

Natural Cool Holdings Limited

23 July 2024

Non-Rated

BBG	NATC SP	
Market Cap	S\$7.8m	
Price (23 July 2024)	S\$0.031	
52-week range	S\$0.018 - 0.06	
Shares Outstanding	250.4m	
Free Float	43.7%	
Substantial Shareholder	Khwaja Asif Rahman	14.8%
	Ong Mun Wah	11.0%
	Ng Quek Peng	10.8%
	Wong Leon Keat	9.3%
	Tsng Joo Peng	6.9%

Source: Company Data, Bloomberg, SAC Capital

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KEY FINANCIAL HIGHLIGHTS

Year ended Dec (S\$m)	FY21	FY22	FY23
Revenue	148.0	149.7	144.2
EBIT	(4.5)	2.2	1.9
Net profit	(5.9)	0.9	0.4
EPS (in cents)	(2.26)	0.55	0.24
Dividend per share (S\$ cents)	0.14	-	-
Net cash / (debt)	(47.8)	(33.9)	(29.6)
Valuation			
Gross profit margin (%)	13.9%	17.0%	19.0%
Net profit margin (%)	-4.0%	0.6%	0.3%
EV/EBITDA (x)	17.3	4.7	5.3
P/E (x)	(1.7)	4.7	8.3
P/B (x)	0.70	0.42	0.31
Dividend yield (%)	3.6%	-	-
ROE (%)	-42.6%	6.1%	2.5%

Navigating Challenges and Seizing Opportunities

Natural Cool Holdings Limited – Natural Cool Holdings Ltd (“NatCool”) is a recognized leader in the air-conditioning and mechanical ventilation (“ACMV”) market in Singapore, renowned for its high service standards and commitment to excellence. Beyond its core ACMV operations, NatCool has strategically expanded its portfolio to include paint and coatings, technology solutions, and food and beverages. Despite market challenges, NatCool has shown resilience through strategic growth and diversification.

Financial Performance – NatCool recorded a slight decline in its revenue for FY2023, with revenue declining by 3.7% yoy to S\$144.2m, primarily due to a fall in its aircon and engineering segment. However, gross profit margin increased from 17.5% in FY2022 to 19.0% to FY2023, driven by increased use of internal labor in the aircon and engineering division, cost management measures in the paint and coatings division and higher margins in the technology division due to the completion of a higher margin train-borne communications project. Accordingly, gross profit increased by 7.6% yoy to S\$27.5m. Despite these improvements, net profit margin decreased from 0.6% in FY2022 to 0.3% in FY2023, mainly impacted by a one-time gain on termination of lease held by Natural Cool Investment Pte Ltd (“NCI”) which was deconsolidated from the Group since its liquidation started in FY2022. If NCI’s financial performance for FY2022 was excluded for a comparable analysis, the Group would report a profit of S\$0.4m in FY2023 compared with a loss of S\$0.8m in FY2022.

Resilience in Aircon and Engineering Division – Despite a 4.8% yoy revenue decline due to inflation pressures and a cautious approach to project acceptance, NatCool’s aircon and engineering division continues to demonstrate operational strength. The division strategically shifted focus to smaller projects with quicker turnarounds, maintaining operational efficiency and steady cash flows. With investments in digital transformation, including the implementation of the “CoolHub” app, the division is poised to enhance customer engagement and streamline project management.

Strong performance in Paint and Coatings division – The paint and coatings division recorded an increase in its revenue by 19.6% yoy to S\$5.0m, as a result of higher sales to its retail stores customers. Distinguished by its primary brand, “Cougar”, the division mainly caters to the construction and maritime sectors. As the construction and marine sectors continue its recovery, the division is poised to leverage on these opportunities.

Turnaround for Food and Beverages Segment – The food and beverages division of NatCool has shown remarkable progress, achieving EBITDA

positive. The Group has discontinued underperforming brands and a renewed focus on expanding into retail and wholesale channels through collaborations with major retailers like NTUC Fairprice. With these strategic shifts, we are optimistic that the division may break even in 2024, paving the way for sustained profitability.

Promising growth in Technology Division – Acquired two years ago, the technology division, iFocus, has enhanced NatCool's capabilities in lift monitoring, surveillance, and train-borne communications. iFocus has shown substantial growth, marked by increased revenue and successful major public sector projects, including a notable train-borne communications project in Macau. With its pipeline of ongoing and potential contracts, we are optimistic about its sustained growth and profitability.

Risks – The aircon and engineering division faces economic uncertainties and inflationary pressures, impacting project profitability and acceptance. Revenue in the paint and coatings divisions is influenced by fluctuations in the construction and marine sectors. The technology division's growth relies on securing large contracts amid competitive bidding and regulatory hurdles. Additionally, the company faces risks from rising finance costs and reductions in government grants. Effective risk management strategies are essential to mitigate these challenges and sustain long-term growth.

Valuation – NatCool currently trades at 12.8x P/E and 0.5x P/B. This compares to the average P/E of 13.9x of companies listed on SGX Catalyst.

