

# Innovalues (IP SP)

Share Price: SGD0.65

Target Price: SGD1.02 (+58%)

MCap (USD): 146M

ADTV (USD): 0.6M

Singapore

Technology

**BUY**

(Unchanged)

## VW Opens Up Value Window

- VW's emission scandal has affected global auto valuations, adding on to China-slowdown woes.
- Innovalues not spared but this opens up buying window. 3Q15 likely in line, with high confidence of a 4Q rebound. No change to EPS.
- Maintain BUY. TP reduced to SGD1.02 from SGD1.18 on lower peer average valuation of 12x (from 14x).

### What's New

VW's cheating on emissions tests has affected the entire auto supply chain. Regulators worldwide are clamping down. The US Environmental Protection Agency is testing not just VW cars but all diesel cars. Valuations have fallen worldwide.

### What's Our View

Still, we remain positive on Innovalues. We think its 30% retreat from its peak reached after 2Q15 results opens up a buying window. Valuations have retreated to 7x FY16 EPS and 5.6% dividend yields.

The direct impact from the VW scandal is expected to be minimal, unless wider repercussions emerge for the entire auto industry which would affect the supply chain. However, longer-term implications should be positive, as we believe more hardware sensors will be needed to prevent similar cheating. This could benefit Sensata and Innovalues.

Furthermore, initial customer caution in 3Q after the tip-over in China's auto sales since June should be waning as the industry and government respond with sales-boosting measures. We expect revenue growth to resume in 4Q, after a softer 3Q. We still expect YoY growth in 3Q earnings from better margins and FX gains.

We maintain FY15-16 EPS. However, we lower our TP to SGD1.02 from SGD1.18 as the VW incident has reduced peer valuations from 14x average to 12x. Our TP is pegged to parity with peers.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	99.3	108.5	117.3	137.9	158.6
EBITDA	17.3	24.7	34.1	41.1	46.0
Core net profit	6.4	15.8	23.0	27.2	30.7
Core EPS (cts)	2.0	4.9	7.2	8.5	9.6
Core EPS growth (%)	129.8	143.9	45.7	18.0	13.1
Net DPS (cts)	1.2	2.0	3.2	3.5	4.0
Core P/E (x)	31.9	13.1	9.0	7.6	6.7
P/BV (x)	3.6	2.9	2.5	2.1	1.8
Net dividend yield (%)	1.9	3.1	5.0	5.4	6.2
ROAE (%)	11.8	24.8	29.8	29.6	28.3
ROAA (%)	7.5	17.6	22.1	21.7	20.6
EV/EBITDA (x)	2.8	5.6	5.6	4.1	3.3
Net debt/equity (%)	2.1	net cash	net cash	net cash	net cash

### Key Data

52w high/low (SGD)	0.93/0.37
3m avg turnover (USDm)	0.6
Free float (%)	52.7
Issued shares (m)	325
Market capitalization	SGD209.3M
Major shareholders:	
-GOH LENG TSE	20.2%
-ONG TIAK BENG	9.0%
-KOH BOON HWEE	6.8%

### Share Price Performance



— Innovalues - (LHS, SGD) — Innovalues / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	(1.5)	(14.0)	51.8
Relative to index (%)	1.0	2.9	76.8

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	1.02	0.98	4.0
'15 PATMI (SGDm)	23	22	3.1
'16 PATMI (SGDm)	27	26	3.1

Source: FactSet; Maybank

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## Exposure to VW

### Direct exposure minimal

Management estimates that Innovalues' direct and indirect business with VW accounts for less than 10% of its revenue. It has exposure mainly through Hilite, with direct VW/Audi business accounting for less than 1% of its revenue. Although VW is a customer of Hilite, we understand that the parts supplied by Hilite are only used for VW's petrol engines, not diesel engines, and only for engine and transmission systems, not exhaust systems.

Innovalues supplies metal housing parts for Hilite's engine and transmission systems, such as engine control valves used to help reduce fuel consumption, optimise engine performance and meet global emission regulations. It also supplies parts for solenoid assemblies used in dual-clutch transmission systems. In addition, it started to directly supply transmission parts to VW/Audi late last year.

