27 June 2018

Strategy | Strategy - Singapore

Strategy - Small Mid Caps

Top Picks For 2H18

Overweight (Maintained)

Stocks Covered:	12
Ratings (Buy/Neutral/Sell):	8 / 4 / 0
Last 12m Earnings Revision Trend:	Negative

Maintain OVERWEIGHT with HRnetgroup, Silverlake, Kimly, GSS Energy and Moya as Top 5 Picks. The markets have experienced a turbulent 1H18. Technology, oil & gas and property-related stocks have corrected significantly, especially in 2Q18. We believe that technology/manufacturing stocks should likely continue to suffer de-rating of valuations from slower-than-expected growth and potential trade war implications, which have impacted them since March. Thus, even after the selldown, we are NEUTRAL on the technology sector and are only positive on a few stocks.

Expect continued technology sector de-rating. Since US President Donald Trump initiated a possibility trade war against China and its other key deficit trading partners in March, manufacturing stocks in Singapore have since corrected 30-60% from March highs. The average sector P/E has also decreased from 11x in 2017 to about >8x currently.

With the trade issue still unresolved and potentially worsen, a further de-rating is possible before bottoming out. This is especially when the average sector P/E was just 4-5x in 2016 before the massive technology surge in 2017. Most of the manufacturing players are also experiencing slower growth rates, as 2017 was an exceptional year. Their earnings might also be impacted by global events and the trade war worsening. Thus, we are NEUTRAL on the sector.

Strong Singapore economic and labour data – positive for HRnetgroup. According to a labour market report quoting the Ministry of Manpower Singapore, 1Q18 layoffs plunged to a 5-year low, with 2,320 workers asked to go compared to 4,000 in the same quarter last year. The seasonally adjusted unemployment rate dipped in March to 2% vs 2.2% a year earlier, which represents a 5-year low in the first quarter, as the economy grew faster than forecasted.

The Ministry of Trade and Industry also announced that Singapore's GDP grew 4.4% in 1Q18, with full-year growth expected to come in at 2.5-3.5% this year. We remain bullish on HRnetgroup's organic growth this year and we think that it should easily beat consensus PATMI targets.

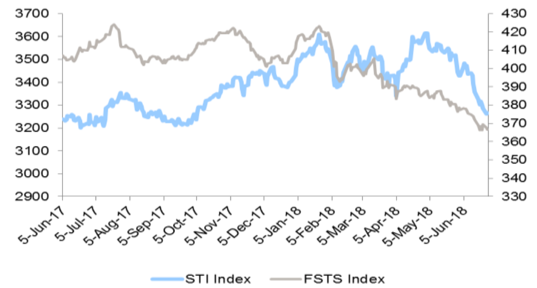
Rising oil prices – positive for GSS Energy. The rising oil prices are positive for GSS, as it is in the midst of finding an off taker for the gas discovered in the first well. It is also awaiting the results of the second well, which it has re-entered. If oil is discovered, it should be able to produce and sell the oil in 3Q18 and would benefit from the rising oil prices, which we believe, will be positive to margins and profitability.

Our Top 5 Picks for 2H18. Our Top 5 Picks are HRnetgroup, Silverlake, Kimly, GSS Energy and Moya. We like the defensive and rich cash flow generative nature of Kimly's business, coupled with M&A in the pipeline. We believe that growth would be exciting in the coming years.

For Silverlake, with bumper years of PATMI growth ahead justified by strong orderbook of >MYR380m not seen since FY15-16, we believe that the business cycle has bottomed out, and earnings may likely surge in the next few years. With lower financing costs, concession extensions and recovery of non-revenue water (NRW) to provide strong organic growth, and additional accretive acquisitions in the pipeline to further boost NPAT – we remain positive on Moya.

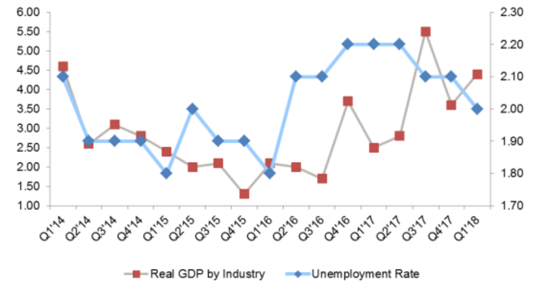
Top Picks	Target Price
HRnetgroup (HRNET SP) – BUY	SGD 1.18
Silverlake Axis (SILV SP) – BUY	SGD0.65
Kimly (KMLY SP) – BUY	SGD 0.43
GSS Energy (GSSE SP) – BUY	SGD 0.25
Moya Holdings (MHAL SP) – BUY	SGD 0.14

STI Index & FSTS Index - 1 Year



Source: Bloomberg

Singapore's GDP and unemployment rate



Source: Bloomberg

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Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
GSS Energy	BUY	SGD0.14	SGD0.25	79.9	7.5	1.2	2.7
HRnetgroup	BUY	SGD0.87	SGD1.18	36.4	15.2	2.3	3.3
ISOTeam	BUY	SGD0.34	SGD0.42	25.4	10.4	0.6	2.4
Kimly	BUY	SGD0.36	SGD0.43	21.1	17.2	4.1	2.9
Moya	BUY	SGD0.09	SGD0.14	50.5	12.4	1.3	-
Silverlake Axis	BUY	SGD0.53	SGD0.65	23.8	17.0	3.7	5.6
Singapore Medical	BUY	SGD0.46	SGD0.68	47.8	16.8	1.5	-
Valuetronics	BUY	SGD0.67	SGD0.92	38.3	6.5	1.2	9.3
Avi-Tech Electronics	NEUTRAL	SGD0.39	SGD0.43	10.3	9.9	1.3	8.6
Centurion Corp	NEUTRAL	SGD0.46	SGD0.47	2.2	9.6	0.7	3.3
Fu Yu Corp	NEUTRAL	SGD0.17	SGD0.20	17.0	15.3	0.8	8.8
Jadason	NEUTRAL	SGD0.04	SGD0.05	25.0	11.5	0.6	3.5

Source: Company data, RHB

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Manufacturing Stocks Rout

Trade war and slower growth lead to de-rating

Since Donald Trump initiated a possible trade war against China and its other key deficit trading partners in March – commencing with a 10% tax on all aluminium imports and a 25% tariff on steel – there has been downward pressure on share prices, especially manufacturers in the Singapore technology space. There was a slight reprieve in May, when both China and the US met for talks with the aim of avoiding a trade war and reduce the Chinese trading deficit with the US. However, talks were inconclusive, which led to a further escalation of a potential trade war. The US imposed a 25% tariff on USD50bn worth of Chinese goods, which was reciprocated on the same scale by China on 15 Jun.

Figure 1: Trade war timeline

Source: RHB

Manufacturing stocks corrected 30-60% since March. Since the 10% tax on all aluminium imports and 25% tariff on steel was implemented, manufacturing stocks in Singapore have corrected about 30-60% from March highs. The average sector P/E has also decreased from 11x in 2017 to about 8x FY19F

Figure 2: Singapore listed manufacturers

Company	Price (25 Jun 18)	Price - Peak Mar 18	Change (%)	Price (2 Jan 18)	Change (%)	P/E (x)	FY19F P/E (x)	Div Yield (%)	P/B (x)	Debt/ Equity	ROE (%)	EV/EBITDA (x)
GSS ENERGY LTD	0.143	0.175	-18.3%	0.165	-13.3%	17.9	7.2	1.8	1.6	6.7	4.9	11.6
FU YU CORP LTD	0.173	0.195	-11.3%	0.191	-9.4%	28.8	17.3	8.7	0.8	0.0	2.9	3.5
JADASON ENTERPRISES LTD	0.042	0.072	-41.7%	0.079	-46.8%	12.1	14.0	3.3	0.6	6.2	5.1	9.5
AVI-TECH ELECTRONICS LTD	0.390	0.530	-26.4%	0.490	-20.4%	10.7	9.8	5.9	1.4	1.1	13.2	6.7
VALUETRONICS HOLDINGS LTD	0.675	1.100	-38.6%	0.945	-28.6%	8.1	6.7	3.9	1.6	0.0	20.4	8.3
VENTURE CORP LTD	17.690	28.840	-38.7%	21.420	-17.4%	12.1	10.8	3.4	2.2	1.4	18.8	14.8
SUNNINGDALE TECH LTD	1.290	2.010	-35.8%	1.990	-35.2%	9.5	6.7	3.5	0.7	28.3	7.2	4.5
AEM HOLDINGS LTD	1.110	1.898	-41.5%	0.825	34.5%	8.1	6.0	1.5	4.1	0.0	67.5	9.3
HI-P INTERNATIONAL LTD	1.250	2.720	-54.0%	1.940	-35.6%	8.1	9.0	3.3	1.8	39.1	21.7	7.1
MEMTECH INTERNATIONAL LTD	1.130	1.910	-40.8%	1.100	2.7%	8.4	7.1	4.9	0.9	3.8	9.3	6.7
Aveage (excluding Fuyu)						10.5	8.6					
Straits Times Index STI	3260.84	3553.73	-8.2%	3430.30	-4.9%							
FTSE ST SMALL CAP INDEX	367.51	405.36	-9.3%	410.69	-10.5%							

Source: Bloomberg

The worst is not over. With the trade issue still unresolved and potentially worsen, especially with other countries including China, it is possible for a further de-rating before bottoming out. This is especially when the average sector P/E was just 4-5x in 2016 before the massive tech surge in 2017. Most of the manufacturing players are also experiencing a slower growth rate, as 2017 was an exceptional year. Their earnings might also be impacted by global events and the trade war worsening.

