

# IPS Securex Holdings (IPSS SP)

**Buy** (Maintained)

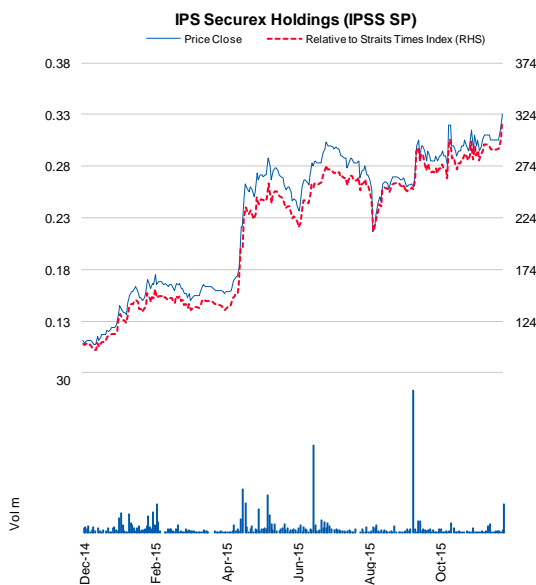
Technology - Technology

 Target Price: **SGD0.40**

Market Cap: USD114m

 Price: **SGD0.31**

## Spiking Its Way Up

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	0.28m/0.20m
Cons. Upside (%)	29.0
Upside (%)	29.0
52-wk Price low/high (SGD)	0.11 - 0.33
Free float (%)	14
Share outstanding (m)	486
<b>Shareholders (%)</b>	
IPS Technologies Pte Ltd	51.2
Ching Song Lim	12.3
Khoon Lim Goh	7.4

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	183.0	11.9	22.2	29.4	195.0
Relative	199.0	15.7	24.2	45.5	211.0

IPS has secured a 5-year USD64.46m LOA for the sale of *Hyperspike* acoustic hailing devices and supporting accessories to a South-East Asian government body – a significant positive and provides it with stable USD12.9m average annual income during this period. Maintain BUY with a slightly higher DCF-backed SGD0.40 TP (from SGD0.38, 29% upside, 0% TG and 10.5% WACC) as we remain positive on this stock.

- ◆ **A significant USD64.46m win.** IPS Securex (IPS) has secured a letter of award (LOA) worth USD64.46m for the sale of *Hyperspike* acoustic hailing devices and their supporting accessories. The sale is to a certain government body in South-East Asia over a period of five years by Dec 2020. This is IPS' largest win to date on the *Hyperspike* front and is a testament to the product's quality and market acceptance. The deal is likely to provide a significant positive bump and, at the same time, provide a stable USD12.9m base to its earnings for the next five years.
- ◆ **Airports of Thailand (AOT) tender result likely in Jan 2016.** Previously, we highlighted that Airports of Thailand (AOT TB, TAKE PROFIT, TP: THB251.00) had outlined plans to complete expansion and development works across all six of its airports within the next two years. We also stated that IPS was likely to participate in tenders to supply US Transportation Security Administration (TSA) certified machines in the baggage and cargo scanners space. The result of this tender is likely to be revealed in Jan 2016 and we expect IPS to secure at least USD150m worth of tenders on this front.
- ◆ **Maintain BUY with a revised DCF-backed SGD0.40 TP.** Due to certain production delay issues, as well as incorporating some lag time in revenue recognition, we recognise USD25m worth of *PepperBall* orders in FY16 (Jun), shifting the remaining USD25m balance to FY17. With secured contracts over a longer term providing stability to IPS' earnings, we have also switched our valuation methodology to DCF. This resulted in a slightly higher DCF-based SGD0.40 TP on conservative 0% TG and 10.5% WACC backed by 11x FY17F P/E. With a higher focus on more stringent security due to terrorist activities, we remain positive on IPS' future prospects.

Forecasts and Valuations	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover (SGDm)	12.4	15.7	39.0	60.1	65.9
Reported net profit (SGDm)	1.1	2.3	10.9	18.1	20.3
Recurring net profit (SGDm)	1.1	2.3	10.9	18.1	20.3
Recurring net profit growth (%)	(35.1)	102.1	385.3	65.7	12.3
Recurring EPS (SGD)	0.01	0.00	0.02	0.04	0.04
DPS (SGD)	0.00	0.02	0.01	0.01	0.01
Recurring P/E (x)	22.2	71.2	14.7	8.8	7.9
P/B (x)	3.0	13.6	8.2	5.0	3.5
P/CF (x)	na	212	13	8	8
Dividend Yield (%)	0.0	4.5	2.0	3.4	3.8
EV/EBITDA (x)	13.3	59.1	10.5	6.0	4.8
Return on average equity (%)	19.8	22.5	70.0	70.2	51.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

