

# Advancer Global Limited

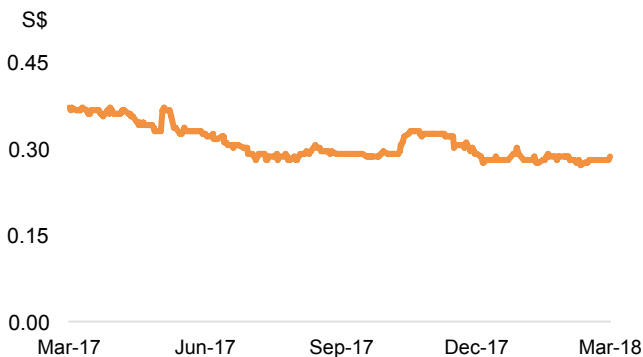
Date: 2 March 2018

**BUY**

**Target Price: S\$0.360  
(+26.3%)**

**ADGL SP**

**Price: S\$0.285** (as at 1 March 2018)



Share price	1M	3M	6M	1Y
Advancer Global	0.0%	0.0%	-7.1%	-20.8%
Catalist Index	0.6%	-4.0%	3.3%	8.3%

<b>Market capitalisation</b>	S\$52.9 million US\$39.2 million		
<b>Current Price</b>	S\$0.285		
<b>Shares outstanding</b>	185.7 million		
<b>Free Float</b>	26.1%		
<b>Major shareholder</b>	Chin Swee Siew Chin Mui Hiong	20.7% 20.0%	
<b>Recommendation of other brokers</b>	N/A		

Source: Company data, Bloomberg, SAC Advisors

## Analyst

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## FY17 results boosted by Facilities Management

**Revenue beat our estimates by 7.6% with gross margins also coming ahead of our estimates by 2.9%.** Advancer Global Limited ("ADGL", "Company", "Group") reported FY17 results that came ahead of our revenue and gross margin estimates. For the full year, revenue came in at S \$65.2 million, helped by an increase in the number of foreign domestic workers ("FDW") that the Group had placed out to households, an increase in service income from existing and new cleaning services contracts, and an increase in the aggregate service fees charged for on-going security projects. The higher than expected gross margin was a pleasant surprise and show that the Group's integration efforts remain well on track

**Higher administrative expenses arising from the acquisition of new businesses drag profitability.** During the year, the administrative expenses associated with the consolidation of acquired subsidiaries together with higher staff costs from the increased headcount to support corporate activities resulted in a 29.5% increase in administrative expenses. This coupled with a 51.9% decrease in other operating income for the year means that the profit came in lower than we had expected.

**A final dividend of 0.34 cent per share has been declared.** Together with the interim dividend of 0.49 cents per share declared earlier in the year, the full dividend payout would be approximately 50% of net profit, and 6.4% higher vs. FY16.

**Maintain Buy with a target price of S\$0.360.** We have kept 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 15x FY18E P/E with a 2.9% dividend yield for FY17 based on their last closing price. We maintain 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	FY2017A	FY2018E	FY2019E
<b>Revenue</b>	39,012	44,794	50,909	65,260	69,280	79,202
<b>% Growth</b>	N/A	14.8%	13.7%	28.2%	14.3%	14.3%
<b>Gross profit</b>	8,880	11,876	13,555	18,857	17,771	20,092
<b>Gross profit margin (%)</b>	22.8%	26.5%	26.6%	28.9%	25.7%	25.4%
<b>Profit before tax</b>	2,755	4,863	3,300	3,375	5,404	6,196
<b>Profit attributable to owners</b>	2,550	4,369	2,675	3,056	4,553	5,181
<b>% Growth</b>	-1.5%	71.3%	-38.8%	14.2%	15.1%	13.8%
<b>Profit after tax margin (%)</b>	6.5%	9.8%	5.3%	4.7%	7.3%	7.2%
<b>Basic EPS (S\$ cents)</b>	2.0	3.4	1.5	1.7	2.5	2.8
<b>Diluted EPS (S\$ cents)</b>				1.7	2.4	2.7
<b>P/E (x)</b>	19.0	11.1	18.1	16.8	11.4	10.0
<b>Net Debt/Equity</b>				Net Cash	Net Cash	Net Cash

N/A: Not applicable

## FY17 see growth in all business segments

ADGL announced FY17 results with revenue and net profit coming in 28.2% and 14.2% higher respectively on a y-y basis. The strong performance came from their Facilities Management business which registered strong top-line growth of 35.6% on a year-on-year basis, about 8.2% above our estimates of S\$48 million.

