

# Nippecraft Ltd

28 Jun 2021

## Non-Rated

BBG	NIP SP
Market cap	S\$15.5m
Price (25 Jun 2021)	S\$0.044
52-week range	S\$0.023 – S\$0.057
Target Price	Non-rated
Shares Outstanding	351.4m
Free Float	36%
Major Shareholder	Asia Pulp & Paper 49% Upwood Investments Ltd 15%
P/BV (12/20)	0.38x
Net Debt to EBITDA (12/20)	Zero debt

Source: Company data, Bloomberg, SAC Capital

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## Brand and cash value ignored

**Nippecraft is trading at 0.4x P/B and 0.6x net cash of S\$0.069/share.** FY20 was marginally profitable. ROIC of 3.3% is a turnaround from 2 years of negative returns, due to reduced losses from stationery and higher share from the profitable pulp trading. It booked US\$0.6m in job support.

Balance sheet has net cash of US\$18m that helps to secure trade finance credit needed for the trading business. Due to the cash holdings, EV is negative US\$6.6m.

**Stationery sales, under its brands Collins and Debden, fell by an average 11.9% over the last 5 years,** and the business has been in the red. In FY20, it fell by a smaller 6.6% to US\$14.7m, and incurred a smaller EBIT loss of US\$1.4m, or EBIT margin of -9.5%. The challenges include: 1) a structural shift in demand. Digital devices are taking over pen and paper; and 2) increasing share of e-commerce, further exacerbated by Covid.

**Trading in pulp products forms the bulk of revenue (~90%) and held up the bottomline.** The customers are pulp producers, traders and paper product manufacturers. The contracts are back-to-back, and Nippecraft does not hold open position on price or quantity. EBIT margin was 1.5% in FY20. ~50% of trades are booked with related companies under APP group.

**The potential earnings catalysts** are: 1) It plans to launch new lifestyle products under its established brands and to expand its e-commerce footprints. It has also refined its purchasing process to lower costs; 2) The rise in e-commerce is fueling demand for corrugated carton boxes and packaging materials. Due to environmental concerns, China has reduced the import and recycling of scrap paper, lifting pulp demand.

YE 31 Dec (US\$m)	FY16A	FY17A	FY18A	FY19A	FY20A
Revenue	114.6	125.8	115.0	120.6	143.0
EBIT	(1.7)	0.5	(0.3)	(0.1)	0.5
Net profit	(2.0)	0.0	(0.6)	(0.9)	0.1
EPS (US cents)	(0.6)	0.0	(0.2)	(0.2)	0.0
DPS (US cents)	-	-	-	-	-
Net cash / (debt)	16.4	11.6	15.0	14.1	18.2
<b>Valuation</b>					
EBIT margin (%)	(1.5)	0.4	(0.2)	(0.1)	0.4
ROIC (%)	(11.0)	1.8	(0.7)	(1.2)	3.3
EV/EBITDA (x)	4.1	(0.0)	(13.9)	(4.9)	(8.5)
P/E (x)	-	726.6	-	-	197.0
Dividend yield (%)	-	-	-	-	-

## Investment Summary

Nippecraft was marginally profitable at US\$0.06m in FY20. ROIC of 3.3% was a turnaround from two years of negative return. This was attributed to reduced losses at stationery sales and a higher share of the profitable pulp trading operations. That said, it also enjoyed US\$0.6m in Covid-related job support from the government.

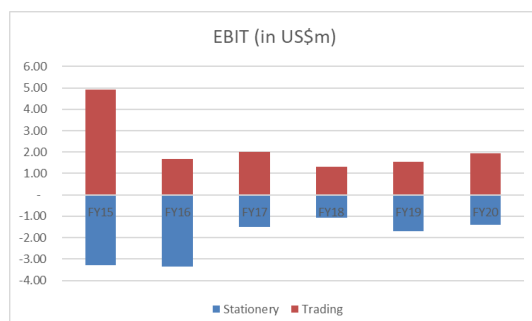
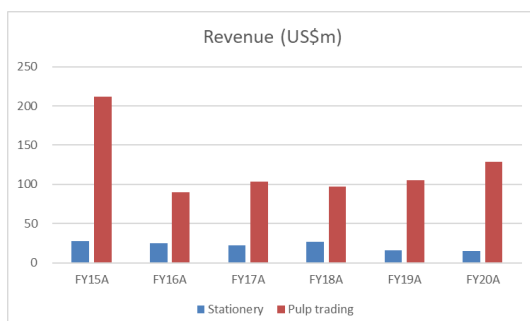
Balance sheet has net cash of US\$18m that facilitates the trading business through its ability to secure trade finance lines. Accounts receivable days have risen to 81 days (FY19: 75 days) but is still manageable at 22% of sales. Due to the cash holdings, EV is negative US\$7.9m.

