

Courts Asia (COURTS SP)

Share Price: SGD0.37

MCap (USD): 146M

Singapore

Target Price: SGD0.44 (+19%)

ADTV (USD): 0.1M

Consumer Disc.

BUY

(Upgrade)

Firmly on track; U/G to BUY

- 2QFY3/16 results higher than expected, thanks to outstanding performance in Malaysia.
- Gross margin expanded to 35.3%, mainly thanks to higher earned service charge income from Malaysia.
- Raise FY16-18F EPS by 19-22%. Upgrade to BUY from HOLD with new TP of SGD0.44, up from SGD0.36. Still based on 9x FY17 P/E, its 3-year average. Expect catalysts from further margin expansion.

Outstanding Results

1HFY3/16 revenue was in line, but net profit surged 78% YoY to SGD12m, forming 62% of our full-year forecast, thanks to outstanding performance in Malaysia. Despite a weakening currency, poor consumer sentiment, and the introduction of a 6% GST, Malaysia sales grew 13% YoY in the reporting currency and 27% YoY in Ringgit, thanks to a successful credit campaign and bulk sales for digital products. Courts continued to launch new credit products in 2QFY3/16, which proved successful. In Singapore, sales declined 2.5% YoY. Indonesia recorded an operating loss of SGD2m. Management expects to break even only next financial year (vs previous guidance: Dec this year). Courts plans to open two additional stores in Jakarta by 4QFY3/16, bringing its total to five.

Gross margin expanded from 32.7% in 2QFY3/15 to 35.3% in 2QFY3/16, mainly thanks to higher earned service charge income in Malaysia. SG&A-to-revenue decreased from 28.8% in 2QFY3/15 to 27.2% in 2QFY3/16, partly thanks to lower impairment of trade receivables of SGD1.4m.

Upgrade to BUY with new TP of SGD0.44

We are impressed by its performance in Malaysia and increase our FY16-18 EPS by 19-22%. The stock trades at 7.9x FY17 P/E. Our new TP of SGD0.44, up from SGD0.36 after our EPS adjustments, is still based on 9.4x FY17 P/E, its 3-year average.

FYE Mar (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	830.3	758.6	747.3	798.8	850.4
EBITDA	72.9	60.3	69.1	72.6	79.8
Core net profit	28.3	18.7	22.1	24.9	30.0
Core FDEPS (cts)	5.1	3.3	4.0	4.5	5.4
Core FDEPS growth(%)	(31.3)	(34.1)	18.2	12.8	20.5
Net DPS (cts)	1.8	1.3	1.2	1.3	1.6
Core FD P/E (x)	7.3	11.1	9.3	8.3	6.9
P/BV (x)	0.7	0.7	0.6	0.6	0.6
Net dividend yield (%)	4.8	3.5	3.2	3.6	4.4
ROAE (%)	9.6	6.3	7.0	7.3	8.3
ROAA (%)	4.0	2.5	2.8	3.1	3.7
EV/EBITDA (x)	7.1	7.7	5.2	4.9	4.3
Net debt/equity (%)	64.5	72.4	47.9	44.9	38.1

Key Data

52w high/low (SGD)	0.49/0.32
3m avg turnover (USDm)	0.1
Free float (%)	21.9
Issued shares (m)	560
Market capitalization	SGD207.2M
Major shareholders:	
-Asia Retail Group Ltd.	68.2%
-Courts Asia Ltd.	5.8%
-Target Asset Management Pte Ltd.	5.3%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(7.5)	8.8	(15.9)
Relative to index (%)	(7.5)	16.0	(7.4)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	3	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.44	0.36	22.2
'16 PATMI (SGDm)	22	19	13.6
'17 PATMI (SGDm)	25	23	9.4

Source: FactSet; Maybank

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Figure 1: 2QFY3/16 results

FYE Mar	2QFY3/16	1QFY3/16	2QFY3/15	Change		Comments
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)	
Revenue	186.1	198.2	178.6	(6.1)	4.2	Malaysia drove top-line growth, while Singapore sales declined for the six consecutive quarters.
Cost of goods sold	(120.4)	(129.8)	(120.2)	(7.2)	0.2	
Gross profit	65.7	68.3	58.5	(3.8)	12.4	
Other income and other gains - net	0.9	1.0	1.0	(10.3)	(9.3)	
Expenses	(50.6)	(53.7)	(51.2)	(5.6)	(1.1)	
Distribution and marketing	(13.7)	(16.6)	(13.9)	(17.2)	(1.6)	
Administrative	(36.9)	(37.1)	(37.3)	(0.5)	(1.0)	
Finance	(7.2)	(7.0)	(5.7)	2.4	25.5	
Profit before income tax	8.8	8.7	2.5	1.5	248.5	
Income tax expense	(2.8)	(2.6)	(0.8)	6.0	239.2	
Net profit	6.0	6.0	1.7	(0.4)	253.0	
	Change (ppt)					
Gross margin (%)	35.3	34.5	32.7	0.8	2.6	Margin expansion thanks to higher earned service charge income in Malaysia, as well as Courts' cost-saving initiatives.
PBT margin (%)	4.7	4.4	1.4	0.4	3.3	
Net margin (%)	3.2	3.1	1.0	0.2	2.3	

