

Advancer Global Limited

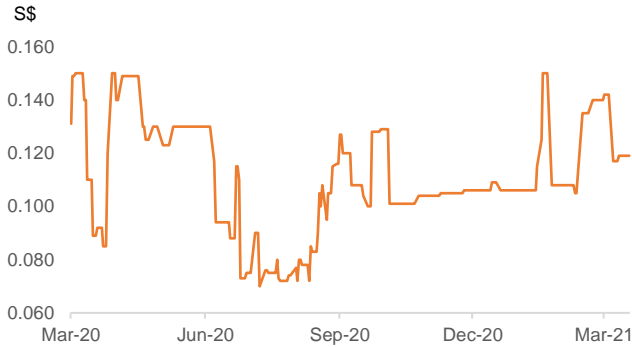
Date: 22 March 2021

BUY

ADGL SP

Price: S\$0.119 (as at 19 March 2021)

Target Price: S\$0.134
(+12.6%)



Share price	1M	3M	6M	1Y
Advancer Global	-11.9%	+13.3%	+13.3%	+33.7%
Catalist Index	-0.5%	+14.9%	+3.0%	+79.9%

Market capitalisation	S\$29.9 million		
Current Price	S\$0.119		
Shares outstanding	251.2 million		
Free Float	17.9%		
Major shareholder	Fullcast Holdings 25.9% Chin Swee Siew 15.2% Chin Mui Hong 15.0% Chin Mei Yang 12.3% Ong Eng Tiang 8.0%		
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Advisors

Analyst

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FY20 Profit Held Up By Government Grant

COVID dented revenue by 20.5%. Revenue fell 20.5% to S\$56.4m, with the biggest hit at the employment services (-58%) as border closure limited the arrivals of foreign workers. The absence of tourists, mobility restrictions and work-from-home trend also lowered revenue from building management (-18%) for residential, commercial, hotels and restaurants. Only security services managed a small decline of 1% with continued need for entry/exit controls.

Net profit held up by government grant. The company received S\$9.3m in government grant and credit scheme. It also received rental rebate from landlords. These helped to lift net profit to S\$5.0m compared with S\$0.4m in FY2019, without which, we estimate it would report net loss of ~S\$4m.

On M&A trail to deepen industry reach & footprint.

Advancer Global continues to pursue inorganic growth through mergers and acquisitions to deepen its industry and geographical reach. Since our last update, Advancer Global had completed three acquisitions to expand the building management business and its product offering.

Maintain Buy at target price of S\$0.134. Share price is backed by net cash of S\$27m (S\$0.108 per share). It is trading at 0.6x book and 7x FY21E PE ex cash. We maintain our earnings estimates at S\$0.4 million for both FY21E and FY22E, factoring in absence of government grant, and a gradual recovery in economic activities lifting demand for building management and security services, but slower pickup in employment services as the source countries are coping with lockdowns. With high operating leverage, higher revenue flows directly to the bottomline.

Key risks: Changes in regulations at source countries, ability to execute M&A at attractive valuations.

Key Financials

Year ended December	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue (S\$'000)	65,260	67,283	70,944	56,391	71,500	74,745
Growth (%)	28.2%	3.1%	5.4%	-20.5%	5.5%	6.0%
Gross profit (S\$'000)	18,857	17,283	17,061	12,873	16,886	17,628
Gross margin (%)	28.9%	25.7%	24.0%	22.8%	23.6%	23.6%
Profit before tax (S\$'000)	3,375	1,516	562	4,951	487	494
Net profit (S\$'000)	3,056	1,336	471	4,525	418	424
Growth (%)	14.2%	-56.3%	-64.7%	860.7%	-84.1%	1.5%
Net margin (%)	4.8%	2.1%	0.6%	8.8%	0.6%	0.6%
Basic EPS (S\$ cents)	1.69	0.64	0.19	1.80	0.17	0.17
P/E (ex-cash) (x)	0.5	1.4	4.8	0.5	5.5	5.4
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

FY20 Profit Held Up By Government Grant

Revenue Breakdown

Revenue breakdown (\$m)	FY20	FY19
Employment Services	5.6	13.2
Building Management	30.7	37.5
Security Services	20.1	20.3
Total	56.4	70.9

Source: Company data, SAC Capital

Gross Profit Breakdown

Gross Profit (\$m)	FY20	FY19
Employment Services	2.6	5.6
Building Management	7.2	8.4
Security Services	3.1	3.0
Total	12.9	17.1

Source: Company data, SAC Capital

Revenue impacted by COVID-19 outbreak. Revenue fell S\$14.6 million or 20.5% to S\$56.4 million in FY2020. The employment services business placed out fewer foreign domestic workers to households in Singapore as a result of worldwide travel controls which restricted their entry into Singapore. The Group closed 4 out of 6 branches.

