

# Singapore Company Guide

## Courts Asia

Edition 1 Version 1 | Bloomberg: COURTS SP EQUITY | Reuters: COUR.SI Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Oct 2015

### HOLD

Last Traded Price: S\$0.385 (STI : 3,040.51)

Price Target : S\$0.35 (8% downside)

Potential Catalyst: Earnings recovery

Where we differ: Lower on weak regional consumer confidence

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Mar (S\$ m)	2014A	2015A	2016F	2017F
Revenue	830	759	810	852
EBITDA	75	61	64	70
Pre-tax Profit	38	22	25	30
Net Profit	28	17	20	23
Net Pft (Pre Ex.)	28	17	20	23
EPS (S cts)	5.1	3.1	3.5	4.2
EPS Pre Ex. (S cts)	5.1	3.1	3.5	4.2
EPS Gth (%)	(36)	(39)	15	18
EPS Gth Pre Ex (%)	(36)	(39)	15	18
Diluted EPS (S cts)	5.0	3.1	3.5	4.2
Net DPS (S cts)	1.5	1.2	1.4	1.7
BV Per Share (S cts)	53.4	53.0	55.1	57.6
PE (X)	7.6	12.4	10.9	9.2
PE Pre Ex. (X)	7.6	12.4	10.9	9.2
P/Cash Flow (X)	nm	8.8	nm	13.0
EV/EBITDA (X)	5.5	7.1	7.5	6.9
Net Div Yield (%)	3.9	3.2	3.7	4.3
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.7	0.7	0.8	0.8
ROAE (%)	9.6	5.8	6.6	7.4

Earnings Rev (%): -

Consensus EPS (S cts): 3.6

Other Broker Recs: B: 2 S: 0 H: 3

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

### Clouded by consumer pessimism

**Neutral on the stock.** We maintain our Neutral stance on the stock as we believe the share price will trend sideways. We see limited downside since forward PE valuations are attractive at -1.5SD of its mean. However, we do not see significant upside from the weak macro environment that underpins soft outlook ahead. Outlook should remain unexciting as regional consumption is weak and growth outlook is expected to be less buoyant than before. Our recent GDP growth downgrades in Asean validate this view.

**Challenging outlook.** We believe outlook will be challenging as poor consumer sentiment will be a key dampener to sales and earnings growth. While the stock is trading attractively at 10.9/9.2x FY16F/FY17F PE, the challenging growth environment will cap any potential upside to the stock.

**Poor regional consumer sentiment.** Malaysia's consumer sentiment index has fallen to 71.7, the lowest since 2008 while the Malaysian ringgit is at a 20-year low against the Singapore dollar. With the exception of February, retail sales for furniture and household equipment in Singapore continued to underperform last year's. Indonesia's consumer confidence has hit its lowest in the last five years at 97.5 in September.

#### Valuation:

We maintain our HOLD recommendation as we see earnings bottoming out, but are cautious on regional demand going forward. Our target price is S\$0.35, based on 12x FY16F PE.

#### Key Risks to Our View:

##### Interest rate increase and regional consumer sentiment.

Courts' credit business is sensitive to changes in interest rates. Increases in interest rates would raise working capital financing costs, leading to lower credit yield spread on its balance sheet. Courts retails consumer products regionally. The business is therefore sensitive to wealth and domestic consumer sentiment changes in the markets where it operates.

#### At A Glance

Issued Capital (m shrs)	532
Mkt. Cap (S\$m/US\$m)	205 / 147
Major Shareholders	
Singapore Retail Group Ltd (%)	72.4
Teng Lian Ngiek (%)	5.6
Free Float (%)	22.0
3m Avg. Daily Val (US\$m)	0.09
ICB Industry : Consumer Services / General Retailers	

