

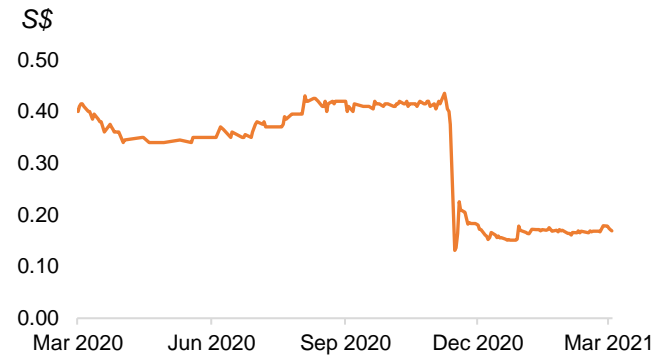
Starburst Holdings Limited

Date: 5 March 2021

Non-Rated

Starburst Holdings Limited (40D.SI)

Price: S\$0.169 (as at 4 March 2021)



Share price	1M	3M	6M	1Y
Starburst Holdings	+5.0%	-1.2%	-58.8%	-59.3%
Catalist Index	-3.3%	+3.1%	+2.2%	+30.6%

Market Capitalisation	S\$42.0 million		
Current Price	S\$0.169		
Shares Outstanding	248.4 million		
Free Float	30.3%		
Major Shareholder	Lim Chin Wah	35.8%	
	Yap Tin Foo	33.9%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Capital

Analyst

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Profit shot into the black

A profitable FY2020. Revenue surged 135.5% from S\$9.2 million in FY2019 to S\$21.8 million in FY2020. The increase was derived from two tactical training mock-up projects and a firearm shooting range project in Southeast Asia, and a firearm shooting range project in the Middle East. Bottomline turned around from a net loss of S\$2.4 million in FY2019 to net profit of S\$9.1 million in FY2020. Gross profit margin rose from 46.5% in FY2019 to 55.0% in FY2020.

New projects secured. New projects secured include 1) a S\$7.9 million firearm shooting range project, 2) a S\$6.4 million contract for a shooting range training facility in Southeast Asia, and 3) two contracts totalling S\$9.7 million for maintenance services works. All 3 projects will add to the topline in 1HFY21. Net profit from recurring revenue increased 22.2% yoy from S\$4.1 million in FY2019 to S\$5.0 million in FY2020. The Group aims to expand its portfolio of maintenance service contracts and grow its recurring revenue base by working with the relevant authorities.

Global defense spending hit record levels in 2020 amid Covid-19. The defense sector thrived during this uncertain period with heightened tensions between countries. According to IISS, global military spending in 2020 increased by 3.9% YoY to US\$1.83 trillion, on top of the 4% yoy growth seen in 2019. Military spending is expected to continue growing at CAGR of about 3% until 2023 to reach US\$2.1 trillion. In the ASEAN region, total defense spending has doubled over the last 15 years. Similarly in the Middle East, ongoing geopolitical tensions and violence remains rampant with increased terrorist activity and intensification of conflicts. While tensions drive defense spending and potentially higher demand for training facilities, political instability may cause project delays which raise operating costs.

Key risks: Near term contract expiry, political instability in key markets. Key management staff are under investigation by the authorities.

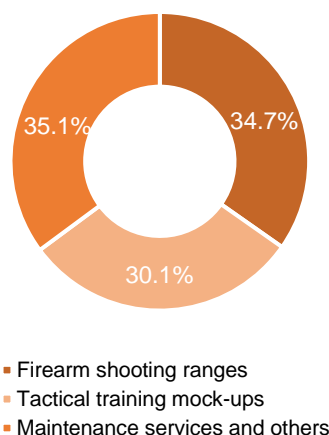
Key Financials

Year ended 31 December	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue (S\$'000)	18,301	15,876	7,151	9,244	21,772
% Growth	14.8%	-13.3%	-55.0%	29.3%	135.5%
Profit/(loss) before tax (S\$'000)	(10,714)	146	(4,227)	(2,362)	6,734
Profit/(loss) before tax margin	-58.5%	0.9%	-59.1%	-25.6%	30.9%
Profit/(loss) attributable to owners (S\$'000)	(11,715)	139	(4,244)	(2,384)	9,133
Basic EPS (Singapore cents)	(4.69)	0.06	(1.74)	(0.98)	3.73
Diluted EPS (Singapore cents)	(4.69)	0.05	(1.59)	(0.91)*	3.48
P/E (x)	(3.6)	301.9	(9.9)	(17.6)	4.6
P/B (x)	1.2	1.3	1.7	1.9	1.3
Net Debt/Equity (%)	40.5%	6.5%	18.8%	32.0%	21.7%

Singapore Financial Reporting Standards (International) ("SFRS(I)") SFRS 16 has been implemented by Starburst in FY2018. While SFRS(I) 16 Leases only came into effect for the financial year beginning on or after January 1, 2019, the Group had decided to undergo an early adoption.

