

Eu Yan Sang (EYSAN SP)

Consumer Non-cyclical - Healthcare

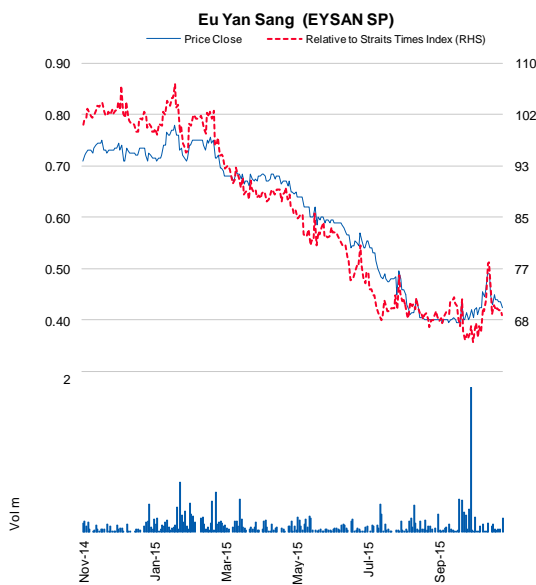
Market Cap: USD134m

Sell (Maintained)

 Target Price: **SGD0.36**

 Price: **SGD0.43**

Too Hard To Swallow

 Macro ◆
 Risks ◆
 Growth ◆◆
 Value ◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.04m/0.03m
Cons. Upside (%)	-27.9
Upside (%)	-15.4
52-wk Price low/high (SGD)	0.40 - 0.78
Free float (%)	57
Share outstanding (m)	447
Shareholders (%)	
Richard Eu	14.7
EUCO Investments	14.1
Aberdeen	11.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(42.2)	6.3	(12.4)	(36.6)	(40.6)
Relative	(30.8)	6.9	(7.0)	(22.5)	(31.2)

Eu Yan Sang (EYS) posted another quarter of loss after 4QFY15 (Jun), in line with our expectations. Reiterate SELL and SGD0.36 TP (16% downside), pegged to 1x FY16F P/BV. The company continues to be plagued by decreased spending by mainland Chinese visitors to Hong Kong as well as the weakening of MYR and AUD, while Singapore saw improvements from promotional campaigns. EYS is in the midst of rationalising its retail outlets as part of its cost-reduction initiatives.

- ◆ **Challenging environment for discretionary products.** During the quarter, revenue dropped 10% YoY to SGD75.2m. In local currency terms, Hong Kong revenue declined the most at 30%, as it faced decreased spending from mainland tourists. Its Australian revenue grew 20% but was ultimately dragged down by the depreciating AUD.
- ◆ **Recovery of Australia is the brightest spot.** Revenue at its Australian operations surged as the group increased the number of company-operated stores and retired non-performing franchisees. As at 1QFY16, its Australian operations remained on track to break even at EBITDA level this year. EYS also signed a memorandum of understanding (MOU) with Venture Integrity Health (VIH) to acquire seven VIH health food retail stores in Sydney. With the increased number of stores, the group could reap economies of scale to expedite improvements in its Australian business.
- ◆ **Cost-reduction initiatives to mitigate challenging environment.** EYS has begun rationalising its store outlets and improving back-office efficiency to bring down its cost structure. In 1QFY16, five outlets in Malaysia, two outlets in Singapore, four franchise outlets in Australia and one food and beverage (F&B) outlet in Shanghai had been closed. Nonetheless, the group still has 268 retail outlets and four F&B outlets. As such, EYS continues to suffer from high operating leverage in the weak spending environment
- ◆ **Reiterate SELL and SGD0.36 TP.** We remain cautious on the company's near-term outlook. Thus, we maintain our SELL recommendation with a TP of SGD0.36 pegged to 1x FY16F P/BV.