As a result, we are NEUTRAL on the sector and prefer Valuetronics in the small-mid cap manufacturing space, especially if there is any uplift in the sector. Investors can take comfort in 6% FY19F yield, which should help to provide some downside cushion. In relation to the proposed additional Section 301 tariffs on products imported into the US from China, only a very small portion may apply to Valuetronics amounting to only 2-3% of revenue.

Strong Singapore Economic And Employment Data

Provide a strong basis for HRnetgroup's continued outperformance

We remain bullish on HRnetgroup's organic growth this year and we think that it should easily beat consensus PATMI targets. This is also supported by the strong economic and employment data coming out from Singapore.

According to a labour market report quoting the Ministry of Manpower Singapore, 1Q18 layoffs plunged to a 5-year low, with 2,320 workers asked to go compared to 4,000 in the same quarter last year. The seasonally adjusted unemployment rate dipped in March to 2% vs 2.2% a year earlier, representing a 5-year low in the first quarter, as the economy grew faster than forecasted.

Figure 3: Singapore economic data (%)

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Real GDP	1.9	1.8	1.8	1.5	2.3	2.5	2.5	3	3.2
Domestic Export Non-Oil	0.2	-2.1	-3.6	0.3	6.1	5.6	7.4	5.8	5.5
CPI	-0.2	-0.4	-0.5	1.0	1.0	0.9	0.8	1.0	1.0
Unemployment Rate	1.8	2.1	2.1	2.2	2.2	2.2	2.1	2.1	2

Source: Monetary Authority of Singapore

The Ministry of Trade and Industry also announced that Singapore's GDP grew 4.4% in 1Q18, with full-year growth expected to come in at 2.5-3.5% this year. Growth was primarily supported by the manufacturing sector, – rising 9.8%, from 4.8% the previous quarter – the finance and insurance as well as wholesale trade sectors. It was also reported even though the Singapore Business Federation SME Index dipped marginally from 51.8% to 51.5% on 19 Jun, small and medium enterprises (SMEs) are still upbeat for the rest of 2018.

Figure 4: GDP at 2010 prices (%)

	1Q17	2Q17	3Q17	4Q17	2017	1Q18*
Percentage change over corresponding period of previous year						
Overall GDP	2.5	2.8	5.5	3.6	3.6	**4.3**
Goods Producing Industries						
Manufacturing	8.5	8.4	19.1	4.8	10.1	**10.1**
Construction	-6.9	-12.2	-9.3	-5	-8.4	**-4.4**
Services Producing Industries	1.5	2.6	3.5	3.5	2.8	**3.8**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	-1.5	2.8	11.2	2.1	3.6	**1.4**
Goods Producing Industries						
Manufacturing	1.3	3.8	34.9	-14.8	10.1	**23.3**
Construction	3.1	-18.5	-2.4	-0.2	-8.4	**4.1**
Services Producing Industries	-3.6	4.9	6.5	6.3	2.8	**-2.1**

Source: www.singstat.gov.sg

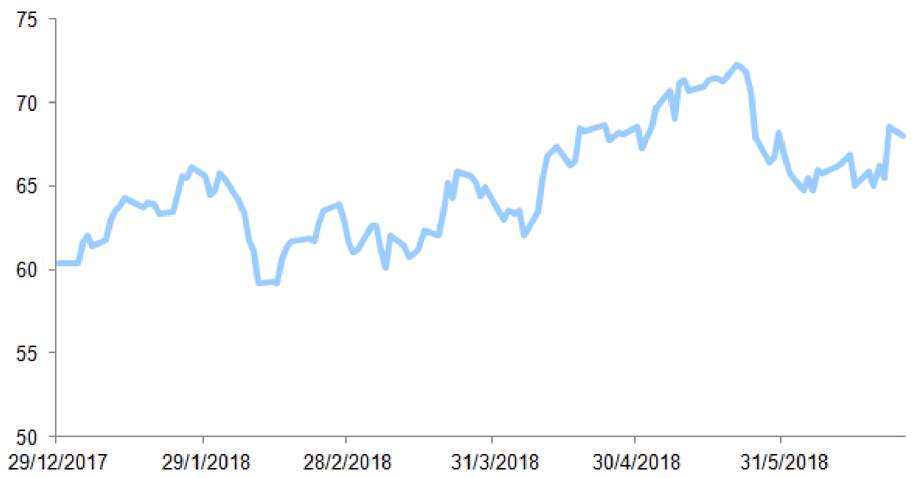
As a result, we expect flexible staffing business in Singapore to perform well into 2Q18, with professional staffing likely to hold up as well.

Rising Oil Prices

Provide a positive outlook for GSS

The rising oil prices are positive for GSS, as it is in the midst of finding an off taker for the gas discovered in the first well. It is also awaiting the results of the second well, which it has re-entered. If oil is discovered, it should be able to produce and sell the oil in 3Q18 and would benefit from the rising oil prices, which we believe, will be positive to margins and profitability.

Figure 5: WTI Crude Oil prices (YTD)



Source: www.macrotrends.net

Despite OPEC'S agreement to hike output by 1mbpd, our house view is that the additional barrels will be required to provide global markets with a security of supply and stability of oil prices. We remain bullish on oil prices, as global crude oil demand remains robust, with International Energy Agency expecting additional global crude oil demand to average 1.5mbpd for 2018, with peak demand in 4Q18 at 1.7mbpd. Our oil price projection is USD73.3 for FY18.

Figure 6: Crude oil price scenarios (Brent, USD/bbl)

Scenarios	1Q18	2Q18	3Q18	4Q18F	2018F	2019F	2020F	Assumptions
(i) Base case	67.0	73.0	74.0	79.0	73.3	79.0	81.0	Simmering tensions throughout the year. With peak season in driving season and western hemisphere demand. OPEC and its alliance remain intact, with our assumption that OPEC crude oil production is capped at 32.1mbpd for the forecasted period
(ii) Downside: Trade war	67.0	68.6	65.2	61.6	65.6	60.2	58.6	Assume trade war, affecting c. 700kbpd of global crude oil demand with all other variables held constant. OPEC and non-OPEC production remains as in the base case.
(iii) Upside: Escalating ME tensions	67.0	83.0	84.0	89.0	80.8	79.0	81.0	Upside ME tensions for 2018F only
(iv) Both ME tensions and trade war	67.0	78.6	75.2	71.6	73.1	70.2	68.6	ME tensions and trade war
(v) Venezuela or US imposes Iran sanctions	67.0	76.1	77.6	87.1	77.0	88.9	93.4	Supply of 600kbpd is lost from Venezuela in our base case or from Iran

Source: RHB

Top 5 Picks

Figure 7: Top Picks

Company	Price (25 Jun)	Target Price	Upside	P/E (x)	FY18F P/E (x)	FY19F P/E (x)	Div Yield (%)	EPS Growth FY18F (%)	EPS Growth FY19F (%)	P/B (x)	Debt/ Equity	ROE (%)	EV/EBITDA (x)
HRNETGROUP LTD	0.865	1.18	36%	18.8	16.2	15.2	3.1	10.1	7.0	2.8	0.0	20.9	8.4
GSS ENERGY LTD	0.143	0.25	75%	17.9	10.9	8.2	1.8	60.8	32.9	1.6	6.7	4.9	11.6
KIMLY LTD	0.355	0.43	21%	17.7	18.3	17.0	2.7	1.8	7.9	5.6	0.0	51.2	13.3
MOYA ASIA LIMITED	0.092	0.14	52%	17.4	13.9	11.8	n.a.	130.7	18.4	2.2	325.4	13.5	10.0
SILVERLAKE AXIS LTD	0.525	0.65	24%	32.5	32.3	17.0	2.3	3.5	89.8	5.2	7.8	12.1	23.8

Source: RHB

HRnetgroup – riding on strong hiring in Singapore and M&A. With SGD200m budgeted for M&A, we believe more acquisitions are to come in the near future and HRnetgroup will focus on new markets and build a presence in North Asia. We also expect a better FY18 from stronger growth in North Asia and Singapore across all segments, with effect of the *88GLOW Plan* on PATMI to take full effect in 2018 and the absence of IPO expenses. Maintain BUY with a DCF-based TP of SGD1.18.

Silverlake – banking on the recovery of bank spending. With bumper years of PATMI growth ahead justified by strong orderbook of over MYR380m not seen since FY15-16, we believe that Silverlake's business cycle has bottomed out, and earnings may likely surge in the next few years. In addition, positive signs from licensing and project services revenue streams in 3Q18 also point towards a strong outlook. Our unchanged DCF-backed TP of SGD0.65 reflects 21x FY19F P/E.