Source: Maybank

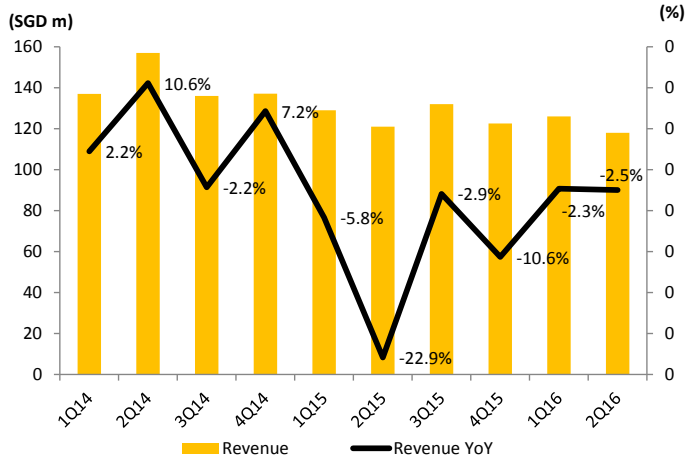
Figure 2: 1HFY3/16 results

	1H15	1H14	Change	MBKE	YTD as a % of	Comments
	(SGD m)	(SGD m)	(YoY %)	FY15E	FY forecast	
Sales	384.3	372.7	3.1	789.2	48.7	
Cost of sales	(250.3)	(250.8)	(0.2)	(532.1)	47.0	
Gross profit	134.0	122.0	9.9	257.2	52.1	
Other income and other gains - net	1.9	2.2	(11.8)	4.7	40.7	
Expenses	(104.3)	(104.8)	(0.5)	(211.5)	49.3	SG&A-to-revenue declined from 28.8% to 27.2%, thanks to lower allowance of impairment of trade receivables and cost-savings initiatives.
Distribution and marketing	(30.3)	(31.7)	(4.7)			
Administrative	(74.0)	(73.1)	1.3			
Finance	(14.2)	(11.0)	28.4	(25.6)	55.3	
Profit before income tax	17.5	8.3	110.4	24.8	70.5	
Income tax expense	(5.4)	(1.5)	254.6	(5.3)	102.0	
Net profit	12.1	6.8	77.8	19.5	61.9	
	Change (ppt)					
Gross margin (%)	34.9	32.7				Margins have remained at high levels in 1HFY3/16
PBT margin (%)	4.6	2.2				
Net margin (%)	3.1	1.8				

Source: Maybank

Figure 3: Singapore sales remain weak

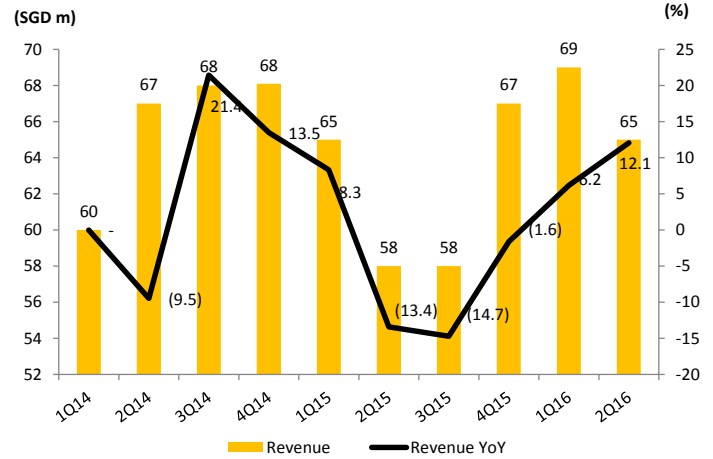
Sales in Singapore have remained weak, despite initiatives taken to boost furniture sales.



