Advancer Global Limited

Date: 3 August 2017

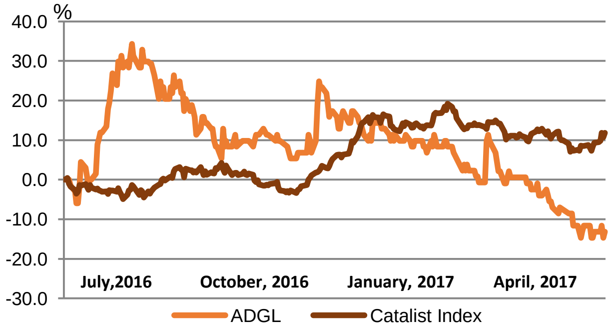
BUY

(Initiating coverage)

Target Price: S$0.360 (+29%)

ADGL SP

Price: S$0.280 (as at 2 August 2017)



Share price	1M	3M	6M	1Y
Advancer Global	-3.3%	-14.7%	-25.6%	-14.7%
Catalist Index	0.6%	-4.0%	3.3%	8.3%

Market capitalisation	S$52.0 million US$37.8 million
Current Price	S$0.280
Shares outstanding	185.7 million
Free Float	26.1%
Major shareholder	Chin Swee Siew 20.7% Chin Mui Hiong 20.0%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

Analyst

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Advancing to the next phase of growth

An established and integrated workforce solutions and services provider in Singapore. Established in the early 1990's, Advancer Global Limited ("**ADGL**", "**Company**" or **"Group**") operates through two main business divisions: (i) Employment services and (ii) Facilities Management services, to provide a holistic suite of solutions and services to its diverse base of customers.

Establishment of a holistic workforce solutions and service provider. ADGL has embarked on a series of acquisitions to position themselves as an integrated workforce services provider. We think the move increases the "stickiness" between their customers and the Group which is critical for securing contracts with property owners and estate agents as real estates are largely owned by REITS who demand service providers with scale.

Maid agency provides core earnings base. ADGL is one of the top 5 maid agencies in Singapore, and we expect that this segment will continue to be a cash cow for them moving forward. The facilities management business however, is expected to provide earnings uplift as the integration of the acquisitions bear fruit in the next few years. We expect earnings to grow by 15.1% in FY18 and 13.8% in FY19.

Initiating coverage with a Buy with a target price of S$0.36. Our DCF-backed target price of S$0.360 (cost of equity: 12.0% and terminal growth of 2.0%) represents a 16.4x FY17E P/E with an expected 3.9% dividend yield for FY17 based on their last closing price. ADGL is currently in a net cash position, and has a large war chest which we believe positions ADGL well to take advantage of opportunities along the way. We think ADGL's resilient business model and current valuation of 12.8x FY17E P/E is undemanding, we initiate with a Buy.

Key risks: Exposure to laws, regulations and policies of originating countries, ability to seek out M&A targets.

Key Historical Financials

Year ended December (S$'000)	FY2014A	FY2015A	FY2016A	FY2017E	FY2018E	FY2019E
Revenue	39,012	44,794	50,909	60,627	69,280	79,202
% Growth	N/A	14.8%	13.7%	19.1%	14.3%	14.3%
Gross profit	8,880	11,876	13,555	15,784	17,771	20,092
Gross profit margin (%)	22.8%	26.5%	26.6%	26.0%	25.7%	25.4%
Profit before tax	2,755	4,863	3,300	4,681	5,404	6,196
Profit attributable to owners	2,550	4,369	2,675	3,958	4,553	5,181
% Growth	-1.5%	71.3%	-38.8%	48.0%	15.1%	13.8%
Profit after tax margin (%)	6.5%	9.8%	5.3%	7.4%	7.3%	7.2%
Basic EPS (S$ cents)	2.0	3.4	1.5	2.2	2.5	2.8
Diluted EPS (S$ cents)				2.2	2.4	2.7
P/E (x)	19.0	11.1	18.1	12.8	11.4	10.0
Net Debt/Equity				Net Cash	Net Cash	Net Cash

N/A: Not applicable

SAC Advisors Forecast Summary

Revenue by segment (S$'000)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services	12,158	11,632	12,818	12,627	12,627	12,880	13,202
Building Management	14,396	16,960	20,090	24,753	33,000	39,600	47,520
Security Services	9,249	10,420	11,886	13,529	15,000	16,800	18,480
Total Revenue	**35,803**	**39,012**	**44,794**	**50,909**	**60,627**	**69,280**	**79,202**

Revenue % (Y-Y)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services		-4.3%	10.2%	-1.5%	0.0%	2.0%	2.5%
Building Management		17.8%	18.5%	23.2%	33.3%	20.0%	20.0%
Security Services		12.7%	14.1%	13.8%	10.9%	12.0%	10.0%
Total		**9.0%**	**14.8%**	**13.7%**	**19.1%**	**14.3%**	**14.3%**

Revenue breakdown (%)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services	34.0%	29.8%	28.6%	24.8%	20.8%	18.6%	16.7%
Building Management	40.2%	43.5%	44.8%	48.6%	54.4%	57.2%	60.0%
Security Services	25.8%	26.7%	26.5%	26.6%	25.0%	24.2%	23.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Gross profit breakdown (S$'000)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services	5,732	4,417	5,819	5,523	5,523	5,633	5,774
Building Management	1,660	2,343	4,253	6,042	8,055	9,666	11,599
Security Services	1,713	2,120	1,804	1,990	2,206	2,471	2,718
Total	**9,105**	**8,880**	**11,876**	**13,555**	**15,784**	**17,771**	**20,092**