### Stationery

Nippecraft develops and markets writing materials and lifestyle products under its brands Collins and Debden. Collins is a leading stationery brand in the UK and Australia that dates back to early 1800's in the UK. Debden was introduced into Australia and New Zealand in 1978. The products are sold through a network of distributors and wholesalers, B2B channel serving corporate clients and e-commerce sites. The key markets are UK and Australia. Sale of diaries and planners to corporate clients and retail channels is a key component of revenue.

### Pulp Trading

Trading in pulp products forms the bulk of revenue (~90%). The customers are pulp producers, traders and paper product manufacturers. The contracts are back-to-back, and Nippecraft does not hold open position on price or quantity. Net cash of US\$18m in its balance sheet enables it to secure trade finance credit for the trading business. About 50% of trades are booked with related companies under the Asia Pulp & Paper Group. As these contracts are lumpy, one third-party Malaysian customer accounted for 23% and another HK customer 12.7% of turnover in FY20.



### Operational performance

Stationery sales fell by an average 11.9% over the last 5 years, and the business has been in the red. In FY20, it fell by a smaller 6.6% to US\$14.7m, and incurred a smaller EBIT loss of US\$1.4m, or EBIT margin of -9.5%. The pulp trading earns an EBIT margin of 1.5% and have been profitable.

Core stationery business faces challenges from 1) a structural shift in demand. Digital devices are taking over pen and paper. Consumers are pivoting to online applications for record keeping, diaries and planners, which are Nippecraft's bread and butter product; and 2) increasing share of online transactions. Online e-commerce platforms are gaining share from mall owners, brick and mortar retailers and bookshops, which are Nippecraft's traditional sales channels.

## Investment Summary

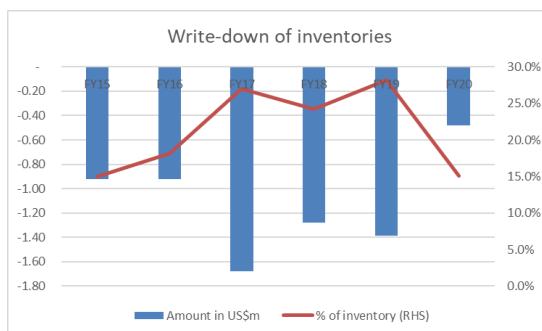
Other global players are facing similar shifts in consumption trends. Moleskine, the global brand for notebooks and journals held under listed D'leteren Group, reported 37.6% decline in FY20 sales to €102.3m, due to closure of own and customers' retail branches and lower corporate spending, partially offset by growth in e-commerce and online wholesale channels. Adjusted operating loss was €1.5m (FY19: profit €18.9m).

To address these, Nippecraft intends to expand its e-commerce footprint on its websites and those of third parties. It also plans to expand product portfolio to include lifestyle products and marketed under its brands.

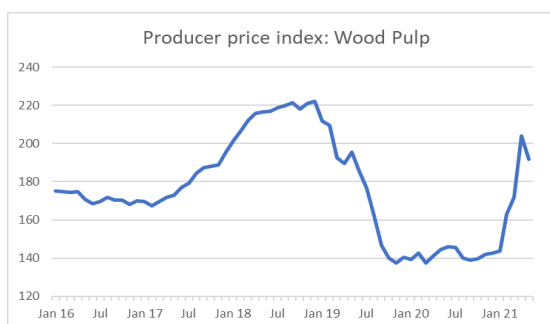
UK has begun its reopening progressively after a prolonged lockdown that has hurt consumer spending. Although the end of restrictions is postponed by four weeks, initially planned for 21 Jun, the economy is expected to rebound from Q2. Australia's business conditions have improved with jobless rates down to a 17-month low of 5.1% in May. The economic recovery will underpin demand for consumer discretionary.

On the cost front, management is refining its procurement strategy. The current practice is to place bulk orders with suppliers one year ahead of delivery so as to enjoy lower prices. The quantity ordered are based on internal estimates of the expected demand. Actual orders from customers and retailers are only received about 3 to 6 months before delivery. Nippecraft therefore faces the risk of over- or under-ordering, especially for diaries and planners.

To mitigate this, the company intends to place smaller and more frequent orders with greater visibility of customers' demand. It will also shorten the delivery lead-time from production to delivery to the sales channel. While this might raise the cost of production, increased demand certainty will cut down on inventory obsolescence.



The rise in e-commerce has fuelled demand for corrugated carton boxes and packaging materials. Due to environmental concerns, China has reduced the import and recycling of scrap paper, further lifting demand for pulp.



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