Source: Maybank

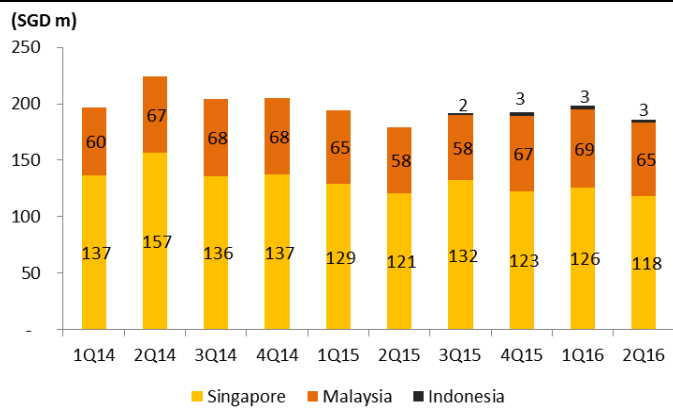
Figure 4: Malaysia sales

Malaysia performance in 1HFY3/16 was outstanding, thanks to successful credit campaign which resulted in higher earned service charge income.



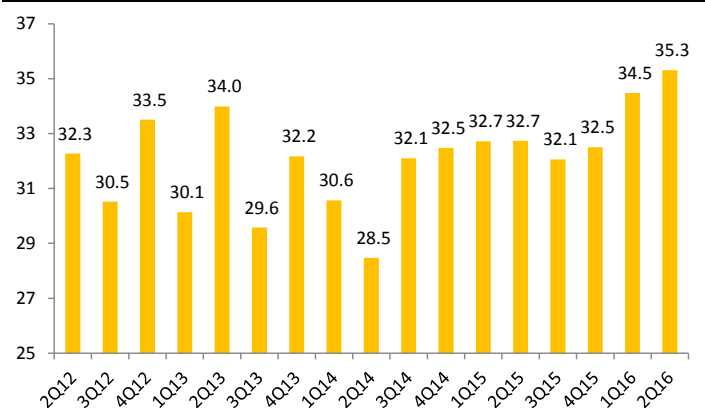
Source: Maybank

Figure 5: Revenue per market



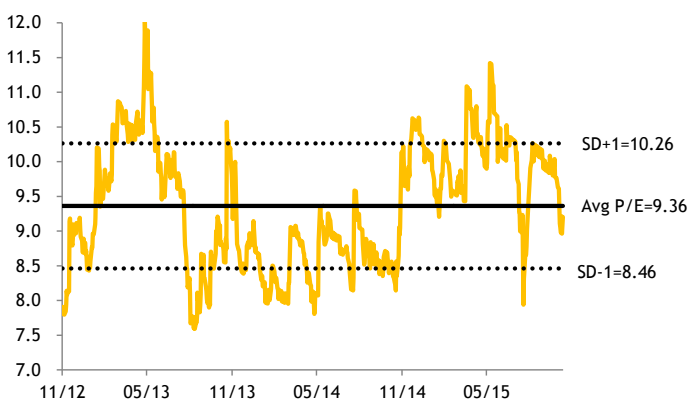
Source: Maybank

Figure 6: Gross margin expansion



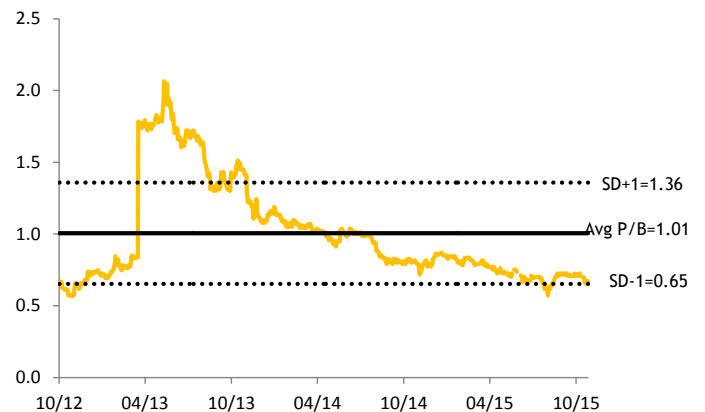
Source: Maybank

Figure 7: PER band



Source: Maybank

Figure 8: P/BV band



Source: Maybank

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	7.3	11.5	8.9	7.9	6.6
Core P/E (x)	7.3	10.7	8.9	7.9	6.6
Core FD P/E (x)	7.3	11.1	9.3	8.3	6.9
P/BV (x)	0.7	0.7	0.6	0.6	0.6
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	4.8	3.5	3.2	3.6	4.4
FCF yield (%)	nm	5.6	26.9	14.8	22.8
EV/EBITDA (x)	7.1	7.7	5.2	4.9	4.3
EV/EBIT (x)	8.6	10.0	6.6	6.4	5.6
INCOME STATEMENT (SGD m)					
Revenue	830.3	758.6	747.3	798.8	850.4
Gross profit	256.2	248.9	254.3	267.8	290.9
EBITDA	72.9	60.3	69.1	72.6	79.8
Depreciation	(12.6)	(13.8)	(15.0)	(16.8)	(18.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	60.4	46.4	54.0	55.8	60.9
Net interest income / (exp)	(22.4)	(24.5)	(25.6)	(23.9)	(22.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	38.0	21.9	28.4	31.9	38.4
Income tax	(9.7)	(4.6)	(6.4)	(7.0)	(8.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	28.3	17.4	22.1	24.9	30.0
Core net profit	28.3	18.7	22.1	24.9	30.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	115.0	114.2	180.1	169.3	165.1
Accounts receivable	228.0	260.5	239.5	251.7	256.3
Inventory	89.8	83.6	83.7	88.7	93.5
Reinsurance assets	0.0	0.0	0.0	0.0	na
Property, Plant & Equip (net)	28.8	26.8	25.3	22.2	19.1
Intangible assets	23.9	24.5	24.8	24.6	24.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	261.3	252.1	248.7	260.1	265.9
Total assets	746.7	761.7	802.2	816.6	824.2
ST interest bearing debt	1.2	1.7	5.0	7.0	7.0
Accounts payable	127.4	122.2	114.8	124.8	131.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	na
LT interest bearing debt	306.8	327.6	335.0	320.0	300.0
Other liabilities	12.0	13.0	14.0	14.0	14.0
Total Liabilities	447.3	464.7	468.5	465.5	452.1