Gross profit % (Y-Y)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services		-22.9%	31.7%	-5.1%	0.0%	2.0%	2.5%
Building Management		41.1%	81.5%	42.1%	33.3%	20.0%	20.0%
Security Services		23.8%	-14.9%	10.3%	10.9%	12.0%	10.0%
Total		**-2.5%**	**33.7%**	**14.1%**	**16.4%**	**12.6%**	**13.1%**

Gross profit margin (%)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Employment Services	47.1%	38.0%	45.4%	43.7%	43.7%	43.7%	43.7%
Building Management	11.5%	13.8%	21.2%	24.4%	24.4%	24.4%	24.4%
Security Services	18.5%	20.3%	15.2%	14.7%	14.7%	14.7%	14.7%
Total	**25.4%**	**22.8%**	**26.5%**	**26.6%**	**26.0%**	**25.7%**	**25.4%**

Operating profit**	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Operating Profit margin	8.4%	7.3%	11.1%	6.7%	7.9%	8.0%	8.0%
Operating Profit growth y-y		-5.7%	74.7%	-31.6%	40.5%	15.1%	14.4%
Operating Profit (S$'000)	**3,022**	**2,849**	**4,978**	**3,406**	**4,787**	**5,510**	**6,302**

Profit (%) (Y-Y)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Profit before tax		-5.4%	76.5%	-32.1%	41.8%	15.5%	14.7%
Profit after tax*		-1.5%	71.3%	-38.8%	48.0%	15.1%	13.8%

Profit margin (%)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
	Fiscal Year Ended						
Profit before tax	8.1%	7.1%	10.9%	6.5%	7.7%	7.8%	7.8%
Profit after tax*	7.2%	6.5%	9.8%	5.3%	6.5%	6.6%	6.5%

Source: Company data, SAC Advisors

** Profit attributable to owners of the Group*

*** In-house estimate*

Investment Highlights

An established and integrated workforce solutions and services provider in Singapore. ADGL operates through two main business divisions: (i) Employment services and (ii) Facilities Management services, to provide a holistic suite of solutions and services to its diverse base of customers. ADGL has a resilient business model as a provider of essential services, insulated from the vagaries of economic cycles. The barriers to entry are also high: 1) All the services they provide are regulated services that require licensing, 2) security guards are required to undergo training and licensing, 3) guards are restricted to Singapore citizens and permanent residents, and Malaysian work permit holders.

Business Overview:

Advancer Global is an established and integrated workforce solutions and services provider in Singapore. The Group operates through two main business divisions: (i) Employment services, and (ii) Facilities Management services. The Group's Employment services division holds two well-entrenched subsidiaries with established brand names, "Nation" and "Enreach". Their Facilities management services division provide their services to a diverse base of customers that include residential and commercial properties, hospitals and hotels.

Strong rebound in earnings growth. We expect ADGL's earnings to increase 48.0% year-on-year ("**y-y**") in FY17, in the absence of one-off IPO expenses and the recognition of the full-year earnings of their acquisitions in 2016. We view the strategic acquisitions that ADGL has made till date favourably and expect ADGL's earnings to increase by 15.1% and 13.8% in FY18 and FY19 respectively boosted by further acquisitions in the facilities management space.

Establishment of a holistic workforce solutions and service provider. ADGL has embarked on a series of acquisitions to position themselves as an integrated workforce services provider. We believe that ADGL will look to bolster their current offerings to provide a one-stop service offering to their clients. We think the move increases the "stickiness" between their customers and the Group and make sense as it will allow them to streamline their services and realise cost and revenue synergies. Specifically, their customers will be able to enjoy a single building service through a fully integrated facility management service without the hassle of dealing with many different vendors. With their integrated facility platform, customers will be able to customise their building services requirements with them to meet their needs. We see this as their main competitive advantage over their competitors and see further areas for growth and expansion in this area.

Maid agency provides core earnings base. ADGL is one of the top 5 maid agencies in Singapore, and we expect that this segment will continue to be a cash cow for them moving forward. The facilities management business however, is expected to provide earnings uplift as the integration of the acquisitions bear fruit in the next few years. We expect earnings to grow by 15.1% in FY18 and 13.8% in FY19.

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Investment Highlights

Asset light structure implies high ROIC moving forward. As the revenue model shifts from fee based model (for maid agency) to income model (security and facility management), we expect margin compression from FY15 levels. The key to earnings growth in our view, is their ability to keep labour cost competitive and to retain skilled labour. Their asset light structure also implies that ROIC will continue to remain high at above 20%.

Acquisitions Since Listing

Target companies	Business operations	Stake acquired	Valuations
Ashtree International Pte. Ltd.	Security operations	100%	1.4x P/B and 3.5x P/E
Newman & Associates Pte. Ltd.	Property management	76%	1.5x P/B and 15.0x P/E
Newman & Group Property Consultants	Property management	76%	2.4x P/B and 7.1x P/E
Green Management Pte. Ltd., Premier Eco-Care Pte. Ltd., and Prestige Enviro-Care Pte. Ltd ("Collectively, the "**Premier Group**")	Pest Control and Fumigation	100%	1.5x P/B and 9.3x P/E
Unipest Pte. Ltd.	Pest Control	20%	3.7x P/B

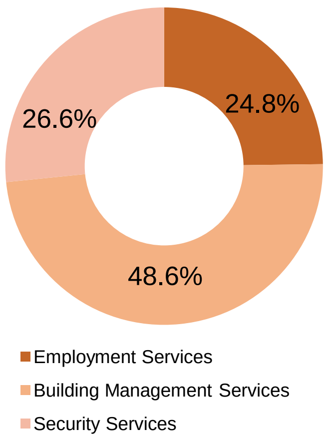
Source: Company data, SAC Advisors

**Total NAV less non-controlling interests*

***All considerations made in cash*

Company Background

Revenue Breakdown (FY2016)



Source: Company data, SAC Advisors

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- Their business is divided into 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	• Sourcing, recruiting, training and deployment of foreign workers and foreign domestic workers
Building management services	• Cleaning • Stewarding • Pest control • Property and facilities management services
Security services	• 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

Integrated Service offerings

We see the overall acquisition strategy of ADGL starting to bear fruit for the Group as they begin to position themselves as a holistic workforce solutions and services provider to corporations.

