

Neo Group (NGL SP)

Consumer Non-cyclical - Commercial Services

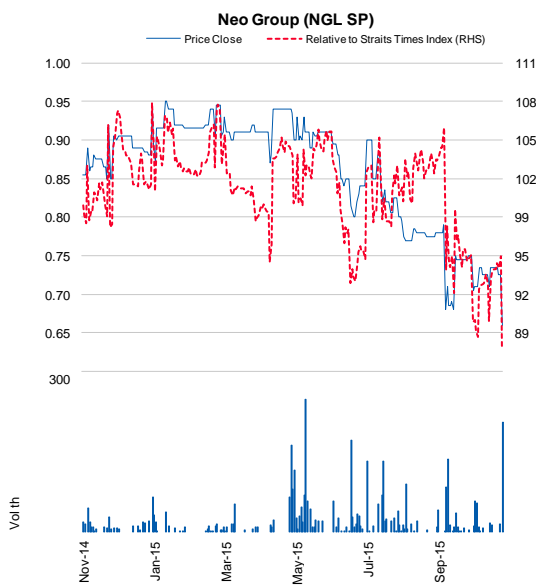
Market Cap: USD67.3m

Buy (Maintained)

 Target Price: **SGD0.82**

 Price: **SGD0.66**

The Good, The Bad And The Ugly

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.01m/0.01m
Cons. Upside (%)	43.9
Upside (%)	23.7
52-wk Price low/high (SGD)	0.66 - 0.95
Free float (%)	15
Share outstanding (m)	145
Shareholders (%)	
Neo Kah Kiat	69.8
Sally Liew Oi Peng	5.6
Lee Kwang Boon	5.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.9)	(12.0)	(20.0)	(29.8)	(25.0)
Relative	(12.5)	(8.2)	(13.6)	(14.0)	(12.9)

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Neo Group's 2Q16 results surprised us on the downside with a 95% PATMI decline YoY. While this is largely due to one-off charges relating to its acquisitions, we now hinge heavily on the 2H16 festive seasons for a strong turnaround. During 2Q16, revenue grew by 89% to SGD31.3m in line with our expectation and PATMI turned profitable from a 1Q16 loss. We cut our earnings forecast by 28-54% and maintain BUY with a lower TP of SGD0.82 (from SGD1.20, a 24% upside).

- ◆ **The Good.** Food catering revenue soared >30% throughout 1H15 due to increased marketing and promotional efforts which was significantly higher than the previous expectation for 20% YoY growth. With strong efforts in advertising and promotions, we believe revenue from this core segment will continue to grow strongly led by consumer demand.
- ◆ **The Bad...** Since Umisushi is perceived as a lower-tier brand compared to high-end restaurants, the recent cases of Group B Streptococcus bacteria has impacted its stores' footfall and sales. In view of rising operating costs, we like management's conservative approach to halt the expansion of its food retail business; no new outlets have been launched during the quarter. Overall, revenue for the food retail business grew only marginally at 1% led by increased delivery sales.
- ◆ **...and the Ugly.** 2Q16 incurred a non-controlling interest loss of SGD0.4m which implies that Thong Siek Holdings (TSH) incurred a loss of SGD0.94m for the quarter, 67% higher than its full year loss of SGD0.56m for its FYE Dec 2014. While the majority of the losses were attributable to one-off professional fees and write-off of old assets, TSH also suffered forex losses due to its global footprint. We estimate to see high expenses in 2H16 from the acquisition of CT Group in November 2015 but these costs should taper off in FY17F.
- ◆ **Maintain BUY with TP of SGD0.82.** As 2H16 typically contributes 60% to 70% of full year EBITDA, it will be crucial for the group to achieve it. As a result of the one-off charges, high depreciation expenses and potential losses from TSH, we cut our forecast by 28-54% and switched to a DCF model to better reflect the cash flow of the company. We use a conservative terminal growth rate of 0% and 12.7% cost of equity to derive a TP of SGD0.82. As the share price has corrected significantly after the results announcement, we maintain a BUY recommendation with a 24% upside.

Forecasts and Valuations	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover (SGDm)	52	77	131	155	185
Reported net profit (SGDm)	6.4	7.4	4.8	7.3	11.3
Recurring net profit (SGDm)	6.4	7.4	4.8	7.3	11.3
Recurring net profit growth (%)	111.9	15.7	(34.6)	51.2	53.9
Recurring EPS (SGD)	0.04	0.05	0.03	0.05	0.08
DPS (SGD)	0.03	0.02	0.01	0.01	0.02
Recurring P/E (x)	14.9	12.8	19.8	13.1	8.5
P/B (x)	4.64	3.93	3.41	2.86	2.26
P/CF (x)	12.3	9.4	17.1	4.3	5.6
Dividend Yield (%)	4.0	3.2	1.8	2.0	2.3
EV/EBITDA (x)	11.2	7.9	11.9	7.1	4.7
Return on average equity (%)	33.8	33.1	18.5	23.7	29.5
Net debt to equity (%)	37.6	51.9	140.0	75.5	34.9
Our vs consensus EPS (adjusted) (%)			(0.0)	(0.0)	(0.0)

