

OSIM International (OSIM SP)

Share Price: SGD1.62

MCap (USD): 904M

Singapore

Target Price: SGD1.49 (-8%)

ADTV (USD): 2M

Consumer Disc.

HOLD

 (Unchanged)

Doubly Hit by Haze and FX

- Worst quarter yet. Perfect storm of hazy fortunes and forex turmoil. Core 3Q15 NP fell 38% YoY to SGD10m.
- 4Q should pick up, but FY16 direction still hazy. Some bright spots include TWG in HK and a harder push for franchising.
- We cut FY15-17F EPS 23-25% and TP 15% to SGD1.49. Stock fairly valued at 5 yr. mean PER of 15x FY16F. Maintain HOLD.

What's New

3Q15 was below expectations, dragged down by poor massage products performance across all markets, impacted by haze and currencies, as well as a jump in legal costs to SGD4m from SGD3m in 1H15. Core net profit (ex-legal costs) fell 38% YoY to SGD10.2m, its weakest quarter yet. While weak, OSIM in China/HK still did better than haze-affected Singapore/Malaysia. TWG grew revenue on more stores, but start-up costs in North Asia weighed down profitability. Two more stores were opened in HK, bringing the total to 49 stores, up from 37 a year ago. GNC was stable. Usual 1 ct DPS was declared. Balance sheet strong, net cash stable.

What's Our View

3Q15 is likely to be the worst for this year as OSIM heads into its seasonal peak and legal costs should taper off in 4Q. Several new smaller products that it believes to be promising have been launched, including the cheaper uDiva Classic (at SGD1,999).

Earnings direction in FY16 will still hinge on economic activity and currencies to a large extent, but this is well-known. The revenue environment could remain poor, but there are some emerging bright spots. TWG could start to turn around in markets such as HK, offsetting losses in China. Corporate business with hotels, airlines, etc, while still small, appears promising. OSIM will also push harder into high-margin franchising of both TWG and OSIM in the Middle-East and the USA.

We cut FY15-17 EPS by 23-25% to account for lower OSIM same-store sales in North and South Asia. Our TP drops to SGD1.49 from SGD1.75, based on a 5-yr forward mean of 15x EPS rolling forward to 2016. We value OSIM at 20% below peers. Maintain HOLD.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	647.6	691.1	598.1	656.5	775.1
EBITDA	136.2	151.6	93.6	119.6	137.5
Core net profit	98.2	102.8	62.8	76.3	87.1
Core FDEPS (cts)	12.5	12.3	7.5	9.8	11.2
Core FDEPS growth(%)	11.2	(1.3)	(39.0)	30.2	14.2
Net DPS (cts)	6.0	6.0	6.0	6.0	6.0
Core FD P/E (x)	12.9	13.1	21.5	16.5	14.4
P/BV (x)	4.3	2.9	3.4	2.9	2.6
Net dividend yield (%)	3.7	3.7	3.7	3.7	3.7
ROAE (%)	42.0	29.0	15.4	19.5	20.4
ROAA (%)	17.1	13.4	7.8	9.9	10.6
EV/EBITDA (x)	11.8	8.8	12.0	8.7	7.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

52w high/low (SGD)	2.25/1.44
3m avg turnover (USDm)	1.7
Free float (%)	35.1
Issued shares (m)	779
Market capitalization	SGD1.3B
Major shareholders:	
-SIM CHYE HOCK	62.4%
-Templeton Asset Management Ltd.	2.4%
-Western Asset Management Co. Pte Ltd.	1.4%

Share Price Performance



— OSIM Int'l - (LHS, SGD) — OSIM Int'l / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	(2.1)	4.2	(30.4)
Relative to index (%)	(10.1)	12.0	(27.2)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	4	0
	Maybank Consensus		% +/-
Target Price (SGD)	1.49	1.75	(14.9)
'15 PATMI (SGDm)	56	84	(33.6)
'16 PATMI (SGDm)	76	99	(23.3)

Source: FactSet; Maybank

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Figure 1: 3Q15 results summary

