

Singapore Equity Explorer

Advancer Global

Bloomberg: ADGL SP | Reuters: ADVN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Aug 2016

NOT RATED S\$0.40 STI : 2,869.57

Return *: 1

Risk: Moderate

Potential Target 12-mth* : 12-Month S\$ 0.50 (24% upside)

AnalystLee Keng LING +65 6682 3703
leekeng@dbs.com**Price Relative****Forecasts and Valuation**

FY Dec (S\$m)	2014A	2015A	2016F	2017F
Revenue	39.0	44.8	49.3	54.9
EBITDA	3.16	5.19	5.15	6.65
Pre-tax Profit	2.76	4.86	4.82	6.32
Net Profit	2.55	4.40	4.37	5.72
Net Pft (Pre Ex.)	2.55	4.40	4.37	5.72
EPS (S cts)	1.47	2.54	2.52	3.30
EPS Pre Ex. (S cts)	1.47	2.54	2.52	3.30
EPS Gth (%)	(2)	73	(1)	31
EPS Gth Pre Ex (%)	(2)	73	(1)	31
Diluted EPS (S cts)	1.47	2.54	2.52	3.30
Net DPS (S cts)	1.66	2.54	1.26	1.65
BV Per Share (S cts)	2.17	2.84	8.45	10.1
PE (X)	27.2	15.7	15.9	12.1
PE Pre Ex. (X)	27.2	15.7	15.9	12.1
P/Cash Flow (X)	19.5	16.2	13.4	12.0
EV/EBITDA (X)	20.9	12.7	10.9	8.0
Net Div Yield (%)	4.2	6.3	3.2	4.1
P/Book Value (X)	18.4	14.1	4.7	4.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	44.5	101.5	44.7	35.6

ICB Industry : Industrials

ICB Sector: Support Services

Principal Business: Advancer Global offers necessity services, including workforce solutions, cleaning & stewarding and security services.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Defensive business with growing margins

- **Integrated manpower solutions and facilities management services provider**
- **Growth via acquisition and margins enhancement**
- **Asset-light business model; positive cashflow generation to support 50% dividend payout**
- **Fair value of S\$0.50 offers potential upside of 24%**

The Business

Defensive business. Advancer Global is in a fairly defensive business of offering necessity services, including workforce solutions, cleaning & stewarding and security services. These services are needed in both good and bad times.

Growth via acquisition and margins enhancement. Growth strategies include acquiring niche business and moving up the value chain to improve profitability. The facilities management services segment, which include cleaning & stewarding and security services, is a very fragmented market with numerous small players, which is ideal for bigger players like Advancer Global to make acquisitions to consolidate its position. The recent acquisition of a security training and technology consultancy firm enables the group to scale up to the higher margins security services.

Asset-light; positive cashflow generation. Advancer Global's total non-current assets account for only about 10% of total assets as at end-Jun 16. The positive cashflow trend in the past few years is expected to continue; thus enabling the group to support an expected 50% dividend payout for the next few years.

The Stock

Fair value of S\$0.50. We believe a 15x FY17F PE valuation is fair, as Advancer Global is one of the few bigger facilities management services providers here. The valuation peg is based on a slight 10% discount to Denmark-listed ISS's FY17F valuation, given its much smaller size. Fair value works out to S\$0.50 per share, which translates to a potential upside of 24% from the current price.

Key risks: Affected by laws, regulations, policies and market forces.

At A Glance

Issued Capital (m shrs)	173
Mkt. Cap (S\$m/US\$m)	69.3 / 51.1
Major Shareholders (%)	
Desmond Chin	21.5
Francis Chin	21.1
Gary Chin	17.7
Free Float (%)	28.4
3m Avg. Daily Val (US\$m)	1.2

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Defensive business. Listed on the Catalist board on 11 July 2016 at an IPO price of S\$0.22 per share, Advancer Global is in a fairly defensive business of offering necessity services, including workforce solutions, cleaning & stewarding and security services.