We view their positioning favourably as there are complementary businesses within the Group that widens their offerings to their customers. We also believe such a positioning increases the "stickiness" of their offerings to their customers, which bodes well for the Group.

Source: Company data

When we look at ADGL's acquisition track record over the years, we believe that ADGL will continue to acquire good targets to bolster their offerings.

The key risk in our view then, would be the failure to acquire suitable businesses at the right valuations. That said, we think their historical acquisition track record gives us reasonable confidence on their ability to execute on this front. Since their listing on the Singapore Exchange on 11 July 2016, they have already completed 5 acquisitions.

Corporate History

ADGL was incorporated as an investment holding company in February 2016 before being converted into a public company in June 2016. Operations of their Group started in 1991 when the Chin brothers commenced the Employment Services business for provision of FDWs under various brands, including "NATION" amongst others. Nation Employment was incorporated in 1994.

Source: Company data

In 2003, the Group embarked on an expansion strategy into the commercial cleaning business. This led to the Group's incorporation of Master Clean and acquisition of First Stewards in 2005 to carry out cleaning and stewarding services. In 2005, the Group expanded its Employment Services business to provide placement of blue-collared FWs.

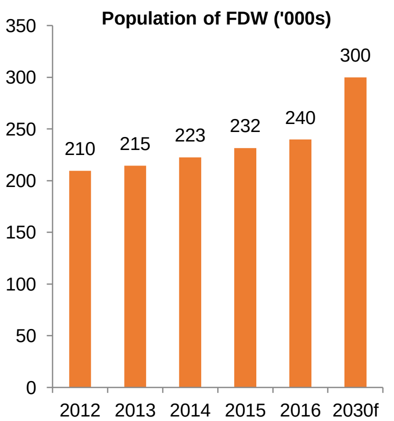
In 2011, Nation Employment was recognised as the largest FDW employment agency in the Singapore Book of Records. The Group also commenced its Security Services business by acquiring KC Security in line with its strategy to offer an integrated and wider range of solutions and services in the facilities management industry. In 2012, the Group acquired KH Security which was subsequently awarded with the Distinguished Defence Partner Award by the Ministry of Defence in 2013.

In 2014, the Group acquired World Clean to expand the clientele and scale of its Cleaning and Stewarding Business. Nation Employment was also accredited as the exclusive training provider for Singapore by The British Butler Institute, which allows it to provide additional personalised training services for the FDWs at the option of its customers.

In 2015, Unipest was acquired to offer pest control services to complement its Cleaning and Stewarding Business. Subsequently in 2016, the Group acquired Ashtree to provide security consulting, and training services. Newman & Goh Property Consultants Pte. Ltd., Newman & Associates Pte. Ltd. as well as Premier Eco-care and Prestige Enviro-Care were also acquired to provide facility management and specialised pest control services such as fumigation, building maintenance and landscaping.

Foreign Employment Agency Industry Overview

Growth in population of FDWs



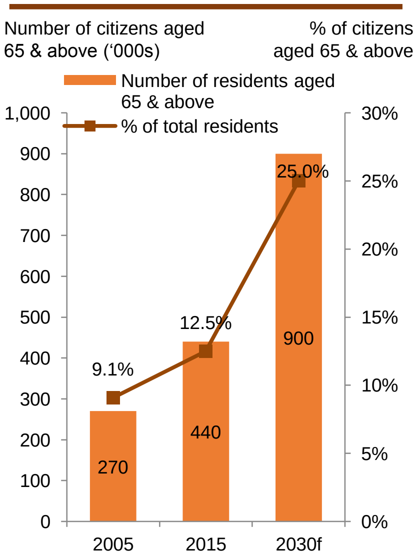
Source: Ministry of Manpower, Centre for Domestic Employees

As of December 2016, the total number of maids in Singapore, otherwise known as FDW, stood at 239,700. The FDW sector is a bright spot within the foreign employment agency industry amid the tightening of foreign labor policy through the raising of levies for Work Permits and stricter criteria for S Passes and Employment Passes. Between 2012 and 2016, the number of FDWs grew by 14.4% from 209,600 to 239,700, outpacing the 8.9% growth in other categories of FW from 1,058,700 to 1,153,200. Excluding construction workers in FWs, other categories of FWs grew by 7.7% from 731,300 in 2012 to 787,800 in 2016, falling behind the FDWs. Moving forward, an ageing population will continue to drive demand for FDWs projected to reach 300,000 by 2030. This represents steady growth at CAGR of 1.6% for foreign employment agencies that specialize in recruitment of FDWs.

Ageing Population to propel demand for FDWs

A low fertility rate and rising life expectancy from 80.3 years in 2006 to 82.9 in 2016 have contributed to Singapore's ageing population. The number of citizens aged 65 and above is expected to more than double from 470,000 in 2016 to 900,000 in 2030. This also means that 25% of Singapore's population will be aged 65 and above by 2030, up from around 12.5% currently.

Ageing population



Source: Population.sg, SAC Advisors

(i) Preference for maid among elderly residents

A study done by HDB found that younger married residents and elderly residents have different inclinations towards the ideal living arrangement for an elderly who needs care. In spite of these differences, majority of younger married residents and elderly residents indicate an inclination towards hiring of maids either when living with their children or when living in their own homes.