FYE Dec (SGD m)	3Q15	2Q15	3Q14	QoQ % change	YoY % change	Remarks
Revenue	141.6	159.5	158.2	(11.2)	(10.5)	Down YoY on poor OSIM performance, mainly chairs
Cost of goods sold	(40.1)	(43.7)	(46.1)	(8.3)	(13.0)	
Gross profit	101.5	115.8	112.1	(12.3)	(9.5)	
Staff expenses	(32.7)	(27.2)	(31.7)	20.5	3.0	
Exceptionals	(4.0)	(1.5)	0.0	166.7	n/a	Legal expenses related to two ongoing cases in Singapore and HK
Other operating expenses	(58.1)	(58.5)	(54.7)	(0.8)	6.1	
Other operating income	4.1	3.4	1.8	21.2	133.4	
EBITDA	14.9	33.5	27.5	(55.7)	(45.9)	
Depr'n & amortisation	(5.8)	(5.7)	(5.5)	1.3	5.0	
EBIT	9.1	27.8	21.9	(67.4)	(58.7)	
Interest income	1.9	1.8	0.9	7.6	103.5	
Interest expense	(1.2)	(1.2)	(0.5)	(1.1)	157.3	
Share of associates	0.3	0.5	0.5	(38.8)	(37.3)	
EBT	10.0	28.8	22.9	(65.2)	(56.1)	
Taxation	(4.3)	(6.9)	(6.7)	(37.5)	(35.7)	Tax rate was higher than expected
Minority interests	0.4	0.5	0.3	(18.1)	76.8	
Net profit	6.2	22.5	16.4	(72.5)	(62.4)	
Core net profit	10.2	24.0	16.4	(57.6)	(38.0)	Still below expectations, over-and-above higher legal costs
Gross margin (%)	71.7	72.6	70.9			Gross margin sustained above 70%
NP margin (%)	4.4	14.1	10.4			
Core NP margin (%)	7.2	15.0	10.4			
Tax rate (%)	43.0	24.0	29.4			
Net cash (SGD m)	212.5	234.0	260.1			Net cash still at healthy levels despite higher share buybacks
Cash collection cycle	29	27	11			
Inventory days	54	45	45			
Receivable days	21	22	21			
Payable days	46	39	54			
Operating cashflow (SGD m)	1.4	18.4	15.0			
Capex (SGD m)	(3.3)	(3.5)	(9.5)			
Free cashflow (SGD m)	(1.9)	14.9	5.5			

Revenue by major business*	3Q15	2Q15	3Q14	QoQ % change	YoY % change	Remarks
OSIM (SGD m)	92.7	103.7	118.6	(10.6)	(21.9)	Down in all geographies - China/HK strongest, Singapore/Malaysia weakest
As % of group	65.5	65.0	75.0			
TWG (SGD m)	17.0	15.9	11.1	6.4	53.2	TWG revenue up on store expansion
As % of group	12.0	10.0	7.0			
GNC/Richlife (SGD m)	32.3	39.4	28.3	(17.9)	14.3	Stable
As % of group	22.8	24.7	17.9			
Total (SGD m)	142.0	159.0	158.0	(10.7)	(10.1)	

Same store sales (SGD '000/mth)*	3Q15	2Q15	3Q14	Remarks
OSIM	57	62	70	
GNC/Richlife	50	60	41	
TWG	115	113	100	

Number of stores*	3Q15	2Q15	3Q14	Remarks
OSIM - Group	546	560	565	Store-count has fallen as OSIM rationalised underperforming stores, mainly in China
- North Asia	355	364	367	
- China (stores)	244	251	256	
- China (cities)	45	45	45	
- South Asia	150	156	161	
- Others (AAEMEO)	41	40	37	
TWG - Group	49	47	37	Intends to add another 3 stores by end-2015 to 52, and likely another 10-15 stores pa following that
- North Asia	22	20	12	
- South Asia	23	23	21	
- Others (AAEMEO)	4	4	4	
GNC/Richlife	214	220	231	Relatively more stable than OSIM segment. Taiwan has turned profitable and is expected to stay in the black.
- GNC (SG, MY, TW, AU)	209	215	224	
- Richlife (China)	5	5	7	

* AAEMEO - Americas, Africa, Europe, Middle East, Oceania

Source: Company data, Maybank Kim Eng estimates (*)