Kimly – defensive cash rich business with an M&A angle. We like the defensive and rich cash flow generative nature of Kimly's business, and we think that the new outlets it invested in during 2017 and coming up in 2018 will likely be profitable in 2019-2020. In addition, with M&A in the pipeline, we believe that growth would be exciting in the coming years. Kimly is trading below the peer average P/E of 24x. Accompanied by a superb 2Q18, we remain positive on Kimly and maintain BUY with DCF-derived TP of SGD0.43 (WACC of 7.5%, TG of 1%).

GSS – inflection point on oil discovery and monetisation. We remain optimistic of GSS' prospects and expect many potential catalysts to come in the near future, both in the precision engineering (PE) and oil & gas segments. With rising oil prices, especially over the last few months, GSS is expected to benefit directly. With a positive outlook ahead affirmed by its recently implemented dividend policy, we believe GSS is currently at an inflection point, and think that the current weakness represents a good opportunity to accumulate. Maintain BUY and SOP-based TP of SGD0.25.

Moya – key catalysts upcoming after rights issue. With lower financing costs, concession extensions and recovery of NRW to provide strong organic growth, and additional accretive acquisitions in the pipeline to further boost NPAT – we remain positive on Moya and maintain BUY with a DCF-backed TP of SGD0.14.

27 June 2018

Industrials | Commercial & Professional Services

HRnetgroup

Top Pick 1 – Riding On Strong Singapore Employment

Maintain BUY and DCF-derived TP of SGD1.18, 36% upside. We are confident that HRnetgroup will have a record 2018F, with sustained strong employment data in Singapore (5-year low in 1Q18) as the economy grew faster than forecasted. Our recent channel checks showed continued strong growth momentum in flexible staffing in Singapore going into 2Q18, and earnings accretive of REForce acquisition. With a net cash of SGD292.1m, we believe subsequent M&A will boost profitability further.

REForce acquisition earnings accretive; more incoming. HRnetgroup has tied up the acquisition of a 51% stake in REForce China via an earnout model of 10%, 45% and 45% in the next two years, at an estimated P/E of >10x, which we believe is reasonable. Minimum profits for FY18F-19F have been set at CNY12.5m and CNY20m. With a net cash pile of SGD292.1m, HRnetgroup is well positioned to go on an acquisition spree. It also has the ability to gear up if it finds a sizeable target for M&A. We believe it will likely target recruitment firms in the regions where it plans to expand into, especially North Asia, Europe and Australia. These acquisitions should come through in 3Q-4Q18.

Key drivers – flexible staffing and North Asia growth. As we see it, flexible staffing will be one of the main growth drivers for HRnetgroup for the remaining quarters of 2018. This is from sustained strong economic and employment data in Singapore, and our recent channel checks showing continued strong growth momentum in Singapore's flexible staffing business going into 2Q18 without any signs of slowing down. Gross profit in North Asia made up 40% of total gross profits in 1Q18. With the REForce acquisition in China, we expect North Asia to continue contributing positively to PATMI in 2H18, and expect further growth momentum in North Asia to drive overall profitability.

Interim dividends a high possibility, share buybacks to continue. Based on HRnetgroup's policy of distributing 50% of NPAT as dividends, in our view, there is a possibility of interim dividends, in an effort to reward shareholders. We had previously expected it to utilise some of the cash hoard to buy back shares for future M&A, which it has already done. Since 10 May, it has bought back 2.79m shares from the market. We think it will likely continue to do so.

Record 2018F likely. We believe HRnetgroup will likely pursue more acquisitions in the near future, focus on new markets, and build its presence in North Asia. We are also expecting better quarterly performances ahead for the rest of 2018, from stronger growth in North Asia and Singapore across all segments, positive effects of the *88GLOW Plan* on PATMI that will have a full-year effect in 2018, and the absence of IPO expenses. Maintain BUY and DCF-backed TP of SGD1.18. Key risk is fluctuations in general economic activity.

Street-high TP; RHB is one of five brokers covering HRnetgroup.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	365	392	430	452	475
Reported net profit (SGDm)	41.1	41.2	54.6	57.5	62.0
Recurring net profit (SGDm)	41.1	44.2	54.6	57.5	62.0
Recurring net profit growth (%)	7.6	7.5	23.7	5.2	7.8
Recurring EPS (SGD)	0.05	0.04	0.05	0.06	0.06
DPS (SGD)	na	0.02	0.03	0.03	0.03
Recurring P/E (x)	16.2	19.8	16.0	15.2	14.1
P/B (x)	7.92	2.80	2.55	2.33	2.13
P/CF (x)	12.4	22.5	13.8	14.4	13.4
Dividend Yield (%)	na	2.7	3.1	3.3	3.5
EV/EBITDA (x)	9.49	9.58	7.65	6.86	5.96
Return on average equity (%)	40.8	20.8	16.7	16.0	15.7
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			8.1	(5.3)	2.2

Source: Company data, RHB

Buy (Maintained)

Target Price:	SGD1.18
Price:	SGD0.87
Market Cap:	USD641m
Bloomberg Ticker:	HRNET SP

Share Data

Avg Daily Turnover (SGD/USD)	0.43m/0.32m
52-wk Price low/high (SGD)	0.71 - 0.91
Free Float (%)	24
Shares outstanding (m)	1,011
Estimated Return	36%

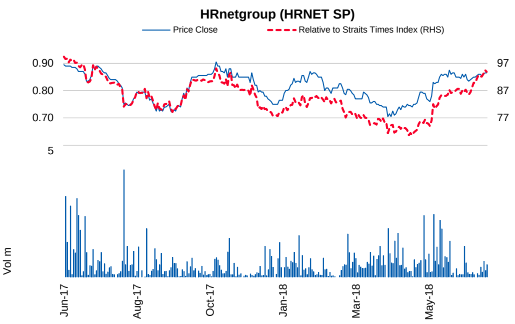
Shareholders (%)

Simco Trust	74.3
VANDA 1 Investments Pte Ltd	1.8
Wei Wen Sim	0.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.1	0.6	16.1	15.3	(3.4)
Relative	16.7	7.2	20.0	18.2	(5.6)

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-06-08.

Asia
Singapore
Industrials
HRnetgroup
Bloomberg HRNET SP
Buy

Valuation basis

DCF-based TP of SGD1.18

Key drivers

i. Increase demand for flexible staffing across Asia;
ii. M&A.

Key risks

i. Increase competition in the recruitment industry;
ii. Fluctuations in general economic activity.

Company Profile

HRnetgroup is the largest Asia-based recruitment agency in Asia Pacific (ex. Japan), as compared to other key players with presence in Asia Pacific. The group operates 11 brands in 10 Asian growth cities, namely, Singapore (where the headquarters are located), Kuala Lumpur, Bangkok, Hong Kong, Taipei, Guangzhou, Shanghai, Beijing, Tokyo and Seoul. Currently, HRnetgroup provides professional recruitment, flexible staffing and other HR services (payroll, training) to over 2000 clients from 30 diversified sectors such as financial institutions, retail & consumer, IT and telecommunications, etc.

Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (SGD)	0.05	0.04	0.05	0.06	0.06
EPS (SGD)	0.05	0.04	0.05	0.06	0.06
DPS (SGD)	0.00	0.02	0.03	0.03	0.03
BVPS (SGD)	0.11	0.31	0.34	0.37	0.41
Weighted avg adjusted shares (m)	768	1,011	1,011	1,011	1,011

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	16.2	19.8	16.0	15.2	14.1
P/E (x)	16.2	21.2	16.0	15.2	14.1
P/B (x)	7.92	2.80	2.55	2.33	2.13
FCF Yield (%)	7.9	4.3	7.1	6.8	7.4
Dividend Yield (%)	0.0	2.7	3.1	3.3	3.5
EV/EBITDA (x)	9.49	9.58	7.65	6.86	5.96
EV/EBIT (x)	9.62	9.71	7.73	6.94	6.02

Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	365	392	430	452	475
Gross profit	133	136	151	160	170
EBITDA	60	61	72	76	82
Depreciation and amortisation	(1)	(1)	(1)	(1)	(1)
Operating profit	59	61	71	75	81
Exceptional income - net	0	(4)	0	0	0
Pre-tax profit	59	57	71	75	81
Taxation	(11)	(10)	(13)	(14)	(15)
Minority interests	(7)	(5)	(4)	(4)	(4)
Recurring net profit	41	44	55	57	62

Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(2)	(9)	4	(1)	(2)
Cash flow from operations	53	39	63	61	65
Capex	(1)	(1)	(1)	(1)	(1)
Cash flow from investing activities	1	(5)	(1)	(1)	(1)
Proceeds from issue of shares	15	176	0	0	0
Dividends paid	(74)	(21)	(27)	(29)	(31)
Cash flow from financing activities	(69)	153	(27)	(29)	(31)
Cash at beginning of period	121	106	289	324	355
Net change in cash	(15)	187	35	31	33
Ending balance cash	106	290	324	355	389

Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	107	295	330	361	394
Tangible fixed assets	1	1	1	1	1
Intangible assets	0	0	0	0	0
Total investments	0	1	1	1	1
Total other assets	0	1	1	1	1
Total assets	178	375	422	458	496
Total liabilities	81	55	70	73	76
Shareholders' equity	84	312	344	376	411
Minority interests	13	8	8	8	8
Total equity	97	321	352	385	420
Net debt	(107)	(295)	(330)	(361)	(394)
Total liabilities & equity	178	375	422	458	496

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	2.5	7.4	9.6	5.2	5.2
Recurrent EPS growth (%)	7.6	(18.4)	23.7	5.2	7.8
Gross margin (%)	36.4	34.7	35.3	35.5	35.8
Operating EBITDA margin (%)	16.5	15.7	16.8	16.8	17.2
Net profit margin (%)	11.3	10.5	12.7	12.7	13.0
Capex/sales (%)	0.2	0.2	0.2	0.2	0.2

Source: Company data, RHB

SWOT Analysis

S

- Largest Asia-based recruitment agency in the Asia-Pacific (ex Japan), with presence in 10 growing Asia cities
- Large and evenly-distributed client base of more than 2,000 clients exposed to a variety of sectors

T

- Increased competition from smaller/niche recruitment agencies and online recruitment platforms due to low barriers of entry
- Clients may decide to adopt in-house human resource department rather than outsource

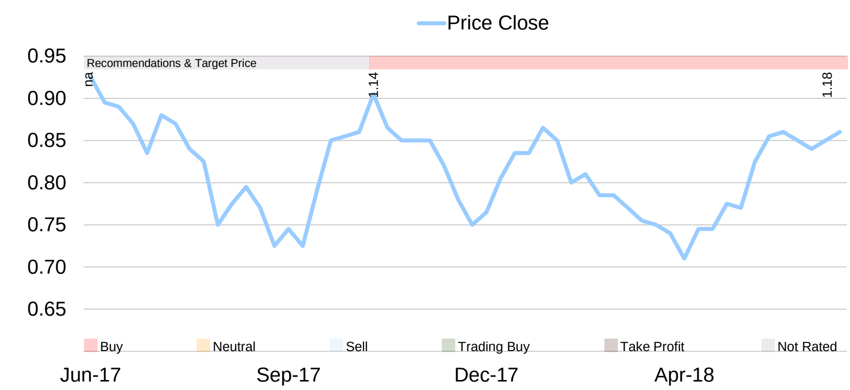
O

- Able to establish and expand into overseas markets through the extensive knowledge and experience of its management team
- Strong ability to acquire other recruitment agencies, both local and overseas, given its strong net cash position

W

- High exposure to economic cycles of a country, as well as foreign currency risks

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-06-11	Buy	1.18	0.84
2018-02-26	Buy	1.14	0.81
2017-11-14	Buy	1.14	0.85
2017-11-02	Buy	1.14	0.88

Source: RHB, Bloomberg

27 June 2018

Technology | Software & Services

Buy (Maintained)

Silverlake Axis

Top Pick 2 – Riding On Banks' Spending Recovery

Target Price:	SGD0.65
Price:	SGD0.53
Market Cap:	USD1,024m
Bloomberg Ticker:	SILV SP

Maintain BUY and SGD0.65 TP, 23% upside. Poor FY17-18 financial performances have been on regional banks cutting/pulling back on major IT spending over the last two years. However, we understand these banks are now open to large IT capex again, with some needing to upgrade core banking systems. This trend is justified by Silverlake's contract wins over the last few months and orderbook at near record highs. Hence, we think earnings will surge strongly over the next two years, especially in FY19.

Silverlake Axis announced it won several sizable contracts in the past few months, eg upgrading Malaysia Building Society's (MBS MK, NR) core banking system. This has bumped up existing orderbook to MYR380m, near peak levels.

Management is in talks with a few Indonesian financial institutions that are looking to upgrade their core banking systems. We estimate each of these contracts to be worth ~MYR150-200m and implemented over a 2-year period. Thus, we expect these factors to translate into earnings visibility and potentially add on to 89.8% increase in net profits, especially in FY19 (Jun).

Recurring dividends back to attractive 5-6% levels plus special dividends. FY17-18F dividends are supported by special dividends from share sales in Silverlake's China-listed associate Global InfoTech (300465 CH, NR). With earnings affected, dividends from recurring NPAT have decreased significantly.

However, with Silverlake's projected recovery, we expect recurring dividends to improve to 5.7% in FY19. Additionally, proceeds from further sales of GIT shares are likely to translate into special dividends to shareholders – further increasing the dividend yield. Share buybacks have also commenced, and 31.8m shares have been bought back, YTD.

The next Silverlake in the making? Silverlake's insurance business has been experiencing double-digit growth since inception, and management has expressed interest in acquisitions to hasten the growth pace. As we see it, once insurance revenue reaches a more sizable base, a spin-off should be possible, This ought to benefit shareholders and – at the same time – provide the insurance business with ample resources to grow at a faster speed.

Maintain BUY. With bumper years of PATMI growth ahead – justified by Silverlake's strong orderbook of >MYR380m (not seen since FY15-16) – we believe the business cycle has bottomed – with earnings likely to surge over the next few years. Positive signs from licensing and project services revenue streams in 3QFY18 also point towards a strong outlook. Our DCF-backed SGD0.65TP reflects 21x FY19F P/E. A key risk to our call is the delay in or implementation of orders.

RHB is the one of two brokers covering Silverlake.

Share Data

Avg Daily Turnover (SGD/USD)	0.73m/0.54m
52-wk Price low/high (SGD)	0.52 - 0.63
Free Float (%)	24
Shares outstanding (m)	2,245
Estimated Return	23%

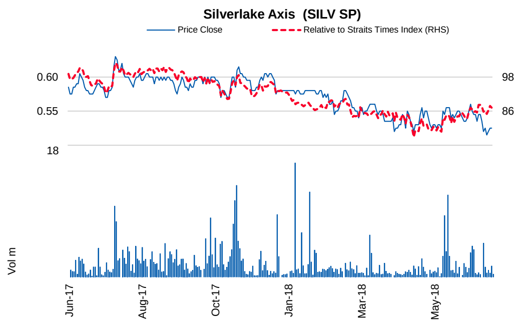
Shareholders (%)

Peng Ooi Goh	67.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.5)	(3.7)	(1.9)	(9.5)	(10.3)
Relative	(5.9)	2.9	2.0	(6.6)	(12.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover (MYRm)	636	506	504	724	745
Reported net profit (MYRm)	274	818	128	244	250
Recurring net profit (MYRm)	256	124	128	244	250
Recurring net profit growth (%)	(3.2)	(51.5)	3.5	89.8	2.5
Recurring EPS (MYR)	0.09	0.05	0.05	0.09	0.09
DPS (MYR)	0.09	0.12	0.07	0.09	0.09
Recurring P/E (x)	16.3	33.7	32.6	17.2	16.7
P/B (x)	6.94	3.61	3.85	3.76	3.68
P/CF (x)	8.0	19.7	33.3	20.6	16.4
Dividend Yield (%)	5.7	7.6	4.8	5.6	5.6
EV/EBITDA (x)	13.2	21.6	23.8	13.0	12.6
Return on average equity (%)	44.1	92.9	11.4	22.2	22.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(60.3)	(24.6)	(22.7)

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-05-15

Asia
Singapore
Technology
Silverlake Axis
Bloomberg SILV SP
Buy

Valuation basis

DCF-backed TP of SGD0.65 (TG:1%,WACC: 7.4%)

Key drivers

i. Merimen insurance business;
ii. Improvement from symmetry business;
iii. Banks' capex.

Key risks

i. Economic recession;
ii. Slowdown in banks' capex.

Company Profile

Silverlake Axis is Asia's leading software services and solutions provider that specialises in providing end-to-end core banking system to banks and other financial institutions.