Forecasts and Valuations	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover (SGDm)	366	350	337	347	362
Reported net profit (SGDm)	15.3	4.6	3.0	3.4	3.6
Recurring net profit (SGDm)	13.4	(0.6)	3.0	3.4	3.6
Recurring net profit growth (%)	(10.6)	(104.7)	na	10.8	6.2
Recurring EPS (SGD)	0.03	(0.00)	0.01	0.01	0.01
DPS (SGD)	0.02	0.01	0.00	0.00	0.00
Recurring P/E (x)	14.1	na	62.3	56.5	53.2
P/B (x)	1.20	1.19	1.18	1.17	1.16
P/CF (x)	29.6	12.8	3.3	63.8	9.8
Dividend Yield (%)	5.7	1.2	0.7	0.8	0.0
EV/EBITDA (x)	7.4	14.1	12.7	13.0	13.1
Return on average equity (%)	9.9	2.9	1.9	2.1	2.2
Net debt to equity (%)	54.9	92.3	69.1	80.5	81.7
Our vs consensus EPS (adjusted) (%)			(38.0)	(55.7)	(62.0)

Source: Company data, RHB

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Figure 1: 1QFY16 results summary

FYE Jun (SGDm)	4QFY15	1QFY15	1QFY16	QoQ (%)	YoY (%)	Comments
Revenue	72.3	83.0	75.2	4.0	(9.5)	Soft retail market in Hong Kong and Malaysia, coupled with currency depreciation of the AUD and MYR.
EBITDA	0.1	6.0	4.0	>100	(32.9)	YoY hit by high operating leverage and lower sales.
<i>EBITDA Margin (%)</i>	<i>0.1</i>	<i>7.2</i>	<i>5.4</i>			
Depreciation & Amortisation	4.0	2.9	3.5	(10.9)	21.2	
EBIT	(3.9)	3.1	0.5	n.m	(84.0)	
<i>EBIT Margin (%)</i>	<i>-5.4</i>	<i>3.7</i>	<i>0.7</i>			
Pretax profit	(0.5)	2.3	0.5	n.m	(76.2)	
Tax	(3.1)	(1.5)	(0.7)	(78.1)	(55.3)	
Minorities	0.0	0.0	0.0	n.m	n.m	
Net Profit	(3.6)	0.7	(0.2)	n.m	n.m	
<i>Net Margin (%)</i>	<i>-5.0</i>	<i>0.9</i>	<i>-0.2</i>			

Source: Company

Financial Exhibits

Profit & Loss (SGDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover	366	350	337	347	362
Cost of sales	(182)	(177)	(173)	(177)	(185)
Gross profit	184	173	164	170	178
Gen & admin expenses	(38)	(37)	(35)	(36)	(38)
Selling expenses	(123)	(128)	(122)	(126)	(132)
Other operating costs	3	3	3	3	3
Operating profit	26	11	10	11	11
Operating EBITDA	37	24	24	25	25
Depreciation of fixed assets	(10)	(12)	(13)	(13)	(12)
Amortisation of intangible assets	(1)	(1)	(1)	(1)	(1)
Operating EBIT	26	11	10	11	11
Net income from investments	0	0	-	-	-
Other recurring income	2	7	-	-	-
Interest income	0	0	0	0	0
Interest expense	(5)	(6)	(5)	(6)	(6)
Pre-tax profit	23	12	4	5	5
Taxation	(8)	(8)	(1)	(2)	(2)
Minority interests	0	0	0	0	0
Profit after tax & minorities	15	5	3	3	4
Reported net profit	15	5	3	3	4
Recurring net profit	13	(1)	3	3	4

Source: Company data, RHB

Cash flow (SGDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Operating profit	26	11	10	11	11
Depreciation & amortisation	11	13	14	14	14
Change in working capital	(22)	1	38	(14)	2
Other operating cash flow	2	2	2	-	-
Operating cash flow	16	28	64	10	27
Interest received	0	0	0	0	0
Interest paid	(5)	(5)	(5)	(6)	(6)
Tax paid	(5)	(7)	(1)	(2)	(2)
Cash flow from operations	6	15	57	3	19
Capex	(17)	(51)	(19)	(20)	(20)
Other new investments	(4)	(16)	(0)	(2)	(2)
Other investing cash flow	(1)	0	-	-	-
Cash flow from investing activities	(21)	(67)	(19)	(22)	(22)
Dividends paid	(10)	(10)	(2)	(1)	(2)
Increase in debt	(29)	41	-	-	-
Other financing cash flow	1	1	0	-	-
Cash flow from financing activities	(38)	32	(2)	(1)	(2)
Cash at beginning of period	98	45	25	61	42
Total cash generated	(53)	(20)	36	(20)	(4)
Forex effects	(0)	0	-	-	-
Implied cash at end of period	45	25	61	42	38