**Critical data points to watch**

**Earnings Drivers:**

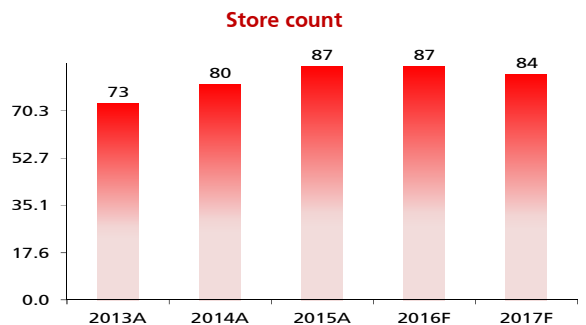
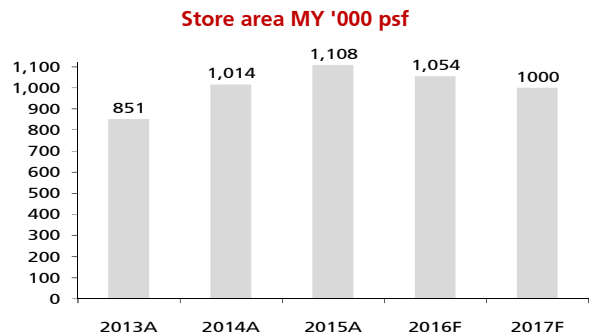
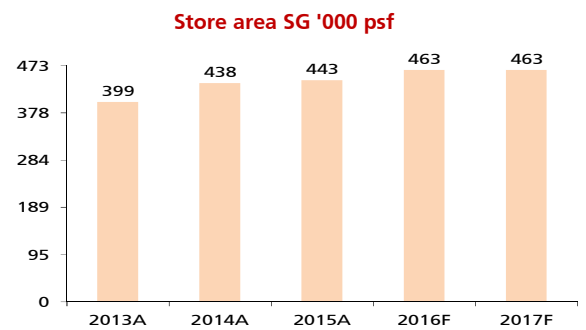
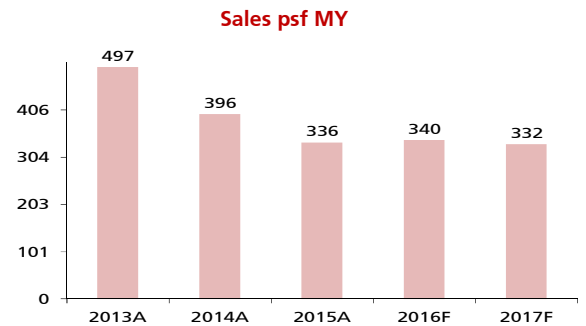
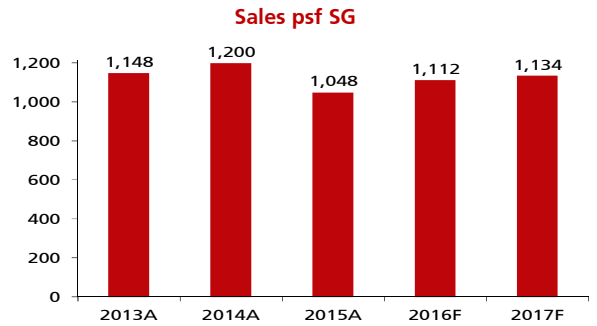
**Weak GDP outlook.** We believe weak GDP outlook in the region and poor consumer sentiment will be a dampener to growth. Singapore has narrowly averted a technical recession. Our economics desk has in the past two months downgraded regional GDP forecasts. We downgraded Singapore’s GDP on the back of weak manufacturing output and export pick-up; higher labour, production costs and interest rates; and slower loan growth. We lowered Malaysia’s GDP on its deteriorating currency, depleting reserves and narrowing trade surplus, and slowdown in consumption and investment growth.

**Poor regional consumer sentiment.** Consumer sentiment in Malaysia and Indonesia are at their lowest since 2008 and 2010 respectively. Singapore’s retail sales for furniture and household equipment have largely underperformed last year’s figures. August’s reading of +4.1% y-o-y could signal initial signs of uptick in demand, but with risks of a technical recession in Singapore, we prefer to look for more sustainable recovery momentum before turning bullish on earnings.

**Singapore’s housing completions to support sales and earnings.** With c.67% of total sales (by geography) contributed by the Singapore market and c.65% of total sales (by product mix) contributed by Furniture and Electrical Appliances, we see new home completions in Singapore as an important sales driver. According to URA, there will be 25,841/16,673/15,196 private residential and ECs expected to be completed in 2016/17/18. There will also be approximately c.21,000 and c.30,000 HDB flats completing in 2016 and 2017 respectively, based on our estimates. These will support store sales and earnings in Singapore. Furniture yields the highest gross margins at above 40%, followed by Electrical products (at above 20%).

**Malaysia’s economy remains weak.** Malaysia contributed to 33% of total sales in FY15F and registered a higher proportion of credit sales (53%) than Singapore (91% cash sales). Although credit sales are more profitable, the implementation of GST, cuts in subsidies and a weakening ringgit has led to weak sales from Malaysia. Going forward, we expect private consumption in Malaysia to pick up as consumers adjust to the policy changes, provided no further adverse policies are implemented.

**Indonesia to expand.** Indonesia’s contribution is small at 0.8% of total sales, but nonetheless is a market with growth potential. Growth in Indonesia currently hinges on 1) scaling up its Bekasi Big Box to breakeven and profitability; and 2) scaling up store network around Jakarta.



