

Advancer Global Limited

Date: 20 March 2018

BUY

**Target Price: S\$0.360
(+33.3%)**

ADGL SP

Price: S\$0.270 (as at 19 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%

Market capitalisation	S\$50.1 million US\$37.1 million	
Current Price	S\$0.270	
Shares outstanding	185.7 million 6.25m warrants (ex price S\$0.45)	
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 Financials

Year ended December (S\$'000)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	44,794	50,909	65,260	74,484	85,336	97,008
% Growth	14.8%	13.7%	28.2%	14.1%	14.6%	13.7%
Gross profit	11,876	13,555	18,857	21,370	24,508	27,877
Gross profit margin (%)	26.5%	26.6%	28.9%	28.7%	28.7%	28.7%
Profit before tax	4,863	3,300	3,375	4,442	6,033	7,724
Profit attributable to owners	4,369	2,675	3,056	3,845	5,249	6,769
% Growth	71.3%	-38.8%	14.2%	25.8%	36.5%	29.0%
Profit after tax margin (%)	9.8%	5.3%	4.7%	5.2%	6.2%	7.0%
Basic EPS (S\$ cents)	3.4	1.5	1.7	2.1	2.8	3.7
Diluted EPS (S\$ cents)			1.7	2.0	2.7	3.5
P/E (ex-cash) (x)	9.0	14.7	13.4	10.9	8.0	6.2
Net Debt/Equity			Net Cash	Net Cash	Net Cash	Net Cash

N/A: Not applicable

Integrated Facilities Management platform taking shape

Revenue and gross profit beat in FY17 prompts our top-line upgrade. Advancer Global Limited's FY17 revenue and gross margin were ahead of our estimates. FY17 revenue rose 28.2% to S\$65.2 million, fuelled by higher placements of foreign domestic workers ("FDW") to households, increase service income from security and cleaning contracts, and contributions from the new acquisitions in 2H16 and 2H17. Gross margin improved to 28.9% as the acquisition of higher-margined facility management and high-end security services more than offset rising manpower costs at its existing businesses.

We upgraded our revenue projections by 7.5% and 7.7% for FY18E and FY19E respectively, as we expect cross-selling of services to its expanded customer base and further integration of the group's operations to show results from FY18.

FY18E profit to rise by 25.8%. FY17 pretax profit was flat due to higher administrative expenses (+39% to S\$16.7m), resulting from integration costs for the new acquisitions, and investment in technology to build a smart service platform. We expect these efforts to drive forward earnings growth - 25.8%, 36.5% and 29.0% increase in FY18E, FY19E and FY20E respectively.

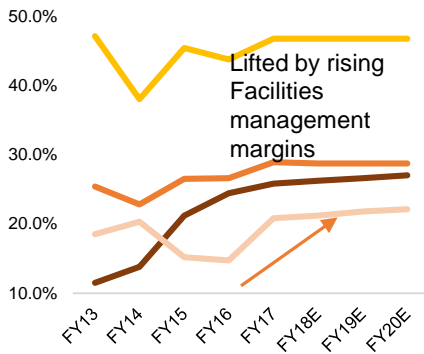
Maintain Buy with target price of S\$0.36. Our DCF-backed target price of S\$0.36 represents 15x and 11x FY18E and FY19E ex-cash P/E respectively. This is backed by a defensive business model and solid mergers and acquisition ("M&A") track record, leading to strong projected earnings growth. Its recent acquisition of a 20.1% stake in Chiang Kiong, which added waste management to its range of service offerings, is expected to be earnings accretive in the current year. ADGL has net cash of more than S\$8 million and delivers solid 3.8% and 5.1% dividend yield for FY18E and FY19E respectively. Maintain Buy.

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

Investments paying off for Group

The Group's strong top-line beat (please refer to our write-up on their FY17 beat [here](#)) prompted us to upgrade their revenue by 7.5% and 7.7% for FY18E and FY19E respectively. Consequently, we have also upgraded the Group's gross profit by 20.3% and 22.0% for FY18E and FY19E respectively. In our view, the Group's expanding gross margins is testament that the Group's investment in technological innovation especially in labour-intensive facilities management services and their continuous M&A activity to build their integrated facilities management platform is paying off for the Group.