### Possible overhang from indirect exposure

However, this is only its direct exposure. There may be indirect ramifications as regulators clamp down on VW. They could either temporarily stop sales, as Switzerland did with VW's Euro 5 diesel cars, or demand more vigorous checks. See Appendix 1 for a full list of regulatory actions taken or announced so far. VW itself has admitted that 11m of its cars worldwide have been fitted with the cheat device. The greater concern is whether petrol cars, which make up the vast majority of cars sold worldwide, and other car makers could be implicated. The US has already warned that it intends to perform real-world testing of all diesel passenger cars sold in the US, not just VW or its related brands.

## What next?

### Hardware sensors likely to be needed

In the longer term, regulators are likely to monitor emission levels more stringently. Car makers will be pressed to work towards a real reduction of emissions. In addition, there could be pressure to allow consumers themselves to monitor their vehicles' emission levels. This can be done through dashboard readouts directly connected to hardware sensors that cannot be circumvented by software.

### Sensata's CPOS could be right tool for the job

As it happens, Sensata's Cylinder Pressure Only Sensor (CPOS) makes it possible to measure directly the combustion process in a diesel engine. It enables diesel automakers to eliminate up to 90% of harmful pollutants and boost fuel economy.

### Innovalues would benefit

Innovalues is a supplier of the CPOS metal housing to Sensata. Estimating from the size of the metal housing for this part vs other parts such as MSG and APT, unit pricing is likely to be higher. As it only started to supply this part to Sensata last year, monthly production volume is still low. But with the urgency provided by the VW scandal, we would expect future increments to be exponential rather than linear.

Current volumes suggest a <1% contribution to FY15 EPS from CPOS housings, assuming blended margins. But this could rise to 2% in FY16, by our estimates, even before factoring in any upside in response to the VW scandal. In comparison, we estimate that MSG housings account for 20% of its FY15 EPS, forming the bulk of Innovalues' business with Sensata.

Figure 1: Sensata's Cylinder Pressure Only Sensors (CPOS)



Source: Sensata

Figure 3: Sensata's Microfused Silicon Strain Gauge (MSG)



Source: Sensata

Figure 2: Benefits & savings from CPOS

Benefits

- **Emissions reduction: soot, NOx and/or hydro carbons (HC)**
- Improve efficiency: reduce CO2, improve fuel economy
- Compensate for tolerances: engine to engine, cylinder balancing, fuel and air composition variability, etc.

Potential savings

- Switch back to low-cost injectors (piezo > magnet)
- **Avoid second NOx sensor for on-board diagnostics (OBD)**, avoid fuel quality sensor, etc.
- Eventually replace knock sensor, camshaft sensor, etc
- Increase engine power, torque calculation (IMEP)
- Noise reduction: combustion (smoothness of engine) and audible noise
- Control exhaust gas recirculation (EGR) to completely burn fuel by recirculating a portion of exhaust through the combustion process
- Reduce engine development time at OEM and service diagnostics
- Enables homogeneous charge compression ignition (HCCI) where air/fuel mixture is combusted through compression, not spark ignition

Source: Sensata

Figure 4: Sensata's Automotive Pressure Transducer (APT)



Source: Sensata

## 2H15 outlook

Despite recent uncertainties, we maintain our FY15 EPS. 3Q15 results are expected in November.

### Revenue weaker but earnings saved by margins, FX in 3Q15

3Q15 revenue is likely to be softer sequentially due to weaker automotive sales. However, we still expect a 32% YoY improvement to SGD5.5m, from better margins and FX gains. This includes a retrenchment charge incurred as Innovalues completed the relocation of its OA production from Shanghai to Malaysia. Gross margins should have been sustained at the high end of its 28-30% guidance. In addition, with 90% of its revenue in USD, Innovalues should have benefited from USD strength.

We project a 5-6% YoY/QoQ decline in revenue to SGD27m, mainly due to lower AU revenue. This factors in softer orders following the tip-over in China’s new vehicle sales since June. Customers were likely to have held back on new orders and not replenished inventories until the smoke cleared.

