

Advancer Global Limited

Date: 8 August 2017

BUY

**Target Price: S\$0.360
(+24%)**

ADGL SP

Price: S\$0.290 (as at 7 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\$53.9 million US\$39.2 million	
Current Price	S\$0.290	
Shares outstanding	185.7 million	
Free Float	26.1%	
Major shareholder	Chin Swee Siew Chin Mui Hiong	20.7% 20.0%
Recommendation of other brokers	N/A	

Source: Company data, Bloomberg, SAC Advisors

Analyst

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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

Facilities Management advances ahead

Outperformance on all metrics. Advancer Global Limited ("ADGL") reported 1H17 results that came ahead of our estimates on all metrics. Revenue for 1H17 came in 5.3% above our estimates with earnings attributable to owners of the company coming in at 58% of our full-year FY17 estimates.

Facilities Management is the strongest outperformer. 1H17 revenue increased by S\$8.7 million or 37.4% from S\$23.2 million in 1H16 to S\$31.9 million mainly due to an increase in revenue contribution from the Group's acquisitions, new cleaning services contracts and new security services contracts. The outperformer for 1H17 came from Facilities Management, which grew by 50.4% on a year-on-year ("y-y") basis.

An interim-dividend of 0.49 cent per share has been declared. The interim dividend declared is 40% higher than the 0.35 cents declared last year and represents about 38% of the weighted average earnings per share for the half year 2017.

Maintain Buy with a target price of S\$0.360. We have maintained our earning estimates and target price unchanged for now, pending our meeting with the management. Our DCF-backed target price of S\$0.360 represents a 16.4x FY17E P/E with an expected 3.9% dividend yield for FY17 based on their last closing price. We think ADGL's resilient business model and current valuation of 12.8x FY17E P/E is undemanding, we maintain Buy.

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

1H17 Financial Highlights

ADGL announced 1H17 results with revenue and net profit coming in 37.4% and 19.3% higher respectively on a y-y basis. The strong outperformance came from their Facilities Management business which registered strong top-line growth of 50.4%, about 5.3% above our estimates or S\$1.5 million.

Income Statement Highlights S\$'000	HY2017E	HY2017A	Comments
Revenue	30,314	31,921	Ahead due to strong performance in Facilities Management
Less: Cost of sales	(22,421)	(22,468)	
Gross Profit	7,892	9,453	Ahead due to stronger than expected Gross profit margins in Building Management and Security Services Business
Administrative expenses	6,366	7,612	Higher due to additional headcount and consolidation from the acquisition of subsidiaries
Operating Profit	2,394	2,654	Ahead. See comment on Gross profit.
Profit before income tax	2,341	2,599	Ahead.
Profit attributable to owners of Group	1,979	2,277	Ahead.
Earnings per share (basic and diluted)	1.10	1.29	Ahead.

We were pleasantly surprised to see the strong outperformance coming from the gross margins of their Building Management Business, which came in 7.1% higher on a y-y basis. This means that ADGL reported overall gross margins for 1H17 at 29.6%, which is 4.1% and 3.6% higher than that of 1H16 and our own estimates respectively.

The gross margin beat means that their operating profit and bottom-line also came in higher than our own estimates.

We maintain our Buy call with a S\$0.360 target price.

SAC Advisors Forecast Summary

Revenue by segment (S\$'000)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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 (%)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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 (%)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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**	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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 (%)	Fiscal Year Ended						
	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E
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%

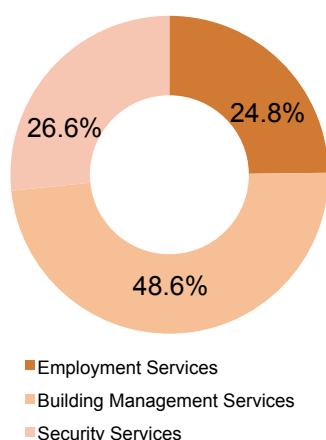
Source: Company data, SAC Advisors

* Profit attributable to owners of the Group

** In-house estimate

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	<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 Advisors

Income Statement (\$\$'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 (\$\$'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 (\$\$'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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