Gross margin



Source: Company data, SAC Advisors

- Group Gross Margin
- Building Management Gross Margin
- Securities services Gross Margin
- Employment services Gross Margin

Moving forward, we believe there is more upside to their overall margins as management continues to invest in technology to address labour shortages and rising wages in this segment. We noted that during the management meeting with investors during the post FY17 results, the management team went at length to talk about their investments in technology to build a sticky integrated facilities management platform that can add value and save costs for their customers. And this is already paying off, during the last financial year 2017, the Group saw higher retention rates for the Building Management Business and Security Business at 87.2% and 93.9% respectively.

We have modeled in a slight expansion in their facilities management business' gross profit margin by 40 and 60 basis points for FY18E and FY19E respectively. As the Group continues to build up capability for the future however, we expect administrative expenses to increase, capping any meaningful upside in the Group's operating margins in the near-term.

Acquisition of Chiang Kiong Group further strengthens Facilities Management Platform

ADGL's acquisition of a 20.1% stake in Chiang Kiong Group – a commercial and industrial real estate management and recycling of metal waste and scrap - for S\$3.3 million further builds up the Group's Integrated Facilities Management platform.



Source: Company data

Acquisition of Chiang Kiong Group further strengthens Facilities Management Platform

ADGL has been on an acquisition trail since its listing in 2016 to add a range of facility management and security services capabilities to the group. ADGL is introducing an integrated platform to consolidate and manage the services, through the deployment of technology and smart solutions. The objectives are to achieve cost efficiencies, build customer loyalty and stickiness, and to raise its brand profile as a total solutions provider.

According to the management, the acquisition of Chiang Kiong will contribute meaningfully to their bottom-line for FY18E and FY19E. According to the Company's guidance, the integration of Chiang Kiong should add about 20% to their FY18 pretax profit.

ADGL's customer base in facility management are mainly the commercial and industrial building owners. Waste management is an essential part of the management of these buildings. Chiang Kiong's waste management solutions is the missing piece in ADGL's overall service offerings. We therefore expect the acquisition to increase the stickiness of their offerings, and raise the Group's bargaining power.

As evident from the FY17 results, service income from both existing and new cleaning service contracts rose. This more than offset the decline in income from stewarding services. ADGL reported better gross margins across the board, in particular at the high-end security services.

As at 31 December 2017, the Group has service contracts (with varying contract periods) on hand amounting to a monthly revenue of approximately S\$3.6 million from facility management projects.

A final dividend of 0.34 cent per share has 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, 6.4% higher than FY16.

Maintain Buy with a target price of S\$0.360. Our DCF-backed target price of S\$0.360 represents 15x and 11x FY18E and FY19E ex-cash P/E respectively, which we do not think is overly excessive given their defensive business and solid mergers and acquisition track record. ADGL is in a net cash position, with a war chest of more than S\$8 million in cash with a solid 3.8% and 5.1% dividend yield for FY18E and FY19E respectively. ADGL is currently trading at 11x FY18 ex-cash P/E which we see as undemanding. Maintain Buy.

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

Revenue by segment (S\$'000)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	11,632	12,818	12,627	13,151	13,151	13,414	13,615
Building Management	16,960	20,090	24,753	37,135	44,562	53,474	63,100
Security Services	10,420	11,886	13,529	14,974	16,771	18,448	20,293
Total Revenue	39,012	44,794	50,909	65,260	74,484	85,336	97,008

Revenue % (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	-4.3%	10.2%	-1.5%	4.1%	0.0%	2.0%	1.5%
Building Management	17.8%	18.5%	23.2%	50.0%	20.0%	20.0%	18.0%
Security Services	12.7%	14.1%	13.8%	10.7%	12.0%	10.0%	10.0%
Total	9.0%	14.8%	13.7%	28.2%	14.1%	14.6%	13.7%

