

Advancer Global Limited

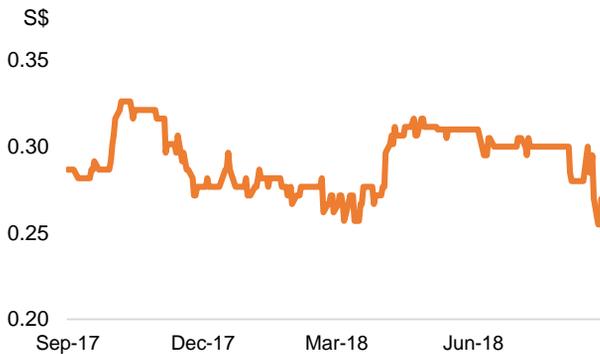
Date: 12 September 2018

BUY

**Target Price: S\$0.360
(+41.2%)**

ADGL SP

Price: S\$0.255 (as at 11 September 2018)



Share price	1M	3M	6M	1Y
Advancer Global	-7.1%	-18.8%	-3.7%	-10.3%
Catalist Index	-2.9%	-10.7%	-21.2%	-17.8%

Market capitalisation	S\$63.9 million		
Current Price	S\$0.255		
Shares outstanding	250.7 million		
Free Float	11.2%		
Major shareholder	Fullcast Holdings	25.8%	
	Chin Mui Hiong	15.5%	
	Chin Swee Siew	15.1%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Advisors

Analyst

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New Strategic Investor Advances Group's push into Japan

Enters into joint venture with Fullcast Holdings. Advancer Global Limited ("ADGL", "Company" or "Group") announced that they have completed a share subscription agreement with Fullcast Holdings Co., ("Fullcast") where 65 million new shares (about 1/3 of the existing paid-up capital of the Company) of the Company will be allotted to Fullcast at the subscription price of S\$0.34, representing a premium of approximately 14.32% to the volume weighted average price of for trades done on the Catalist on the 21 June 2018, being the last full market day which the shares were traded preceding the date and up to the time the share subscription agreement was signed.

Strategic partnership to boost Group's penetration into the Japanese market. Fullcast is incorporated in Japan and is listed on the first section of the Tokyo Stock Exchange. Fullcast, through its subsidiaries, provides a range of human resource services to companies in Japan. Advancer Global and Fullcast have also agreed to form the Strategic Alliance Committee ("SAC") to (i) oversee and coordinate the activities of the Company and Fullcast in connection with the specific details of the alliance between the Company and Fullcast and (ii) determine the details of establishment and operation of the proposed joint venture to provide foreign labour staffing and employment services in Japan. The joint venture also sets out the role and responsibilities of the parties involved.

This move is positive given recent macro developments in Japan. In 2017, Japanese Prime Minister Shinzo Abe in a move to counter a shrinking labour force that was hampering the world's third-biggest economy started opening up Japan to more foreigners. The admission of foreign domestic workers from overseas – first to Kanagawa and Osaka, and later Tokyo – is aimed at making housekeeping services affordable for the middle class and getting more Japanese women into the workforce. The move also seeks to alleviate the cost of elderly care in Japan through the hiring of foreign domestic workers.

Key risks: Exposure to laws, regulations and policies of originating countries, ability to seek out M&A targets.

Key Historical Financials

Year ended December (S\$'000)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	44,794	50,909	65,260	67,479	77,141	87,534
% Growth	14.8%	13.7%	28.2%	3.4%	14.3%	13.5%
Gross profit	11,876	13,555	18,857	19,295	22,089	25,082
Gross profit margin (%)	26.5%	26.6%	28.9%	28.6%	28.6%	28.7%
Profit before tax	4,863	3,300	3,375	2,995	4,241	5,555
Profit attributable to owners	4,369	2,675	3,056	2,535	3,628	4,806
% Growth	71.3%	-38.8%	14.2%	(17.0%)	43.1%	32.5%
Profit after tax margin (%)	9.8%	5.3%	4.7%	3.8%	4.7%	5.5%
Basic EPS (S\$ cents) (1)	3.4	1.5	1.5	1.2	1.5	1.9
Diluted EPS (S\$ cents) (1)			1.4	1.1	1.4	1.9
P/E (ex-cash) (x)	9.0	14.7	8.2	11.3	9.6	7.2
Net Debt/Equity			Net Cash	Net Cash	Net Cash	Net Cash

(1) Basic and Diluted EPS from FY15-18 has been adjusted for post-Fullcast placement shares of 207,339,256 and 213,589,256 respectively which takes into account the four month contribution of the new shares for comparability. While FY19 and FY20 takes the full shares outstanding into account.