(ii) Governmental support for hiring of maids

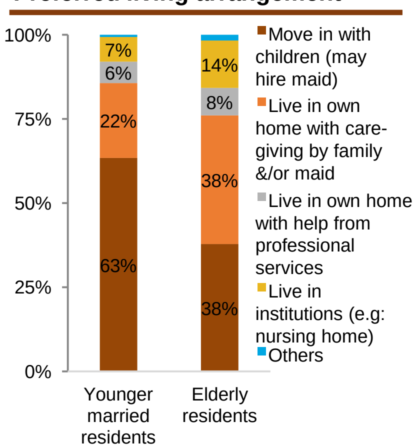
There are various governmental schemes that subsidize the cost of hiring a maid. We have highlighted some of the main schemes.

Firstly, the FDW Grant was introduced in 2012 with a value of $120 per month. This grant supports households that require FDWs to care for elderly citizens and those with moderate disabilities. As at December 2015, 6,200 households benefited from the scheme.

The second scheme is the FDW concessionary levy. With effect from May 2015, the concessionary level was further lowered to $60 from $120 per month, compared to the normal monthly levy of $265.

Under the Eldercarer Foreign Domestic Worker Scheme, eligible households can hire a FDW trained in eldercare within a week. The training cost is estimated at between $200 and $500. Up to $200 of the training cost can be offset by the Caregivers Training Grant for eligible caretakers.

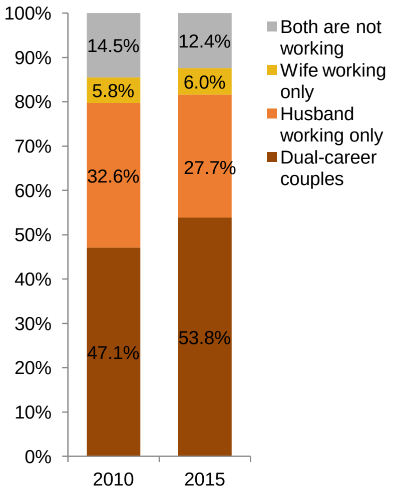
Preferred living arrangement



Source: Ministry of Social and Family Development

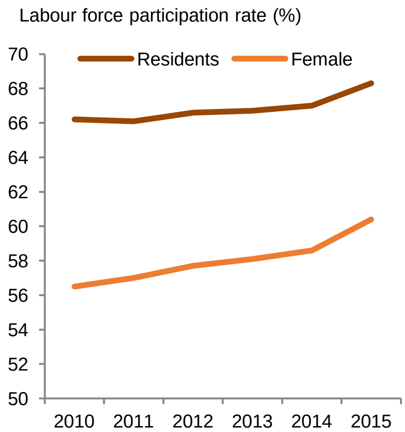
Ageing Population to propel demand for FDWs

Married couples in resident households



Source: Singstat, SAC Advisors

Rising labour force participation



Source: Singstat, SAC Advisors

(iii) Rise of dual-income family

The proportion of dual-career families has grown from 47.1% in 2010 to 53.8% in 2015, reflecting the trend of rising female labour force participation rate. Female labour force participation rate rose from 56.5% in 2010 to 60.4% in 2015. The growth in dual-career families could potentially limit the available alternatives to domestic helpers as caregivers for elderly residents.

Competitive landscape

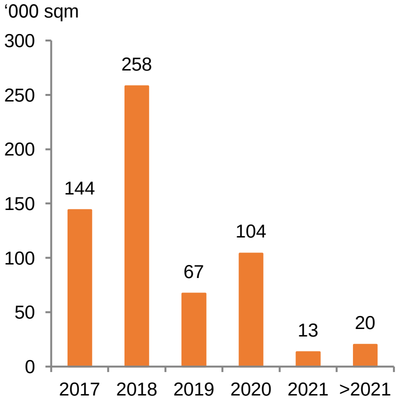
The foreign employment agency industry is relatively fragmented with around 1,570 agencies for recruiting FDWs registered with Ministry of Manpower. The top 20 largest agencies represent around 21% of total FDWs placement volume over the past year. The leading five agencies comprise of Labor Express Employment Pte Ltd, Homekeeper International, Nation Employment, Best Home Employment Agency and Jack Focus Employment.

Outlook

We think that the outlook for foreign employment agency industry remains strong due to Singapore's ageing population, the general preference for hiring of maids and a rise in the proportion of dual-career households. In addition, Singapore continues to diversify her source of FDWs, with the recent addition of Cambodia in October 2016. The diversification in source of FDWs can help to ease challenges faced by foreign employment agencies in securing maids.

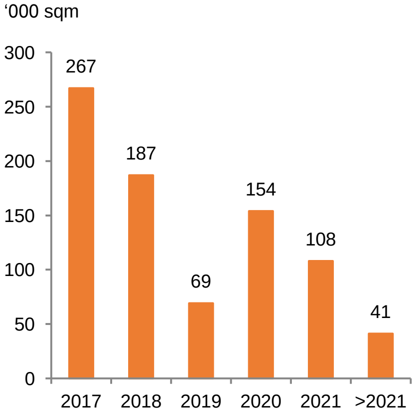
Environmental Services Industry Overview

Supply of retail space in the pipeline by expected year of completion



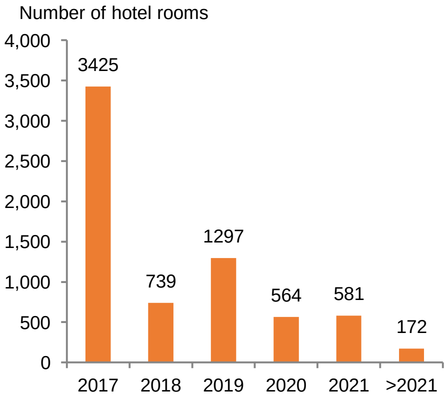
Source: URA

Supply of office space in the pipeline by expected year of completion



Source: URA

Supply of hotel rooms in the pipeline by expected year of completion



Source: URA

The environmental services industry in Singapore mainly comprises of core services such as cleaning, pest control and waste management. Non-core, downstream environmental services include facilities management services amongst others. The cleaning services sector can be further segmented into general and specialized cleaning services. General cleaning, which dominates the cleaning services sector, refers to the cleaning of commercial premises, food and beverages outlets and conservancy areas.