Investment Highlights

FY2020 Revenue



Source: Company Data, SAC Capital

Business Overview:

Starburst Holdings Limited is a Singapore-based engineering group specialising in the design and engineering of firearms-training facilities. It is in the niche business of design, fabrication, installation and maintenance of anti-ricochet ballistic protection systems for firearm shooting ranges and tactical training mock-ups in Southeast Asia and the Middle East. The Group operates in three segments: Firearm Shooting Ranges, Tactical Training Mock-ups and Maintenance Services and Other Activities.

A profitable FY2020

Starburst saw a 135.5% increase in revenue from S\$9.2 million in FY2019 to S\$21.8 million in FY2020. The increase in revenue was mainly derived from two tactical training mock-up projects and a firearm shooting range project in Southeast Asia, and a firearm shooting range project in the Middle East. Starburst turned the net loss of S\$2.4 million in FY2019 around, to see positive profit of S\$9.1 million in FY2020. Gross profit margin increased from 46.5% in FY2019 to 55.0% in FY2020.

Firearm shooting ranges and tactical training mock-ups segments which make up project-basis revenue add up to 69.8% of total FY2020 revenue. Recurring revenue, which consists of the maintenance and other services segment make up 30.1% of the total FY2020 revenue. Net profit from recurring revenue increased 22.2% yoy from S\$4.1 million in FY2019 to S\$5.0 million in FY2020. The Group aims to expand its portfolio of maintenance service contracts and grow its recurring revenue base by working with the relevant authorities.

New projects secured

In December 2020, Starburst announced the award of a S\$7.9 million contract for the design, supply, installation, testing and commissioning of an indoor and outdoor shooting ranges training facility in the Middle East. The contract commenced in December 2020 and is scheduled to be completed by November 2022.

The second project, announced in February 2021 is for the award of a S\$6.4 million contract for the design and build of an indoor shooting range training facility in Southeast Asia. The contract is scheduled to commence in February 2021 and to be completed by April 2022.

The third project, announced in February 2021 is for the award of two contracts aggregating to a value of S\$9.7 million for maintenance services works, which have a base contract period of 3 years with an option to renew for another 3 years, ending December 2026 and February 2027 respectively.

Other projects previously secured that will add to revenue in 1HFY21 include:

- A S\$40.9 million contract involving design, supply, delivery and installation of a firearms training facility in Southeast Asia, which is scheduled to be completed by February 2022.
- A S\$13.1 million contract involving the upgrading of a tactical training mock-up facility in Southeast Asia, which is scheduled to be completed by July 2021.
- A S\$5.1 million to design, supply and install ballistic protection works for a Specialist Shooting Range and associated works in the Middle East, which is scheduled to be completed by June 2021.

Investment Highlights

Global defense spending hit record levels in 2020 amid Covid-19

The defense sector thrived during this uncertain period with heightened tensions between countries. According to IISS, global military spending in 2020 increased by 3.9% YoY to US\$1.83 trillion, on top of the 4% yoy growth seen in 2019. Military spending is expected to continue growing at CAGR of about 3% until 2023 to reach US\$2.1 trillion. In the ASEAN region, total defense spending has doubled over the last 15 years. Similarly in the Middle East, ongoing geopolitical tensions and violence remains rampant with increased terrorist activity and intensification of conflicts. While tensions drive defense spending and potentially higher demand for training facilities, political instability may cause project delays which raise operating costs.

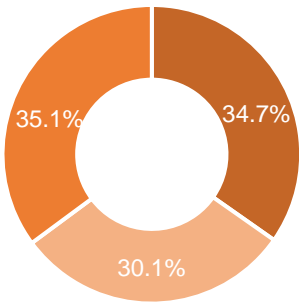
Starburst seeks to capture growing opportunities in Southeast Asia and the Middle East to further solidify its position in the region's defense sector. The Group has been actively responding to the growing demand for military equipment by designing and engineering customised training solutions. Growth drivers of defense spending in Southeast Asia include modernisation programs to include more dynamic training, protection against attacks on sea-ports, airports and government buildings, and overall higher investment in critical infrastructures.