Income Statement Highlights S\$'000	FY2017E	FY2017A	Comments
Revenue	60,627	65,260	Ahead due to strong performance in Facilities Management
Less: Cost of sales	(44,843)	(46,403)	
<b>Gross Profit</b>	<b>15,784</b>	<b>18,857</b>	Ahead due to better pricing power in their building contracts
Administrative expenses	(12,732)	(16,701)	Higher due to additional headcount and consolidation from the acquisition of subsidiaries
Profit before income tax	4,681	3,375	Lower due to the higher administrative expenses and the lower contribution from other operating income.
<b>Profit attributable to owners of Group</b>	<b>3,958</b>	<b>3,056</b>	<b>Same as profit before income tax.</b>
<b>Earnings per share (basic and diluted)</b>	<b>2.20</b>	<b>1.69</b>	

Source: Company data, SAC Advisors

The stronger top-line growth came from all their business segments, with employment services also surprising on the upside. The Company attributed this to the increase in the number of FDW's being placed out for the year.

Revenue S\$'000	FY2017	FY2016	Yoy
Employment services	13,151	12,627	+4.1%
Business Management Services	37,135	24,753	+50.0%
Security Services	14,974	13,529	+10.7%
<b>Total</b>	<b>65,260</b>	<b>50,909</b>	<b>+28.2%</b>

Source: Company data, SAC Advisors

The Facilities management segment – which includes Business Management services and Security services – also saw an increase in revenue contribution from the Group's acquisition of, (a) 76% of the total issued and paid up capital of Newman & Goh Property Consultants Pte Ltd, Newman & Associate Pte Ltd, and the entire issued and paid-share capital of Premier, Prestige and Ashtree International Pte Ltd in the second half of FY2016, and (b) 76% of the total issued and paid up capital of Envirocare Landscape (S) Pte. Ltd. during the 2HFY17.

## FY17 Financial Highlights

An increase in service income from existing and new cleaning services contracts, though partially offset by the decrease in service income from stewarding services contracts; and an increase in the aggregate service fees charged for on-going security projects saw gross margins improve across the board for ADGL.

Gross Margin	FY2017	FY2016	Yoy
Employment services	46.7%	43.7%	+3.0%
Business Management Services	25.8%	24.4%	+1.4%
Security Services	20.8%	14.7%	+6.1%
<b>Total</b>	<b>28.9%</b>	<b>26.6%</b>	<b>+28.2%</b>

Source: Company data, SAC Advisors

The Group also revealed that the customer retention rates for its Building Management Business and its Security Services Business were 87.2% and 93.9% respectively. As at 31 December 2017, the Group has service contracts (with varying contract periods) amounting to approximately S\$3.6 million monthly from its facility management projects.

A final dividend of 0.34 cent per share has also been declared by the Group. Together with the interim dividend of 0.49 cents per share declared earlier in the year, the full dividend payout would be approximately 50% of net profit, which is 6.4% higher than FY16.

## Recent developments

### Advancer Global and TEE International formed strategic alliance

Mainboard listed TEE International Limited (“**TEE**” and together with its subsidiaries and associates, “**TEE Group**”), a regional Engineering, Real Estate and Infrastructure group, together with ADGL, jointly announced a landmark partnership in September 2017 that will allow for a strategic collaboration by leveraging on the expertise of both groups to pursue new business opportunities.

The strategic alliance brings together TEE Group’s established track record in providing integrated engineering services and its exposure to the real estate and infrastructure sectors, with Advancer Global Group’s integrated facilities management solutions and services platform, to provide a comprehensive and holistic suite of competence and cost effectiveness to customers.

The strategic alliance will focus on:

- (1) Exploring opportunities for joint tenders in contracts which require mechanical and electrical engineering works and facility management services;
- (2) Creating synergies by tapping on and leveraging off each other’s expertise, experience, track record, and manpower and technical resources and competencies; and
- (3) Jointly investing in facilities management projects in the Asia Pacific region with each partner providing value-added services to the projects.

