

Grand Banks Yachts Limited

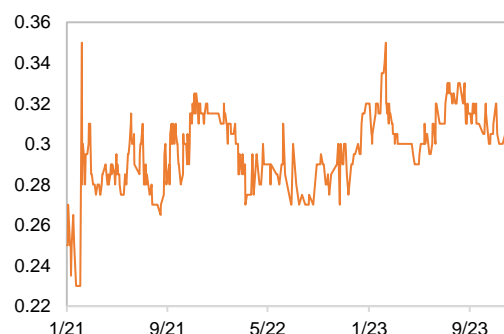
29 November 2023

Non-Rated

BBG	GBY SP	
Market Cap	S\$55.5m	
Price (29 Nov 2023)	S\$0.305	
52-week range	S\$0.29-0.35	
Shares Outstanding	185.0m	
Free Float	55.03%	
Major Shareholder	Kok-Thay Lim	28.4%
	Willimbury Pty Ltd	14.8%
	Arminella Pty Ltd	9.8%

Source: Company Data, Bloomberg, SAC Capital

SHARE PRICE



Source: Bloomberg, SAC Capital

Expanded capacities and diversification of revenue streams

Grand Banks Yachts is a luxury recreational motor yachts manufacturer of brands Grand Banks, Eastbay and Palm Beach. Australian-based Palm Beach was acquired in 2014, with founder ocean racer Mark Richards appointed as CEO of Grand Banks Yachts. It manufactures out of its yard at Pasir Gudang, Johor, Malaysia and has service yards in the United States and Australia. The company was listed on the Singapore Exchange in 1987 and upgraded to Mainboard in 1993. USA constitutes 61% of total revenue in FY23, followed by Australia 27% and Europe 10%.

1Q24 revenue stood at S\$31m (+38.5% yoy, -17% qoq) on the back of better fulfillment of higher demand with the expansion of its manufacturing yard since Jul 2023 offset by economic weakness and seasonality. The yard is poised to increase to 700k sqft by Aug 2024, up more than 25% from the original 550k sqft. Gross profit came in at S\$10.1m (+68.9% yoy, -45% qoq) with improved operational efficiencies and refined workflows to increase man-hours to meet higher orders. GPM grew by 5.9pp yoy to 32.6%, flat from FY23 full-year margin though lower than the 35.4% for 2H23. This aligns with plans to release newer models which first requires investment into components. Net profit rose to S\$2.8m (+158% yoy, -57% qoq), with yoy growth outpacing that of GP by more than 2x underscoring substantial efforts to streamline operations and cost structures. Notably, the company has remained profitable over the past 8 years despite challenging environments. Grand Banks Yachts recorded 5 new built-to-order boat sales in 1Q24, with net order book at S\$148.8m (4Q23: S\$159.4m) reflecting faster fulfillment of orders.

Increased manufacturing capacities. The current manufacturing yard is operating at full capacity with an average of 25 boats produced per year. With the yard expanded, it is able to increase delivery to 35 boats per year. Using the GB60 costing US\$4.5m as proxy, this equates to additional revenue of US\$45m (~S\$60m) assuming full utilisation. Current revenue from construction contracts stands at ~\$94m. This proves beneficial as the company had to turn down several orders due to extended lead times. With sufficient capacities, there is potential to build on its inventory of stock boats, allowing for immediate sale. Availability of stock boats will also allow for more effective marketing efforts and outreach. Management anticipates further enhancing capacities through the streamlining of efficiencies.

Developing more revenue streams. Grand Banks Yachts is intending to venture deeper into the higher margin brokerage and berthing market, considering how it goes mostly to the bottom-line with minimal operating costs. The company is developing the Stuart Yard property and converting them into berths, with plans to increase up to 40. This attracts berthing revenue as it allows capacities for boat owners to visit their facilities, which in turn encourages owners looking to sell to pick Grand Bank Yachts as their choice of broker. The company offers additional 12 months warranty to boat purchasers who choose to resell their boats with them. Brokers in the US garner ~10% in commission, translating to S\$100k revenue on a S\$1m listing. Management intends for the brokerage segment to grow to a sizeable portion of revenue.