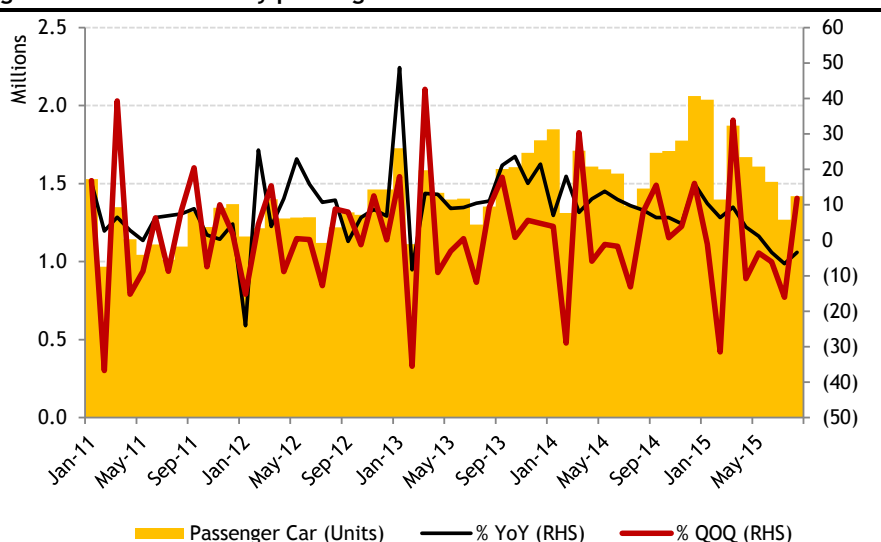
We also expect the decline to be moderated by higher Office Automation revenue in 3Q. OA revenue is expected to be better this year as printer customers such as HP have been bringing production back from China to Southeast Asia as China’s wages have risen significantly. In major cities, Chinese workers are now estimated to cost twice a worker in Malaysia or Thailand.

**High confidence in 4Q15 reboot**

We expect 4Q15 revenue and earnings to rebound. We understand from management that customers have gotten over their initial caution as the situation stabilises. This bodes well for 4Q. Forecasts by major customers are unchanged. With that, we have high confidence that Innovalues will be able to meet our forecast, especially if the momentum can be sustained in October. We project revenue of SGD30m (+11% YoY) and a net profit of SGD6.1m (+12% YoY) for 4Q15.

In response to slumping sales since June, car makers and their dealers in China have been dangling various incentives, including subsidised insurance, zero down-payment financing, interest-free loans and higher trade-in prices to lure car buyers. As a result, car sales in China rose 12% MoM in August, reversing a 4-month slump. In addition, the Chinese government recently slashed the sales tax on small passenger vehicles by half.

Figure 5: China’s monthly passenger car sales



Source: China Association of Automobile Manufacturers, via Bloomberg

**2016 outlook**

We also maintain our FY16 forecasts. Earlier revenue-growth assumptions have been toned down. However, we believe margins will be better as there will be cost savings from the relocation of its OA production to Malaysia. Innovalues is also embarking on its next phase of productivity

improvements. The USD, moreover, continues to strengthen against SGD, MYR and THB, providing further uplift.

### **More demand from Hilite likely for transmission systems**

We also expect higher demand from Hilite for transmission system parts in 2016-17 in response to VW's gearbox investments in China. Production will begin in stages in 2016, before hitting full stride in 2017.

VW has a new gearbox component plant outside Tianjin that opened in 2014. This is still ramping up, according to media reports. The plant was built to produce its DSG gearboxes, with an annual capacity of 450,000. In subsequent phases, production is expected to increase to 1.2m units and include more advanced systems.

Following a power-loss issue experienced by its older Direct Shift Gearbox (DSG) transmission systems, VW is replacing them with more advanced gearboxes. Earlier, it was evaluating whether to stay with in-house DSGs or use external suppliers such as Aisin and ZF. Reports suggest that it has decided to stay with its own redesigned DSGs.<sup>1</sup> It is thus investing in its Tianjin plant to make these more advanced DSGs. Hilite is a key transmission system module supplier to VW.