## SAC Advisors Forecast Summary

Fiscal Year Ended							
Revenue by segment (S\$'000)	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
<b>Total Revenue</b>	<b>35,803</b>	<b>39,012</b>	<b>44,794</b>	<b>50,909</b>	<b>60,627</b>	<b>69,280</b>	<b>79,202</b>

Fiscal Year Ended							
Revenue % (Y-Y)	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%
<b>Total</b>		<b>9.0%</b>	<b>14.8%</b>	<b>13.7%</b>	<b>19.1%</b>	<b>14.3%</b>	<b>14.3%</b>

Fiscal Year Ended							
Revenue breakdown (%)	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%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Fiscal Year Ended							
Gross profit breakdown (S\$'000)	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
<b>Total</b>	<b>9,105</b>	<b>8,880</b>	<b>11,876</b>	<b>13,555</b>	<b>15,784</b>	<b>17,771</b>	<b>20,092</b>

Fiscal Year Ended							
Gross profit % (Y-Y)	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%
<b>Total</b>		<b>-2.5%</b>	<b>33.7%</b>	<b>14.1%</b>	<b>16.4%</b>	<b>12.6%</b>	<b>13.1%</b>

Fiscal Year Ended							
Gross profit margin (%)	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%
<b>Total</b>	<b>25.4%</b>	<b>22.8%</b>	<b>26.5%</b>	<b>26.6%</b>	<b>26.0%</b>	<b>25.7%</b>	<b>25.4%</b>

Fiscal Year Ended							
Operating profit**	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%
<b>Operating Profit (S\$'000)</b>	<b>3,022</b>	<b>2,849</b>	<b>4,978</b>	<b>3,406</b>	<b>4,787</b>	<b>5,510</b>	<b>6,302</b>

Fiscal Year Ended							
Profit (%) (Y-Y)	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%

Fiscal Year Ended							
Profit margin (%)	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%

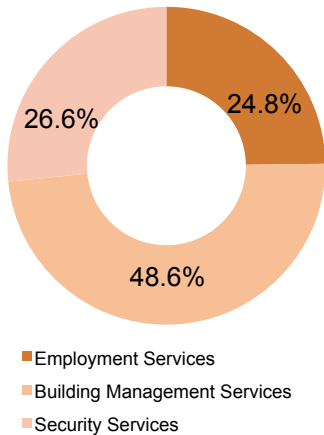
Source: Company data, SAC Advisors

\* 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
<b>Employment services</b>	<ul style="list-style-type: none"> <li>• Sourcing, recruiting, training and deployment of foreign workers and foreign domestic workers</li> </ul>
<b>Building management services</b>	<ul style="list-style-type: none"> <li>• Cleaning</li> <li>• Stewarding</li> <li>• Pest control</li> <li>• Property and facilities management services</li> </ul>
<b>Security services</b>	<ul style="list-style-type: none"> <li>• Security officers for events and premises</li> <li>• Security escort and bodyguard services</li> <li>• Consultation solution and services</li> <li>• Virtual guard and specialised IT solutions in security systems</li> </ul>

Source: Company data, SAC Advisors

**Income Statement (S\$'000)**

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

**Cash Flow Statement (S\$'000)**

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

**Balance Sheet (S\$'000)**

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
<b>As at 31 Dec</b>					
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
<b>Total current assets</b>	<b>11,850</b>	<b>19,352</b>	<b>29,939</b>	<b>33,236</b>	<b>37,000</b>
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
<b>Total non-current assets</b>	<b>742</b>	<b>6,052</b>	<b>6,587</b>	<b>6,750</b>	<b>6,902</b>
<b>Total assets</b>	<b>12,592</b>	<b>25,404</b>	<b>36,570</b>	<b>40,030</b>	<b>43,945</b>
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
<b>Total current liabilities</b>	<b>7,362</b>	<b>8,184</b>	<b>12,130</b>	<b>12,888</b>	<b>13,752</b>
Total non-current liabilities	253	1,043	1,043	1,043	1,043
<b>Total liabilities</b>	<b>7,615</b>	<b>9,227</b>	<b>13,173</b>	<b>13,931</b>	<b>14,795</b>
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)
<b>Equity attributable to shareholders</b>	<b>4,910</b>	<b>15,720</b>	<b>22,779</b>	<b>25,306</b>	<b>28,146</b>
Non-controlling interests	67	457	618	793	1,004
<b>Total Equity</b>	<b>4,977</b>	<b>16,177</b>	<b>23,397</b>	<b>26,099</b>	<b>29,150</b>
<b>Total liabilities and equity</b>	<b>12,592</b>	<b>25,404</b>	<b>36,570</b>	<b>40,030</b>	<b>43,945</b>

**Ratios**

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
<b>Profitability (%)</b>					
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%
<b>Liquidity (x)</b>					
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
<b>Valuation (x)</b>					
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
<b>Cash Conversion Cycle</b>					
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
<b>Returns</b>					
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%
<b>Dividend payout ratio</b>	<b>N/A</b>	<b>50.0%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>50.0%</b>

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