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KEY FINANCIAL HIGHLIGHTS

Year ended Dec (S\$'000)	FY19A	FY20A	FY21A	FY22A	FY23A
Revenue	79,568	103,234	96,061	75,177	114,171
EBIT	2,528	2,167	5,133	2,674	14,613
Net profit	1,500	1,055	4,226	4,014	10,108
Net Cash / (Debt)	(4,852)	6,172	42,196	32,811	37,831
EPS (S cents)	0.8	0.6	2.3	2.2	5.5
DPS (S cents)	0.0	0.0	0.5	0.5	1.0
Valuation					
Net margin (%)	1.9	1.0	4.4	5.3	8.9
P/E (x)	33.3	35.1	13.1	12.4	5.7
P/B (x)	0.9	0.6	0.9	0.8	0.8
Dividend Yield (%)	0.0	0.0	1.7	1.8	3.2
ROE (%)	2.7	1.9	7.2	6.5	15.2
ROA (%)	1.6	1.2	4.3	3.6	8.3

Demand resilience to economic cycles with strong pricing power. Management emphasized their focus on catering to the higher-income demographic with lower dependence on interest-based financing. Over the past decade, it has not seen a single buyer financing their boat purchase. Demand has remained strong despite the higher interest rate environment, mainly fueled by cash-rich consumers generally indifferent to economic cycles, not least with rapid price increases of boats, in part from its production of larger boats (vs smaller powerboats).

Based on the National Marine Manufacturers Association (NMMA), sale of new recreational boats in US has been steady at 266k and 269k for 2022 and 2023 respectively, comparable to levels seen in 2016 and 2017 despite prices hikes surpassing 50%. This comes as PPI for boat building of outboards and fiberglass increased from 118.3 in Dec 2016 to 172.3 in Sep 2023, a rise of ~50%. This indicates resilience in demand for recreational boats, which is likely to persist as participation rates of outdoor recreation activities continue to rise.

According to the US Bureau of Economic Analysis, the outdoor recreation economy contributed 1.9% of gross GDP in 2021, amounting to a value of \$454bn (2017: \$427.2bn), of which 35.1% was attributed to the conventional outdoor recreation (2017: 30.6%). Boating/fishing was named as the largest conventional activity at \$27.3bn in value add (2017: \$20.9bn, CAGR: 6.9%). Stripping away the effects of the pandemic, core demand remains for luxury boats on the back of rising affluence and growth of the outdoor recreational boat market. While it is likely price hikes have peaked, better bottom-line can be achieved as cost inflation gradually subsides.

Risks. (i) Macro outlook – increased weakness to act as headwinds; (ii) Supplier risk – any disruption in obtaining components and raw materials would significantly impact production timeline; (iii) Geopolitical risks – any disruptions in supply chains could impact production and lead to higher raw material costs.

Valuation. The company is currently trading at 5.6x P/E and 0.8x P/B.

Grand Banks 60



Palm Beach 65



Eastbay 60



Income Statement

FYE Jun (\$S'000)	FY19A	FY20A	FY21A	FY22A	FY23A
Revenue	79,568	103,234	96,061	75,177	114,171
Cost of sales	(62,635)	(84,349)	(75,394)	(55,214)	(77,386)
Gross profit (loss)	16,933	18,885	20,667	19,963	36,785
Selling and marketing expenses	(8,909)	(8,588)	(9,084)	(10,637)	(13,267)
Administrative expenses	(4,718)	(5,487)	(5,996)	(5,852)	(7,841)
Other operating expenses	(778)	(1,132)	(720)	(800)	(1,064)
Corporate restructuring costs	—	(1,511)	266	—	—
Profit from operations	2,528	2,167	5,133	2,674	14,613
Other non-operating income, net	(678)	(580)	685	505	291
Finance cost	(627)	(723)	(175)	(231)	(194)
Profit before tax	1,223	864	5,643	2,948	14,710
Tax (expense)/credit	277	191	(1,417)	1,066	(4,602)
Profit for the year	1,500	1,055	4,226	4,014	10,108
EPS					
Basic	0.81	0.57	2.29	2.17	5.47
Diluted	0.81	0.57	2.29	2.17	5.46