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## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>	<b>Jun-18F</b>
Total turnover	12	16	39	60	66
Cost of sales	(6)	(9)	(21)	(33)	(36)
<b>Gross profit</b>	<b>6</b>	<b>6</b>	<b>18</b>	<b>27</b>	<b>30</b>
Gen & admin expenses	(5)	(4)	(5)	(5)	(5)
Other operating costs	(0)	(0)	-	(0)	(0)
<b>Operating profit</b>	<b>1</b>	<b>2</b>	<b>13</b>	<b>22</b>	<b>25</b>
Operating EBITDA	2	3	14	23	26
Depreciation of fixed assets	(0)	(1)	(1)	(1)	(1)
<b>Operating EBIT</b>	<b>1</b>	<b>2</b>	<b>13</b>	<b>22</b>	<b>25</b>
Other recurring income	0	1	-	0	0
Interest expense	(0)	(0)	-	-	-
<b>Pre-tax profit</b>	<b>2</b>	<b>3</b>	<b>13</b>	<b>22</b>	<b>25</b>
Taxation	(0)	(0)	(2)	(4)	(4)
<b>Profit after tax &amp; minorities</b>	<b>1</b>	<b>2</b>	<b>11</b>	<b>18</b>	<b>20</b>
<b>Reported net profit</b>	<b>1</b>	<b>2</b>	<b>11</b>	<b>18</b>	<b>20</b>
<b>Recurring net profit</b>	<b>1</b>	<b>2</b>	<b>11</b>	<b>18</b>	<b>20</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>	<b>Jun-18F</b>
<b>Operating profit</b>	<b>1</b>	<b>2</b>	<b>13</b>	<b>22</b>	<b>25</b>
<b>Depreciation &amp; amortisation</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Change in working capital</b>	<b>(2)</b>	<b>(1)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
Other operating cash flow	0	(0)	-	-	-
<b>Operating cash flow</b>	<b>(0)</b>	<b>1</b>	<b>15</b>	<b>23</b>	<b>26</b>
Interest received	(0)	(0)	-	-	-
Interest paid	0	0	-	-	-
Tax paid	-	(0)	(2)	(4)	(4)
<b>Cash flow from operations</b>	<b>(0)</b>	<b>1</b>	<b>12</b>	<b>19</b>	<b>21</b>
Capex	(1)	(3)	(2)	(2)	(1)
<b>Cash flow from investing activities</b>	<b>(1)</b>	<b>(3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>
Dividends paid	-	(1)	(3)	(5)	(6)
Proceeds from issue of shares	4	3	-	-	-
Increase in debt	-	1	-	-	-
Other financing cash flow	0	(0)	(0)	(0)	(0)
<b>Cash flow from financing activities</b>	<b>4</b>	<b>2</b>	<b>(3)</b>	<b>(5)</b>	<b>(6)</b>
Cash at beginning of period	1	5	5	12	23
<b>Total cash generated</b>	<b>3</b>	<b>(0)</b>	<b>7</b>	<b>12</b>	<b>14</b>
Forex effects	(0)	1	-	-	-
<b>Implied cash at end of period</b>	<b>4</b>	<b>5</b>	<b>12</b>	<b>23</b>	<b>37</b>

Source: Company data, RHB

## Financial Exhibits

<b>Balance Sheet (SGDm)</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>	<b>Jun-18F</b>
Total cash and equivalents	5	5	12	23	37
Inventories	0	1	1	1	1
Accounts receivable	6	9	19	30	32
<b>Total current assets</b>	<b>11</b>	<b>14</b>	<b>31</b>	<b>53</b>	<b>70</b>
Tangible fixed assets	2	5	6	7	7
Total other assets	1	1	1	1	1
Total non-current assets	3	6	7	8	8
<b>Total assets</b>	<b>14</b>	<b>20</b>	<b>39</b>	<b>62</b>	<b>78</b>
Short-term debt	-	1	1	1	1
Accounts payable	5	7	18	28	30
Other current liabilities	0	0	0	0	0
<b>Total current liabilities</b>	<b>6</b>	<b>8</b>	<b>19</b>	<b>29</b>	<b>31</b>
Total long-term debt	-	0	0	0	0
Other liabilities	0	0	0	0	0
<b>Total non-current liabilities</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Total liabilities</b>	<b>6</b>	<b>8</b>	<b>19</b>	<b>29</b>	<b>32</b>
Share capital	7	9	9	9	9
Retained earnings reserve	1	2	10	23	37
<b>Shareholders' equity</b>	<b>8</b>	<b>12</b>	<b>19</b>	<b>32</b>	<b>46</b>
Other equity	-	-	(0)	0	-
<b>Total equity</b>	<b>8</b>	<b>12</b>	<b>19</b>	<b>32</b>	<b>46</b>
<b>Total liabilities &amp; equity</b>	<b>14</b>	<b>20</b>	<b>39</b>	<b>62</b>	<b>78</b>