The building management business faced a drop in service income across residential, commercial properties, hotels and restaurants while the security services business saw a marginal drop in service income from security projects at Changi airport, shipyard, schools and commercial properties due to COVID-19.

Net profit lifted by other operating income. In line with the fall in revenue, cost of sales fell by S\$10.4 million or 19.2% to S\$43.5 million while gross profit decreased by S\$4.2 million or 24.5% to S\$12.9 million for the year mainly due to the decrease in gross profit from employment services business and building management business. The Group's overall gross margin decreased 1.2 percentage point from 24.0% to 22.8%.

Earnings, however, were held up by an increase in other operating income, which rose by S\$8.6 million to S\$10.0 million in FY2020. The rise was mainly contributed by an increase in government grant and credit scheme, including Wage Credit Scheme, Jobs Support Scheme and rental rebate from landlords as a result of property tax remission, amounting to S\$9.3 million for FY2020 as compared to S\$0.9 million from a year ago. Overall, the Group recorded net profit of S\$5.0 million for the year as compared to S\$0.4 million in FY2019. The Group declared a final one-tier dividend of 0.79 Singapore cent per share for FY2020. Together with the interim dividend of 0.59 Singapore cent per share, the aggregate full year dividend stood at 1.38 Singapore cents per share for FY2020.

Execution of its M&A strategy. In line with its strategy to grow inorganically through mergers and acquisitions and to penetrate new markets via joint ventures, Advancer Global had successfully completed three acquisitions since our last update. These deals include:

- 1) a 82% stake in SRE Global Pte. Ltd., a company which provide property management, valuation and consultancy services as well as property agency services in Asia;
- 2) a 15% stake in Zhe Jiang Zhi Wu Hui Yun Technology Co. Ltd., a China-incorporated company which sells and installs Smart Toilet System and Internet of Things products backed by its self-developed online platforms; and
- 3) A 100% stake in property management service provider PropNex Management Consultants Pte. Ltd..

All three investment were made in an effort to expand the Group's building management business and to create synergistic value with the Group's existing services.

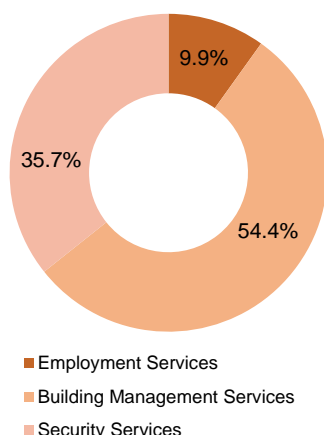
FY20 Profit Held Up By Government Grant

Maintain Buy at target price of S\$0.134 per share. We have maintained our earnings estimates at S\$0.4 million for both FY21E and FY22E, factoring in absence of government grant, and a gradual recovery in economic activities lifting demand for building management and security services, but slower pickup in employment services as the source countries are coping with lockdowns. Due to high level of operating leverage in its business, higher order flows can potentially lift the Group's margins and earnings.

Through its recent acquisitions, Advancer Global has shown that it is on a constant lookout to acquire M&A targets to broaden its service offerings and extend into new markets. With net cash of S\$27.0m (56.6% of net assets), the Group has sufficient war-chest to pursue acquisition targets and to continue its inorganic growth strategy.