Political instability, specifically in countries like Thailand, Malaysia and Indonesia may, however, bring about adverse impact and uncertainties if the political turmoil and protests persist for a prolonged period.

Although Southeast Asia remains the bulk of the revenue driver, Starburst recognises that threat of terrorism makes Middle East an opportune market to tap into. The Middle Eastern region shows a strong link to the total regional government expenditure. According to SIPRI, out of the top ten defense spending nations per capita in 2019, four are in the Middle East. This is due to the fall in peacefulness over the past decade which was caused by the increased terrorist activity and the intensification of conflicts from ongoing geopolitical tensions. Middle East's current and future defense expenditure can be expected to expand at a robust pace amid elevated threats.

Business Segments

FY2020 Revenue



- Firearm shooting ranges
- Tactical training mock-ups
- Maintenance services and others

Source: Company Data, SAC Capital



Source: Company Annual Report

Firearm Shooting Ranges

Starburst designs, fabricates and installs anti-ricochet ballistic protection systems at live-firing ranges to prevent fired rounds from ricocheting. This involves the installation of their proprietary “Searls” anti-ricochet panels, rubber lining panels and floor and ceiling baffles at indoor, outdoor and modular live-firing ranges, close quarters battle houses and method of entry training facilities.

Tactical Training Mock-ups

The tactical training mock-ups business segment pertains to design, fabrication and installation of live-firearms and non-live firearms tactical training mock-ups to suit each desired training scenario. The mock-ups seek to provide simulations which emulate real-life scenarios, and thus involve the examination of various elements of the desired mock-up to ensure that details are replicated. Tactical training mock-ups include rescue and evacuation operations, aviation and maritime operations, sniper operations and other counter terrorism operations.

Maintenance Services and Other Activities

The maintenance programmes for completed firearm shooting ranges and tactical training mock-ups facilities require continual monitoring to ensure that they are kept in optimal condition as described in the initial design criteria and maintenance manuals, and that international safety standards are met and updated if necessary, in order to ensure that usage of the customers’ training facilities is maximised, downtime is minimised and safety is not compromised.

In connection with, and in addition to their principal activities, they also design, construct and install ballistic protection and security systems for various facilities, including high security detention facilities. Additionally, they design, supply and/or fabricate steel struts and steel beams for temporary or permanent structural and architectural steel works on a selective basis.

Income Statement

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A
Revenue	18,301	15,876	7,151	9,244	21,772
Other operating income	440	118	177	78	151
Project and production costs	(21,225)	(7,731)	(4,313)	(4,942)	(9,795)
Employee benefits expenses	(3,526)	(3,465)	(3,237)	(3,168)	(2,479)
Depreciation expense	(1,696)	(1,572)	(1,494)	(1,309)	(1,065)
Other operating expenses	(2,680)	(2,728)	(2,099)	(1,875)	(1,519)
Finance costs	(328)	(352)	(412)	(390)	(331)
Profit/(Loss) before income tax	(10,714)	146	(4,227)	(2,362)	6,734
Income tax expense	(1,001)	(7)	(17)	(22)	2,399
Profit/(Loss) for the year	(11,715)	139	(4,244)	(2,384)	9,133
Other comprehensive income (net of tax)					
Exchange differences on translation of foreign operation	1	(1)	-	1	-
Total comprehensive income/(loss) for the year	(10,890)	138	(4,244)	(2,383)	9,133
EPS:					
- Basic (SG cents)	(4.69)	0.06	(1.74)	(0.98)	3.73
- Diluted (SG cents)	(4.69)	0.05	(1.59)	(0.91)	3.48