Group makes foray into Japan

Enters into joint venture with Fullcast Holdings. Advancer Global announced that they have entered into a share subscription agreement with Fullcast where 65 million new shares (approximately 35.01% of the existing paid-up capital of the Company) of the Company will be allotted to Fullcast at the subscription price of S\$0.34, representing a premium of approximately 14.32% to the volume weighted average price of for trades done on the Catalist on the 21 June 2018, being the last full market day which the shares were traded preceding the date and up to the time the share subscription agreement was signed.

Use of proceeds	% of net proceeds
Expansion of business operations	75%
Working capital	25%
Total	100%

Source: Company data, SAC Advisors

Following the allotment and issuance of the subscription shares, the shares will represent approximately 25.2% of the enlarged issued and paid-up capital of the Company with the assumption that (i) all of the warrants issued by the Company on 17 May 2017 have been converted, and (ii) the options issued under the Employee Share Option Scheme. Fullcast will also be able to nominate 1 person for appointment as a non-executive director to the board of directors of the Company.

Strategic partnership to boost Group's penetration into the Japanese market. Fullcast is incorporated in Japan and is listed on the first section of the Tokyo Stock Exchange. Fullcast, through its subsidiaries, provides a range of human resource services to companies in Japan. Advancer Global and Fullcast have also agreed to form the SAC to (i) oversee and coordinate the activities of the Company and Fullcast in connection with the specific details of the alliance between the Company and Fullcast and (ii) determine the details of establishment and operation of the proposed joint venture to provide foreign labour staffing and employment services in Japan. The joint venture also sets out the role and responsibilities of the parties involved. The roles and responsibilities of the Company and Fullcast are set out as follows:

Advancer Global will be responsible for:

- (a) Arranging the sourcing and management (in sourcing countries) of the relocation of foreign workers to Japan for the purpose of providing labour;
- (b) The procurement of training of the relevant workers in the sourcing countries;
- (c) Liaising with local partners / professional parties to ensure that the sourcing complies with the applicable laws and regulations in the sourcing countries; and
- (d) Advising and providing support on the sourcing.

Fullcast will be responsible for:

- (a) The sales activities and development of clientele in Japan;
- (b) The training of foreign workers in Japan;
- (c) Dealing with the laws, regulations of Japan and the necessary procedures; and
- (d) The overall management and administration (including the financial affairs) of the proposed joint venture.

Group makes overseas foray

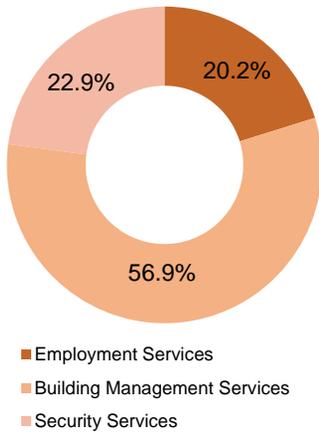
Ultimately, we see the move as positive given recent macro developments in Japan. In 2017, Japanese Prime Minister Shinzo Abe in a move to counter a shrinking labour force that was hampering the world's third-biggest economy started opening up Japan to more foreigners. The admission of foreign domestic workers from overseas – first to Kanagwa and Osaka, and later Tokyo – is aimed at making housekeeping services affordable for the middle class and getting more Japanese women into the workforce. The move also seeks to alleviate the cost of elderly care in Japan through the hiring of foreign domestic workers.

While there are concerns over the resistance of the Japanese to the influx of foreigners, we think the training capability and track record that Advancer Global have, placed them in a good position to alleviate such concerns as the foreign domestic workers will be trained to better understand the Japanese culture and way of life. Overall, we view the development as positive for the Group to expand on their geographical reach outside Singapore and into Japan.

Maintain Buy with a target price of S\$0.360. Our DCF-backed target price of S\$0.360 represents 16x and 12x FY19E and FY20E ex-cash P/E respectively, which we do not think is excessive given their defensive business and solid mergers and acquisition (“**M&A**”) track record. Their recent acquisition of a 20.1% stake in Chiang Kiong, which is going to be earnings accretive for the Group this financial year is a case in point. We also see the new entry of Fullcast as a strategic investor as positive for the Group as this will help their penetration into Japan. ADGL is in a net cash position with a war chest of more than S\$25 million in net cash with a solid 3.8% and 5.1% dividend yield for FY18E and FY19E respectively based on their last closing price. We maintain Buy.