Source: Company, DBS Bank

**Balance Sheet:**

**In-house credit offered to customers results in negative working capital cash flows.** Changes in working capital cash flows are typically negative since Courts extends in-house credit to its consumers. Approximately 20% of annual store sales are credit or non-cash purchases which repayment periods can range from six to 72 months. Courts' average receivable period is approximately four months. Trade receivables as a result are S\$520m and 1.8x net assets. With suppliers' credit lasting on average three months and inventory days at two months, working capital cash flow is in deficit. Courts makes up for it by financing its working capital via bank borrowings and through securitisation of receivables.

**Net gearing of 0.7x.** Courts has a net gearing of 0.7x. vs most regional listed specialty retailers, who are generally in net cash positions. Net debt is S\$217m with bank financing amounting to S\$331m. Courts' loans denominated in S\$, RM and rupiah are financed through various loan structures (medium-term note, asset securitisation programme, syndicated and term loans). Slightly more than half of its outstanding loans are fixed, while the rest incur floating interest rates.

**Share Price Drivers:**

**Sustained recovery in earnings.** Recent quarters have seen y-o-y earnings growth decline on weaker sales, and SSSG, a function of poor regional demand. However, 1Q16 has finally seen positive y-o-y earnings growth on the back of better SSSG in Malaysia. Nonetheless, regional outlook for consumer confidence remains mixed. We look for more concrete signs of earnings recovery before turning positive. Sustained earnings recovery will be a key share price driver for Courts.

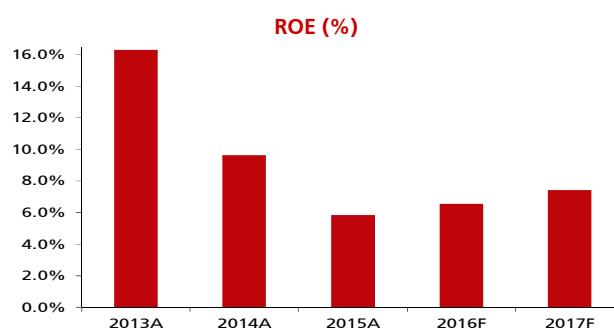
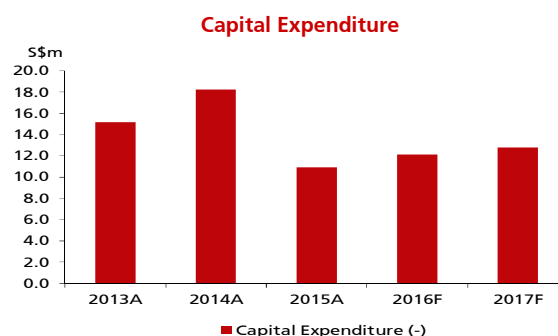
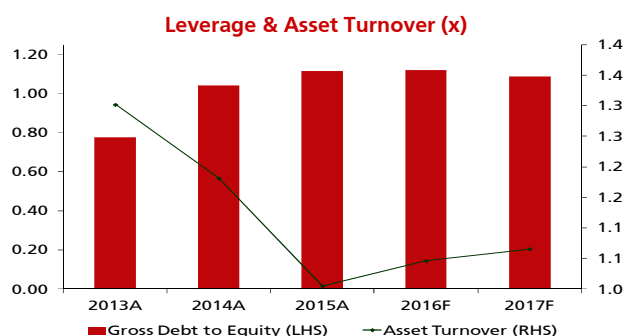
**Key Risks:**

**Interest rate increase.** Courts' credit business is sensitive to changes in interest rates. Increases in interest rates would increase working capital financing costs, leading to lower credit yield spread on its balance sheet.

**Regional consumer sentiment.** Courts retails consumer products regionally. The business is therefore sensitive to wealth and domestic consumer sentiment changes in the markets where it operates.

**Company background**

Courts Asia is a retailer of furniture, IT products and Electrical products in Singapore, Malaysia and Indonesia. Courts provides in-house credit that allows consumers to purchase products with monthly installments.