Revenue breakdown (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	29.8%	28.6%	24.8%	20.2%	17.7%	15.7%	14.0%
Building Management	43.5%	44.8%	48.6%	56.9%	59.8%	62.7%	65.0%
Security Services	26.7%	26.5%	26.6%	22.9%	22.5%	21.6%	20.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Gross profit breakdown (S\$'000)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	4,417	5,819	5,523	6,139	6,139	6,262	6,356
Building Management	2,343	4,253	6,042	9,597	11,675	14,224	17,037
Security Services	2,120	1,804	1,990	3,121	3,555	4,022	4,485
Total	8,880	11,876	13,555	18,857	21,370	24,508	27,877

Gross profit % (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	-22.9%	31.7%	-5.1%	11.2%	0.0%	2.0%	1.5%
Building Management	41.1%	81.5%	42.1%	58.8%	21.7%	21.8%	19.8%
Security Services	23.8%	-14.9%	10.3%	56.8%	13.9%	13.1%	11.5%
Total	-2.5%	33.7%	14.1%	39.1%	13.3%	14.7%	13.7%

Gross profit margin (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Employment Services	38.0%	45.4%	43.7%	46.7%	46.7%	46.7%	46.7%
Building Management	13.8%	21.2%	24.4%	25.8%	26.2%	26.6%	27.0%
Security Services	20.3%	15.2%	14.7%	20.8%	21.2%	21.8%	22.1%
Total	22.8%	26.5%	26.6%	28.9%	28.7%	28.7%	28.7%

Operating profit**	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Operating Profit margin	7.3%	11.1%	6.7%	5.3%	5.2%	6.0%	7.1%
Operating Profit growth y-y	-5.7%	74.7%	-31.6%	2.1%	10.5%	41.4%	31.1%
Operating Profit (S\$'000)	2,849	4,978	3,406	3,476	3,840	5,430	7,121

Profit (%) (Y-Y)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	-5.4%	76.5%	-32.1%	2.3%	31.6%	35.8%	28.0%
Profit after tax*	-1.5%	71.3%	-38.8%	14.2%	25.8%	36.5%	29.0%

Profit margin (%)	Fiscal Year Ended						
	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	7.1%	10.9%	6.5%	5.2%	6.0%	7.1%	8.0%
Profit after tax*	6.5%	9.8%	5.3%	4.7%	5.2%	6.2%	7.0%

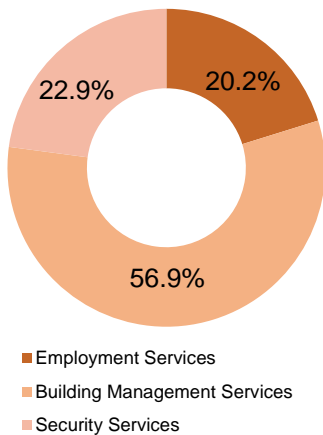
Source: Company data, SAC Advisors

* Profit attributable to owners of the Group

** In-house estimate

Company Background

Revenue Breakdown (FY2017)



Source: Company data, SAC Advisors

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- Its 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 (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	50,909	65,260	74,484	85,336	97,008
Cost of sales	(37,354)	(46,403)	(53,114)	(60,829)	(69,130)
Gross Profit	13,555	18,857	21,370	24,508	27,877
Other operating income	2,747	1,320	674	674	674
Administrative expenses	(12,896)	(16,701)	(18,204)	(19,751)	(21,430)
Operating Profit	3,406	3,476	3,840	5,430	7,121
Share of profit from JV	0	0	704	704	704
Finance costs	(106)	(101)	(101)	(101)	(101)
Profit before tax	3,300	3,375	4,442	6,033	7,724
Income tax	(504)	(262)	(422)	(573)	(734)
Profit for the year/period	2,796	3,113	4,020	5,460	6,990
Profit attributable to owners of company	2,675	3,056	3,845	5,249	6,769

