

OSIM International Ltd

In the Hot Seat

SINGAPORE | CONSUMER | RESULTS

29 October 2015

- 3Q15 performance was well below estimates due to macro headwinds and higher costs
- Cloudy outlook to persist in the region; eyes on TWG Tea
- Declared DPS of 1 cent
- Downgrade to “Neutral” rating with lower TP of S\$1.44

Results at a glance

(SGD mn)	3Q15	3Q14	y-y	Comments
Revenue	142	158	-11%	Weak demand despite relaunch of uMagic
Operating EBITDA	15	27	-46%	Legal costs, higher rental and wages
Profit before tax	10	23	-56%	Two new TWG startups
Profit after tax	6	16	-65%	
Interim dividend per share (cents)	1	1		

Source: Company, Phillip Securities Research (Singapore)

Analyst briefing key takeaways

- **Re-launch of uMagic with artist ambassadors failed to lift weak market sentiment.** 3Q15 sales were down 11% y-y due to soft demand across the broad. The management attributed the dull demand to the hazy weather and currency turmoil in the region.
- **Startup and operational costs, legal fees weigh on profitability.** Nonetheless, the company’s balance sheet remains healthy, with a net cash and fixed income investments of SGD232 mn. The management has also proposed an interim dividend of 1 cent per share.
- **Focus on TWG Tea business; HK may be the lone bright spot amidst regional slowdown.** Having opened two stores in Hong Kong, the company aims to add another three stores by end-2015. The management expects the TWG Tea business in HK to pick up in near term. Meanwhile, it will also continue to attract more franchisees and hoteliers.
- **What’s next?**
 - Continue to grow TWG Tea business, alongside store rationalization in OSIM and GNC/RichLife segments
 - Legal burden to moderate in 4Q15. 3Q15 legal fees spiked to SGD4 mn from SGD3 mn in 1H15

How do we view this?

The company’s strategy to offer different price points may be muted and we expect weak earnings momentum into 2016, which imply longer breakeven period for new stores and may even put future dividend at risk. We reduced our earlier projected number of new stores and slashed earnings FY15-16F against challenging backdrop. We also adjusted the number of stores to reflect the progress of the ongoing store consolidation.

Investment Actions

We downgraded to “Neutral” rating with lower TP of S\$1.44 (Previous: S\$1.83). With the U.S. Fed’s imminent rate hike, we expect the currency market to remain volatile throughout 2016, projecting a less optimistic outlook for retail sales in South Asia. However, the strong financial position should help the company to weather through the storm.

Neutral (Downgrade)

LAST DONE PRICE	SGD 1.44
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 1.44
TOTAL RETURN	4.0%

COMPANY DATA

O/S SHARES (MN) :	751
MARKET CAP (USD mn / SGD mn) :	775 / 1082
52 - WK HI/LO (SGD) :	2.34 / 1.42
3M Average Daily T/O (mn) :	154

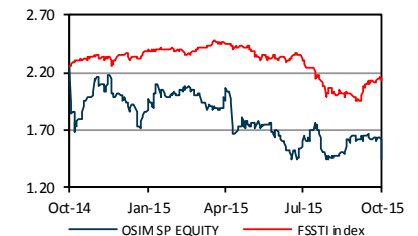
MAJOR SHAREHOLDERS (%)

CHYE HOCK SIM	66.7%
CAPITAL GROUP COMPANIES INC	5.1%
MORGAN STANLEY	2.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.9)	5.5	(28.0)
STI RETURN	7.84	(6.57)	(2.21)

PRICE VS. STI



Source: Bloomberg, P SR

KEY FINANCIALS

SGD M N	FY 13	FY 14	FY 15F	FY 16 F
Revenue	648	691	587	546
EBITDA	140	152	97	103
NPAT (adj.)	102	102	61	67
EPS (S Cents)	14.03	13.41	8.10	8.85
PER, x (adj.)	12.7	17.4	17.8	16.3
P/BV, x	4.7	4.1	2.4	2.2
DPS (S Cents)	6.0	6.0	6.0	4.0
Div Yield, %	3%	3%	4%	3%
ROE, %	43%	29%	14%	14%

Source: Company Data, P SR est.