Financial summary	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Recurring EPS (MYR)	0.09	0.05	0.05	0.09	0.09
EPS (MYR)	0.10	0.30	0.05	0.09	0.09
DPS (MYR)	0.09	0.12	0.07	0.09	0.09
BVPS (MYR)	0.22	0.43	0.40	0.41	0.42
Weighted avg adjusted shares (m)	2,696	2,696	2,696	2,696	2,696

Valuation metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Recurring P/E (x)	16.3	33.7	32.6	17.2	16.7
P/E (x)	15.3	5.1	32.6	17.2	16.7
P/B (x)	6.94	3.61	3.85	3.76	3.68
FCF Yield (%)	12.5	4.8	2.8	4.6	5.9
Dividend Yield (%)	5.7	7.6	4.8	5.6	5.6
EV/EBITDA (x)	13.2	21.6	23.8	13.0	12.6
EV/EBIT (x)	14.0	24.4	26.8	13.8	13.4

Income statement (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover	636	506	504	724	745
Gross profit	384	277	260	406	416
EBITDA	294	163	151	277	284
Depreciation and amortisation	(16)	(18)	(16)	(16)	(16)
Operating profit	278	144	134	261	268
Net interest	1	3	5	5	4
Income from associates & JVs	2	(8)	1	2	2
Exceptional income - net	20	780	0	0	0
Pre-tax profit	300	920	141	268	275
Taxation	(26)	(101)	(13)	(24)	(25)
Minority interests	0	(0)	0	0	0
Recurring net profit	256	124	128	244	250

Cash flow (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Change in working capital	(67)	67	(12)	(50)	(3)
Cash flow from operations	525	212	126	203	256
Capex	(4)	(11)	(10)	(10)	(8)
Cash flow from investing activities	(71)	201	(3)	(4)	(2)
Dividends paid	(258)	(237)	(200)	(219)	(225)
Cash flow from financing activities	(567)	58	(200)	(219)	(223)
Cash at beginning of period	214	114	606	529	509
Net change in cash	(113)	472	(77)	(20)	31
Ending balance cash	113	606	529	509	540

Balance sheet (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total cash and equivalents	231	723	646	626	657
Tangible fixed assets	16	19	21	23	24
Intangible assets	196	192	183	175	167
Total investments	138	30	32	34	36
Total other assets	6	6	6	6	6
Total assets	833	1,441	1,351	1,393	1,426
Short-term debt	73	89	89	89	89
Total long-term debt	1	2	2	2	2
Total liabilities	231	283	263	280	282
Shareholders' equity	603	1,158	1,087	1,111	1,137
Minority interests	0	0	1	2	3
Total equity	603	1,158	1,088	1,113	1,143
Net debt	(156)	(632)	(555)	(535)	(566)
Total liabilities & equity	833	1,441	1,351	1,393	1,426

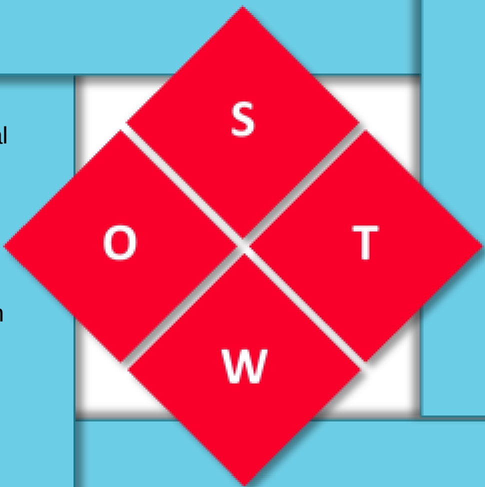
Key metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Revenue growth (%)	23.3	(20.4)	(0.5)	43.7	2.9
Recurrent EPS growth (%)	(19.4)	(51.5)	3.5	89.8	2.5
Gross margin (%)	60.3	54.7	51.7	56.1	55.9
Operating EBITDA margin (%)	46.2	32.2	29.9	38.3	38.1
Net profit margin (%)	43.0	161.6	25.5	33.7	33.6
Dividend payout ratio (%)	87.4	39.0	155.3	96.6	94.2
Capex/sales (%)	0.6	2.1	2.0	1.4	1.1
Interest cover (x)	250	100	99	193	198

Source: Company data, RHB

SWOT Analysis

- A leader in a niche market
- Long-term earnings visibility with 55-60% recurring revenue
- Solid financial health

- Competitive pricing from software developed in India
- Competition in credit card processing services from US-based FIS



- Regional M&A among financial institutions spurring IT spending
- Under-penetrated market in North Asia

- Dependent on financial institutions' IT spending
- Rich valuations

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-16	Buy	0.65	0.55
2017-05-17	Buy	0.65	0.53
2017-02-15	Buy	0.70	0.58
2016-08-29	Buy	0.77	0.61
2016-06-02	Buy	0.68	0.51
2016-05-13	Buy	0.68	0.55
2015-11-16	Buy	0.75	0.67
2015-09-20	Buy	0.62	0.55
2015-08-27	Buy	0.58	0.55
2015-05-17	Neutral	1.24	1.10

Source: RHB, Bloomberg

27 June 2018

Consumer Cyclical | Restaurants

Kimly

Buy (Maintained)

Target Price:	SGD0.43
Price:	SGD0.36
Market Cap:	USD302m
Bloomberg Ticker:	KMLY SP

Top Pick 3 – Organic Growth And M&A Are Catalysts

Maintain BUY and DCF-based SGD0.43 TP, 19% upside. Kimly reported a superb 2Q18, with revenue growing 3.8% YoY and PATMI surging 20.2% YoY. This was on increased number of coffee shops and third-party brands outlets, and 10.2% decrease in administrative costs from the absence of listing expenses. We expect it to continue into subsequent quarters. Management has also opened a new coffee shop in Ghim Moh and added another four food stores to Kimly's network.

Kimly reported a superb 2Q18, with revenue steadily growing at 3.8% YoY and PATMI surging 20.2% YoY. This was from an increased number of coffee shops and third-party brands outlets, and 10.2% decrease in administrative costs from the absence of listing expenses.

Net cash position of SGD85.5m, interim dividend declared. As at 2Q18, Kimly's net cash position was SGD85.5m, with zero debt. As a result, management declared an interim dividend of SGD0.0028, representing a payout ratio of 28.9%. We expect the final dividend to be significantly higher, at around 50% payout ratio of PATMI.

Actively seeking M&A and JVs. With net cash balance of SGD85.5m, and consistent and recurring positive cash flow, management is interested to look into acquisition targets for vertical integration. It may look for value-accretive acquisitions or JVs of SGD10-20m to boost value chain proposition in 2018-2019. This is likely to add around 10-15% of PATMI to FY18F, which we have not included in our estimates.

Expanding outlets through new store openings and managing third party brands. Today, the group operates and manages 68 coffee shops and four industrial canteens under the *Kimly* and third-party brands. It also operates four food courts under the *foodclique* brand. As at 30 Sep 2017, Kimly enjoyed a 98% occupancy rate across nearly 500 stalls within managed food outlets. Management is looking to add up to 1-2 coffee shops annually, and ramp up on third-party brands – which it has been doing. We are expecting at least 3-4 more additions to its portfolio in FY18.

Maintain BUY. We like the defensive and rich cash flow-generative nature of Kimly's business. We also think that the new outlets it invested in during 2017 – and those coming up in 2018 – are likely to be profitable in 2019-2020. In addition, with M&A in the pipeline, we believe growth would be exciting in the coming years. Kimly is also trading below peer average P/E of 24x. Key risks are rises in rental rates and labour shortages.

RHB is the only broker covering Kimly.

Share Data

Avg Daily Turnover (SGD/USD)	0.12m/0.09m
52-wk Price low/high (SGD)	0.33 - 0.41
Free Float (%)	40
Shares outstanding (m)	1,158
Estimated Return	19%

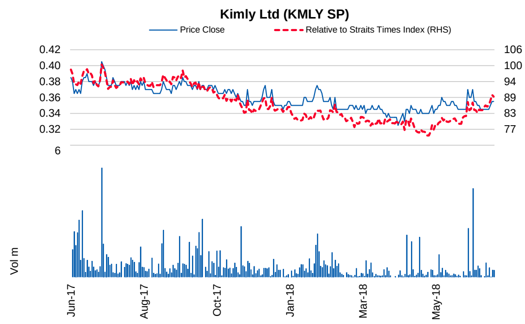
Shareholders (%)

Lim Hee Liat	42.3
Peh Oon Kee	8.6
Ng Lay Beng	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	2.9	6.0	2.9	(7.8)
Relative	3.6	9.5	9.9	5.8	(10.0)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover (SGDm)	172	192	204	218	231
Reported net profit (SGDm)	24.2	21.4	21.8	23.5	25.3
Recurring net profit (SGDm)	24.2	21.4	21.8	23.5	25.3
Recurring net profit growth (%)	7.7	(11.5)	1.8	7.9	7.5
Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
DPS (SGD)	0.06	0.01	0.01	0.01	0.01
Recurring P/E (x)	7.2	19.2	18.8	17.5	16.2
P/B (x)	17.2	5.6	4.9	4.3	3.8
P/CF (x)	6.1	14.2	16.8	15.1	14.1
Dividend Yield (%)	17.1	3.5	2.7	2.9	3.1
EV/EBITDA (x)	5.5	12.0	11.6	10.3	9.1
Return on average equity (%)	214.2	51.2	27.6	26.0	24.7
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-04-06

Asia
Singapore
Consumer Cyclical
Kimly
Bloomberg KMLY SP
Buy

Valuation basis

DCF-derived TP of SGD0.43 with WACC of 7.5%, TG 1%

Key drivers

i. M&A;
ii. Expanding new outlets through store openings and managing third party brands.

Key risks

i. Shortage of manpower;
ii. Intense competition in the F&B industry;
iii. Possible food contamination and tampering risk;
iv. Theft, fraud and corruption risk .

Company Profile

Kimly operates and manages coffee shops and food courts. The company offers prepared foods and drinks for on-premise consumption. It serves customers in Singapore.