Source: Company data, RHB

Financial Exhibits

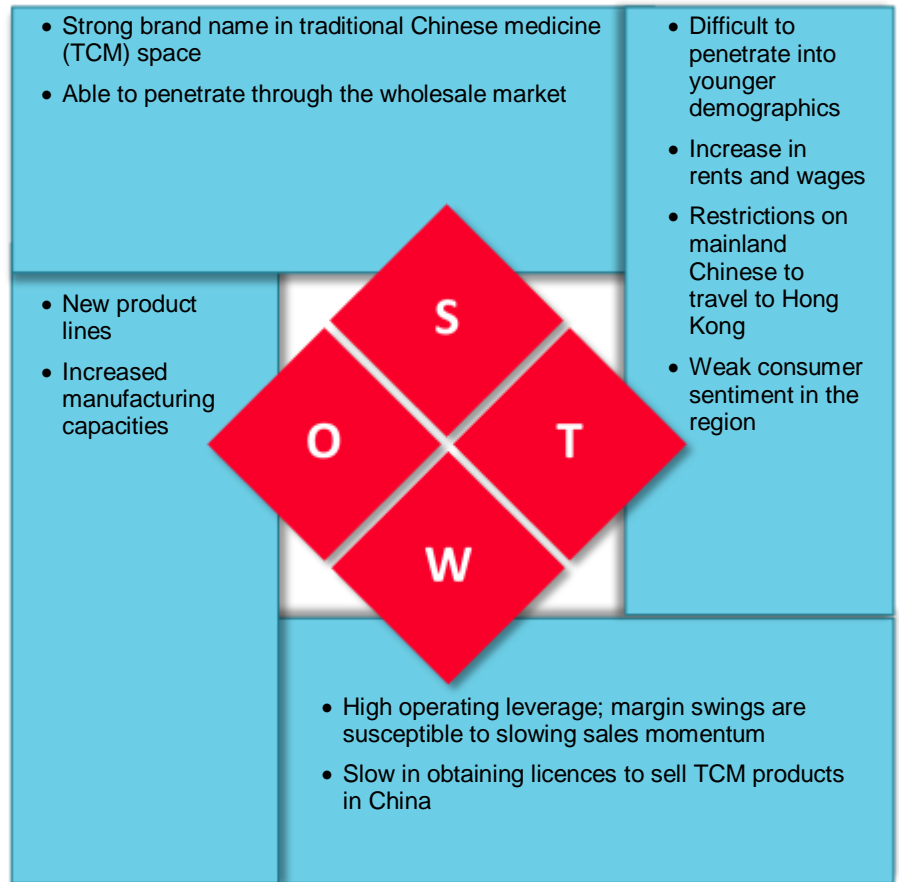
Balance Sheet (SGDm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total cash and equivalents	45	25	61	42	38
Inventories	83	87	81	89	86
Accounts receivable	17	15	23	15	24
Other current assets	2	2	3	2	3
Total current assets	148	130	167	148	151
Total investments	63	47	47	47	47
Tangible fixed assets	115	200	206	213	221
Intangible assets	5	5	5	5	5
Total other assets	18	11	10	10	10
Total non-current assets	202	263	268	275	283
Total assets	350	392	435	424	434
Short-term debt	55	73	73	73	73
Accounts payable	38	37	76	63	71
Other current liabilities	12	10	12	12	12
Total current liabilities	106	120	162	148	157
Total long-term debt	77	99	99	99	99
Other liabilities	10	13	13	13	13
Total non-current liabilities	86	112	112	112	112
Total liabilities	192	232	274	261	269
Share capital	41	41	41	41	41
Other reserves	117	118	119	121	123
Shareholders' equity	158	160	161	162	164
Minority interests	0	0	0	0	1
Other equity	0	(0)	(0)	(0)	(0)
Total equity	158	160	161	163	165
Total liabilities & equity	350	392	435	424	434

