

OTS Holdings Ltd

2 March 2022

BUY (maintain)

BBG	OTS SP
Market cap	S\$54m
Price (2 Mar 2022)	S\$0.25
52-week range	S\$0.23 – S\$0.40
Target Price	S\$0.29 (previously S\$0.40)
Shares Outstanding	214m
Free Float	19%
Major Shareholder	Ong Family 80%

P/BV (12/21)	1.8x
Net Debt to EBITDA (06/21)	net cash

Source: Company data, Bloomberg, SAC Capital

Weak 1H22, but outlook improving with re-opening

OTS had a weak 1H22, with revenue down 11.2% yoy and net profit fell 56.9% to S\$1.2m. Revenue and net profit only met 37% and 23% of our FY22E estimates. The yoy comparison was skewed as 1H21 (Jun-Dec 20) was the peak of first COVID wave, when canned consumer products enjoyed brisk sales from national stockpiling and pantry stocking. But 1H22 sales were also hit by weak consumer sentiment in Malaysia, which indirectly led to competitive price dumping in the Singapore market. Still, Singapore sales rose 3.9% yoy to S\$12.8m while Malaysian sales fell 35.8% yoy to S\$4.8m. Gross margin fell 3.8% pt to 27.7%.

Slow recovery in Malaysia. Though accounting for about 26% of group's sales, Malaysia is a strategic growth market due to its size. OTS is positioning to penetrate the East Malaysian states of Sabah and Sarawak in 2022. It also plans to tap on its distribution network to sell third-party products. Malaysia exited mobility restrictions in late 2021, and gradually lifting border controls. These could bring the return of economic activities and lift consumer spending. 4Q21 GDP rebounded to +3.6% and the authority projects 6.5% growth in 2022. Private consumption, which rose by a mere 1.9% in 2021, after contracting 4.3% in 2020, has room to improve. Unemployment rate improved to 4.2% in Dec 2021, though still higher than pre-COVID average of 3.5%.

Potential in the Indonesia and Philippines markets. The Indonesia JV was unable to make progress in capacity and product expansion due to travel restrictions in 1H22. This is likely to improve from this year as Indonesia is also opening up. OTS has appointed distributors in the Philippines and sales are likely to commence in 2022.

We have lowered our earnings estimates by 41.3% in FY22E and 16.8% in FY23E to take into account weaker Malaysian sales and continued pricing pressure in Singapore. Our DCF-derived target price (COE: 10.8%) is also revised to S\$0.29 (previously S\$0.40) to reflect higher risk-free rate of 2% and slower growth. Maintain BUY.

Analyst

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YE 30 Jun (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	26.3	34.5	38.5	39.0	47.8
EBIT	1.3	4.7	4.2	4.0	5.9
Net profit	1.6	3.6	3.0	3.1	4.7
EPS (S cents)	0.9	2.0	1.4	1.4	2.2
DPS (S cents)	-	-	0.7	0.7	0.4
Net cash / (debt)	(0.7)	(0.2)	11.5	10.8	13.3
Valuation					
EBIT margin (%)	4.8	13.5	10.8	10.2	12.3
ROIC (%)	9.5	16.3	20.1	14.0	19.6
EV/EBITDA (x)	5.8	3.9	4.1	4.0	3.3
P/E (x)	28.2	12.6	17.9	17.4	11.5
Dividend yield (%)	-	-	2.8	2.9	1.7

Income Statement

FYE 30 Jun (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	34.5	38.5	39.0	47.8
Cost of sales	(23.1)	(25.4)	(25.8)	(31.5)
Gross profit	11.5	13.1	13.3	16.2
Other income	0.2	0.1	0.1	0.1
Selling & distribution	(2.1)	(2.1)	(2.3)	(2.6)
Operating expenses	(4.3)	(5.3)	(5.5)	(6.2)
EBITDA	5.3	5.8	5.6	7.5
Depreciation	(1.2)	(1.3)	(1.4)	(1.4)
Associates & JV	(0.1)	(0.1)	(0.2)	(0.2)
Exceptional items	0.6	(0.3)	-	-
EBIT	4.7	4.2	4.0	5.9
Finance costs	(0.3)	(0.3)	(0.3)	(0.3)
Pretax profit	4.4	3.9	3.7	5.6
Tax expense	(0.8)	(0.9)	(0.6)	(1.0)
Minority interests	-	-	-	-
Net profit	3.6	3.0	3.1	4.7