Valuation Method

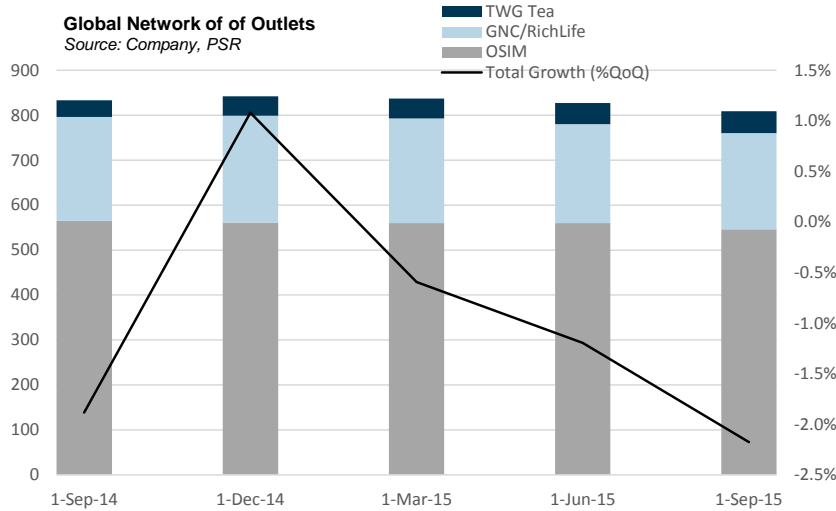
DCF (WACC:8.8%; Terminal g: 2.8%)

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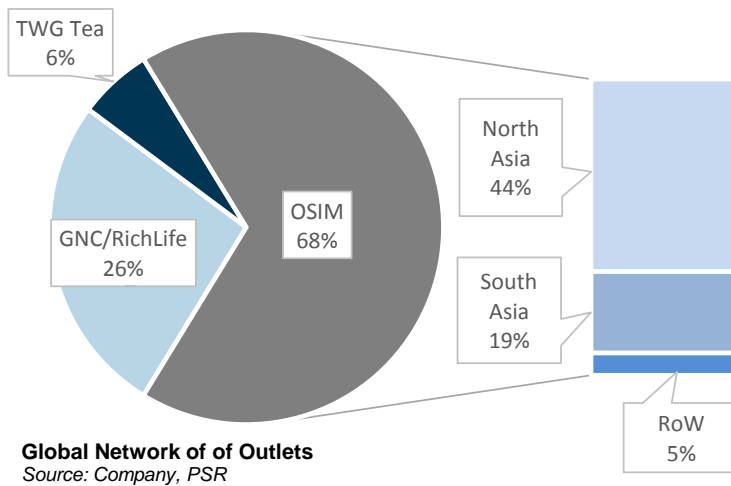
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Figure 1: Global Store Count by Region as at 3QFY2015



Store (of OSIM and GNC/RichLife) consolidation continues...

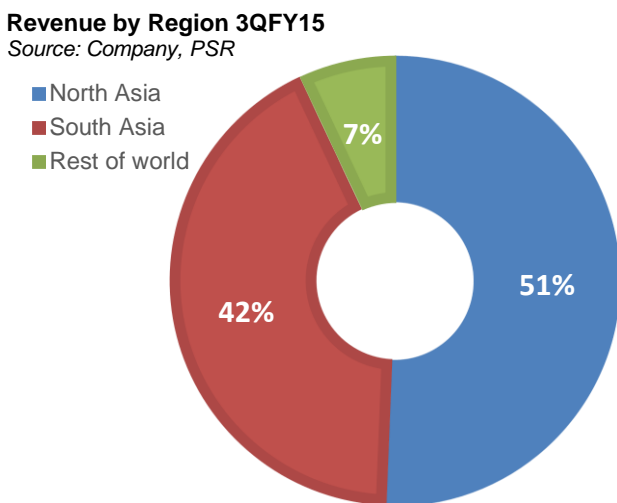
Figure 2: Store Count by Segments as at 3QFY2015

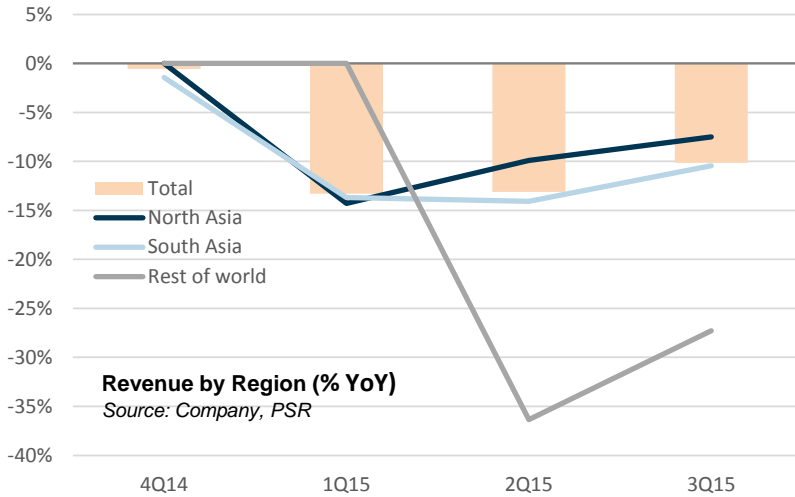


...but continue to expand TWG Tea business in the North Asia region.