Balance Sheet (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
As at 31 Dec					
Cash and bank balances	8,238	8,033	10,676	13,455	17,145
Trade and other receivables	11,088	16,622	17,453	18,326	19,242
Inventories	26	38	46	55	66
Other assets	0	0	674	594	453
Total current assets	19,352	24,693	28,849	32,429	36,840
Property, Plant and Equipment	1,488	2,511	2,637	2,768	2,907
Goodwill on consol.	5,343 ⁽¹⁾	5,489	5,489	5,489	5,489
Other non-current assets	2,258	1,698	1,698	1,698	1,698
Total non-current assets	9,089	9,698	9,824	9,955	10,094
Total assets	28,441	34,391	38,716	42,428	46,978
Bank borrowings	597	630	630	630	630
Trade and other payables	9,986	9,608	11,836	12,713	13,657
Other current liabilities	638	635	635	635	635
Total current liabilities	11,221	10,873	13,101	13,978	14,922
Total non-current liabilities	1,043	1,453	1,453	1,453	1,453
Total liabilities	12,264	12,326	14,554	15,431	16,375
Share Capital	13,562	18,378	18,378	18,378	18,378
Retained earnings	4,761	6,163	8,085	10,710	14,095
Capital reserve	(2,603)	(2,920)	(2,920)	(2,920)	(2,920)
Equity attributable to shareholders	15,720	21,621	23,543	26,168	29,553
Non-controlling interests	457	444	619	829	1,050
Total Equity	16,177	22,065	24,163	26,998	30,603
Total liabilities and equity	28,441	34,391	38,716	42,428	46,978

(1) Restated to adjust the goodwill in relation to the acquisition of Premier Eco-Care, Prestige Enviro-care, and Green Management in October 2016

Cash Flow Statement (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profit before tax	3,300	3,375	4,442	6,033	7,724
Depreciation & amortisation	609	1,155	555	669	802
Change in working capital	359	(1,466)	1,389	(5)	82
Others	61	(150)	(321)	(472)	(633)
Net Cash (used in)/ from operations	4,329	2,914	6,065	6,225	7,975
Purchase of PPE	(484)	(886)	(975)	(1,072)	(1,179)
Acquisition of subsidiary	(4,772)	(1,152)	(553)	0	0
Net Cash (used in)/ from investing	(5,226)	(6,002)	(1,528)	(1,072)	(1,179)
Net change in equity	9,460	5,000	0	0	0
Net change in debt	(473)	(181)	0	0	0
Dividends paid	(2,606)	(1,654)	(1,788)	(2,274)	(3,005)
Net Cash (used in)/ from financing	4,595	2,883	(1,889)	(2,375)	(3,106)

Ratios

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profitability (%)					
Operating profit margin	6.7%	5.3%	5.2%	6.4%	7.3%
Profit before tax margin	6.1%	5.2%	6.0%	7.1%	8.0%
Profit after tax margin	5.3%	4.7%	5.2%	6.2%	7.0%
Liquidity (x)					
Current ratio	1.7	2.3	2.2	2.3	2.5
Quick ratio	1.7	2.3	2.2	2.3	2.5
Interest coverage ratio	32.1	34.4	38.0	53.8	70.5
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	17.5	15.9	13.0	9.6	7.4
Core P/E at target price	23.3	21.3	17.4	12.7	9.9
P/E (ex-cash) at target price	20.5	18.7	15.3	11.2	8.7
P/B	3.1	2.3	2.1	1.9	1.6
EV/EBITDA	13.3	12.7	11.4	8.2	6.3
Cash Conversion Cycle					
Trade receivable days	53	53	53	53	53
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	9	9	9	9	9
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	25.9%	16.4%	17.0%	21.1%	24.3%
Return on capital employed	25.2%	15.8%	16.3%	20.3%	23.5%
Dividend payout ratio	50.0%	50.0%	50.0%	50.0%	50.0%

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Nil	Nil

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