Source: Company, DBS Bank

## Courts Asia

### Key Assumptions

FY Mar	2013A	2014A	2015A	2016F	2017F
Sales psf SG	1,148	1,200	1,048	1,112	1,134
Sales psf MY	497	396	336	340	332
Store area SG '000 psf	399	438	443	463	463
Store area MY '000 psf	851	1,014	1,108	1,054	1,000
Store count	73.0	80.0	87.0	87.0	84.0

### Segmental Breakdown

FY Mar	2013A	2014A	2015A	2016F	2017F
<b>Revenues (\$\$ m)</b>					
Singapore	543	567	505	564	575
Malaysia	250	263	248	235	224
Indonesia	N/A	N/A	6	12	54
<b>Total</b>	<b>794</b>	<b>830</b>	<b>758</b>	<b>810</b>	<b>852</b>
<b>Operating profit (\$\$ m)</b>					
Singapore	43	29	25	28	28
Malaysia	19	28	24	14	18
Indonesia	N/A	(1)	(8)	1	2
<b>Total</b>	<b>62</b>	<b>56</b>	<b>41</b>	<b>43</b>	<b>49</b>
<b>Operating profit Margins</b>					
Singapore	7.9	5.0	5.0	4.9	4.9
Malaysia	7.6	10.8	9.7	6.1	8.2
Indonesia	N/A	N/A	(133.3)	7.7	3.9
<b>Total</b>	<b>7.8</b>	<b>6.7</b>	<b>5.4</b>	<b>5.3</b>	<b>5.7</b>

### Income Statement (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Revenue	794	830	759	810	852
Cost of Goods Sold	(544)	(574)	(510)	(553)	(578)
<b>Gross Profit</b>	<b>250</b>	<b>256</b>	<b>249</b>	<b>257</b>	<b>274</b>
Other Opng (Exp)/Inc	(188)	(200)	(208)	(214)	(225)
<b>Operating Profit</b>	<b>62</b>	<b>56</b>	<b>41</b>	<b>43</b>	<b>49</b>
Other Non Opg (Exp)/Inc	2	2	3	3	2
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(13)	(20)	(22)	(21)	(21)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>51</b>	<b>38</b>	<b>22</b>	<b>25</b>	<b>30</b>
Tax	(10)	(10)	(5)	(5)	(7)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>41</b>	<b>28</b>	<b>17</b>	<b>20</b>	<b>23</b>
Net Profit before Except.	41	28	17	20	23
EBITDA	75	75	61	64	70
<b>Growth</b>					
Revenue Gth (%)	9.6	4.6	(8.6)	6.8	5.2
EBITDA Gth (%)	10.7	0.0	(18.9)	4.4	9.9
Opg Profit Gth (%)	9.2	(10.0)	(26.8)	4.8	13.7
Net Profit Gth (Pre-ex) (%)	5.1	(31.6)	(38.7)	14.5	17.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.5	30.9	32.8	31.7	32.1
Opg Profit Margin (%)	7.8	6.7	5.4	5.3	5.7
Net Profit Margin (%)	5.2	3.4	2.3	2.5	2.7
ROAE (%)	16.3	9.6	5.8	6.6	7.4
ROA (%)	6.8	4.0	2.3	2.6	2.9
ROCE (%)	10.6	7.4	5.2	5.2	5.7
Div Payout Ratio (%)	44.0	30.0	40.0	40.0	40.0
Net Interest Cover (x)	4.7	2.8	1.9	2.1	2.3

Source: Company, DBS Bank

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

<b>FY Mar</b>	<b>1Q2015</b>	<b>2Q2015</b>	<b>3Q2015</b>	<b>4Q2015</b>	<b>1Q2016</b>
Revenue	194	179	193	193	198
Cost of Goods Sold	(131)	(120)	(131)	(128)	(130)
<b>Gross Profit</b>	<b>64</b>	<b>58</b>	<b>62</b>	<b>65</b>	<b>68</b>
Other Oper. (Exp)/Inc	(53)	(49)	(50)	(55)	(53)
<b>Operating Profit</b>	<b>10</b>	<b>9</b>	<b>12</b>	<b>10</b>	<b>15</b>
Other Non Opg (Exp)/Inc	0	0	0	3	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(5)	(5)	(5)	(7)	(6)
Exceptional Gain/(Loss)	0	(2)	(2)	3	0
<b>Pre-tax Profit</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>9</b>
Tax	(1)	(1)	(1)	(2)	(3)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>6</b>
Net profit bef Except.	5	3	6	3	6
EBITDA	13	12	15	15	18

**Growth**

Revenue Gth (%)	(6.2)	(8.0)	8.2	(0.4)	2.9
EBITDA Gth (%)	(35.5)	(10.6)	25.9	5.3	16.4
Opg Profit Gth (%)	(32.3)	(12.5)	30.7	(15.9)	52.3
Net Profit Gth (Pre-ex) (%)	(35.2)	(34.9)	70.1	(40.6)	83.2

**Margins**

Gross Margins (%)	32.7	32.7	32.1	33.8	34.5
Opg Profit Margins (%)	5.3	5.0	6.1	5.1	7.6
Net Profit Margins (%)	2.6	1.0	2.1	3.4	3.1