Commercial property development as basis of growth

(i) Pipeline of commercial property to support growth in demand for cleaning and facilities management services

All three categories of commercial property – retail space, office space and hotel rooms, experienced an increase in their supply in the pipeline from 4Q 2016 to 1Q 2017. Retail space grew by 1.8% to 606,000 square meters ("**sqm**") on the back of a 15.6% increase in retail space under construction. Office space grew by 5.1% to 826,000 sqm on the back of the 31.4% increase in planned construction. The hotel rooms category grew by 4.3% to 6,778 rooms on the back of a 2.9% and 16.8% increase for construction under development and planned development respectively. The supply of commercial property in the pipeline provides an indication of future demand for cleaning services and facilities management services.

ii) Growing focus on smart buildings to impact the integrated facilities management

There has been a growing push for smart, energy-efficient buildings amid BCA's two-year pilot project with Microsoft to harness the Internet of Things to create smart buildings that track energy consumption. According to Frost and Sullivan, the rising emphasis on smart buildings and energy efficiency will provide growth opportunities for Singapore's integrated facilities management services industry.

Security Agencies Industry Overview

The security agencies industry provides a variety of services ranging from security guarding, security escort to security consultancy. As at January 2017, there are a total of 247 approved security agencies and 43,000 active security officers. The rising threat of terrorism is a key growth driver for the security agencies industry.

Rise in threat of terrorism to fuel demand

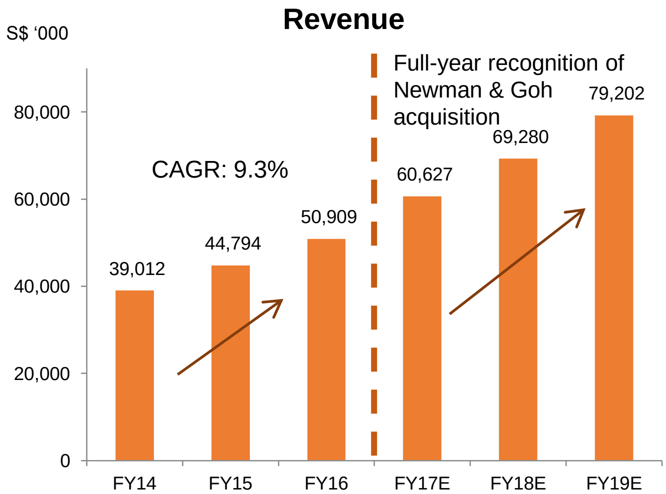
The terrorism threat in Singapore has risen to the highest level in recent years, with the most severe threat from the Islamic State in Iraq and Syria ("**ISIS**") militant group. For instance, the Singapore Exchange and an unnamed port were cited as potential targets in an Arabic publication that appeared online around October 2016. The rise in threat of terrorism comes on the back on an increase in cases of radicalization. Since 2015, 14 Singaporeans radicalized by ISIS had been detained under the Internal Security Act ("**ISA**"). In comparison, a smaller number of radicalized Singaporeans (11), were detained under the ISA between 2007 and 2014. Therefore, the growth in threat of terrorism is likely to increase demand for security services to deter against possible terrorist attacks at public and commercial areas.

The recent amendments to the Public Order Act could further boost the demand for security services at events. Under the amendments, police will be allowed to declare events expecting large number of attendees or assessed to be of higher-risk, as Special Events. Special Events require security measures such as barricades and security officers, thereby stimulating demand for security service providers. The increase in demand for security services at events comes on the back of Singapore's status as a Business Travel and Meetings, Incentive Travel, Conventions and Exhibitions ("**MICE**") hub. Singapore's MICE industry generated a 15% growth in 2016 as Singapore Tourism Board supported more than 410 business events, resulting in a 20% increase in visitors' arrival to 343,000 in 2016.

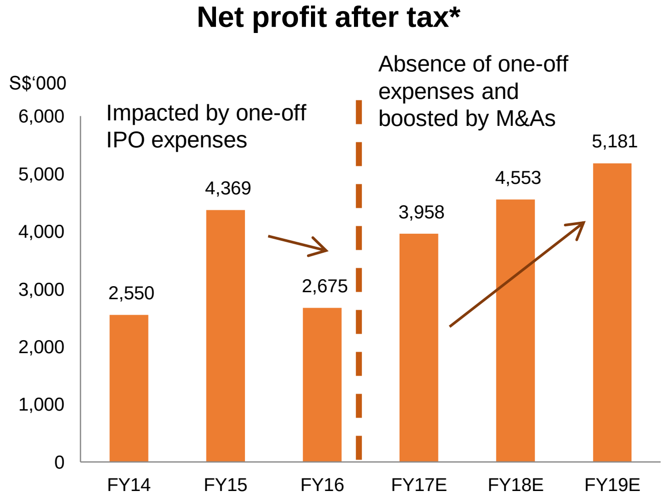
Financial Analysis

Mergers and Acquisition to drive growth

We expect the revenue of ADGL to increase by a CAGR of 15.9% from FY17 to FY19 as they begin to realise the full benefits of their acquisitions in FY16, and to acquire other complementary businesses. We expect to see the full year earnings of NGPC and NAPL which they acquired in September 2016 last year .