Company Background

Revenue Breakdown
(FY2020)



Source: Company data, SAC Capital

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- There are 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 and foreign workers.
 - (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 Capital

Income Statement (S\$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
Revenue	67,283	70,944	56,391	71,500	74,745
Cost of sales	(50,000)	(53,883)	(43,518)	(54,614)	(57,117)
Gross Profit	17,283	17,061	12,873	16,886	17,628
Other operating income	1,668	1,448	10,030	1,559	1,630
Administrative expenses	(17,438)	(17,708)	(17,714)	(17,868)	(18,679)
Operating Profit	1,513	801	5,189	578	580
Share of profit from JV	76	(98)	(98)	50	55
Finance costs	(73)	(141)	(140)	(141)	(141)
Profit before tax	1,516	562	4,951	487	494
Income tax	(121)	(125)	36	(61)	(62)
Profit for the year/period	1,395	437	4,987	426	432
Profit attributable to owners of company	1,336	471	4,525	418	424

Cash Flow Statement (S\$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
Profit before tax	1,516	562	4,951	487	494
Depreciation & amortisation	1,237	2,404	2,493	2,610	2,943
Change in working capital	(591)	(378)	(602)	(2,458)	(509)
Others	138	131	9	30	24
Net Cash (used in)/ from operations	2,300	2,719	6,851	668	2,952
Purchase of PPE	(732)	(648)	(460)	(3,397)	(3,631)
Others	(3183)	(461)	(865)	-	-
Net Cash (used in)/ from investing	(3,915)	(1,109)	(1,325)	(3,397)	(3,631)
Net change in equity	21,516	-	(9)	-	-
Net change in debt	(1,012)	(1,444)	(1,854)	(141)	(141)
Dividends paid	(458)	(521)	(1,697)	(269)	(271)
Net Cash (used in)/ from financing	19,588	(1,965)	(3,560)	(410)	(412)

Balance Sheet (S\$'000)

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
As at 31 Dec					
Cash and bank balances	26,006	25,651	27,617	26,356	25,265
Trade and other receivables	17,463	17,632	18,659	17,685	18,488
Inventories	547	947	1,047	757	792
Other assets	0	0	1,007	0	0
Total current assets	44,016	44,230	48,330	44,798	44,544
Property, Plant and Equipment	2,645	2,379	2,296	3,290	3,834
Goodwill on consol.	5,489	5,585	5,440	5,585	5,585
Investment in associate	78	494	396	464	519
Other non-current assets	1,031	3,591	3,656	3,943	4,087
Total non-current assets	9,243	12,049	11,788	13,282	14,025
Total assets	53,259	56,279	60,118	58,080	58,569
Bank borrowings	24	29	30	29	29
Trade and other payables	6,869	7,261	8,205	7,161	7,489
Other current liabilities	1,012	2,335	2,351	2,335	2,335
Total current liabilities	7,905	9,625	10,586	9,525	9,853
Total non-current liabilities	1,244	2,489	1,814	2,489	2,489
Total liabilities	9,149	12,114	12,400	12,014	12,342
Share Capital	40,607	40,607	40,607	40,607	40,607
Retained earnings	6,237	6,331	9,375	8,464	8,761
Treasury shares	(223)	(223)	(232)	(223)	(223)
Capital reserve	(2,870)	(2,850)	(2,830)	(2,850)	(2,850)
Equity attributable to shareholders	43,751	43,865	46,920	45,998	46,295
Non-controlling interests	359	300	798	69	(67)

Ratios

	Fiscal Year Ended 31 December				
	2018	2019	2020	2021F	2022F
Profitability (%)					
Operating profit margin	2.2%	1.1%	9.2%	0.8%	0.8%
Profit before tax margin	2.3%	0.8%	8.8%	0.7%	0.7%
Profit after tax margin	2.1%	0.6%	8.8%	0.6%	0.6%
Liquidity (x)					
Current ratio	5.6	4.6	4.6	4.7	4.5
Quick ratio	5.5	4.5	4.5	4.6	4.4
Interest coverage ratio	20.7	5.7	37.1	4.1	4.1
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	18.6	62.6	6.6	71.6	70.5
P/E (ex-cash)	1.4	4.8	0.5	5.5	5.4
P/B	0.7	0.7	0.6	0.6	0.6
Returns					
Return on equity	4.1%	1.1%	10.0%	0.9%	0.9%
Return on asset	3.0%	0.9%	7.8%	0.7%	0.7%
Dividend payout ratio	62.5%	0.0%	76.7%	30.0%	30.0%

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