(a) Employment Services Business

Provision of one-stop shop services for the sourcing, employment and training of foreign domestic workers (FDWs) to households, as well as the sourcing and employment of foreign workers to, among others, corporations and organisations. Its FDW employment business is primarily carried out by Nation Employment, with seven outlets in Singapore.

(b) Cleaning & Stewarding Business

Provision of integrated cleaning and stewarding solutions and services to, among others, hospitals, hotels, commercial and residential properties, as well as pest control services.

(c) Security Services Business

Provision of manpower for security solutions and services to, among others, commercial, industrial and residential properties, as well as security escort services.

One-stop shop solution and service provider. Advancer Global's Cleaning & Stewarding Business and its Security Services Business are integrated and complementary, which enables the group to position itself as an efficient one-stop shop solution and service provider. The group is also able to achieve economies of scale due to its ability to share key resources across a single platform, and to cross-sell the group's strengths in the different service segments to a wider pool of customers.

Diversified customer base with high retention rate. Advancer Global has more than 400 corporate customers for its Facilities Management Businesses, ranging from hospitals, multinational corporations, shopping malls, hotels and resorts, management corporations of residential and commercial properties, food and beverage outlets and entertainment venues. Customers' retention rate is high. For FY15, the group registered 80.4% and 91.6% respectively, for its Cleaning and Stewarding Business and Security Services Business. Order book as at 2 June 2016 (excluding the Employment Services Business) stood at S\$43.1m; about S\$30m expected to be realised by FY16.

Asset-light; positive cashflow generation. Advancer Global has an asset-light business model. Total non-current assets account for only about 10% of total assets as at end-Jun 16. The bulk of the assets are trade receivables (64%) and cash & bank balances (25%). The group has been generating positive cashflow in the past few years and we expect this trend to continue.

COST STRUCTURE

Labour costs forms bulk of cost of services. Labour costs, sub-contractor costs and recruitment costs account for >90% of the total cost of services, as its Facilities Management Businesses are labour intensive.

Three key business segments

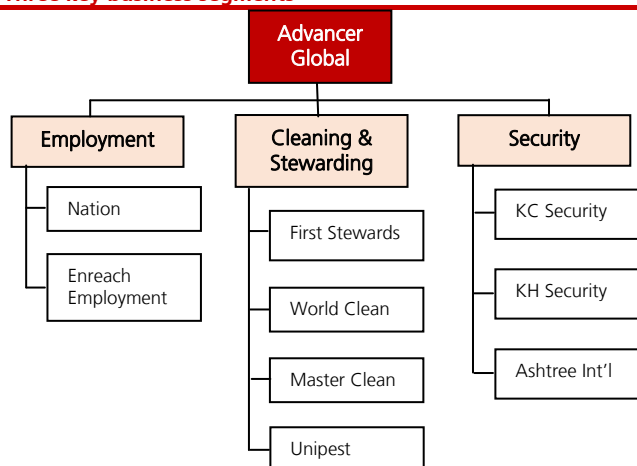


Chart 1: Revenue Breakdown (By business segment)

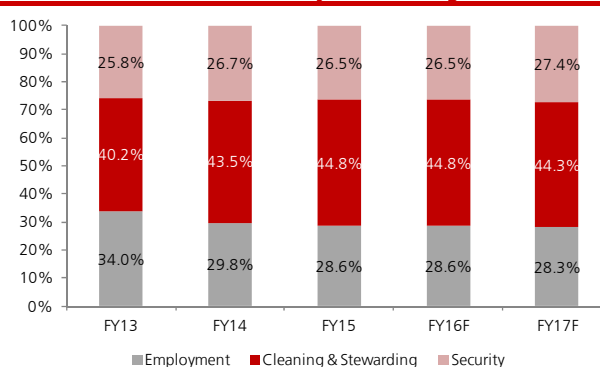
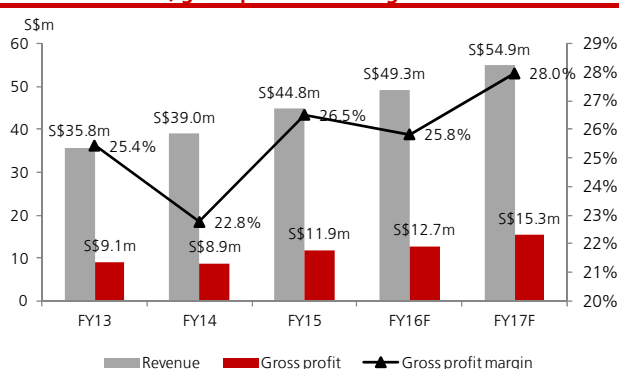


