

GKE Corporation Limited

26 January 2022

HOLD (Previously BUY)

Target Price: S\$0.123 (Previously S\$0.171)

BBG	GKEC SP
Market cap	S\$85.3m
Price (25 January 2022)	S\$0.11
52-week range	S\$0.112 – S\$0.179
Target Price	S\$0.123
Shares Outstanding	775.1m
Free Float	65.6%
Major Shareholder	Chen Yong Hua 8.7% Chen Li Rong 7.5% Qian Wen Hua 7.3% Zhu Jun Wen 7.3%
P/BV (11/21)	1.3x
Net Debt to EBITDA (05/21)	0.9x

Source: Company data, Bloomberg, SAC Capital

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Setback in China RMC business

1H22 results missed our expectations. Revenue of S\$55m and net profit of S\$3.8m were 43% and 34% of our FY22 projection. The shortfall is attributed to a drop in RMC sales in China (-35% yoy). Net profit is lower due to smaller government support, higher salaried costs and allowance for expected credit loss (S\$0.9m).

Logistics business in Singapore is positioned for growth. In Q3 FY21, industry-wide occupancy rates for warehouse is up at 90.1% (Q2: 89.7%) and rental index have improved to 85.7 (Q2: 84.3). (JTC) Tightness in the market continues to boost warehouse utilization rate until new supply comes on stream. 378,000 sqm of warehouse space (3% of existing stock) is expected to be completed in 2022.

Recent regulation caps the volume of dangerous goods (DG) that can be stored in each location. As such, customers have to decentralize the storage of their DG. To capitalize on this, GKE is converting its open yard at 39 Benoi Road, previously used to hold shipping containers, and 6 Pioneer Walk, for DG storage. The facilities are expected to be completed in end Feb and April respectively. 70% of storage capacity at 6 Pioneer Walk has already been taken up. DG returns are 3x that of general warehouse goods. Contributions will only materialize from FY23 as DG facilities require authorities' certification to be operational.

RMC sale volume fell ~20% in 1H22. Near term demand relies on current ongoing projects as construction projects usually last 3-5 years. Tight liquidity in China property market could see more bad debts and disruptions to ongoing projects. Coupled with off peak winter season and CNY holiday, we expect further decline for its RMC sale in 2H22. Property investment in China will be slow to recover as developers continue to manage its debts in compliance to China's three redline policy. Property investment declined 14% yoy in Dec 21.

Accretive acquisition. Fairchem has been profitable in the past years. (FY20 net profit: S\$1.7m), and expected to contribute from Feb. The acquisition also offers synergistic opportunities which include extending GKE's logistics services to Fairchem's customers.

Revise to HOLD at TP of S\$0.123 (from S\$0.171). We lowered FY22E/FY23E revenue and net profit estimates by 13%/11% and 37%/41% respectively. Our SOP TP is derived by pegging its logistic business to 1x BV and China building materials business to 14.6x PE. This translates into a FY22E/FY23E P/E of 13.5x and 13.4x.

Key Financials

FY ended 31 May	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue (S\$m)	88.2	107.3	119.0	111.6	120.9
EBIT (S\$m)	2.7	11.7	19.9	13.0	13.1
Net profit (S\$m)	(2.1)	4.7	11.5	7.0	7.1
Basic EPS (S cents)	(0.31)	0.61	1.49	0.91	0.92
Dividend per share (S cents)	-	-	0.4	-	-
Net cash / (debt)	(57.6)	(41.8)	(32.0)	(20.7)	(6.2)
Valuation					
EBIT margin (%)	3.1	10.9	16.8	11.7	10.8
ROIC (%)	0.4	5.8	10.0	6.9	7.3
EV/EBITDA (x)	11.4	4.6	3.3	3.6	3.0
P/E (x)	NA	18.2	7.4	12.1	12.0
Dividend yield (%)	-	-	4.0	-	-

Income Statement

S\$'mil	Fiscal Year Ended 31 May				
	FY2019A	FY2020A	FY2021	FY2022E	FY2023E
Revenue	88.2	107.3	119.0	111.6	120.9
Cost of sales	(73.0)	(85.4)	(90.3)	(83.8)	(93.1)
Gross profit	15.3	21.8	28.7	27.8	27.8
Other income	3.7	3.1	7.3	1.4	1.5
Marketing and distribution costs	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Administrative expenses	(15.6)	(13.0)	(15.8)	(16.8)	(16.9)
Finance costs	(2.6)	(3.4)	(2.8)	(2.6)	(2.6)
Other income/(expenses)	(0.2)	0.1	0.1	0.6	0.6
Share of results of associates	(0.2)	-	(0.1)	0.4	0.5
Profit before tax	0.2	8.4	17.2	10.4	10.5
Tax expense	(2.1)	(3.6)	(5.3)	(3.4)	(3.4)
Profit/(loss) for the year	(1.9)	4.8	11.9	7.0	7.1
Profit/(Loss) attributable to owners of company	(2.1)	4.7	11.5	7.0	7.1
Minority Interests	0.2	0.1	0.3	0	0

