank Borrowings	0.6	0.6	0.6	0.6	0.6
Others	0.6	1.9	1.2	1.2	1.2
Total non-current liabilities	1.2	2.5	1.8	1.8	1.8
Share capital	40.6	40.6	40.6	40.6	40.6
Treasury shares	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Reserves	(2.9)	(2.9)	(2.8)	(2.8)	(2.8)
Retained earnings	6.2	6.3	9.4	7.6	6.5
Equity attributable to owners of the Company	43.8	43.9	46.9	45.2	43.6
Non-controlling interests	0.4	0.3	0.8	0.6	0.5
Total equity	44.1	44.2	47.7	45.8	44.1
Total equity and liabilities	53.3	56.3	60.1	58.6	57.5

Ratios

FYE Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Profitability (%)					
Gross profit/(loss) margin	25.7	24.0	22.8	20.1	23.5
Profit/(loss) before tax margin	2.3	0.8	8.8	-3.2	-1.8
Net margin	2.1	0.6	8.8	-3.2	-1.8
Liquidity (x)					
Current ratio	5.6	4.6	4.6	4.2	4.0
Quick ratio	5.5	4.5	4.4	3.9	3.7
Interest coverage ratio	20.7	5.7	37.1	N/A	N/A
Net Debt to Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/E	20.3	68.4	7.2	N/A	N/A
P/B	0.7	0.7	0.7	0.7	0.7
Returns (%)					
Return on equity	4.1	1.1	10.0	-3.8	-2.4
<u>Return on asset</u>	<u>4.4</u>	<u>1.7</u>	<u>10.8</u>	<u>-3.4</u>	<u>-2.2</u>

N/A: Not Applicable

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