Financial summary	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
EPS (SGD)	0.05	0.02	0.02	0.02	0.02
DPS (SGD)	0.06	0.01	0.01	0.01	0.01
BVPS (SGD)	0.02	0.06	0.07	0.08	0.09
Weighted avg adjusted shares (m)	490	1,158	1,158	1,158	1,158

Valuation metrics	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Recurring P/E (x)	7.2	19.2	18.8	17.5	16.2
P/E (x)	7.2	19.2	18.8	17.5	16.2
P/B (x)	17.2	5.6	4.9	4.3	3.8
FCF Yield (%)	15.3	6.0	5.2	5.9	6.4
Dividend Yield (%)	17.1	3.5	2.7	2.9	3.1
EV/EBITDA (x)	5.5	12.0	11.6	10.3	9.1
EV/EBIT (x)	6.0	13.1	12.5	11.1	9.9

Income statement (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover	172	192	204	218	231
Gross profit	37	38	41	44	47
EBITDA	28	27	27	29	32
Depreciation and amortisation	(2)	(2)	(2)	(2)	(2)
Operating profit	26	25	25	27	29
Net interest	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	26	25	25	27	29
Taxation	(1)	(3)	(3)	(3)	(4)
Recurring net profit	24	21	22	24	25

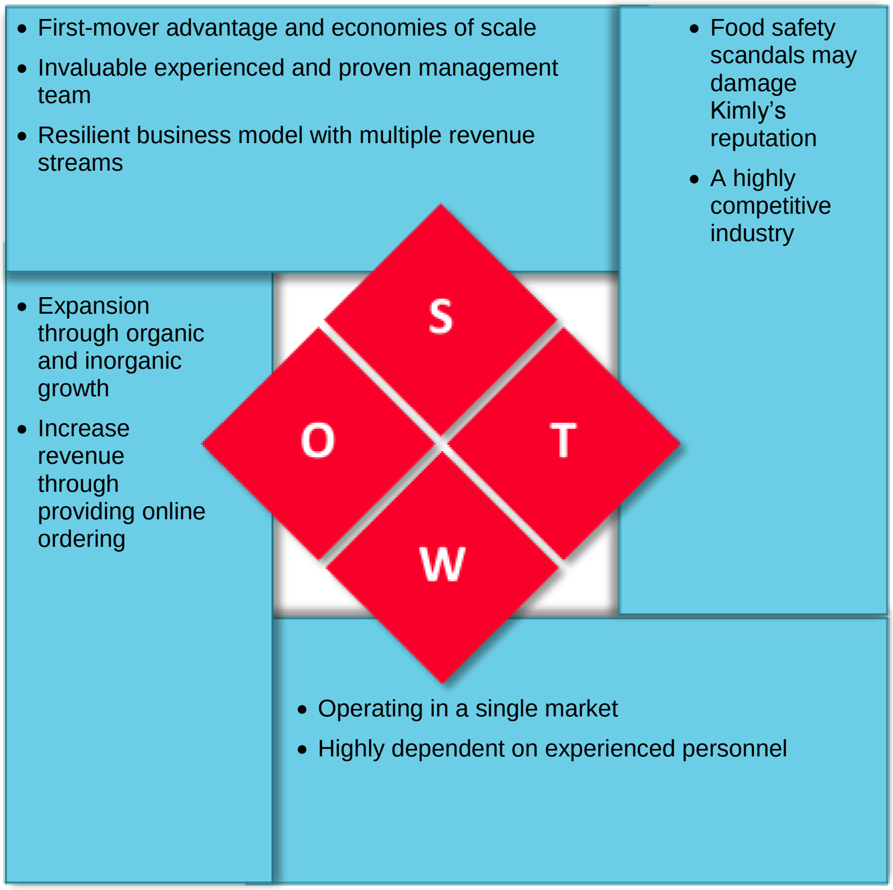
Cash flow (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Change in working capital	1.2	1.9	0.6	1.4	1.4
Cash flow from operations	28.4	29.0	24.4	27.2	29.2
Capex	(1.7)	(4.4)	(3.0)	(3.0)	(3.0)
Cash flow from investing activities	(1.7)	(4.4)	(3.0)	(3.0)	(3.0)
Proceeds from issue of shares	(0.3)	40.3	0.0	0.0	0.0
Dividends paid	(29.7)	(14.2)	(10.9)	(11.8)	(12.7)
Cash flow from financing activities	(26.6)	31.0	(10.9)	(11.8)	(12.7)
Cash at beginning of period	29.3	29.4	85.1	95.6	108.1
Net change in cash	0.1	55.6	10.5	12.5	13.6
Ending balance cash	29.4	85.1	95.6	108.1	121.6

Balance sheet (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total cash and equivalents	29.4	85.1	95.6	108.1	121.6
Tangible fixed assets	4.1	8.5	9.5	10.3	10.8
Intangible assets	0.3	1.3	1.3	1.3	1.3
Total other assets	4.1	4.9	4.9	4.9	4.9
Total assets	43.4	106.2	117.9	131.5	146.0
Other liabilities	0.9	0.6	0.6	0.6	0.6
Total liabilities	25.1	32.5	33.3	35.2	37.0
Shareholders' equity	10.1	73.7	84.6	96.3	109.0
Minority interests	8.2	0.0	0.0	0.0	0.0
Total equity	18.3	73.7	84.6	96.3	109.0
Net debt	(29.4)	(85.1)	(95.6)	(108.1)	(121.6)
Total liabilities & equity	43.4	106.2	117.9	131.5	146.0

Key metrics	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Revenue growth (%)	10.4	11.6	6.0	6.8	6.3
Recurrent EPS growth (%)	7.7	(62.6)	1.8	7.9	7.5
Gross margin (%)	21.6	20.0	20.0	20.2	20.4
Operating EBITDA margin (%)	16.0	14.2	13.4	13.5	13.7
Net profit margin (%)	14.1	11.2	10.7	10.8	10.9
Dividend payout ratio (%)	122.5	66.4	50.0	50.0	50.0
Capex/sales (%)	1.0	2.3	1.5	1.4	1.3
Interest cover (x)	12,792	61	62	67	72

Source: Company data, RHB

SWOT Analysis



Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-04-16	Buy	0.43	0.35

Source: RHB, Bloomberg

27 June 2018

Energy & Petrochemicals | Exploration & Production

GSS Energy

Top Pick 4 – Key Catalysts Incoming

Buy (Maintained)

Target Price:	SGD0.25
Price:	SGD0.14
Market Cap:	USD50.7m
Bloomberg Ticker:	GSSE SP

Maintain BUY with unchanged SOP-based TP of SGD0.25, offering 79% upside. Despite weak 1Q18, the PE segment continued to deliver strong PATMI growth of 21.1% YoY. We expect 2H18 to pick up, on catalysts like new automotive and consumer projects on the PE side, potential oil findings, and monetisation of oil and hydrocarbons. We remain hopeful of oil discovery at Well P1, where drilling results should be out by end-3Q18.

Weak 1Q18 on higher drilling expenses at oil & gas arm. GSS Energy's oil & gas arm is still loss-making from lack of revenue, higher drilling expenses (increased administrative and selling & distribution expenses, as drilling activities were carried out in 1Q18) and forex losses.

Precision engineering (PE) business growth remains strong, delivering 1Q18 PATMI growth of 21.1% YoY, and healthy topline growth of 12.4%, on new projects and higher customer orders. The division also received compensation from a core customers from the delay in a large project, which should start in 3Q18. As such, we expect a few key projects to kick-start in 2H18 and to lend support for a strong FY18.

GSS also acquired a piece of land in Batam in April, to relocate its existing facility operating under an extended long lease. The new facility should help meet expanded demand – the existing factory in Batam is close to full utilisation.

Monetisation of hydrocarbons and potential discovery of oil. In 4Q17, management shared that Well SGT 01's drilling results led to the discovery of commercially viable hydrocarbons, ie gas. It announced that discussions are ongoing with various parties to finalise the agreement for offtake of gas, which could result in monetisation in 4Q18.

GSS also started exploratory activities in nearby Well P1 in 1Q18. As this is a makeover well with oil found previously, we expect a higher rate of success for oil discovery. With the existing agreement with PT Pertamina to offtake the oil already in place, we expect monetisation if oil is discovered by 3Q18.

Catalysts ahead. We remain optimistic about GSS' prospects and expect potential catalysts such as the above in the near future, in the PE and oil & gas segments. We expect GSS to benefit directly from the rising oil prices, especially over the last few months. With a positive outlook ahead, affirmed by recently implemented dividend policy (minimum 20% of PATMI), we believe GSS is currently at an inflection point, and think that the current weakness represents a good opportunity to accumulate.

RHB is the only broker covering GSS.