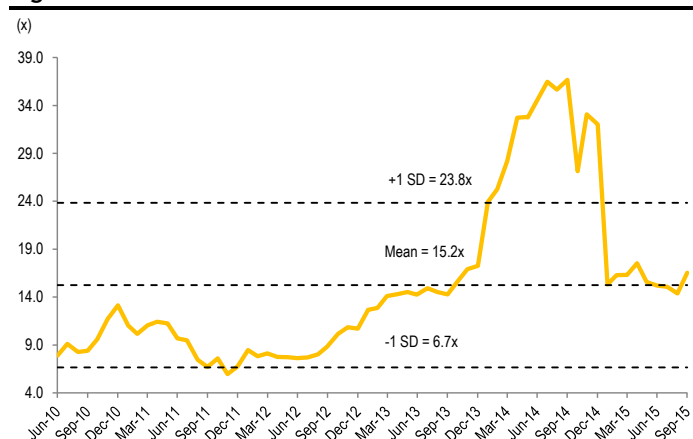
Figure 2: 9M15 results summary

FYE Dec (SGD m)	9M15	9M14	YoY % change	MBKE Old FY15E	YTD as % of old FY forecast
Revenue	450.9	513.5	(12.2)	662.8	68
Cost of goods sold	(127.8)	(150.7)	(15.2)	(190.3)	
Gross profit	323.0	362.8	(11.0)	472.6	68
Staff expenses	(91.4)	(93.2)	(1.9)	(124.1)	
Exceptionals	(7.0)	0.0	n/a	0.0	
Other operating expenses	(171.7)	(167.5)	2.5	(237.4)	
Other operating income	11.6	10.6	8.9	16.2	
EBITDA	71.5	112.6	(36.5)	127.4	56
Depr'n & amortisation	(17.1)	(16.4)	4.3	(23.6)	72
EBIT	54.4	96.3	(43.5)	103.8	52
Interest income	4.9	3.2	50.3	6.5	
Interest expense	(3.7)	(2.2)	64.2	(3.5)	
Share of associates	1.2	1.0	18.0	2.0	
EBT	56.8	98.3	(42.2)	108.7	52
Taxation	(16.2)	(23.8)	(32.0)	(25.5)	
Minority interests	1.5	0.3	493.2	0.7	
Net profit	42.1	74.8	(43.6)	83.9	50
Core net profit	49.1	74.8	(34.3)	83.9	59
Gross margin (%)	71.6	70.7			
NP margin (%)	9.3	14.6			
Core NP margin (%)	10.9	14.6			
Tax rate (%)	28.4	24.2			
Net cash (SGD m)	212.5	260.1			
Operating cashflow (SGD m)	31.8	69.8			
Capex (SGD m)	(10.2)	(16.1)			
Free cashflow (SGD m)	21.6	53.7			

Revenue by major business*	9M15	9M14	YoY % change
OSIM (SGD m)	295.2	385.1	(23.3)
As % of group	65.5	74.9	
TWG (SGD m)	47.9	30.7	56.2
As % of group	10.6	6.0	
GNC/Richlife (SGD m)	107.9	98.2	9.8
As % of group	23.8	19.1	
Total (SGD m)	451.0	514.0	(12.3)

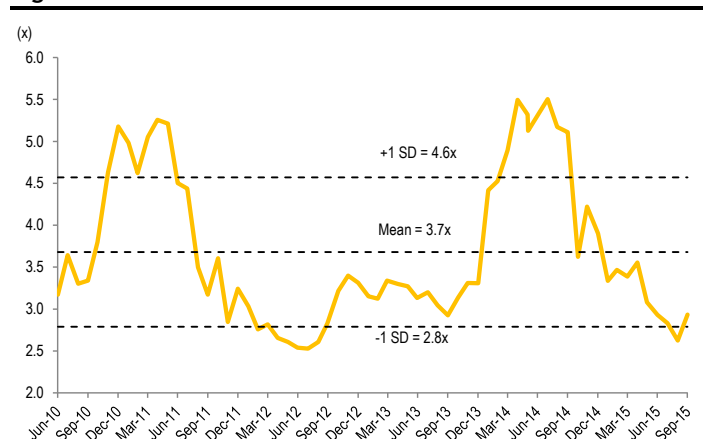
Source: Company data, Maybank Kim Eng estimates (*)

Figure 3: Forward P/E



Source: Bloomberg, Maybank Kim Eng

Figure 4: Forward P/BV



Source: Bloomberg, Maybank Kim Eng

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	12.0	12.4	22.8	15.5	13.5
Core P/E (x)	11.9	12.3	20.2	15.5	13.5
Core FD P/E (x)	12.9	13.1	21.5	16.5	14.4
P/BV (x)	4.3	2.9	3.4	2.9	2.6
P/NTA (x)	14.4	4.9	6.3	5.0	4.2
Net dividend yield (%)	3.7	3.7	3.7	3.7	3.7
FCF yield (%)	7.7	6.7	4.0	2.1	5.7
EV/EBITDA (x)	11.8	8.8	12.0	8.7	7.3
EV/EBIT (x)	13.1	10.3	15.8	10.8	9.1

INCOME STATEMENT (SGD m)

Revenue	647.6	691.1	598.1	656.5	775.1
Gross profit	455.1	486.3	429.0	466.1	554.2
EBITDA	136.2	151.6	93.6	119.6	137.5
Depreciation	(13.7)	(21.8)	(22.2)	(23.0)	(27.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	122.5	129.8	71.3	96.6	110.4
Net interest income / (exp)	(0.4)	1.5	1.5	0.0	0.0
Associates & JV	2.9	1.0	1.7	2.0	2.3
Exceptionals	(0.9)	(0.7)	(7.0)	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	124.9	132.3	74.5	98.6	112.7
Income tax	(27.6)	(30.1)	(20.1)	(21.7)	(24.8)
Minorities	(0.0)	(0.0)	1.3	(0.7)	(0.8)
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	97.4	102.2	55.8	76.3	87.1
Core net profit	98.2	102.8	62.8	76.3	87.1