Chart 2: Revenue, gross profit and margin trend



Cost Breakdown (cost of services)

Cost of services (%)	FY13	FY14	FY15
Labour costs	31.6%	37.1%	41.5%
Sub-contractor costs	43.0%	36.9%	35.3%
Recruitment costs	17.7%	18.5%	15.2%
TOTAL	94.3%	92.5%	92.0%

Source: Company; DBS Bank

GROWTH PROSPECTS

Fragmented industry ideal for acquisitions. The facilities management services segment, which includes services like Cleaning & Stewarding and Security Services, is a very fragmented market with numerous small players, which is ideal for bigger players like Advancer Global to make acquisitions to consolidate its position. Going forward, the group could further enhance its position to secure bigger projects and to increase market share and profit margins. It could move to integrated facilities management, and add more services to its existing ones, such as the provision of integrated security services, property management, specialised pest control services such as fumigation, building maintenance and landscaping, to increase and retain existing customers, and also to target new ones.

Scaling up Security business to enhance margins. The Security business accounted for 26.5% of FY15 revenue. Advancer Global intends to scale up this segment and targets to grow this segment by about 20% to achieve one-third contribution to group revenue. Plans in place include building on existing manpower base, and providing training to handle higher-value projects to move up the value chain and improve profitability. The recent acquisition of Ashtree International, which is a security training and technology consultancy firm, with specialisation in aviation security and others like sensor technology, enables the group to scale up to the higher margins security services.

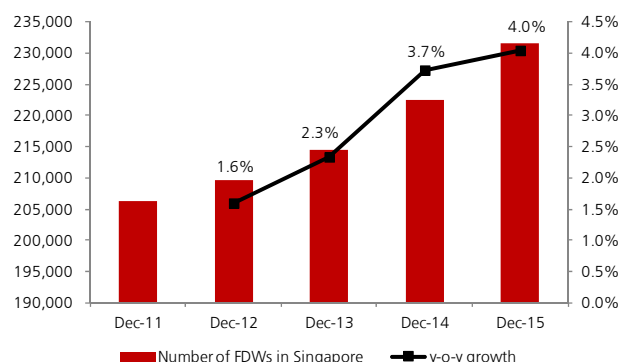
Riding on the ageing population. With the ageing population, there is increasing need for FDWs to provide caregiving support. The number of elderly persons aged 65 years and above is estimated to increase from 340,000 in 2011 to 900,000 in 2030. Furthermore, the concessionary FDW levy provides additional financial relief. The number of FDWs living in Singapore has been increasing steadily in the past few years (Chart 3). The National Population and Talent Division estimates that demand for FDWs is estimated to increase from 231,500 in Dec 15 to about 300,000 by 2030.

Increasing supply of residential and commercial properties. Furthermore, the increased supply of Singapore's residential and commercial property market will also create more jobs for the facility management industry. The implementation of new measures by the government, e.g. the progressive wage model will be prohibitive to smaller businesses. This will benefit integrated players like Advancer Global.

MANAGEMENT & STRATEGY

Helmed by experienced and dedicated management team, comprising the three brothers – Desmond Chin, Executive Chairman; Gary Chin, CEO & Executive Director and Francis Chin, Executive Officer. They have >20 years of experience each in the Employment Services Business. The Cleaning & Stewarding Business and the Security Services Business are led by Ong Eng Tiang, Executive Director, and has >15 years of experience.