Source: Company data, SAC Advisors



Source: Company data, SAC Advisors

**NPAT: Net profit after tax attributable to owners of the company*

Integrated Service Offerings to provide next leg of growth

All of ADGL's recent acquisitions lead us to believe that ADGL will focus on the facilities management services division to drive the next leg of their growth. Since their listing in July 2016, every acquisition that ADGL has made supports the development of this business.

In our view, the fragmented nature of the industry in which ADGL operate in means that they will have to compete through the provision of greater convenience for the clients. ADGL will therefore be constantly on the lookout for new acquisitions to strengthen and broaden their current offerings to their large customer base.

Moving forward, we expect that the growth from this segment will outpace that of the employment services business and account for a greater share of ADGL's revenue and growth. We project that revenue from this segment will grow by a CAGR of 14.6% from FY17 – FY19 and account for 83.3% of total revenue from the current 73.4% in FY16.

We believe that the employment services business will continue to remain stable, eventually accounting for about 20% of the overall business (vs 24.8% of total revenue in FY16). We expect this segment to remain stable, supported by the ageing demographics in Singapore and supportive governmental policies.

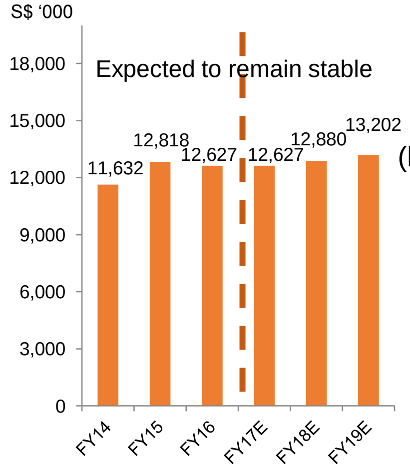
Financial Analysis

Revenue Segments

- The core business can be categorised into three main business segments:

(a) Employment Services: This division offers integrated and comprehensive employment solutions and services including sourcing, recruitment, training and deployment of foreign domestic workers to households and foreign workers to corporations. The Group offers employment solutions and services through its well-recognised brands, "Nation" and "Enreach".

Employment Services

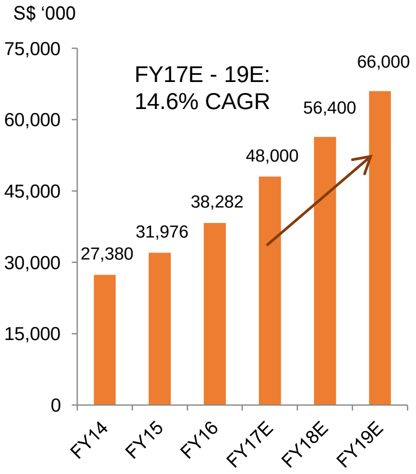


Source: Company data, SAC Advisors

(b) Facilities Management Services: This encompasses two sub-divisions, Building Management Services and the Security Services which the Group through its well-established subsidiaries, provides property management, security services, pest control, landscaping as well as cleaning and stewarding services to a diverse base of customers including, amongst others, residential and commercial properties, hospitals and hotels.

Following the Group's listing, they have embarked on a few strategic acquisitions to expand their scope of services in this area. The range of service offerings under the Building Management Services segment expanded from cleaning and stewarding and pest control services, to property management, property consultancy, and specialised pest control services, following the acquisitions of NGPC, NAPL, Premier Eco-Care Pte. Ltd., Prestige Enviro-Care Pte. Ltd., and Green Management Pte. Ltd., last year.

Facilities Management



Source: Company data, SAC Advisors

Similarly, through the acquisition of Ashtree International Pte. Ltd. in September 2016 last year, the Group expanded its existing offerings under Security Services from the provision of manpower for security solutions and services to residential, commercial and industrial properties, and security escort services, to include the provision of security advisory and training.

The incorporation of AGS Integration Pte. Ltd. ("**AGSI**") this year allowed the Group to embark on virtual guard and specialised IT solutions with manpower and bring a comprehensive approach in security management.

We expect ADGL to continue broadening the scope of this segment. As at 31 December 2016, the Group has services contracts of S$3.6 million monthly from the Facilities Management Services division.

Revenue Breakdown (%)	FY14	FY15	FY16	FY17E	FY18E	FY19E
Employment Services Business	29.8%	28.6%	24.8%	20.8%	18.6%	16.7%
Building Management Services	43.5%	44.8%	48.6%	54.4%	57.2%	60.0%
Security Services Business	26.7%	26.5%	26.6%	25.0%	24.2%	23.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, SAC Advisors

Management

Mr Desmond Chin is the Executive Chairman, and is responsible for ensuring the effective operations of the Group, the Board and various Board committees. He is one of the founders of the Group. With more than 20 years of experience in the employment services business, he has been instrumental in spearheading the growth and development of the Group since 1992. He graduated with a Bachelor of Engineering from the National University of Singapore in 1990 and subsequently obtained a Master of Business Administration from the National University of Singapore in 2012.

Mr Gary Chin is the Executive Director and Chief Executive Officer, and is responsible for overall administration, operation and management of the Group. He began his career in 1996 with Peninsula Employment Services, with a focus on the expansion of the Employment Services Business in Singapore. In 2001, he co-founded Beauty World Employment Pte Ltd where he was responsible for its overall administration, operation and management. In 2009, he joined Nation Employment Pte Ltd as a director and senior executive, to oversee the business development and growth of the Group’s Employment Services business. He graduated with a Bachelor of Electrical & Electronic Engineering (Hons) from the University of Aberdeen, Scotland in 1995.

Mr Francis Chin is the Head of Employment Services. He co-founded Nation Employment Pte Ltd in 1994 and has since been responsible for the daily operations and management of the Group’s Employment Services business.