BALANCE SHEET (SGD m)

Cash & Short Term Investments	290.9	456.4	376.4	367.1	422.2
Accounts receivable	42.3	43.5	41.0	54.0	63.7
Inventory	72.5	71.6	65.5	89.9	106.2
Property, Plant & Equip (net)	25.2	36.4	39.2	36.2	29.1
Intangible assets	189.9	180.6	175.6	170.6	165.6
Investment in Associates & JVs	18.5	18.4	20.1	22.0	24.4
Other assets	40.8	45.4	40.9	42.9	47.1
Total assets	680.0	852.5	758.7	782.9	858.3
ST interest bearing debt	154.6	17.2	15.0	16.4	19.4
Accounts payable	101.6	96.5	81.9	71.9	84.9
LT interest bearing debt	0.1	168.3	170.0	170.0	170.0
Other liabilities	80.0	79.0	68.0	75.0	88.0
Total Liabilities	336.0	360.5	335.1	333.2	362.7
Shareholders Equity	271.2	438.4	375.8	407.1	448.0
Minority Interest	72.7	53.6	47.8	46.0	54.3
Total shareholder equity	343.9	491.9	423.6	453.0	502.3
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	680.0	852.5	758.7	786.2	865.0

CASH FLOW (SGD m)

Pretax profit	124.9	132.3	74.5	98.6	112.7
Depreciation & amortisation	13.7	21.8	22.2	23.0	27.1
Adj net interest (income)/exp	0.4	(1.5)	(1.5)	0.0	0.0
Change in working capital	1.9	(16.0)	(3.9)	(48.4)	(15.0)
Cash taxes paid	(29.2)	(26.0)	(13.4)	(26.7)	(34.9)
Other operating cash flow	(11.8)	(1.7)	(1.7)	(2.0)	(2.3)
Cash flow from operations	100.1	108.9	76.3	44.6	87.6
Capex	(10.5)	(23.6)	(25.0)	(20.0)	(20.0)
Free cash flow	89.5	85.3	51.3	24.6	67.6
Dividends paid	(36.2)	(47.6)	(47.0)	(47.2)	(86.4)
Equity raised / (purchased)	(7.4)	(12.0)	(38.0)	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	4.5	134.0	(0.5)	1.5	3.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	6.9	(0.3)	1.5	0.0	0.0
Effect of exch rate changes	5.8	0.8	(14.3)	11.9	70.9
Net cash flow	63.0	160.2	(47.0)	(9.2)	55.0

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.6	6.7	(13.5)	9.8	18.1
EBITDA growth	7.6	11.3	(38.3)	27.8	14.9
EBIT growth	6.2	6.0	(45.0)	35.5	14.2
Pretax growth	8.8	5.9	(43.7)	32.4	14.3
Reported net profit growth	12.0	5.0	(45.4)	36.7	14.2
Core net profit growth	10.1	4.7	(39.0)	21.5	14.2
Profitability ratios (%)					
EBITDA margin	21.0	21.9	15.6	18.2	17.7
EBIT margin	18.9	18.8	11.9	14.7	14.2
Pretax profit margin	19.3	19.1	12.5	15.0	14.5
Payout ratio	44.6	46.1	84.5	57.4	50.3
DuPont analysis					
Net profit margin (%)	15.0	14.8	9.3	11.6	11.2
Revenue/Assets (x)	1.0	0.8	0.8	0.8	0.9
Assets/Equity (x)	2.5	1.9	2.0	1.9	1.9
ROAE (%)	42.0	29.0	15.4	19.5	20.4
ROAA (%)	17.1	13.4	7.8	9.9	10.6
Liquidity & Efficiency					
Cash conversion cycle	(38.6)	(25.1)	(18.5)	27.5	59.3
Days receivable outstanding	22.4	22.3	25.4	26.0	27.3
Days inventory outstanding	118.1	126.7	146.1	146.9	159.8
Days payables outstanding	179.1	174.1	190.0	145.4	127.8
Dividend cover (x)	2.2	2.2	1.2	1.7	2.0
Current ratio (x)	1.4	3.7	3.7	4.1	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.4	2.3	2.3	2.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	nm	nm
Debt/EBITDA (x)	1.1	1.2	2.0	1.6	1.4
Capex/revenue (%)	1.6	3.4	4.2	3.0	2.6
Net debt/ (net cash)	(136.2)	(270.9)	(191.4)	(180.7)	(232.8)

Source: Company; Maybank

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