While the emission scandal could slow down VW's sales worldwide, it also could add to VW's urgency to monetise its sizeable investment in Tianjin. VW reportedly invested €265m in Phase 1 of the plant.<sup>2</sup> This should ensure the plant's ramp-up, which fortunately has not been affected by the August port explosion.<sup>3</sup>

### **Cash flows better on project delay; special dividend likely**

Hilite is fine-tuning the parts needed for ZF, a key supplier of 9-speed transmission systems for the global auto industry that is becoming more widely used. This could delay the capex decision needed for the project till 2016 and actual investments till 2017. As we have not included any contributions in our FY16 forecasts, no negative impact is expected.

In fact, the delay could improve cash flows, as we had projected some increase in capex from SGD7m in FY15 to SGD10m in FY16. We reduce FY16 capex to SGD7m, leading to projected end-FY16 cash of SGD57m, up from SGD54m in our previous forecast. As FY15 capex could also be slightly lower than expected, we expect better cash this year as well. This gives us cause to believe that Innovalues may declare a special dividend this year, repeating or improving on its 0.8ct special DPS in FY14. We currently forecast a total DPS of 3.2 cts for FY15, including a 0.8 SGD ct special DPS.

<sup>1</sup> <http://www.goauto.com.au/mellor/mellor.nsf/story2/21DBBAF2BC57C1D3CA257BF80019F469>

<sup>2</sup> [http://www.volkswagenag.com/content/vwcorp/info\\_center/en/news/2014/11/VW\\_China.html](http://www.volkswagenag.com/content/vwcorp/info_center/en/news/2014/11/VW_China.html)

<sup>3</sup> [http://www.just-auto.com/news/vw-gearbox-site-running-but-tianjin-still-inaccessible\\_id162042.aspx](http://www.just-auto.com/news/vw-gearbox-site-running-but-tianjin-still-inaccessible_id162042.aspx)

## Valuations

### TP reduced to SGD1.02 on lower peer valuations

The VW scandal has compressed valuations for many auto stocks, including suppliers such as Sensata. These are the peers we benchmark Innovalues to. We reduce our valuation for Innovalues from 14x FY16 P/E to 12x, still on par with its peers. Our new TP is SGD1.02, down from SGD1.18.