Chart 3: Foreign Domestic Workers in Singapore



Key Management Team

Key management	Responsibilities
Desmond Chin, Exec. Chairman	Desmond Chin has >20 years of experience in the Employment Services Business and has been instrumental in spearheading the growth and development of the group.
Gary Chin, CEO and Exec. Director	Gary Chin has > 20 years of experience in the Employment Services Business and is responsible for the overall administration, operation and management of the group.
Ong Eng Tiang, Exec. Director	Ong Eng Tiang has >15 years of experience in the Cleaning and Stewarding Business and the Security Services Business. He is responsible for heading the Facilities Management Businesses as well as overseeing the daily operations, including marketing strategies and manpower deployment of the Facilities Management Businesses.
Francis Chin, Exec. Officer	Francis Chin, heads the Employment Services, has over 20 years of experience in the Employment Services Business.

Management Remuneration Structure

Name	FY14	FY15	FY16 (Est.)
Directors			
Desmond Chin	Band A	Band A	Band B
Gary Chin	Band A	Band A	Band B
Ong Eng Tiang	Band B	Band B	Band B
Loy Soo Chew	-	-	Band A
Yau Thiam Hwa	-	-	Band A
Vincent Leow	-	-	Band A
Executive Officers			
Francis Chin	Band A	Band A	Band A
Li Ying	-	Band A	Band A

"Band A" refers to remuneration from S\$0 to S\$250,000 per annum.
 "Band B" refers to remuneration from S\$250,001 to S\$500,000 per annum.
 Source: Company; DBS Bank

Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenues (\$\$m)					
Employment	12.2	11.6	12.8	14.1	15.5
Cleaning & Stewarding	14.4	17.0	20.1	22.1	24.3
Security	9.25	10.4	11.9	13.1	15.0
Total	35.8	39.0	44.8	49.3	54.9
Gross profit (\$\$m)					
Employment	4.42	5.82	6.34	6.98	6.98
Cleaning & Stewarding	2.34	4.25	4.42	5.35	5.35
Security	2.12	1.80	1.96	3.01	3.01
Total	8.88	11.9	12.7	15.3	15.3
Gross profit Margins (%)					
Employment	47.1	38.0	45.4	45.0	45.0
Cleaning & Stewarding	11.5	13.8	21.2	20.0	22.0
Security	18.5	20.3	15.2	15.0	20.0
Total	25.4	22.8	26.5	25.8	28.0

Lower supply of FDWs

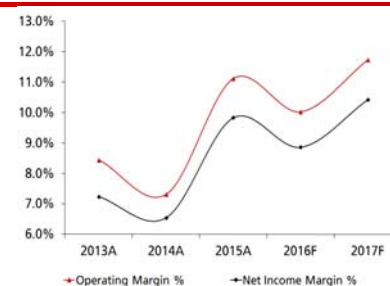
Acquisition of World Clean; increase in service fees

Increase in cost due to acquisition of World Clean; increase in salary of security officers

Income Statement (\$\$m)

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenue	35.8	39.0	44.8	49.3	54.9
Cost of Goods Sold	(26.7)	(30.1)	(32.9)	(36.6)	(39.5)
Gross Profit	9.11	8.88	11.9	12.7	15.3
Other Opng (Exp)/Inc	(6.1)	(6.0)	(6.9)	(7.8)	(8.9)
Operating Profit	3.02	2.85	4.98	4.94	6.43
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2.92	2.76	4.86	4.82	6.32
Tax	(0.3)	(0.2)	(0.5)	(0.5)	(0.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2.59	2.55	4.40	4.37	5.72
Net Profit before Except.	2.59	2.55	4.40	4.37	5.72
EBITDA	3.14	3.16	5.19	5.15	6.65
Growth					
Revenue Gth (%)	N/A	9.0	14.8	10.0	11.3
EBITDA Gth (%)	nm	0.5	64.4	(0.8)	29.1
Opg Profit Gth (%)	nm	(5.7)	74.7	(0.8)	30.3
Net Profit Gth (Pre-ex) (%)	nm	(1.5)	72.7	(0.9)	31.1
Margins & Ratio					
Gross Margins (%)	25.4	22.8	26.5	25.8	28.0
Opg Profit Margin (%)	8.4	7.3	11.1	10.0	11.7
Net Profit Margin (%)	7.2	6.5	9.8	8.9	10.4
ROAE (%)	67.2	44.5	101.5	44.7	35.6
ROA (%)	43.8	22.5	37.6	24.6	23.2
ROCE (%)	58.5	38.2	81.2	38.4	32.3
Div Payout Ratio (%)	21.4	112.7	99.8	50.0	50.0
Net Interest Cover (x)	28.8	30.3	43.3	42.9	56.0