Thus far, TWG Tea has 49 outlets. Targeting to reach 52 outlets by end-2015.

Figure 3: Revenue by Region as at 3QFY2015

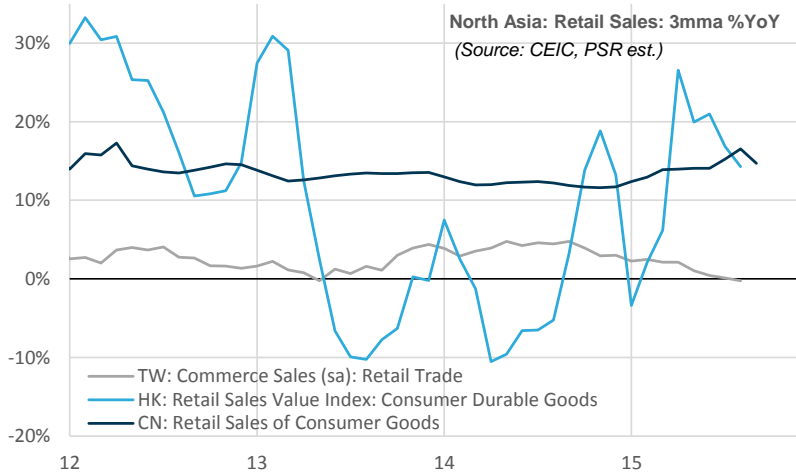




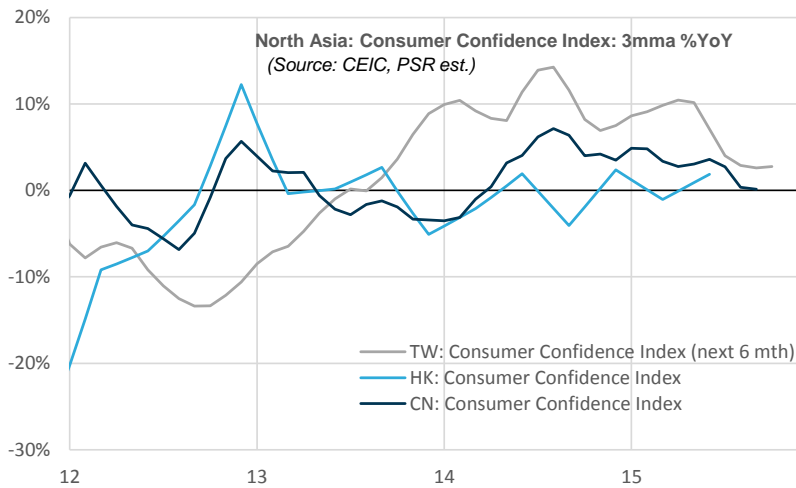
Slowdown in Asia and volatility in the Asian currencies drag on sales.

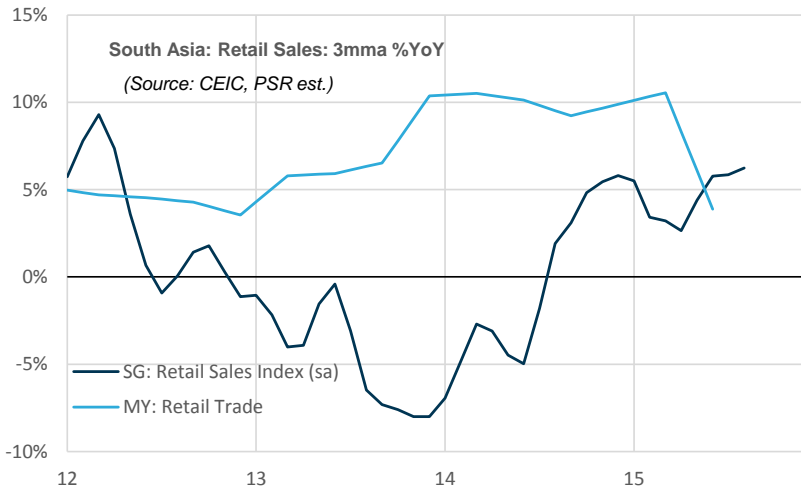
Weakness should persist into 2016, but the slowing pace of contraction providing some relief.