Figure 6: Peer valuations

Company	Close (LC)	Mkt Cap (USD m)	P/E (x)			P/BV (x)			Div yield (%)			Net margin	ROE
			Act	FY1	FY2	Act	FY1	FY2	Act	FY1	FY2	Act	Act
Innovalues	0.63	143	12.8	8.8	7.4	2.9	2.4	2.0	3.2%	5.1%	5.6%	14.6%	24.8%
Mean of local peer group			17.1	19.1	12.6	0.9	1.1	1.1	6.3%	9.1%	9.1%	9.9%	7.6%
Mean of international peer group			16.0	13.9	11.9	2.7	2.4	2.1	2.3%	2.7%	3.2%	7.4%	17.1%
<b>Singapore</b>			<b>17.1</b>	<b>19.1</b>	<b>12.6</b>	<b>0.9</b>	<b>1.1</b>	<b>1.1</b>	<b>6.3%</b>	<b>9.1%</b>	<b>9.1%</b>	<b>9.9%</b>	<b>7.6%</b>
Venture Corporation	8.16	1,578	14.7	13.6	12.5	1.2	1.2	1.2	6.3%	6.3%	6.3%	5.8%	8.1%
HI-P International	0.36	224	28.1	36.0	18.0	0.5	n/a	n/a	2.8%	11.1%	11.1%	1.1%	1.7%
UMS Holdings	0.50	150	8.6	7.7	7.2	1.1	1.1	1.0	10.0%	10.0%	10.0%	22.7%	13.1%
<b>Europe</b>			<b>13.6</b>	<b>11.0</b>	<b>9.5</b>	<b>2.2</b>	<b>1.9</b>	<b>1.6</b>	<b>2.9%</b>	<b>3.2%</b>	<b>3.6%</b>	<b>5.2%</b>	<b>16.3%</b>
Continental AG	191.05	42,812	13.2	12.1	11.3	2.9	2.5	2.2	2.0%	2.3%	2.6%	7.3%	22.2%
CIE Automotive SA	12.43	1,796	12.6	10.3	8.8	2.2	1.9	1.7	2.2%	2.8%	3.4%	4.7%	17.6%
Montupet SA	50.38	609	9.9	8.3	7.2	2.0	1.8	1.5	2.6%	3.5%	4.4%	10.7%	20.8%
Bulten AB	72.75	183	16.8	12.6	10.4	1.2	1.2	1.1	4.1%	4.2%	4.5%	3.8%	7.8%
SHW AG	19.83	143	10.8	7.5	7.1	1.4	1.1	1.0	5.0%	5.4%	5.3%	2.5%	12.8%
Progress-Werk Oberkirch AG	35.18	123	15.0	12.5	9.4	1.1	1.1	1.0	4.1%	4.2%	4.8%	1.9%	7.4%
paragon AG	22.97	106	17.0	13.8	12.3	4.3	3.5	3.0	0.0%	0.0%	0.0%	5.7%	25.3%
<b>USA</b>			<b>16.9</b>	<b>15.6</b>	<b>14.0</b>	<b>4.1</b>	<b>3.7</b>	<b>3.3</b>	<b>1.3%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>11.6%</b>	<b>22.5%</b>
TE Connectivity	59.47	23,930	15.7	16.4	14.6	2.7	2.6	2.4	1.8%	2.0%	2.1%	12.9%	20.6%
Cummins Inc	105.40	18,830	11.5	10.5	10.0	2.5	2.3	2.0	2.7%	3.2%	3.7%	8.6%	21.6%
Amphenol Corporation	50.03	15,467	22.2	20.4	18.3	5.5	5.4	4.7	0.9%	1.1%	1.2%	13.3%	24.6%
Sensata Technologies	43.44	7,390	18.3	15.0	13.0	5.7	4.7	4.1	0.0%	0.0%	0.0%	11.8%	23.2%
<b>Rest of Asia</b>			<b>20.3</b>	<b>20.3</b>	<b>16.3</b>	<b>1.9</b>	<b>1.8</b>	<b>0.8</b>	<b>2.1%</b>	<b>3.0%</b>	<b>6.5%</b>	<b>6.6%</b>	<b>9.3%</b>
AVIC Electromechanical Systems	19.25	2,820	43.1	34.8	28.1	2.8	2.7	n/a	0.6%	0.8%	n/a	4.8%	6.6%
Eva Precision Industrial	1.51	363	8.2	5.8	4.6	1.0	0.9	0.8	3.6%	5.1%	6.5%	8.3%	11.9%
IPE Group	1.05	126	9.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Share prices as of 2 Oct 2015

Source: FactSet, Maybank Kim Eng

## Appendix 1

**Figure 7: How regulators around the world have reacted to the VW emissions scandal so far**

**AUSTRALIA:** Australia's competition regulator said it was looking into whether Volkswagen had misled consumers over its emissions claims after the German carmaker admitted cheating on U.S. pollution tests.

**BRITAIN:** Britain's transport minister said the government would work with vehicle manufacturers to ensure that the use of emissions-cheating software was not being used widely in the industry. Vehicle Certification Agency to re-run lab tests and compare with "real-world" driving emissions.

**CANADA:** Environmental Agency investigating some 100,000 Volkswagen and Audi diesel cars. Also teaming up with US Environmental Protection Agency to road test all diesel passenger cars, not just Volkswagen and its other brands.

**CZECH REPUBLIC:** A Czech transport ministry spokesman said the country was closely following the outcome of German investigations. "The problem has so far been identified only in the United States. It will be important to find out whether such vehicles are also in Europe and what course of action Germany takes."

**EUROPEAN UNION:** The European Commission urged all member states to investigate into how many cars use illegal "defeat" devices to cheat emissions tests in light of the scandal at Volkswagen. EU regulators said they were in contact with Volkswagen and U.S. authorities following the carmaker's admission it had rigged emissions tests, and called on member states to rigorously enforce the relevant law.

**FRANCE:** France will carry out testing to establish whether vehicles on its roads are equipped with banned software of the kind used by Volkswagen in the United States to trick emissions tests. Environment minister Segolene Royal said that she had asked the US Environmental Protection Agency for further information about the case.

**GERMANY:** Germany's transport minister said that emissions manipulations by Volkswagen took place in Europe, not just in the United States. It said it would send a fact-finding committee to Volkswagen. The committee is to speak with executives at Volkswagen's headquarters in Wolfsburg and request access to documents, the ministry said in a statement.