Share Data

Avg Daily Turnover (SGD/USD)	0.27m/0.20m
52-wk Price low/high (SGD)	0.14 - 0.19
Free Float (%)	57
Shares outstanding (m)	496
Estimated Return	79%

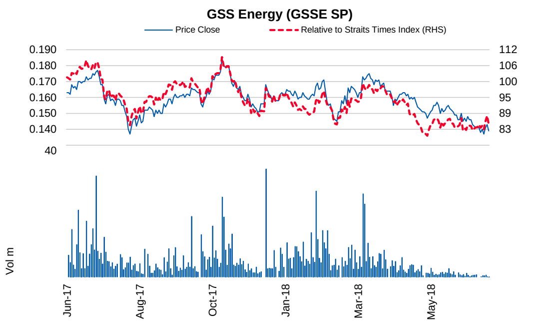
Shareholders (%)

Roots Capital Asia Limited	18.3
Sundan Pacific Limited	17.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.2)	(8.0)	(17.3)	(12.0)	(14.7)
Relative	(10.6)	(1.4)	(13.4)	(9.1)	(16.9)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	76	94	111	128	143
Reported net profit (SGDm)	22.2	5.3	6.9	9.2	11.0
Recurring net profit (SGDm)	13.4	4.3	6.9	9.2	11.0
Recurring net profit growth (%)		(67.8)	60.8	32.9	19.6
Recurring EPS (SGD)	0.03	0.01	0.01	0.02	0.02
DPS (SGD)	na	na	0.003	0.004	0.004
Recurring P/E (x)	5.2	16.5	10.2	7.7	6.4
P/B (x)	1.87	1.64	1.45	1.26	1.09
P/CF (x)	22.4	23.4	37.8	7.2	5.8
Dividend Yield (%)	na	na	2.0	2.6	3.1
EV/EBITDA (x)	3.12	8.05	5.64	4.36	3.42
Return on average equity (%)	86.7	13.0	15.1	17.6	18.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-05-17

Asia
Singapore
Energy & Petrochemicals
GSS Energy
Bloomberg GSSE SP
Buy

Valuation basis

SOP-based TP of SGD0.25, backed by DCF

Key drivers

i. Undervalue oil & gas business segment;
ii. Growth in the PE business segment.

Key risks

i. Foreign currency risk;
ii. Vulnerable to manufacturing slowdown;
iii. Oil & gas sale price risk .

Company Profile

GSS Energy has two core operating businesses: oil & gas and precision engineering (PE).

Previously known as Giken Sakata (S) Limited (Giken) which operated the PE business divison, the company was listed on the Singapore Stock Exchange in Feb 1993. The listing status was transferred to GSS with effect from 12 Feb 2015 and Giken became a wholly-owned operating subsidiary of GSS.

In 2014, GSS ventured into the energy business, and today it is operating a twin business model – PE and oil & gas – to build greater resilience to meet the increasing uncertainties in the business environment and global economy.

Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (SGD)	0.03	0.01	0.01	0.02	0.02
EPS (SGD)	0.05	0.01	0.01	0.02	0.02
DPS (SGD)	0.000	0.000	0.003	0.004	0.004
BVPS (SGD)	0.08	0.09	0.10	0.11	0.13
Weighted avg adjusted shares (m)	484	496	496	496	496

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	5.2	16.5	10.2	7.7	6.4
P/E (x)	3.1	13.4	10.2	7.7	6.4
P/B (x)	1.87	1.64	1.45	1.26	1.09
FCF Yield (%)	(3.5)	(16.0)	(11.0)	0.2	3.5
Dividend Yield (%)	0.0	0.0	2.0	2.6	3.1
EV/EBITDA (x)	3.12	8.05	5.64	4.36	3.42
EV/EBIT (x)	3.4	10.3	7.3	5.3	4.0

Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	75.7	94.3	111.1	127.7	142.9
Gross profit	17.9	19.1	23.4	29.8	33.1
EBITDA	16.3	7.5	11.7	14.8	17.2
Depreciation and amortisation	(1.6)	(1.6)	(2.7)	(2.7)	(2.7)
Operating profit	14.7	5.8	9.0	12.1	14.5
Net interest	0.2	0.2	0.2	0.2	0.2
Income from associates & JVs	(0.0)	0.0	0.0	0.0	0.0
Exceptional income - net	0.2	0.0	0.0	0.0	0.0
Pre-tax profit	23.8	7.1	9.2	12.3	14.7
Taxation	(1.6)	(1.8)	(2.3)	(3.1)	(3.7)
Recurring net profit	13.4	4.3	6.9	9.2	11.0

Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(2.6)	(0.2)	(6.0)	(2.8)	(2.1)
Cash flow from operations	3.1	3.0	1.9	9.9	12.2
Capex	(5.5)	(14.4)	(9.7)	(9.7)	(9.7)
Cash flow from investing activities	(5.8)	(16.4)	(6.6)	(6.2)	(4.3)
Proceeds from issue of shares	7.9	0.1	0.0	0.0	0.0
Dividends paid	0.0	0.0	(1.4)	(1.8)	(2.2)
Cash flow from financing activities	6.8	1.8	0.6	(1.8)	(2.2)
Cash at beginning of period	10.2	14.9	4.7	0.7	2.4
Net change in cash	4.1	(11.5)	(4.1)	1.8	5.6
Ending balance cash	14.7	4.2	0.9	2.4	8.1

Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	18.9	13.8	9.7	11.5	17.1
Tangible fixed assets	12.2	24.2	29.8	33.4	35.0
Intangible assets	0.1	0.2	0.2	0.2	0.2
Total investments	0.0	0.0	0.0	0.0	0.0
Total assets	57.5	75.0	82.7	93.8	106.7
Short-term debt	0.1	2.9	4.9	4.9	4.9
Other liabilities	1.3	1.4	1.4	1.4	1.4
Total liabilities	19.6	31.8	34.0	37.7	41.8
Shareholders' equity	38.0	43.2	48.8	56.2	65.0
Minority interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total equity	37.9	43.1	48.7	56.1	64.9
Net debt	(18.8)	(10.9)	(4.8)	(6.6)	(12.2)
Total liabilities & equity	57.5	75.0	82.7	93.8	106.7

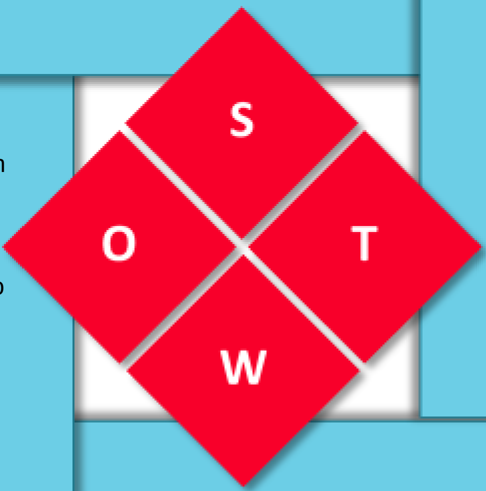
Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	(19.3)	24.6	17.8	15.0	11.8
Recurrent EPS growth (%)		(68.5)	60.8	32.9	19.6
Gross margin (%)	23.6	20.2	21.1	23.3	23.2
Operating EBITDA margin (%)	21.5	7.9	10.5	11.6	12.0
Net profit margin (%)	29.4	5.6	6.2	7.2	7.7
Capex/sales (%)	7.2	15.3	8.7	7.6	6.8
Interest cover (x)	983	277			

Source: Company data, RHB

SWOT Analysis

- Twin business model offers a diversified base to support GSS' operations in a challenging global environment
- Strong and experienced management team

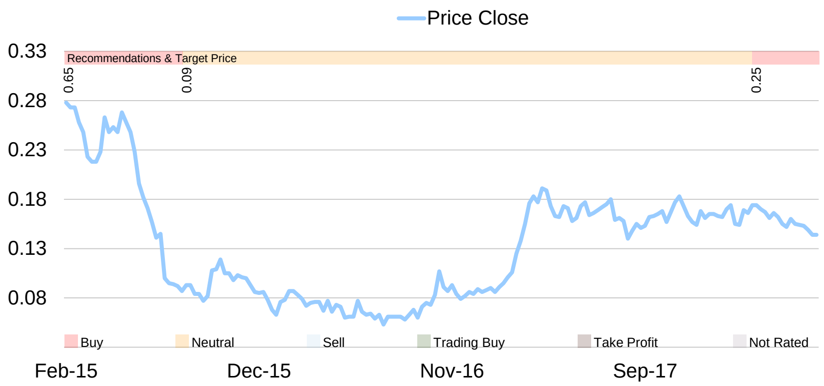
- Increased competition from companies in the local market
- Vertical integration risk from large MNCs through expansion or acquisitions of companies involved in upstream businesses



- Operations Cooperation Agreement with PT Pertamina EP for Petroleum
- Strong ability to expand both organically and inorganically given its net cash position

- Its oil & gas business has a limited track record
- The two core businesses are cyclical in nature and are highly exposed to economic cycles

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-17	Buy	0.25	0.15
2018-03-26	Buy	0.25	0.17
2018-03-06	Buy	0.25	0.16
2015-08-24	Neutral	0.09	0.08
2015-01-05	Buy	0.65	na
2014-11-05	Buy	0.65	na

Source: RHB, Bloomberg

27 June 2018

Utilities | Water

Moya

Top Pick 5 – Indonesian Water Play

Buy (Maintained)

Target Price:	SGD0.14
Price:	SGD0.09
Market Cap:	USD193m
Bloomberg Ticker:	MHAL SP

Maintain BUY, and DCF-backed SGD0.14 TP, with 56% upside. Moya is proposing a non-underwritten rights issue of SGD0.095/share (0% discount) on a one-for-two basis. This could potentially raise up to SGD133.5m, upon full subscription – earmarked to lower gearing and accretive M&A. Tamaris has undertaken to fully subscribe its entitlement, injecting strong confidence in Moya's future growth prospects, with potential M&A and concession extension.