**Balance Sheet (S\$ m)**

<b>FY Mar</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>
Net Fixed Assets	23	29	27	24	22
Invt in Associates & JVs	246	260	247	267	281
Other LT Assets	25	25	27	23	20
Cash & ST Invt	89	115	114	85	83
Inventory	73	90	84	95	100
Debtors	200	228	260	289	303
Other Current Assets	2	1	3	3	3
<b>Total Assets</b>	<b>658</b>	<b>748</b>	<b>762</b>	<b>787</b>	<b>813</b>
ST Debt	6	4	4	4	4
Creditor	130	127	122	122	127
Other Current Liab	9	5	4	4	4
LT Debt	219	307	328	342	347
Other LT Liabilities	5	6	7	7	7
Shareholder's Equity	289	299	297	309	323
Minority Interests	0	0	0	0	0
<b>Total Cap. &amp; Liab.</b>	<b>658</b>	<b>748</b>	<b>762</b>	<b>787</b>	<b>813</b>
Non-Cash Wkg. Capital	136	187	221	261	275
Net Cash/(Debt)	(135)	(196)	(217)	(260)	(268)
Debtors Turn (avg days)	88.1	94.1	117.5	123.7	126.8
Creditors Turn (avg days)	87.8	84.2	92.5	83.2	81.2
Inventory Turn (avg days)	47.8	53.3	64.3	61.0	63.6
Asset Turnover (x)	1.3	1.2	1.0	1.0	1.1
Current Ratio (x)	2.5	3.2	3.5	3.6	3.6
Quick Ratio (x)	2.0	2.5	2.9	2.9	2.9
Net Debt/Equity (X)	0.5	0.7	0.7	0.8	0.8
Net Debt/Equity ex MI (X)	0.5	0.7	0.7	0.8	0.8
Capex to Debt (%)	6.8	5.9	3.3	3.5	3.6
Z-Score (X)	2.3	2.2	2.1	2.1	2.2

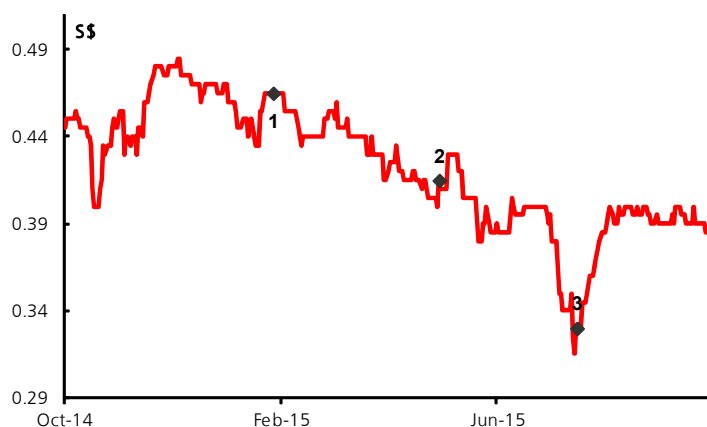
Source: Company, DBS Bank

## Cash Flow Statement (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	51	38	22	25	30
Dep. & Amort.	13	19	19	20	21
Tax Paid	(8)	(8)	(6)	(5)	(7)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(63)	(60)	(20)	(61)	(28)
Other Operating CF	7	6	9	0	0
<b>Net Operating CF</b>	<b>0</b>	<b>(6)</b>	<b>24</b>	<b>(21)</b>	<b>17</b>
Capital Exp.(net)	(15)	(18)	(11)	(12)	(13)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	1	1	0	0	0
<b>Net Investing CF</b>	<b>(14)</b>	<b>(18)</b>	<b>(11)</b>	<b>(12)</b>	<b>(13)</b>
Div Paid	(13)	(10)	(4)	(8)	(9)
Chg in Gross Debt	35	83	23	14	6
Capital Issues	44	(4)	(8)	0	0
Other Financing CF	(16)	(17)	(19)	0	0
<b>Net Financing CF</b>	<b>50</b>	<b>53</b>	<b>(8)</b>	<b>6</b>	<b>(4)</b>
Currency Adjustments	0	0	(1)	0	0
Chg in Cash	35	29	5	(27)	0
Opg CFPS (\$ cts)	11.9	9.7	7.9	7.1	7.9
Free CFPS (\$ cts)	(3.0)	(4.3)	2.4	(5.9)	0.7

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	23 Feb 15	0.47	0.45	HOLD
2:	28 May 15	0.42	0.45	HOLD
3:	14 Aug 15	0.33	0.35	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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