Company Background

Revenue Breakdown (FY2017)



Source: Company data, SAC Advisors

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- Their business is divided into 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 (“**FDW**”) and foreign workers (“**FW**”).
 - (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 Advisors

Income Statement (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	50,909	65,260	67,479	77,141	87,534
Cost of sales	(37,354)	(46,403)	(48,184)	(55,052)	(62,452)
Gross Profit	13,555	18,857	19,295	22,089	25,082
Other operating income	2,747	1,320	1,301	1,301	1,301
Administrative expenses	(12,896)	(16,701)	(18,204)	(19,751)	(21,430)
Operating Profit	3,406	3,476	2,392	3,638	4,952
Share of profit from JV	0	0	704	704	704
Finance costs	(106)	(101)	(101)	(101)	(101)
Profit before tax	3,300	3,375	2,995	4,241	5,555
Income tax	(504)	(262)	(285)	(403)	(528)
Profit for the year/period	2,796	3,113	2,710	3,838	5,027
Profit attributable to owners of company	2,675	3,056	2,535	3,628	4,806

Cash Flow Statement (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profit before tax	3,300	3,375	2,995	4,241	5,555
Depreciation & amortisation	609	1,155	555	669	802
Change in working capital	359	(1,466)	1,389	(5)	82
Others	61	(150)	(321)	(472)	(633)
Net Cash (used in)/ from operations	4,329	2,914	6,065	6,225	7,975
Purchase of PPE	(484)	(886)	(975)	(1,072)	(1,179)
Acquisition of subsidiary	(4,772)	(1,152)	(553)	0	0
Net Cash (used in)/ from investing	(5,226)	(6,002)	(1,528)	(1,072)	(1,179)
Net change in equity	9,460	5,000	0	0	0
Net change in debt	(473)	(181)	0	0	0
Dividends paid	(2,606)	(1,654)	(1,788)	(2,274)	(3,005)
Net Cash (used in)/ from financing	4,595	2,883	(1,889)	(2,375)	(3,106)

Balance Sheet (S\$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
As at 31 Dec					
Cash and bank balances	8,238	8,033	10,676	13,455	17,145
Trade and other receivables	11,088	16,622	17,453	18,326	19,242
Inventories	26	38	46	55	66
Other assets	0	0	674	594	453
Total current assets	19,352	24,693	28,849	32,429	36,840
Property, Plant and Equipment	1,488	2,511	2,637	2,768	2,907
Goodwill on consol.	5,343 ⁽¹⁾	5,489	5,489	5,489	5,489
Other non-current assets	2,258	1,698	1,698	1,698	1,698
Total non-current assets	9,089	9,698	9,824	9,955	10,094
Total assets	28,441	34,391	38,716	42,428	46,978
Bank borrowings	597	630	630	630	630
Trade and other payables	9,986	9,608	11,836	12,713	13,657
Other current liabilities	638	635	635	635	635
Total current liabilities	11,221	10,873	13,101	13,978	14,922
Total non-current liabilities	1,043	1,453	1,453	1,453	1,453
Total liabilities	12,264	12,326	14,554	15,431	16,375
Share Capital	13,562	18,378	18,378	18,378	18,378
Retained earnings	4,761	6,163	8,085	10,710	14,095
Capital reserve	(2,603)	(2,920)	(2,920)	(2,920)	(2,920)
Equity attributable to shareholders	15,720	21,621	23,543	26,168	29,553
Non-controlling interests	457	444	619	829	1,050
Total Equity	16,177	22,065	24,163	26,998	30,603
Total liabilities and equity	28,441	34,391	38,716	42,428	46,978

Ratios

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profitability (%)					
Operating profit margin	6.7%	5.3%	3.5%	4.7%	5.7%
Profit before tax margin	6.1%	5.2%	4.4%	5.5%	6.3%
Profit after tax margin	5.3%	4.7%	3.8%	4.7%	5.5%
Liquidity (x)					
Current ratio	1.7	2.3	2.2	2.3	2.5
Quick ratio	1.7	2.3	2.2	2.3	2.5
Interest coverage ratio	32.1	34.4	38.0	53.8	70.5
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	17.5	15.9	13.0	9.6	7.4
Core P/E at target price	23.3	21.3	17.4	12.7	9.9
P/E (ex-cash) at target price	20.5	18.7	15.3	11.2	8.7
P/B	3.1	2.3	2.1	1.9	1.6
EV/EBITDA	13.3	12.7	11.4	8.2	6.3
Cash Conversion Cycle					
Trade receivable days	53	53	53	53	53
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	9	9	9	9	9
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	25.9%	16.4%	17.0%	21.1%	24.3%
Return on capital employed	25.2%	15.8%	16.3%	20.3%	23.5%
Dividend payout ratio	50.0%	50.0%	50.0%	50.0%	50.0%

(1) Restated to adjust the goodwill in relation to the acquisition of Premier Eco-Care, Prestige Enviro-care, and Green Management in October 2016

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Party	Quantum of position
Nil	Nil

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Company	Nature of business relation	Date of business relation
Advancer Global Limited	Continuing Sponsor	Ongoing relations
Advancer Global Limited	Introducer for secondary fund raising	August 2018

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Analyst name	Quantum of position
Nil	Nil

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