Balance Sheet

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A
Cash and bank balances and fixed deposits	787	11,302	7,966	4,987	9,778
Trade other receivables	10,110	4,520	2,578	3,080	7,258
Contract assets	3,761	2,262	808	975	6,419
Inventories	2,226	2,042	2,110	1,952	3,446
Total current assets	23,819	20,126	13,462	10,994	26,901
Fixed deposits pledged	2,077	2,394	2,815	2,829	2,861
Trade and other receivables	1,022	977	932	887	842
Property, plant and equipment	24,841	23,564	24,983	23,685	22,847
Intangible assets	-	450	150	-	-
Deferred tax asset	-	-	-	2,426	-
Total non-current assets	27,940	27,385	28,880	27,401	28,976
Total assets	51,759	47,511	42,342	38,395	55,877
Bank loans	1,120	563	639	655	5,701
Trade and other payables	2,960	1,662	1,185	1,192	3,202
Current portion of lease liabilities	86	106	126	44	44
Contract liabilities	201	119	-	-	1,002
Income tax payable	5	11	19	22	28
Total current liabilities	4,372	2,461	1,969	1,913	9,977
Bank loans	13,378	12,829	12,099	11,446	11,060
Lease liabilities	164	83	2,851	2,807	2,705
Total non-current liabilities	13,542	12,912	14,950	14,253	13,765
Share Capital	40,570	41,005	41,028	41,055	42,936
Treasury shares	-	(1,658)	(3,513)	(3,745)	(4,244)
Warrant reserve	422	422	422	422	422
Currency translation reserve	2	1	1	2	1
Merger reserve	(25,438)	(25,438)	(25,438)	(25,438)	(25,438)
Retained earnings	12,247	17,806	12,923	9,933	18,458
Total Equity	33,845	32,138	25,423	22,229	32,135
Total Liabilities and Equity	51,759	47,511	42,342	38,395	55,877

Ratios

	Fiscal Year Ended 31 Dec				
	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A
<i>Adoption of SFRS 16 Leases increased lease liability in FY2018</i>					
Profitability (%)					
Gross profit/(loss) margin	-16.0%	51.3%	39.7%	46.5%	55.0%
Profit/(loss) before tax margin	-58.5%	0.9%	-59.1%	-25.6%	30.9%
Liquidity (x)					
Current ratio	5.4	8.2	6.8	5.7	2.7
Quick ratio	2.5	6.4	5.4	4.2	1.7
Interest coverage ratio	(31.7)	1.4	(9.3)	(5.1)	21.3
Net Debt to Equity	40.5%	6.5%	18.8%	32.0%	21.7%
Valuation (x)					
P/S	2.3	2.6	5.9	4.5	1.9
P/E	(3.6)	301.9	(9.9)	(17.6)	4.6
P/B	1.2	1.3	1.7	1.9	1.3
P/NTA	1.2	1.3	1.7	1.9	1.3
Cash Conversion Cycle					
Trade receivable days	222	126	179	157	136
Inventory days	44	47	108	77	58
Trade payable days	59	38	60	47	54
CCC days	207	135	226	187	140

Cash Flows Statement

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A
Profit/(Loss) before tax	(10,714)	146	(4,227)	(2,362)	6,734
Depreciation expense	1,696	1,572	1,494	1,309	1,065
Changes in working capital	563	6,237	2,738	(494)	(8,111)
Others	1,969	(110)	339	182	52
Income tax	(6)	(1)	(9)	(19)	(21)
Net generated from/(used in) operating activities	(6,492)	7,844	335	(1,384)	(281)
Purchase of PPE	(983)	(257)	(10)	(11)	(285)
Others	2,194	3,015	2,589	(11)	(32)
Net Cash used in investing activities	1,211	2,758	2,579	(22)	(317)
Repayment of lease liabilities	(86)	(101)	(148)	(126)	(44)
Purchase of treasury shares	-	(1,658)	(1,855)	(232)	(499)
Proceeds from exercise of warrants	-	435	23	27	1,881
Proceeds from bank loans	-	-	-	-	5,000
Repayment of bank loans	(644)	(607)	(654)	(637)	(340)
Dividend paid	(2,500)	(622)	(606)	(606)	(608)
Net Cash used in financing activities	(2,808)	(2,553)	(3,240)	(1,574)	5,390
Net (decrease)/increase in cash and cash equivalents	(8,089)	8,005	(326)	(2,980)	4,792
Cash and cash equivalents at beginning of year	8,376	288	8,292	7,966	4,987
Net effect of exchange rate changes	1	(1)	-	1	(1)
Cash and cash equivalents at the end of the year	288	8,292	7,966	4,987	9,778

* As at 30 June 2020, there were 58,751,575 outstanding warrants for which ordinary shares may be issued.

Singapore Financial Reporting Standards (International) ("SFRS(I)") SFRS 16 has been implemented by Starburst in FY2018.

Past financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("SFRS(I)") and may not be comparable to the latest company financials.

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Continuing Sponsor	Ongoing

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Nil	Nil

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