Margins Trend



Flat earnings due to IPO expenses

Dividend payout of at least 50% of net profit for FY16, FY17 and FY18, as stated in IPO prospectus

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1H15	2H15	1H16
Revenue	21.0	23.8	23.2
Cost of Goods Sold	(15.6)	(17.3)	(17.3)
Gross Profit	5.4	6.5	5.9
Other Oper. (Exp)/Inc	(4.4)	(4.5)	(5.4)
Operating Profit	2.4	2.5	2.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0
Pre-tax Profit	2.4	2.5	2.1
Tax	(0.1)	(0.3)	(0.1)
Minority Interest	0.0	0.0	0.0
Net Profit	2.3	2.1	1.9
Net profit bef Except.	2.3	2.1	1.9
EBITDA	2.6	2.5	2.3

Include IPO expenses of \$50.68m

Growth (h-o-h)

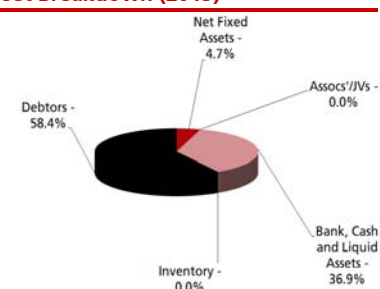
Revenue Gth (%)	nm	13	(2)
EBIT Gth (%)	nm	4	(16)
Pretax Gth (%)	nm	4	(16)
Net Profit Gth (%)	nm	(6)	(9)

Margins

Gross Margins (%)	25.7	27.2	25.5
EBIT Margins (%)	11.4	10.4	9.0
Net Profit Margins (%)	10.8	9.0	8.3

Source: Company, DBS Bank

Asset Breakdown (2015)



Balance Sheet (\$\$m)

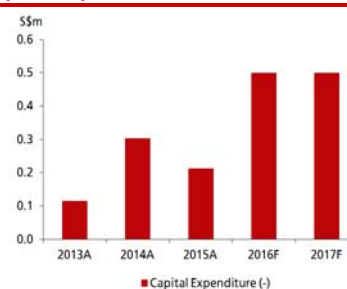
FY Dec	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	0.59	0.68	0.59	0.87	1.16
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.18	0.16	0.16	0.16
Cash & ST Invts	2.64	3.78	4.58	14.6	17.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	7.77	6.03	7.27	7.31	8.14
Other Current Assets	0.81	0.17	0.0	0.0	0.0
Total Assets	11.8	10.8	12.6	23.0	26.5
ST Debt	0.33	0.11	0.98	0.98	0.98
Creditor	2.86	6.03	5.80	6.56	7.10
Other Current Liab	0.45	0.45	0.59	0.46	0.60
LT Debt	0.47	0.43	0.22	0.22	0.22
Other LT Liabilities	0.0	0.05	0.03	0.03	0.03
Shareholder's Equity	7.71	3.77	4.91	14.6	17.5
Minority Interests	0.0	0.0	0.07	0.07	0.07
Total Cap. & Liab.	11.8	10.8	12.6	23.0	26.5
Non-Cash Wkg. Capital	5.27	(0.3)	0.88	0.29	0.45
Net Cash/(Debt)	1.85	3.24	3.38	13.4	15.8
Debtors Turn (avg days)	39.6	64.6	54.2	54.0	51.4
Creditors Turn (avg days)	19.6	54.4	66.0	62.1	63.4
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	6.1	3.4	3.8	2.8	2.2
Current Ratio (x)	3.1	1.5	1.6	2.7	2.9
Quick Ratio (x)	2.9	1.5	1.6	2.7	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	14.5	56.3	17.8	41.7	41.7