Shareholders Equity	299.3	296.9	333.6	351.1	372.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	299.3	296.9	333.6	351.1	372.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	746.7	761.5	802.2	816.6	824.2
CASH FLOW (SGD m)					
Pretax profit	38.0	21.9	28.4	31.9	38.4
Depreciation & amortisation	12.6	13.8	15.0	16.8	18.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(60.1)	(30.3)	(0.8)	(29.5)	(21.1)
Cash taxes paid	9.7	4.6	6.4	7.0	8.4
Other operating cash flow	0.0	0.0	0.0	1.0	2.0
Cash flow from operations	10.2	22.5	65.2	41.3	59.0
Capex	(18.5)	(11.3)	(12.0)	(12.0)	(14.0)
Free cash flow	(8.3)	11.1	53.2	29.3	45.0
Dividends paid	(9.9)	(4.2)	(6.6)	(7.5)	(9.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Change in Debt	83.4	23.5	10.8	(13.0)	(20.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(21.9)	(28.5)	11.7	(17.7)	(16.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	1.0
Net cash flow	43.4	1.9	69.0	(8.9)	1.3

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.6	(8.6)	(1.5)	6.9	6.5
EBITDA growth	(7.2)	(17.4)	14.6	5.2	9.9
EBIT growth	(12.3)	(23.1)	16.4	3.2	9.1
Pretax growth	(26.0)	(42.3)	29.7	12.2	20.3
Reported net profit growth	(31.6)	(38.7)	27.1	12.8	20.5
Core net profit growth	(31.6)	(34.1)	18.2	12.8	20.5
Profitability ratios (%)					
EBITDA margin	8.8	7.9	9.2	9.1	9.4
EBIT margin	7.3	6.1	7.2	7.0	7.2
Pretax profit margin	4.6	2.9	3.8	4.0	4.5
Payout ratio	35.0	40.0	28.7	28.7	28.7
DuPont analysis					
Net profit margin (%)	3.4	2.3	3.0	3.1	3.5
Revenue/Assets (x)	1.1	1.0	0.9	1.0	1.0
Assets/Equity (x)	2.5	2.6	2.4	2.3	2.2
ROAE (%)	9.6	6.3	7.0	7.3	8.3
ROAA (%)	4.0	2.5	2.8	3.1	3.7
Liquidity & Efficiency					
Cash conversion cycle	63.3	89.0	95.0	87.9	83.7
Days receivable outstanding	92.8	115.9	120.4	110.7	107.5
Days inventory outstanding	51.1	61.2	61.1	58.5	58.6
Days payables outstanding	80.6	88.2	86.6	81.2	82.4
Dividend cover (x)	2.9	2.5	3.5	3.5	3.5
Current ratio (x)	3.2	3.5	3.9	3.6	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.8	1.8
Net debt/equity (%)	64.5	72.4	47.9	44.9	38.1
Net interest cover (x)	2.7	1.9	2.1	2.3	2.7
Debt/EBITDA (x)	4.2	5.5	4.9	4.5	3.8
Capex/revenue (%)	2.2	1.5	1.6	1.5	1.6
Net debt/ (net cash)	193.1	215.0	159.9	157.7	141.9

Source: Company; Maybank

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