**ITALY:** Italy will test 1,000 cars from all the VW brands sold nationally, its transport minister said. Italy has also said it would open its own investigation into whether Volkswagen had cheated in diesel vehicle emissions tests in Europe as it did in the United States. The Italian Transport Ministry said it had sent a letter to Volkswagen and the main emissions tester in Germany to ask "if the anomalies found could also have been conducted on vehicles sold and tested in the European Union."

**MEXICO:** Mexico is checking to see if Volkswagen has complied with its emissions standards and will act if it finds anomalies, its environment minister said.

**NETHERLANDS:** Dutch regulator says the engines used in Netherlands are tested in Germany by the KBA (federal transport authority), which uses European-wide emissions standards. No separate tests planned by the Dutch.

**SOUTH KOREA:** South Korea's environment ministry said it would investigate 4,000 to 5,000 of Volkswagen's Jetta, Golf and Audi A3 vehicles produced in 2014 and 2015, and could expand its probe to all German diesel cars if it found problems. South Korea will expand emission probe into diesel vehicles made by other carmakers once it completes testing Volkswagen cars, according to an e-mailed statement from the Ministry of Environment.

**SPAIN:** Industry Minister Jose Manuel Soria said on Saturday he would ask VW to pay back subsidies for clean cars it was given by Spanish authorities.

**SWEDEN:** The Swedish Transport Agency is not taking any immediate action as it had just finished annual emission controls. However a spokesman said it was considering extra rigorous checks on VW next year.

**SWITZERLAND:** Swiss authorities on Friday said they would ban the sale of Volkswagen Group cars affected by the diesel manipulation row until the authorities have clarified whether they have been equipped with manipulated software. The agency said it was preparing to withdraw approval of affected models – which include Audi, Seat, Skoda and Volkswagens brand vehicles built between 2009 and 2014 equipped with 1.2 TDI, 1.6 TDI and 2.0 TDI diesel motors – until the situation was clarified. Up to 180,000 vehicles in Switzerland could be affected, the agency said in a statement. Those already on the road would be exempted.

**USA:** Environmental Protection Agency will retest emissions from every type of diesel passenger car in the US. California Air Resources Board and Environment Canada will join the testing. In addition to its five standard emissions tests, the EPA said it now will test or require testing in a setting that emulates normal driving, a measure specifically designed to protect against so-called defeat devices like the one VW employed. The agency and its partners also will use portable devices to measure the real-life emissions of vehicles as they are driven on open roads.

**RUSSIA:** Russian state standards agency Rosstandart said it had requested information from Volkswagen about the German carmaker's diesel engines.

Source: Various news agencies

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	23.7	13.1	9.0	7.6	6.7
Core P/E (x)	31.9	13.1	9.0	7.6	6.7
P/BV (x)	3.6	2.9	2.5	2.1	1.8
P/NTA (x)	3.6	2.9	2.5	2.1	1.8
Net dividend yield (%)	1.9	3.1	5.0	5.4	6.2
FCF yield (%)	6.7	9.4	8.2	15.7	14.5
EV/EBITDA (x)	2.8	5.6	5.6	4.1	3.3
EV/EBIT (x)	4.9	7.8	7.2	5.2	4.2

**INCOME STATEMENT (SGD m)**

Revenue	99.3	108.5	117.3	137.9	158.6
Gross profit	25.8	35.9	43.8	54.3	62.5
EBITDA	17.3	24.7	34.1	41.1	46.0
Depreciation	(7.3)	(7.0)	(7.6)	(8.7)	(9.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	10.0	17.7	26.5	32.5	36.7
Net interest income / (exp)	(0.8)	(0.3)	(0.4)	(0.5)	(0.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.3	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.2	17.4	26.1	32.0	36.2
Income tax	(0.5)	(1.6)	(3.1)	(4.8)	(5.4)
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	8.7	15.8	23.0	27.2	30.7
Core net profit	6.4	15.8	23.0	27.2	30.7