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	2.91	2.76	4.86	4.82	6.32
Dep. & Amort.	0.12	0.31	0.21	0.21	0.21
Tax Paid	0.0	(0.2)	(0.4)	(0.6)	(0.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1.3)	0.67	(0.3)	0.72	(0.3)
Other Operating CF	0.38	0.02	(0.1)	0.0	0.0
Net Operating CF	2.07	3.54	4.27	5.17	5.78
Capital Exp.(net)	(0.1)	(0.3)	(0.2)	(0.5)	(0.5)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.94	0.0	0.0
Net Investing CF	(0.1)	(0.3)	0.73	(0.5)	(0.5)
Div Paid	(0.6)	(2.9)	(4.4)	(2.2)	(2.9)
Chg in Gross Debt	(1.0)	0.77	0.20	0.0	0.0
Capital Issues	0.0	0.03	0.13	7.54	0.0
Other Financing CF	(0.1)	(0.1)	(0.1)	0.0	0.0
Net Financing CF	(1.6)	(2.2)	(4.2)	5.36	(2.9)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	0.32	1.07	0.82	10.0	2.42
Opg CFPS (\$ cts)	1.95	1.66	2.61	2.57	3.51
Free CFPS (\$ cts)	1.13	1.87	2.34	2.70	3.05

Capital Expenditure



Proceeds from IPO

Source: Company, DBS Bank

VALUATIONS

Advancer Global is currently trading at 15.9x and 12.1x FY16F and FY17F earnings. There is no direct peer listed in Singapore.

The closest would be Denmark-listed ISS A/S; with US\$7bn market capitalisation, US\$12b revenue and US\$350m profits. We believe a 15x FY17F PE valuation is fair, as Advancer Global is one of the few bigger facilities management services providers here. The valuation peg is based on a slight 10% discount to Denmark-listed ISS's FY17F valuation, given its much smaller size. Fair value works out to S\$0.50 per share, which translates to a potential upside of 24% from the current price.

Earnings for FY16F are expected to be flat due to IPO expenses. S\$0.68m has been booked in 1H16. Another about S\$0.9m IPO expenses is expected to be booked in 2H16. We expect the group to make acquisitions this year. Thus, FY17F will be a better year with the full impact of the anticipated acquisition kicking in. Advancer Global registered a 1H16 net profit of S\$1.9m (-14.7% y-o-y) on turnover of S\$23.2m (+10.7% y-o-y). Excluding IPO expenses, net profit would be S\$2.6m (+10.1% y-o-y).

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Key risks: Affected by laws, regulations, policies and market forces

Subject to laws, regulations and policies imposed by the government and regulatory authorities in Singapore and in the countries from which the foreign labour originates, which may influence the supply of foreign labour.

Table 6: Peers' Comparisons

Company	Price (\$)	Mkt Cap (\$m)	PE FY16 (x)	PE FY17 (x)	FY15 Sales (\$m)	Net Profit (\$m)	Net Margin (%)
Advancer Global	S\$0.40	69.3	15.9	12.1	44.8	4.4	2.9
ISS (US\$)	40.2	7463.9	17.9	16.8	11937	350	9.8

Source: DBS Bank, Bloomberg Finance L.P.

DBS Bank Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- 1 (>20% potential returns over the next 12 months)
- 2 (0 - 20% potential returns over the next 12 months)
- 3 (negative potential return over the next 12 months)

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

Note that these assessments are based on a preliminary review of factors deemed salient at the time of publication. DBSV does not commit to ongoing coverage and updated assessments of stocks covered under the Equity Explorer product suite. Such updates will only be made upon official initiation of regular coverage of the stock.

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