Balance Sheet

FYE 30 Jun (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
Fixed assets	11.1	10.9	11.5	11.1
ROU assets	3.4	3.3	3.3	3.3
Associates & JV	0.4	0.8	0.6	0.4
Others	0.1	-	-	-
Non-current assets	15.0	15.0	15.6	15.1
Inventories	10.0	7.8	7.1	8.6
Trade receivables	6.0	6.0	7.0	8.5
Other non-financial assets	0.3	0.5	0.5	0.5
Cash	5.0	15.9	15.2	17.7
Current assets	21.3	30.2	29.7	35.4
Total assets	36.3	45.2	45.1	50.1
Liabilities				
Bank loans	1.4	1.1	1.1	1.1
Trade payables	6.0	6.0	4.2	5.2
Lease liabilities	0.3	0.3	0.3	0.3
Other non-financial liabilities	0.4	0.1	0.1	0.1
Tax provisions	0.1	0.5	0.6	1.0
Current liabilities	8.1	8.0	6.4	7.7
Bank loans	3.9	3.2	3.2	3.2
Provisions	0.6	0.6	0.6	0.6
Deferred tax	0.2	0.4	0.4	0.4
Lease liabilities	3.3	3.2	3.2	3.2
Other non-financial liabilities	0.2	0.1	0.1	0.1
Non-current liabilities	8.2	7.5	7.5	7.5
Net assets	20.0	29.6	31.2	34.9
Equity				
Share capital	14.8	22.5	22.5	22.5
Other reserves	(0.0)	(0.0)	(0.0)	(0.0)
Retained earnings	5.2	7.2	8.8	12.5
	20.0	29.6	31.2	34.9
Minority interests	-	-	-	-
Total equity	20.0	29.6	31.2	34.9

Cash Flow

FYE 30 Jun (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	4.4	3.9	3.7	5.6
Depreciation & amortisation	1.2	1.3	1.4	1.4
Associates & JV	0.1	0.1	0.2	0.2
Net finance expense	0.3	0.3	0.3	0.3
Non-fund items	(0.1)	0.0	-	-
Working capital changes	(4.1)	1.9	(2.0)	(2.2)
Interest paid	(0.1)	(0.1)	(0.3)	(0.3)
Dividend from associates	-	-	-	-
Tax paid	0.0	(0.3)	(0.5)	(0.6)
Operating cash flow	1.7	7.1	2.8	4.4
Capex	(0.5)	(1.0)	(2.0)	(1.0)
Net investments	(0.5)	(0.5)	-	-
Fixed assets disposal	0.1	-	-	-
Others	(0.1)	0.1	-	-
Investing cash flow	(0.9)	(1.3)	(2.0)	(1.0)
Free cash flow	0.8	5.8	0.8	3.4
Dividend paid		(1.5)	(1.5)	(0.9)
Borrowings	1.8	(1.1)	-	-
Equity	-	7.7	-	-
Financing cash flow	1.8	5.1	(1.5)	(0.9)
Net change	2.6	10.8	(0.7)	2.5

Ratios

FYE 30 Jun (\$m)	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	29.7	30.6	30.4	31.0
EBIT margin	13.5	10.8	10.2	12.3
Liquidity (x)				
Current ratio	2.6	3.8	4.7	4.6
Net Debt/EBITDA	0.04	-	-	-
Interest coverage ratio	20.4	20.7	21.5	28.9
Net Debt to Equity (%)	0.0	Net cash	Net cash	Net cash
Valuation (x)				
P/E	12.6	17.9	17.4	11.5
P/B	2.2	1.8	1.7	1.5
EV/EBITDA	3.9	4.1	4.0	3.3
Cash Conversion Cycle				
Trade receivable days	64	57	65	65
Inventory days	157	112	100	100
Trade payable days	94	86	60	60

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