Figures 4-6: Retail Outlook in Key Markets (North Asia)



Waiting for retail sentiment to turnaround for its key markets.

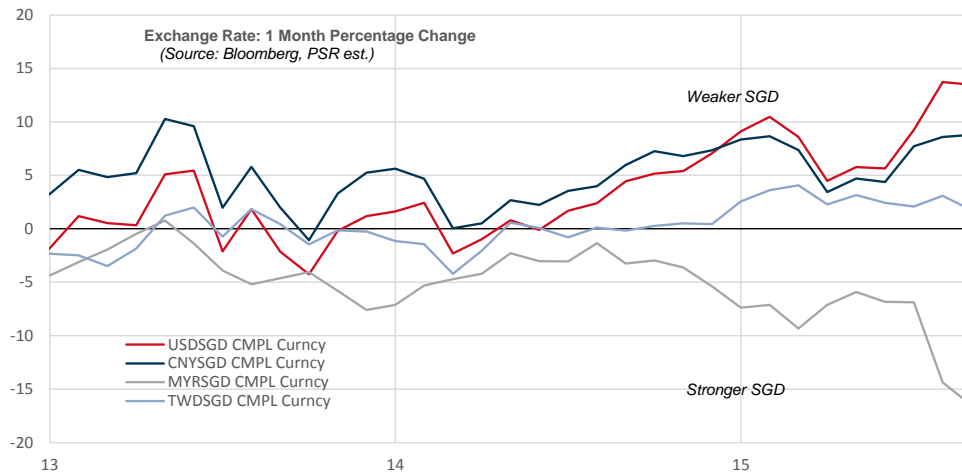




SG: RSI distorted by higher motor vehicles sales.

MY: Weaker MYR cut Malaysians' purchasing power

Figure 7: Currency market volatilities (especially weaker MYR) hit sales in Asia



Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
Revenue	602	648	691	587	546
EBITDA	127	140	152	97	103
Depreciation & Amortisation	(11)	(14)	(22)	(23)	(21)
EBIT	115	127	130	74	81
Net Finance Inc/(Exp)	(3)	(0)	2	4	4
Profit before tax	115	129	132	79	86
Taxation	(28)	(28)	(30)	(18)	(19)
Net profit before NCI	87	102	102	61	67
Non-controlling interest	0	0	0	0	0
Net profit, reported	87	102	102	61	67

Per share data (SGD Cents)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
EPS, reported	11.85	14.03	13.41	8.10	8.85
DPS	6.00	6.00	6.00	6.00	3.98
BVPS	26.74	37.46	57.53	60.14	65.01

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Profit before tax	115	129	132	79	86
Depreciation & Amortisation	11	14	22	23	21
WC changes	(8)	2	(18)	(14)	(15)
Others	3	(11)	(2)	2	1
Cash generated from ops	120	133	134	89	93
Tax paid	(27)	(29)	(26)	(18)	(19)
Cashflow from ops	94	104	108	71	74
CFI					
CAPEX, net	(13)	(11)	(23)	(15)	(14)
Others	(23)	8	1	0	0
Cashflow from investments	(36)	(3)	(22)	(15)	(14)
CFF					
Loans, net of repayments	9	4	134	0	0
Dividends	(36)	(36)	(48)	(45)	(30)
Others	(18)	(10)	(13)	33	0
Cashflow from financing	(45)	(41)	73	(12)	(30)
Net change in cash	12	60	160	44	29
CCE, end	202	267	428	472	501

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
ASSETS					
PPE	21	25	31	34	36
Others	105	235	234	223	213
Total non-current assets	126	261	266	257	249
Accounts receivables	54	55	58	49	46
Cash	202	267	428	438	468
Inventories	54	73	72	86	100
Others	35	25	32	32	32
Total current assets	344	419	588	605	645
Total Assets	471	680	854	862	894
LIABILITIES					
Accounts payables	84	90	77	69	64
Short term loans	25	155	17	17	17
Others	38	52	64	64	64
Total current liabilities	147	297	158	150	145
Long term loans	117	0	168	168	168
Others	7	39	36	36	36
Total non-current liabilities	124	39	204	204	204
Total Liabilities	271	336	362	354	349
EQUITY					
Non-controlling interests	4	73	54	54	54
Shareholder Equity	196	271	438	454	491