Source: Company data, RHB

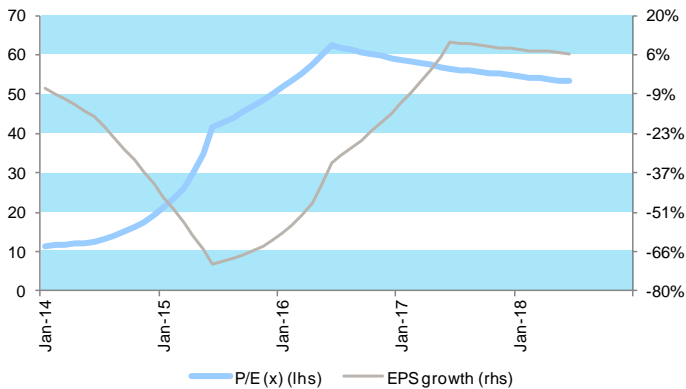
Key Ratios (SGD)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Revenue growth (%)	12.0	(4.3)	(3.7)	2.9	4.4
Operating profit growth (%)	9.2	(59.1)	(11.2)	12.9	3.3
Net profit growth (%)	(16.5)	(70.1)	(33.3)	10.8	6.2
EPS growth (%)	(16.8)	(70.2)	(33.3)	10.3	6.2
BVPS growth (%)	5.4	0.8	0.5	0.8	1.1
Operating margin (%)	7.2	3.1	2.8	3.1	3.1
Net profit margin (%)	4.2	1.3	0.9	1.0	1.0
Return on average assets (%)	4.3	1.2	0.7	0.8	0.8
Return on average equity (%)	9.9	2.9	1.9	2.1	2.2
Net debt to equity (%)	54.9	92.3	69.1	80.5	81.7
DPS	0.02	0.01	0.00	0.00	0.00
Recurrent cash flow per share	0.01	0.03	0.13	0.01	0.04

Source: Company data, RHB

SWOT Analysis

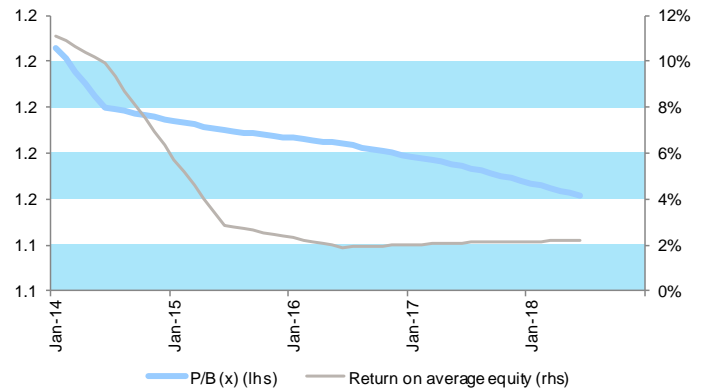


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Eu Yan Sang International Limited (EYS) retails, wholesales, and manufactures traditional Chinese medicine (TCM) as well as other health and wellness products under the *Eu Yan Sang* brand name. In addition, it provides integrative medical services through its TCM clinics. Its main markets include Hong Kong, Malaysia, Singapore, China and Australia.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-27	Sell	0.36	0.43
2015-02-05	Sell	0.60	0.74
2013-10-31	Buy	0.92	0.75
2013-08-28	Buy	0.92	0.72
2013-05-20	Buy	0.88	0.79
2013-05-10	Buy	0.80	0.70
2013-02-08	Neutral	0.59	0.64
2012-10-30	Sell	0.57	0.61
2012-08-30	Buy	0.74	0.66
2012-05-17	Buy	0.74	0.63

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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