Future Plans

Expand its Facilities Management businesses
ADGL intends to expand the service offerings of its Facilities Management businesses through acquisition, joint ventures and/or strategic alliances in the provision of facilities management services, such as the provision of integrated security services, property management, specialised pest control services including fumigation, building maintenance and landscaping. In 2016, the Group acquired Ashtree, NGPC, NAPL, Premier Eco-care, and Prestige Eco-care amongst others.

In 2017, the Group incorporated a wholly-owned subsidiary, AGS Integration Pte. Ltd. ("**AGSI**") in Singapore. AGSI is a joint venture with a service provider in provision of customised IT solutions in relation to remote surveillance and smart home products and solutions. This is aligned with the Group's focus on Man-Machine-Method approach in security services. Moving forward, ADGL plans to continue integrating technology with manpower and providing a wider range of remote surveillance and premises security services.

ADGL also plans to expand the size of its team to raise deployment flexibility and secure more contracts for its Security Services and Building Management Services businesses. Whilst we acknowledge that margins in this business is going to be less attractive when compared to that of their Employment business – which we see as a cash cow -, we see the greater growth potential in this segment compensating for this.

Expand its Employment Services business
ADGL intends to explore expanding its Employment Services business organically in Singapore or overseas through acquisitions, joint ventures and/or strategic alliances that are aligned with its longer-term interests, subject to market conditions and opportunities.

Key Risks

Ability to execute on mergers and acquisition
Given that the next leg of growth for ADGL is expected to come from mergers and acquisitions, we think that the biggest risk would be the failure to find acquisition targets at a reasonable valuation. Whilst risks exist, we are of the view that their historical track record of acquisitions every year at reasonable valuations mitigate the risks from this.

Exposure to laws, regulations and policies of originating countries
ADGL is dependent on the supply of foreign labour for its business operations, which is predominantly subject to the supply conditions in foreign labour markets. Any laws, regulations and policies or changes thereof or the introduction of additional requirements and/or restrictions by the authorities of these countries may affect the supply of foreign labour and potentially cause disruptions to ADGL's operations, delays in its projects and/or increase its costs in the event that ADGL is unable to find substitutes for the foreign labour.

Recent Developments

Acquisition of 76% stake in Envirocare (S) Pte. Ltd

ADGL has acquired a 76% stake in Envirocare (S) Pte. Ltd. ("**Envirocare**") through its wholly-owned subsidiary Advancer Global Facility Pte. Ltd. ("**AGF**"). The principal activity of Envirocare is the provision of landscape planting, care and maintenance services such as garden installation and maintenance, grass cutting, tree felling and pruning in Singapore. The acquisition would provide larger skilled workforce and expertise for ADGL to tap on, enabling it to be a direct provider of landscaping services, thereby expanding its landscaping business and its market share in Singapore.

Private placement of 12.5 million new ordinary shares and 6.25 million warrants

ADGL completed the placement of 12.5 million new ordinary shares ("**Placement Shares**") at a subscription price of S$0.40 per share and 6.25 million warrants ("**Warrants**") with MES Group Holdings Pte. Ltd. ("**MES Group**") on 17 May, 2017. It raised net placement proceeds of S$4.82 million for the expansion its business operations and working capital needs. Each warrant carries the right to subscribe for 1 new ordinary share in ADGL and will be exercisable at an exercise price of S$0.45 per Warrant. MES Group holds approximately 6.73% of ADGL's enlarged issued and paid-up share capital. Further, assuming that all 6.25 million Warrants are exercised, MES Group will hold approximately 9.77% of the enlarged issued share capital.

According to the Company's filing, MES Group's investment in the company is for strategic operational and financial investment purposes.

Valuation

ADGL is currently trading at 18.1x of FY2016's earnings, and despite including one-off IPO expenses, this is still lower than the rest of their peers around the region which we think is because of their shorter listing history than their peers.

Name	Ticker	Price (local currency)	Mkt Cap (S$mn)	Revenue LFY* (S$mn)	Net Margin %	P/E (LFY*) (x)	ROE %	Cash conversion cycle days	Net Debt/ Equity %	Dividend yield %
Facilities Management										
AWC Berhad	AWCF MK	1.13	94.7	83.7	6.9%	11.7x	16.3%	48	Net Cash	1.2%
Millennium Services Group Ltd	MIL AU	1.46	72.3	106.7	1.1%	65.8x	9.8%	N/A	12.8%	N/A
Baguio Green Group Ltd	1397 HK	0.82	59.3	194.7	2.3%	14.8x	11.6%	80	70.7%	1.9%
Secura Group Ltd	SCGR SP	0.14	55.2	36.2	3.5%	82.0x	5.0%	55	Net Cash	1.5%
King Force Group Holdings Ltd	8315 HK	0.031	41.5	26.1	-4.4%	25.5x	-6.9%	N/A	N/A	N/A
Average			**62.8**	**83.1**	**2.5%**	**36.3x**	**10.3%**	**38**	**N/A**	**1.1%**
Advancer Global Limited	**ADGL SP**	**0.290**	**53.8**	**50.9**	**5.3%**	**18.1x**	**26.1%**	**44**	**Net Cash**	**2.2%**
Overall average (ex. ADGL)			**64.6**	**89.5**	**1.9%**	**40.0x**	**7.2%**	**38**	**N/A**	**0.9%**

Source: Bloomberg, extracted on 25th July 2017

** LFY: Last Financial Year*

Dividend Policy

ADGL has committed to a dividend policy of paying at least 50% of their net profit attributable to owners of the Company as dividends for financial years ending 31 December 2016, 2017 and 2018.

This translates into a 3.9% and 4.4% FY17E and FY18E dividend yield, which we think is sustainable and attractive given the resilient nature of their business model.