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/E (X), adj.	10.1	12.7	17.4	17.8	16.3
P/B (X)	4.5	4.7	4.1	2.4	2.2
EV/EBITDA (X), adj.	6.9	9.2	11.7	11.2	10.6
Dividend Yield (%)	5.0%	3.4%	2.6%	4.2%	2.8%

Growth & Margins (%)

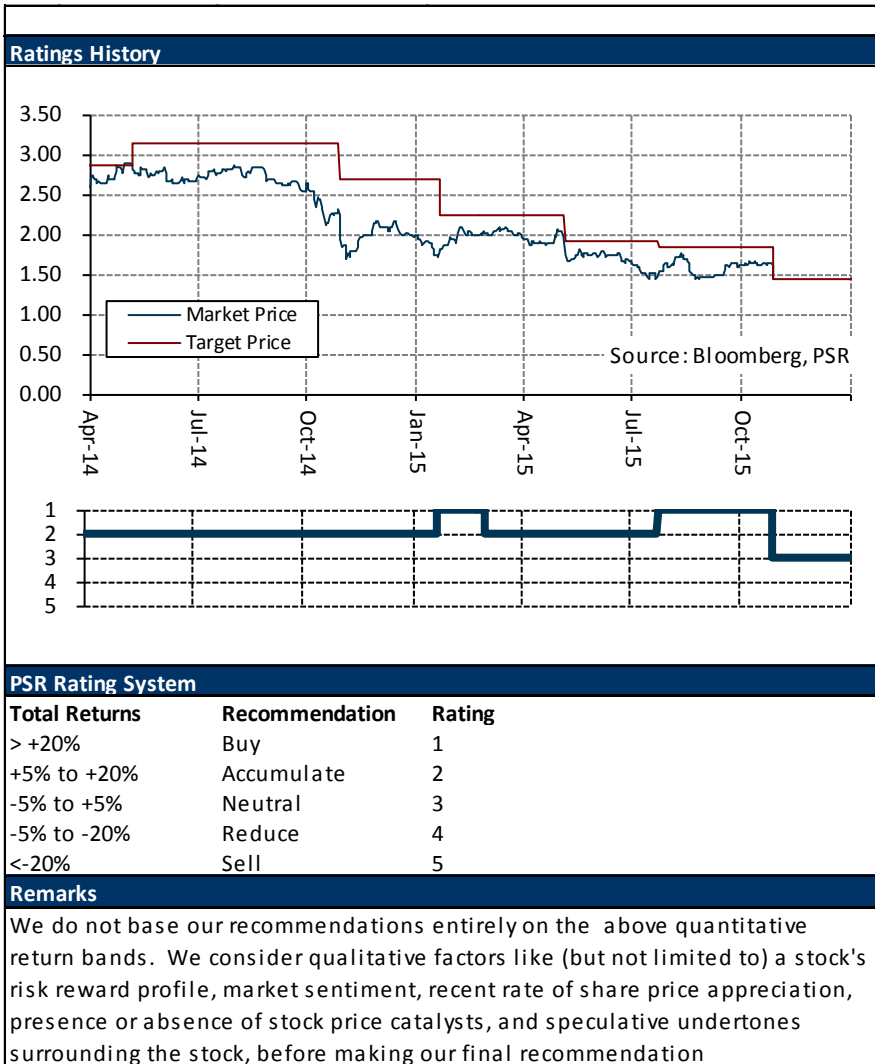
	FY12	FY13	FY14	FY15e	FY16e
Growth					
Revenue	8.7%	7.6%	6.7%	-15.1%	-6.9%
EBITDA	5.7%	10.9%	8.2%	-36.2%	6.0%
EBIT	6.5%	9.8%	2.5%	-42.9%	9.8%
Net profit, adj.	25.9%	16.9%	0.6%	-40.1%	9.2%
Margins					
EBITDA margin	21.0%	21.7%	22.0%	16.5%	18.8%
EBIT margin	19.2%	19.6%	18.8%	12.6%	14.9%
Net profit margin	14.4%	15.7%	14.8%	10.4%	12.2%

Key Ratios

	FY12	FY13	FY14	FY15e	FY16e
ROE (%)	48.1%	43.5%	28.8%	13.7%	14.1%
ROA (%)	19.3%	17.7%	13.3%	7.1%	7.6%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



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