Figure 1: 2QFY16 results summary

FYE Mar (SGDm)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1H15	1H16	YoY (%)	Comments
Revenue	16.6	20.7	31.3	51.0%	88.8%	29.4	52.0	77.0%	Revenue grew 88% YoY as a result of TSH consolidation.
Gross profit	11.3	13.3	18.8	41.3%	66.7%	20.1	32.1	59.7%	Food manufacturing brought down overall gross margin.
Gross Margin (%)	68%	64%	60%			68%	62%		
EBITDA	2.9	1.7	2.1	19.8%	-28.0%	3.6	3.8	7.5%	Lower EBITDA YoY due to one-off acquisition charges.
EBITDA Margin (%)	18%	8%	7%			12%	7%		
Depreciation and Amortisation	(0.9)	(1.4)	(1.6)	20.3%	79.0%	(1.6)	(3.0)	82.6%	Higher depreciation due to older assets from TSH.
EBIT	2.0	0.4	0.5	18.0%	-76.7%	1.9	0.9	-55.7%	
EBIT Margin (%)	12%	2%	1%			7%	2%		
Net Interest	(0.1)	(0.2)	(0.5)	n.m	n.m	(0.2)	(0.6)	290.6 %	Increase loans to finance acquisition of TSH and CT Group.
Pretax profit	1.9	0.2	0.0	-96.5%	-99.6%	1.8	0.2	-86.8%	
Tax	(0.4)	(0.1)	(0.4)	n.m.	-3.8%	(0.4)	(0.4)	15.0%	
Effective tax rate (%)	19%	38%	n.m			22%	188%		
Less: Minorities	0.0	0.1	0.4			0.0	0.5		
PATMI	1.5	0.2	0.1	-62.0%	-95.0%	1.4	0.3	n.m	Net profit dragged down by one-off charges, higher depreciation and finance costs.
Exceptional	0.0	0.7	0.0	n.m	n.m	0.0	0.7	n.m	
Core PATMI	1.5	(0.5)	0.1	n.m	n.m	1.4	(0.4)	n.m	
Net Margin (%)	9%	-2%	0.2%			5%	-1%		

Source: Company, RHB

Figure 2: DCF assumptions

	FY16F	FY17F	FY18F	FY19F	FY20F
Net income	4.1	7.3	11.3	12.4	13.6
+ Non-Cash Charges	5.2	5.8	6.3	6.9	7.6
+ Fixed Capital Investment	-30.0	-6.5	-5.0	-6.5	-7.5
+ Change in net working capital	-3.3	9.5	-0.4	3.0	3.0
+ Change in debt	31.8	0.0	0.0	0.0	0.0
FCFE	7.8	16.2	12.1	15.8	16.7
Terminal Value					131.3
PV	6.9	12.7	8.5	9.8	81.2
Total discounted FCFE	119.1				
Value/Share (SGD)	0.82				
Cost of equity	12.7%				
Risk free rate	3.0%				
Beta	0.928				
Market return	9.5%				
Small cap premium	4.0%				
Terminal growth	0.0%				

Source: RHB

Financial Exhibits

- ◆ We adjusted FY16F-FY18F revenue to reflect the latest data from TSH

Profit & Loss (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover	52	77	131	155	185
Cost of sales	(16)	(23)	(51)	(57)	(67)
Gross profit	36	55	80	98	118
Gen & admin expenses	(20)	(32)	(53)	(63)	(74)
Selling expenses	(4)	(6)	(10)	(12)	(13)
Other operating costs	(5)	(8)	(11)	(13)	(16)
Operating profit	7	9	5	10	15
Operating EBITDA	9	13	10	16	21
Depreciation of fixed assets	(2)	(4)	(5)	(6)	(6)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	7	9	5	10	15
Interest income	0	0	0	0	0
Interest expense	(0)	(0)	(1)	(2)	(2)
Pre-tax profit	7	9	4	8	14
Taxation	(0)	(1)	(1)	(1)	(2)
Minority interests	-	-	1	1	-
Profit after tax & minorities	6	7	5	7	11
Reported net profit	6	7	5	7	11
Recurring net profit	6	7	5	7	11