Income Statement

FYE Dec (\$'m)	FY21	FY22	FY23
Revenue	148.0	149.7	144.2
Cost of sales	(127.4)	(124.1)	(116.7)
Gross profit	20.6	25.5	27.5
Other income	1.9	5.8	1.3
Distribution expenses	(2.9)	(2.8)	(3.0)
Administrative expenses	(18.4)	(23.2)	(23.5)
Impairment loss on trade receivables and contract assets, including bad debts written-off	(0.1)	(0.1)	(0.1)
Other expenses	(5.6)	(3.0)	(0.3)
Results from operating activities	(4.5)	2.2	1.9
Finance costs	(1.2)	(1.0)	(1.2)
(Loss)/Profit before tax	(5.7)	1.2	0.7
Tax credit/(expense)	(0.2)	(0.3)	(0.3)
(Loss)/Profit after tax	(5.9)	0.9	0.4

Balance Sheet

FYE Dec (\$'m)	FY21	FY22	FY23
Assets			
Property, plant and equipment	54.4	38.6	36.3
Intangible assets and goodwill	2.4	5.5	5.0
Investment property	1.0	0.9	0.9
Joint venture	0.0	0.0	0.0
Other investments	0.0	0.1	0.0
Other receivables	2.3	0.8	0.8
Non-current assets	60.2	45.8	42.9
Asset held for sale	0.0	0.6	0.6
Inventories	8.6	10.2	9.7
Contract assets	4.4	6.4	5.0
Trade and other receivables	19.7	21.8	21.6
Other investments	1.0	1.0	0.8
Cash and cash equivalents	11.6	8.2	8.1
Current assets	45.3	48.2	45.7
Total assets	105.5	94.1	88.6
Liabilities			
Loans and borrowings	48.4	32.0	28.4
Deferred tax liabilities	0.3	0.4	0.3
Provision	0.6	0.1	0.1
Non-current liabilities	49.3	32.6	28.8
Loans and borrowings	11.0	10.0	9.3
Contract liabilities	11.8	9.3	9.4
Trade and other payables	19.3	26.1	24.5
Current tax liabilities	0.2	0.5	0.6
Current liabilities	42.3	45.9	43.8
Total liabilities	91.6	78.5	72.6
Equity			
Share capital	36.4	36.4	36.4
Reserves	(3.0)	(3.0)	(3.0)
Accumulated losses	(19.2)	(18.1)	(17.5)
Equity attributable to owners of the Company	14.2	15.3	15.9
Non-controlling interests	(0.3)	0.3	0.1
Total equity	13.9	15.5	16.0

Cash Flow Statement

FYE Dec (\$'m)	FY21	FY22	FY23
Cash flows from operating activities			
Profit/(loss) for the year	(5.9)	0.9	0.4
Adjustments for:			
Amortisation of intangible assets	0.1	0.6	0.6
Change in fair value of financial assets at fair value through profit or loss ("FVTPL")	0.6	0.0	0.1
Depreciation of property, plant and equipment	7.7	5.7	4.0
Depreciation of investment property	0.0	0.0	0.0
Gain on disposal of property, plant and equipment	(0.2)	(0.3)	(0.0)
Gain on termination of lease	0.0	(4.0)	0.0
Impairment loss on asset held for sale	0.0	0.0	0.1
Impairment loss on goodwill	0.1	0.1	0.0
Impairment loss on trade receivables and contract assets, including bad debts written-off	0.1	0.1	0.1
Impairment loss on property, plant and equipment	4.6	0.9	0.2
(Reversal)/Impairment loss on inventories	0.0	0.1	(0.0)
Interest expenses	1.2	1.0	1.2
Interest income	(0.0)	(0.0)	(0.0)
Loss on deconsolidation	0.0	1.2	0.0
Property, plant and equipment written-off	0.0	0.6	0.0
Tax expense	0.2	0.3	0.3
Changes in:			
Inventories	(0.5)	(1.9)	0.5
Trade and other receivables	(2.0)	(4.4)	0.1
Contract assets	(0.2)	(2.0)	1.4
Trade and other payables	0.7	9.7	(1.6)
Contract liabilities	(0.9)	(2.5)	0.1
Cash generated from operations	5.6	6.0	7.5
Tax paid	(0.2)	(0.2)	(0.4)
Net cash from operating activities	5.4	5.8	7.0
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	(0.3)	(2.8)	0.0
Interest received	0.0	0.0	0.0
Investment in other investment	(1.0)	(0.1)	0.0
Investment in joint venture	0.0	0.0	(0.0)
Proceeds from other investments	0.0	0.0	0.2
Proceeds from disposal of property, plant and equipment	0.3	1.3	0.1
Purchase of intangible assets	(0.3)	(0.2)	(0.0)
Purchase of property, plant and equipment	(3.3)	(2.6)	(0.4)
Net cash used in investing activities	(4.7)	(4.5)	(0.1)
Cash flows from financing activities			
Dividend paid	(0.4)	(0.4)	0.0
Interest paid	(1.1)	(1.0)	(1.2)
Changes in bills payable	2.7	1.6	(1.3)
Payment of lease liabilities	(4.7)	(3.3)	(1.7)
Proceeds from borrowings	5.0	1.8	1.1
Repayment of borrowings	(1.4)	(3.6)	(3.9)
Net cash (used in)/from financing activities	0.1	(4.9)	(7.0)
Net (decrease)/increase in cash and cash equivalents	0.9	(3.5)	(0.1)
Cash and cash equivalents at beginning of year	10.7	11.6	8.2
Effect of foreign exchange fluctuations on cash held	0.0	0.1	0.1
Cash and cash equivalents at end of year	11.6	8.2	8.1

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