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	11.3	22.8	33.3	56.5	76.0
Accounts receivable	17.9	23.9	26.8	29.3	33.7
Inventory	12.7	8.4	12.6	12.8	14.8
Property, Plant & Equip (net)	39.6	38.0	37.4	35.7	33.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2.4	2.2	2.6	3.0	3.4
<b>Total assets</b>	<b>83.9</b>	<b>95.3</b>	<b>112.7</b>	<b>137.4</b>	<b>161.4</b>
ST interest bearing debt	7.7	7.1	10.4	12.3	14.5
Accounts payable	14.3	15.2	12.6	18.3	21.1
LT interest bearing debt	4.8	1.8	5.7	6.7	7.7
Other liabilities	0.0	1.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>27.0</b>	<b>24.7</b>	<b>29.0</b>	<b>37.7</b>	<b>43.7</b>
Shareholders Equity	56.9	70.7	83.8	99.8	117.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>56.9</b>	<b>70.7</b>	<b>83.8</b>	<b>99.8</b>	<b>117.8</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>83.9</b>	<b>95.3</b>	<b>112.7</b>	<b>137.4</b>	<b>161.4</b>

**CASH FLOW (SGD m)**

Pretax profit	9.2	17.4	26.1	32.0	36.2
Depreciation & amortisation	7.3	7.0	7.6	8.7	9.2
Adj net interest (income)/exp	0.8	0.3	0.4	0.5	0.6
Change in working capital	1.2	(0.6)	(7.3)	3.1	(3.4)
Cash taxes paid	(0.5)	(1.2)	(2.8)	(4.8)	(5.5)
Other operating cash flow	0.0	1.3	0.0	0.0	0.0
Cash flow from operations	18.0	24.3	24.0	39.4	37.1
Capex	(4.3)	(4.9)	(7.0)	(7.0)	(7.0)
Free cash flow	13.7	19.4	17.0	32.4	30.1
Dividends paid	(3.8)	(3.9)	(10.3)	(11.2)	(12.8)
Equity raised / (purchased)	0.2	0.3	0.2	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(10.4)	(4.2)	4.3	2.3	2.6
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(0.7)	(0.2)	(0.6)	(0.3)	(0.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(1.0)</b>	<b>11.5</b>	<b>10.6</b>	<b>23.2</b>	<b>19.5</b>



FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.2	9.2	8.2	17.5	15.1
EBITDA growth	(28.0)	43.2	37.7	20.8	11.7
EBIT growth	(39.9)	78.1	49.4	22.5	13.2
Pretax growth	(41.1)	89.3	50.3	22.4	13.1
Reported net profit growth	(43.5)	82.2	45.7	18.0	13.1
Core net profit growth	129.8	146.1	45.7	18.0	13.1
<b>Profitability ratios (%)</b>					
EBITDA margin	17.4	22.8	29.0	29.8	29.0
EBIT margin	10.0	16.3	22.6	23.5	23.2
Pretax profit margin	9.2	16.0	22.3	23.2	22.8
Payout ratio	44.0	40.6	44.6	41.4	41.8
<b>DuPont analysis</b>					
Net profit margin (%)	8.7	14.6	19.6	19.7	19.4
Revenue/Assets (x)	1.2	1.1	1.0	1.0	1.0
Assets/Equity (x)	1.5	1.3	1.3	1.4	1.4
ROAE (%)	11.8	24.8	29.8	29.6	28.3
ROAA (%)	7.5	17.6	22.1	21.7	20.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	61.6	48.6	61.1	61.4	49.4
Days receivable outstanding	61.0	69.4	77.8	73.2	71.5
Days inventory outstanding	65.3	52.3	51.3	54.7	51.6
Days payables outstanding	64.7	73.1	68.0	66.6	73.7
Dividend cover (x)	2.3	2.5	2.2	2.4	2.4
Current ratio (x)	2.0	2.5	3.2	3.3	3.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.1	3.9	3.9	3.7	3.7
Net debt/equity (%)	2.1	net cash	net cash	net cash	net cash
Net interest cover (x)	12.8	50.8	70.8	67.3	64.3
Debt/EBITDA (x)	0.7	0.4	0.5	0.5	0.5
Capex/revenue (%)	4.3	4.5	6.0	5.1	4.4
Net debt/ (net cash)	1.2	(13.9)	(17.2)	(37.5)	(53.8)

Source: Company; Maybank

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