Rights done at 0% discount to market. We think the rights issue pricing – done at market price on the date of announcement – and majority shareholder Tamaris Infrastructure Pte Ltd irrevocably undertaking to fully subscribe for its portion, shows the strong commitment and vote of confidence in Moya Holdings Asia's outlook. This is because most rights exercises are normally done at a huge discount to benefit majority shareholders. We expect another substantial shareholder – GW Redwood Pte Ltd – to also fully subscribe its portion.

As the rights price is trading well above the current market price, we do not expect minority shareholders to subscribe to the rights issue, as it will be cheaper to purchase additional shares in the open market. As a result, we only expect 79.11% – ie Tamaris and GW Redwood – of the rights to be subscribed, raising SGD105.3m in total.

Of the proceeds raised, SGD68m would be allocated for the repayment of existing loan facilities, which is likely to lower Moya's debt to SGD292m from SGD360m. This should also mean lower finance costs going forward as it has been a hefty drag on the firm's P&L. The remaining >SGD30m has been earmarked for potential M&A, JVs or strategic partnerships. We expect accretive M&A ahead – eg acquisition of Acuatico Pte Ltd in 2017 – as Moya continues to consolidate its position in the Indonesian private water sector. It has become the country's largest treatment player in terms of capacity, and management aims to reach a capacity of 20,000 litres/second (lps) – from its existing 13,000lps by end-2018 – mainly through M&A and expansion.

Dilution mitigated by lower finance costs and potential accretive M&A. We remain positive on Moya and maintain BUY. This is from lower financing costs, concession extensions and recovery of non-revenue water (NRW) to provide strong organic growth and additional accretive acquisitions in the pipeline to further boost NPAT. We expect the additional dilution from the rights issue to be mitigated by lower finance costs after paying SGD68m of debt. We also expect management to utilise the proceeds raised for accretive M&A to further boost PATMI. Key risks to call include changes in government regulations.

RHB is the only broker covering Moya.

Share Data

Avg Daily Turnover (SGD/USD)	0.88m/0.67m
52-wk Price low/high (SGD)	0.08 - 0.13
Free Float (%)	20
Shares outstanding (m)	2,801
Estimated Return	56%

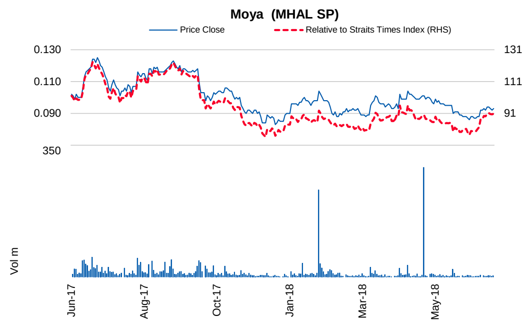
Shareholders (%)

Tamaris Infrastructure Pte Ltd	69.0
GW Redwood Pte Ltd	10.2
Omar Ziyad Fekri	0.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.3	2.2	(2.1)	9.4	(8.8)
Relative	6.9	8.8	1.8	12.3	(11.0)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	21	137	213	231	235
Reported net profit (SGDm)	3.2	7.7	24.7	29.2	30.2
Recurring net profit (SGDm)	3.2	7.7	24.7	29.2	30.2
Recurring net profit growth (%)	598.7	136.5	222.0	18.4	3.5
Recurring EPS (SGD)	0.001	0.003	0.006	0.007	0.008
DPS (SGD)	na	na	na	na	na
Recurring P/E (x)	80.4	34.0	14.7	12.4	12.0
P/B (x)	2.05	2.19	1.46	1.31	1.18
P/CF (x)	na	25.7	na	13.1	10.9
Dividend Yield	na	na	na	na	na
EV/EBITDA (x)	na	5.38	4.43	4.01	3.68
Return on average equity (%)	3.4	6.2	13.4	11.1	10.3
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-06-04

Asia
Singapore
Utilities
Moya
Bloomberg MHAL SP
Buy

Valuation basis

DCF-backed TP of SGD0.14 (WACC:6.2% TG 1%)

Key drivers

i. Riding on Indonesia's water demographics;
ii. Turnaround water play with rapid organic expansion;
iii. M&A.

Key risks

i. Political changes;
ii. Regulation changes.

Company Profile

Moya Holdings Asia is a Singapore-based investment holdings company that engages in the development of total water solutions. Under the company's build-operate-and-transfer (BOT) business segment, It provides water treatment solutions which include commissioning, operations and maintenance of the water treatment plants. Currently, Moya has three ongoing contracts in Indonesia.

Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (SGD)	0.001	0.003	0.006	0.007	0.008
EPS (SGD)	0.001	0.003	0.006	0.007	0.008
BVPS (SGD)	0.05	0.04	0.06	0.07	0.08
Weighted avg adjusted shares (m)	2,801	2,801	3,909	3,909	3,909

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	80.4	34.0	14.7	12.4	12.0
P/E (x)	80.4	34.0	14.7	12.4	12.0
P/B (x)	2.05	2.19	1.46	1.31	1.18
FCF Yield (%)	(6.3)	2.2	(10.7)	(0.6)	3.7
EV/EBITDA (x)	na	5.38	4.43	4.01	3.68
EV/EBIT (x)	na	5.84	4.52	4.17	3.91

Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	20.8	136.6	212.9	230.8	235.3
Gross profit	2.4	59.4	97.2	105.8	107.8
EBITDA	(1.8)	35.3	66.4	74.0	76.9
Depreciation and amortisation	(0.2)	(2.8)	(1.3)	(2.9)	(4.4)
Operating profit	(2.0)	32.5	65.1	71.1	72.5
Net interest	6.9	(18.5)	(32.2)	(32.2)	(32.2)
Pre-tax profit	4.9	14.0	32.9	39.0	40.3
Taxation	(1.7)	(6.4)	(8.2)	(9.7)	(10.1)
Recurring net profit	3.2	7.7	24.7	29.2	30.2

Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(17.7)	(8.8)	(34.9)	(4.4)	(1.2)
Cash flow from operations	(15.6)	10.1	(8.8)	27.7	33.4
Capex	(1.0)	(4.5)	(30.0)	(30.0)	(20.0)
Cash flow from investing activities	(1.0)	(310.2)	(30.0)	(30.0)	(20.0)
Proceeds from issue of shares	0.0	0.0	105.3	0.0	0.0
Cash flow from financing activities	50.2	343.5	37.3	0.0	0.0
Cash at beginning of period	28.0	63.1	96.9	95.3	93.0
Net change in cash	33.7	43.4	(1.6)	(2.3)	13.4
Ending balance cash	63.1	97.6	95.3	93.0	106.5

Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	63	97	95	93	106
Tangible fixed assets	1	24	53	80	96
Total other assets	69	421	421	421	421
Total assets	141	601	650	680	710
Total long-term debt	4	26	26	26	26
Other liabilities	1	25	25	25	25
Total liabilities	13	481	400	401	401
Shareholders' equity	127	119	249	278	309
Minority interests	1	1	1	1	1
Total equity	128	120	250	279	309
Net debt	(59)	(71)	(70)	(67)	(81)
Total liabilities & equity	141	601	650	680	710

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	96.1	555.1	55.9	8.4	2.0
Recurrent EPS growth (%)	216.1	136.5	130.7	18.4	3.5
Gross margin (%)	11.4	43.5	45.7	45.8	45.8
Operating EBITDA margin (%)	(8.7)	25.8	31.2	32.1	32.7
Net profit margin (%)	15.5	5.6	11.6	12.7	12.8
Capex/sales (%)	4.6	3.3	14.1	13.0	8.5
Interest cover (x)	(4.39)	1.76	2.02	2.21	2.25

Source: Company data, RHB

SWOT Analysis

- Experience management team with extensive industry expertise
- Strong backing with the Salim group, which has strong financial clout and political backing
- High internal rate of returns (IRRs) of 15% and above

- Execution risks
- Higher costs of funding
- Competition may toughen up

S O T W

- M&A opportunities of other players in Indonesia
- Indonesian Government is keen on increasing access to clean water
- Concession expiring for existing foreign managed players

- High industry and geographic concentration
- Subject to political changes
- Forex risks
- High capex needed

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-06-04	Buy	0.14	0.09
2018-04-08	Buy	0.15	0.10
2018-03-02	Buy	0.15	0.09
2017-11-13	Buy	0.17	0.10
2017-09-04	Buy	0.18	0.12

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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