Source: Company data, RHB

Cash flow (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Operating profit	7	9	5	10	15
Depreciation & amortisation	2	4	5	6	6
Change in working capital	(1)	(1)	(3)	10	(0)
Other operating cash flow	0	(0)	-	-	-
Operating cash flow	8	12	7	25	21
Interest received	0	0	0	0	0
Interest paid	(0)	(0)	(1)	(2)	(2)
Tax paid	(0)	(1)	(1)	(1)	(2)
Cash flow from operations	8	10	6	22	17
Capex	(15)	(11)	(16)	(7)	(5)
Other new investments	-	-	(14)	-	-
Other investing cash flow	(1)	1	-	-	-
Cash flow from investing activities	(16)	(11)	(30)	(7)	(5)
Dividends paid	(3)	(4)	(2)	(2)	(2)
Proceeds from issue of shares	-	-	1	-	-
Increase in debt	9	4	32	-	-
Other financing cash flow	(0)	(1)	-	-	-
Cash flow from financing activities	5	(0)	31	(2)	(2)
Cash at beginning of period	12	8	8	14	28
Total cash generated	(3)	(1)	7	14	10
Implied cash at end of period	8	8	14	28	38

Source: Company data, RHB

Financial Exhibits

Balance Sheet (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total cash and equivalents	8	8	14	28	38
Inventories	1	2	6	7	7
Accounts receivable	3	6	11	13	15
Other current assets	1	1	1	1	1
Total current assets	13	16	33	49	62
Total investments	2	1	9	9	9
Tangible fixed assets	28	36	53	54	53
Intangible assets	0	0	0	0	0
Total other assets	1	1	1	1	1
Total non-current assets	30	38	63	64	62
Total assets	44	54	95	112	124
Short-term debt	1	5	25	25	25
Accounts payable	5	7	14	26	28
Other current liabilities	2	2	2	2	2
Total current liabilities	8	15	41	53	56
Total long-term debt	15	15	27	27	27
Other liabilities	0	0	0	0	0
Total non-current liabilities	15	15	27	27	27
Total liabilities	23	30	68	80	83
Other reserves	20	24	28	34	43
Shareholders' equity	20	24	28	34	43
Minority interests	-	-	(1)	(2)	(2)
Other equity	-	0	-	-	-
Total equity	20	24	27	32	41
Total liabilities & equity	44	54	95	112	124

Source: Company data, RHB

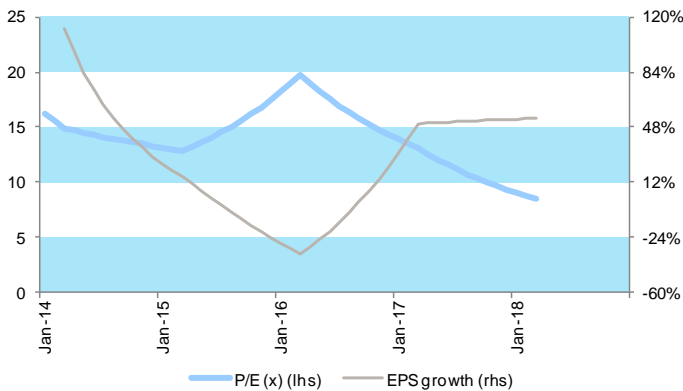
Key Ratios (SGD)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Revenue growth (%)	25.6	47.8	69.4	17.9	19.6
Operating profit growth (%)	87.7	32.0	(44.1)	87.5	54.6
Net profit growth (%)	111.9	15.7	(34.6)	51.2	53.9
EPS growth (%)	111.9	15.7	(35.0)	50.2	53.9
BVPS growth (%)	17.6	18.0	15.2	19.2	26.8
Operating margin (%)	13.4	12.0	4.0	6.3	8.1
Net profit margin (%)	12.2	9.6	3.7	4.7	6.1
Return on average assets (%)	17.2	15.1	6.5	7.1	9.5
Return on average equity (%)	33.8	33.1	18.5	23.7	29.5
Net debt to equity (%)	37.6	51.9	140.0	75.5	34.9
DPS	0.03	0.02	0.01	0.01	0.02
Recurrent cash flow per share	0.05	0.07	0.04	0.15	0.12

Source: Company data, RHB

SWOT Analysis

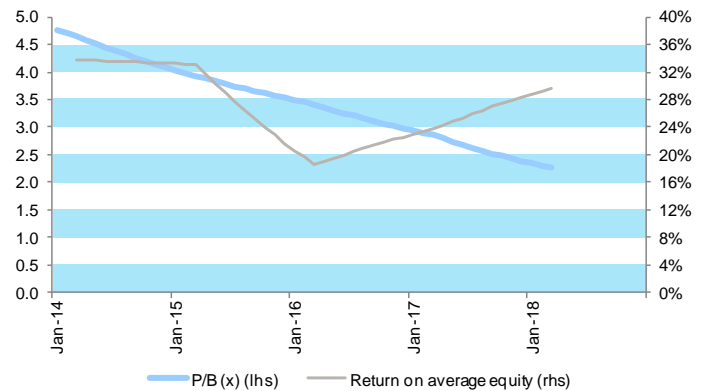


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Neo Group Limited is the leading food catering group in Singapore. On top of catering for private and corporate events, the Group's services include daily meal delivery services, Halal-certified food as well as catering for last minute events or emergency orders. In addition, it is involved in food & catering supplies business and food retail business, mainly through Umisushi.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-20	Buy	1.20	0.84

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

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