Balance Sheet

FYE Jun (\$S'000)	FY19A	FY20A	FY21A	FY22A	FY23A
Assets					
Inventories	28,121	21,341	14,840	14,587	18,204
Contract assets	10,533	11,596	2,764	7,281	16,346
Trade and other receivables	496	990	586	8,131	6,918
Prepayments	866	775	1,250	1,177	1,805
Current tax recoverable	124	—	—	1	—
Other investment	—	—	4	—	1,008
Cash and fixed deposits	8,552	10,717	45,213	36,337	40,063
Total current assets	48,692	45,419	64,657	67,514	84,344
PP&E	32,163	25,065	25,269	27,852	30,549
ROU assets	—	6,726	6,875	6,195	5,509
Subsidiaries	—	—	—	—	—
Goodwill	6,361	—	—	—	—
Intangible assets	1,402	7,723	8,014	7,475	6,886
Deferred tax assets	4,998	4,225	2,858	3,958	2,193
Total non-current assets	44,924	43,739	43,016	45,480	45,137
Total assets	93,616	89,158	107,673	112,994	129,481
Liabilities					
Trade and other payables	10,044	9,705	13,613	16,380	25,311
Contract liabilities	9,568	10,731	23,315	23,923	22,546
Provision for warranty claims	2,469	4,310	4,235	3,923	4,378
Interest bearing loans and borrowings	8,399	1,845	1,060	1,216	525
Deferred consideration	480	514	517	557	565
Lease liabilities	—	192	388	198	210
Current tax payables	—	6	—	—	2,348
Total current liabilities	30,960	27,303	43,128	46,197	55,883
Deferred tax liabilities	422	375	358	301	830
Interest bearing loans and borrowings	5,005	2,700	1,957	2,310	1,707
Deferred consideration	2,126	1,674	1,099	580	1,898
Lease liabilities	—	76	259	121	40
Total non-current liabilities	7,553	4,825	3,673	3,312	4,475
Total liabilities	38,513	32,128	46,801	49,509	60,358
Equity					
Share capital	43,045	43,136	43,136	43,136	43,136
Share-based compensation reserve	381	381	381	381	381
Accumulated profits/(losses)	12,150	13,205	17,431	20,522	29,707
Foreign currency translation reserve	(473)	308	(76)	(554)	(4,101)
Total equity	55,103	57,030	60,872	63,485	69,123

Cash Flow Statement

FYE Jun (\$S'000)	FY19A	FY20A	FY21A	FY22A	FY23A
Profit after tax	1,500	1,055	4,226	4,014	10,108
Depreciation of PP&E	3,642	4,534	4,706	4,510	4,296
Depreciation of ROU assets	—	429	512	359	364
Amortisation of intangible assets	126	120	130	127	118
Disposal of PP&E	11	2	138	—	—
PP&E written off	213	160	2	—	—
Allowance made for slow moving materials	321	725	(28)	482	118
Loan forgiveness	—	—	(642)	—	—
Interest income	(23)	(20)	(19)	(41)	(549)
Interest expense	627	780	219	231	194
Provision for warranty claims	3,488	3,188	—	—	—
Equity-settled share based expense	11	—	—	—	—
Tax expense/(credit)	(277)	(191)	1,417	(1,066)	4,602
Unrealised foreign exchange loss	(364)	(132)	(368)	138	(400)
Change in working capital	(7,642)	9,729	31,377	(9,695)	(3,592)
Income tax paid	(195)	41	(123)	(36)	(97)
Warranty claims paid	(3,007)	(2,338)	—	—	—
Operating cash flow	(1,569)	18,082	41,547	(977)	15,162
Interest received	23	20	19	41	498
Placement of LT deposits	—	—	—	—	(4,541)
Purchase of other investment	—	—	—	—	(1,014)
Proceeds from disposal of PP&E	—	8	47	—	—
Purchase of PP&E	(7,684)	(3,997)	(4,813)	(7,186)	(6,806)
Investing cash flow	(7,661)	(3,969)	(4,747)	(7,145)	(11,863)
Interest paid	(573)	(727)	(204)	(231)	(194)
Interest paid on ROU assets	—	(45)	(15)	—	—
Dividend paid	(920)	—	—	(923)	(923)
Proceeds from issue of shares	—	91	—	—	—
Repayment of lease liabilities	—	(339)	(301)	(148)	(203)
Repayment of deferred consideration	(460)	(494)	(501)	(521)	(552)
Repayment of interest bearing loans and borrowings	(3,376)	(15,651)	(1,604)	(4,378)	(1,178)
Proceeds from interest bearing loans and borrowings	14,484	4,989	192	4,852	—
Financing cash flow	9,155	(12,176)	(2,433)	(1,349)	(3,050)
Net change in cash & equivalents	(75)	1,937	34,367	(9,471)	249

Ratios

FYE Jun	FY19A	FY20A	FY21A	FY22A	FY23A
Profitability (%)					
Gross margin	21.3	18.3	21.5	26.6	32.2
EBIT margin	3.2	2.1	5.3	3.6	12.8
Net profit margin	1.9	1.0	4.4	5.3	8.9
Liquidity (x)					
Current ratio	1.6	1.7	1.5	1.5	1.5
Interest coverage ratio	4.0	3.0	29.3	11.6	75.3
Net debt (cash) to equity (%)	8.8	-10.8	-69.3	-51.7	-54.7
Valuation (x)					
P/E	33.3	35.1	13.1	12.4	5.7
P/B	0.9	0.6	0.9	0.8	0.8
Cash Conversion Cycle (CCC)					
Trade receivable days	2.3	2.6	3.0	21.2	24.1
Inventory days	58.5	42.7	56.4	99.1	98.3
Trade payable days	163.9	107.0	87.6	97.3	77.3
CCC days	107.6	66.9	34.1	19.3	3.1
<i>n.m.: not meaningful</i>					

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