Source: Company data, RHB

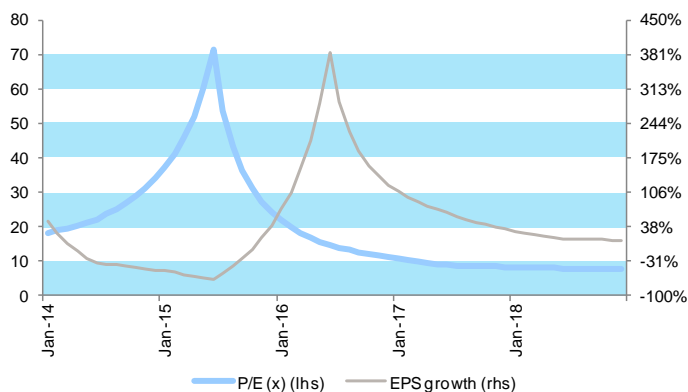
<b>Key Ratios (SGD)</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>	<b>Jun-18F</b>
Revenue growth (%)	31.2	25.9	149.2	54.0	9.7
Operating profit growth (%)	(25.5)	59.3	553.0	65.0	12.3
Net profit growth (%)	(35.1)	102.1	385.3	65.7	12.3
EPS growth (%)	(35.1)	(68.8)	385.3	65.7	12.3
BVPS growth (%)	171.8	(77.9)	64.9	65.2	44.3
Operating margin (%)	10.3	13.0	34.2	36.6	37.5
Net profit margin (%)	9.0	14.4	28.0	30.2	30.9
Return on average assets (%)	12.0	13.2	37.2	36.1	29.1
Return on average equity (%)	19.8	22.5	70.0	70.2	51.8
Net debt to equity (%)	(54.9)	(29.4)	(52.9)	(68.1)	(77.6)
DPS	0.00	0.02	0.01	0.01	0.01
Recurrent cash flow per share	(0.00)	0.00	0.02	0.04	0.04

Source: Company data, RHB

## SWOT Analysis

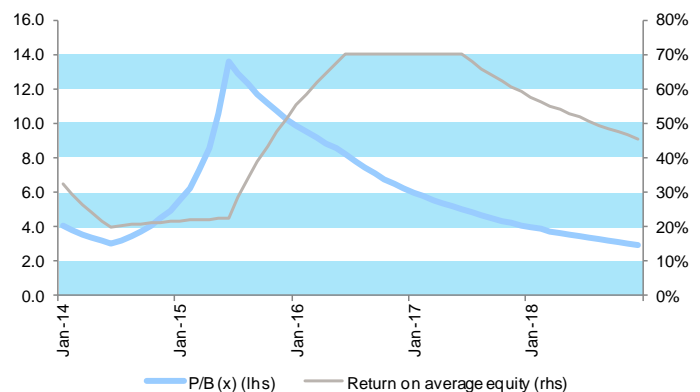


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

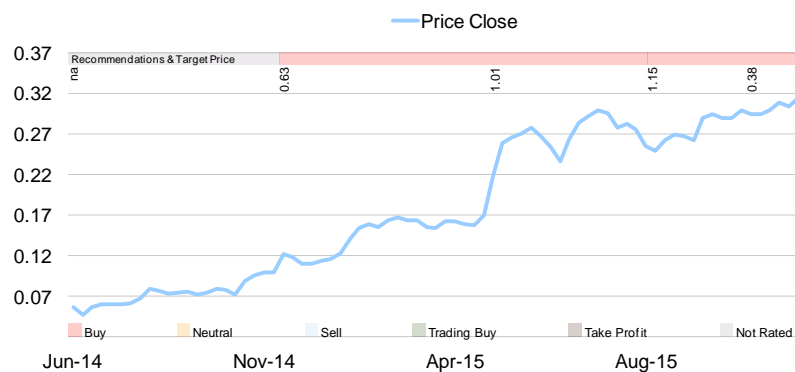


Source: Company data, RHB

## Company Profile

IPS Securex (IPS) is one of Singapore's one-stop leading providers of security products security products and integrated security solutions to commercial entities as well as government bodies and agencies in the Asia-Pacific. It carries over 100 types of security products, with distribution rights coverage to some of them spanning 10 countries in the region.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-11-01	Buy	0.38	0.30
2015-08-21	Buy	1.15	0.26
2015-06-08	Buy	1.01	0.26
2015-04-29	Buy	1.01	0.18
2015-04-21	Buy	0.63	0.16
2014-12-31	Buy	0.63	0.12
2014-12-03	Buy	0.63	0.12
2014-11-27	Buy	0.63	0.12

Source: RHB, Bloomberg

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**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

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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a) -

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