Ratios

	Fiscal Year Ended 31 May				
	FY2019A	FY2020A	FY2021	FY2022E	FY2023E
Profitability (%)					
Gross profit/(loss) margin	17.3	20.4	24.1	24.9	23.0
Profit/(loss) before tax margin	(2.4)	4.4	9.7	6.3	5.9
Liquidity (x)					
Current ratio	1.5	1.4	1.9	2.1	2.5
Quick ratio	1.5	1.4	1.9	2.1	2.5
Interest coverage ratio	1.1	3.5	7.1	5.0	5.1
Net Debt to Equity (%)	78.1	51.3	36.2	22.4	6.3
Valuation (x)					
P/E	NA	18.2	7.4	12.1	12.0
P/B	1.2	1.0	1.0	0.9	0.9
EV/EBITDA	11.4	4.6	3.3	3.6	3.0
Cash Conversion Cycle					
Trade receivable days	130	120	149	186	186
Inventory days	2	1	3	3	3
Trade payable days	70	59	49	71	71
CCC days	63	62	102	98	98

Balance Sheet

S\$'mil	Fiscal Year Ended 31 May				
	FY2019A	FY2020A	FY2021	FY2022E	FY2023E
Property, plant and equipment	114.8	129.8	123.4	113.3	103.2
Intangible assets	4.8	5.6	4.9	4.6	4.3
Investments in associates	-	1.0	1.9	2.2	2.8
Financial assets at FVTPL/AVS assets	0.3	0.3	0.3	0.3	0.3
Others	5.5	-	-	-	-
Non-current assets	125.5	136.7	130.4	120.3	110.5
Inventories	0.4	0.3	0.7	0.7	0.8
Trade and other receivables	31.5	35.2	48.4	50.8	55.0
Prepaid operating expenses	1.0	1.3	1.7	1.7	1/7
Cash and short-term deposits	11.7	23.1	30.9	39.3	53.7
Others	-	-	-	-	-
Current assets	44.5	60.0	81.7	92.5	111.2
Total assets	170.0	196.7	212.1	212.8	221.7
Other liabilities	3.0	2.5	2.3	2.3	2.3
Borrowings	60.0	55.2	52.9	49.2	49.2
Lease liabilities	2.5	13.3	24.6	24.6	24.6
Deferred tax liabilities	0.4	0.6	1.2	1.2	1.2
Non-current liabilities	65.9	71.6	81.1	77.3	77.3
Trade and other payables	13.9	13.9	16.7	16.4	16.4
Other liabilities	5.1	8.6	12.4	7.8	7.8
Derivative financial liabilities	-	2.0	1.4	1.4	1.4
Lease liabilities	-	8.0	5.7	5.7	5.7
Borrowings	9.3	9.7	9.9	10.8	10.8
Tax payable	0.8	1.3	1.1	1.1	1.1
Others	1.2	-	-	-	-
Current liabilities	30.3	43.5	42.6	43.2	45.0
Total liabilities	96.3	115.1	123.7	120.5	122.3
Share capital	78.2	85.1	85.1	85.1	85.1
Treasury shares	(0.7)	(1.1)	(1.5)	(1.5)	(1.5)
Retained earnings	(9.2)	(6.3)	4.5	8.4	15.5
Other reserves	0.5	(1.1)	0.3	0.3	0.3
Non-controlling interests	4.9	4.8	-	-	-
Total equity	73.8	81.6	88.4	92.3	99.4

Cash Flows Statement

S\$'mil	Fiscal Year Ended 31 May				
	FY2019A	FY2020A	FY2021	FY2022E	FY2023E
Cash flows from operating activities					
Profit/(loss) before tax	0.2	8.4	17.2	10.4	10.5
Depreciation and amortisation	9.8	15.7	15.9	16.4	17.0
Interest expense	2.6	3.4	2.8	3.0	3.0
Interest income	-	(0.1)	(0.0)	(0.0)	(0.0)
Share of results of associates	0.2	-	0.1	(0.4)	(0.5)
Others	0.3	-	(1.1)	-	-
OCF before changes in working capital	12.9	27.4	34.9	29.1	29.5
Changes in working capital	(4.6)	(1.1)	(5.1)	(2.8)	(2.5)
Interest received	-	0.1	0.0	0.0	0.0
Tax paid	(2.2)	(3.0)	(4.6)	(3.4)	(3.4)
Net cash from operating activities	6.2	23.4	25.2	22.9	23.6
Cash flows from investing activities					
Capital contribution into investment in associate	-	(1.0)	(0.9)	-	-
Net cash outflow from disposal of subsidiary	-	(0.2)	5.6	-	-
Proceeds from disposal of subsidiary	-	-	5.6	-	-
Purchase of property, plant and equipment	(2.3)	(1.9)	(4.3)	(6.0)	(6.6)
Others	3.0	0.2	(5.2)	-	-
Net cash used in investing activities	0.6	(2.9)	0.8	(6.0)	(6.6)
Cash flows from financing activities					
Dividends paid to owners/NCI	(0.4)	(0.2)	(0.2)	(3.1)	-
Repayment of lease liabilities	(1.6)	(8.4)	(8.4)	-	-
Interest paid	(2.6)	(3.4)	(2.8)	(2.6)	(2.6)
Proceeds from borrowings	3.4	4.3	6.6	-	-
Repayment of borrowings	(8.9)	(8.7)	(8.9)	(2.9)	-
Others	(0.2)	7.2	(3.3)	1.4	-
Net cash (used in)/from financing activities	(10.2)	(9.2)	(17.0)	7.1	2.6
Net increase in cash	(3.4)	11.3	9.0	9.8	14.5
Beginning cash	12.6	9.3	20.7	29.5	39.3
Ending Cash	9.3	20.7	29.5	39.3	53.7

* Cash and short-term deposits include cash at bank and other short-term deposits.

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