Recommendation

DCF Assumptions	
Cost of Equity	11.0%
Liquidity discount	1.00%
Adjusted Cost of Equity	**12.0%**
Terminal growth rate	2.00%

Source: SAC Advisors

We initiate coverage on ADGL with a BUY with a DCF backed target price of S$0.36, translating into a conservative 16.4x FY17E P/E with an expected 3.9% dividend yield for FY17 based on their last closing price. ADGL is currently in a net cash position, and has a large war chest, we believe ADGL is well-positioned to further grow their offerings in the near future.

In arriving at our target price, we used the capital asset pricing model to derive a cost of equity of 11.0% and applied an additional 1.0% liquidity discount to our cost of equity to derive an adjusted cost of equity of 12.0%. Applying a 2.0% terminal growth rate, we arrived at our target price of S$0.36, which represents a 29% upside to the last closing price.

We believe ADGL's resilient business model, large war chest and current valuation of 12.8x FY17 P/E is undemanding, we initiate with a BUY.

Income Statement (S$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Revenue	**44,794**	**50,909**	**60,627**	**69,280**	**79,202**
Cost of sales	(32,918)	(37,354)	(44,843)	(51,509)	(59,110)
Gross Profit	**11,876**	**13,555**	**15,784**	**17,771**	**20,092**
Other operating income	2,017	2,747	1,734	1,734	1,734
Administrative expenses	(8,915)	(12,896)	(12,732)	(13,994)	(15,523)
Operating Profit	**4,978**	**3,406**	**4,787**	**5,510**	**6,302**
Finance costs	(115)	(106)	(106)	(106)	(106)
Profit before tax	**4,863**	**3,300**	**4,681**	**5,404**	**6,196**
Income tax	(459)	(504)	(562)	(676)	(806)
Profit for the year/period	**4,404**	**2,796**	**4,119**	**4,729**	**5,391**
Profit attributable to owners of company	**4,369**	**2,675**	**3,958**	**4,553**	**5,181**

Cash Flow Statement (S$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profit before tax	**4,863**	**3,300**	**4,681**	**5,404**	**6,196**
Depreciation & amortisation	444	609	456	555	669
Change in working capital	(315)	359	3,904	(528)	(613)
Others	(482)	61	(456)	(570)	(700)
Net Cash (used in)/ from operations	**4,510**	**4,329**	**8,585**	**4,861**	**5,553**
Purchase of PPE	(213)	(484)	(642)	(718)	(821)
Acquisition of subsidiary	179	(4,772)	(1,705)	0	0
Net Cash (used in)/ from investing	**730**	**(5,226)**	**(2,347)**	**(718)**	**(821)**
Net change in equity	130	9,460	4,830	0	0
Net change in debt	203	(473)	0	0	0
Dividends paid	(4,395)	(2,606)	(1,859)	(2,378)	(2,683)
Net Cash (used in)/ from financing	**(4,419)**	**4,595**	**2,865**	**(2,484)**	**(2,789)**

Balance Sheet (S$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
As at 31 Dec					
Cash and bank balances	4,584	8,238	17,336	18,996	20,939
Trade and other receivables	7,266	11,088	10,895	11,653	12,517
Inventories	0	26	187	225	270
Other assets	0	0	1,521	2,363	3,274
Total current assets	**11,850**	**19,352**	**29,939**	**33,236**	**37,000**
Property, Plant and Equipment	587	1,488	1,674	1,837	1,988
Goodwill	33	2,306	2,655	2,655	2,655
Other non-current assets	122	2,258	2,258	2,258	2,258
Total non-current assets	**742**	**6,052**	**6,587**	**6,750**	**6,902**
Total assets	**12,592**	**25,404**	**36,570**	**40,030**	**43,945**
Bank borrowings	944	597	597	597	597
Trade and other payables	5,797	6,949	10,895	11,653	12,517
Other current liabilities	621	638	638	638	638
Total current liabilities	**7,362**	**8,184**	**12,130**	**12,888**	**13,752**
Total non-current liabilities	253	1,043	1,043	1,043	1,043
Total liabilities	**7,615**	**9,227**	**13,173**	**13,931**	**14,795**
Share Capital	1,405	13,562	18,392	18,392	18,392
Retained earnings	2,692	4,761	6,990	9,517	12,357
Capital reserve	813	(2,603)	(2,603)	(2,603)	(2,603)
Equity attributable to shareholders	**4,910**	**15,720**	**22,779**	**25,306**	**28,146**
Non-controlling interests	67	457	618	793	1,004
Total Equity	**4,977**	**16,177**	**23,397**	**26,099**	**29,150**
Total liabilities and equity	**12,592**	**25,404**	**36,570**	**40,030**	**43,945**

Ratios

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profitability (%)					
Operating profit margin	11.1%	6.7%	7.9%	8.0%	8.0%
Profit before tax margin	10.9%	6.5%	7.7%	7.8%	7.8%
Profit after tax margin	9.8%	5.3%	7.4%	7.3%	7.2%
Liquidity (x)					
Current ratio	1.2	2.0	1.9	2.1	2.4
Quick ratio	1.0	1.7	1.6	1.8	2.1
Interest coverage ratio	50.1	71.3	78.1	82.1	89.2
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	11.1	18.1	12.8	11.4	10.0
Core P/E	11.1	11.5	12.8	11.4	10.0
Core P/E at target price	13.9	14.2	16.4	14.7	12.9
P/B	10.4	3.2	2.2	2.0	1.8
EV/EBITDA	10.0	13.8	9.9	8.6	7.5
Cash Conversion Cycle					
Trade receivable days	43	53	53	53	53
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	7	9	9	9	9
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	n.m.	25.9%	20.7%	19.2%	19.8%
Return on capital employed	n.m.	25.2%	20.4%	19.0%	19.6%
Dividend payout ratio	N/A	50.0%	50.0%	50.0%	50.0%

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