

# OSIM International (OSIM SP)

Consumer Non-cyclical - Household &amp; Personal Products

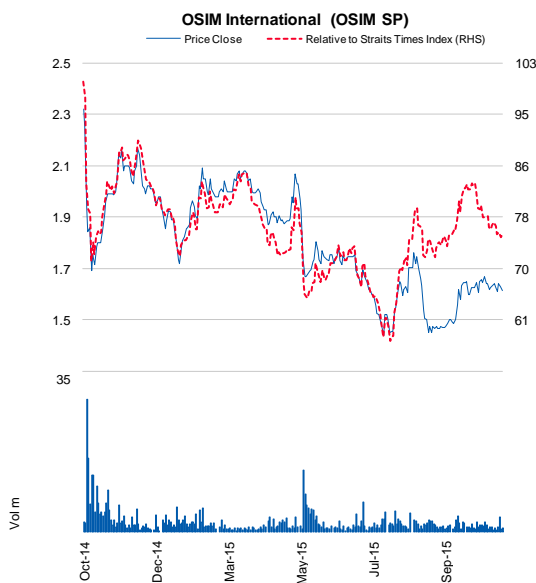
Market Cap: USD871m

**Neutral** (from Buy)

 Target Price: **SGD1.50**

 Price: **SGD1.62**

## Hunker Down For Now

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	2.30m/1.64m
Cons. Upside (%)	35.8
Upside (%)	-7.1
52-wk Price low/high (SGD)	1.44 - 2.25
Free float (%)	35
Share outstanding (m)	751
<b>Shareholders (%)</b>	
Ron Sim	62.1
Capital Group	3.3
Franklin Resources	3.1

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.4)	(2.1)	4.2	(18.4)	(30.4)
Relative	(9.1)	(9.9)	12.1	(5.2)	(25.0)

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OSIM's 3Q15 results were below expectations, with net profit attributable coming in at just SGD6.2m, though it includes the SGD4m amount of legal expenses incurred. Decline was broad-based, especially for its OSIM business; with the weak retail environment and regional currency weaknesses, we believe there is further earnings risk on the downside. We lower our TP to SGD1.50, and downgrade to **NEUTRAL** (from Buy).

- ◆ **Seasonally weakest quarter.** Sales were down 10.5% YoY in 3Q15, which is seasonally weakest. Net profit attributable of SGD6.2m included SGD4m of legal expenses incurred during the quarter (SGD7m YTD). Excluding this amount, the net profit was down largely due to lower operating leverage; some variable expenses such as commission-based remuneration were also lower.
- ◆ **Decline across most markets.** There was decline across its core markets, especially at its OSIM business which accounts for the majority of revenue. In North Asia, management cited marked decline in Chinese tourists into Hong Kong as well as lower footfalls in mainland China malls. As the company rationalizes, during the quarter 14 OSIM outlets were closed, mainly in China and Malaysia. We believe with the significant decline in Ringgit, Malaysia as a market is no longer profitable.
- ◆ **Stay on track for TWG expansion.** During the quarter, TWG opened two new stores in Hong Kong (currently four) and is expected to have 8-10 stores there eventually. Sales remained steady in mature stores, though overall TWG remains unprofitable due to startup expenses.
- ◆ **Take stock of the strong share price run-up.** Share price had a strong run in the last quarter, but we believe the trend is unsustainable with the poor earnings visibility risk. We cut our FY15-FY17F estimates by 16-30%, to account for the weaker conditions; the company remains in a strong net cash position of SGD232m. Our new TP of SGD1.50 (from SGD1.78) is pegged to 15x FY16F. The TWG minority shareholder dispute case will probably be concluded next month and a favorable outcome could result in some write-backs of provisions in 2016.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	648	691	607	657	723
Reported net profit (SGDm)	97	102	60	75	90
Recurring net profit (SGDm)	101	102	60	75	90
Recurring net profit growth (%)	15.8	1.5	(41.3)	25.3	20.0
Recurring EPS (SGD)	0.14	0.14	0.08	0.10	0.12
DPS (SGD)	0.06	0.06	0.06	0.06	0.06
Recurring P/E (x)	11.6	11.8	20.5	16.2	13.5
P/B (x)	4.30	2.83	2.68	2.51	2.30
P/CF (x)	11.1	11.3	15.8	12.0	10.7
Dividend Yield (%)	3.7	3.7	3.7	3.7	3.7
EV/EBITDA (x)	7.54	6.35	9.43	7.38	5.97
Return on average equity (%)	41.7	28.7	13.4	16.0	17.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(43.4)	(38.8)	(45.6)

Source: Company data, RHB

**Figure 1: 3Q15 results summary**

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>158.2</b>	<b>159.5</b>	<b>141.6</b>	<b>(11.2)</b>	<b>(10.5)</b>	Sales remained soft across the region
<b>Gross Profit</b>	<b>112.1</b>	<b>115.8</b>	<b>101.5</b>	<b>(12.3)</b>	<b>(9.5)</b>	Gross margins maintained
<i>Gross Margin (%)</i>	70.9	72.6	71.7			
<b>EBITDA</b>	<b>27.9</b>	<b>34.0</b>	<b>15.1</b>	<b>(55.5)</b>	<b>(45.8)</b>	Negative operating leverage
<i>EBITDA Margin (%)</i>	17.7	21.9	21.9			
<b>Pretax profit</b>	<b>22.9</b>	<b>28.8</b>	<b>10.0</b>	<b>(65.3)</b>	<b>(56.3)</b>	
<i>Pretax Margin (%)</i>	14.5	19.1	19.1			
<b>PATMI</b>	<b>16.2</b>	<b>22.5</b>	<b>6.2</b>	<b>(72.5)</b>	<b>(61.8)</b>	Profit impacted by estimated SGD4m of legal expenses, and startup costs at TWG North Asia
<b>Core Profit</b>	<b>16.2</b>	<b>22.5</b>	<b>6.2</b>	<b>(72.5)</b>	<b>(61.8)</b>	
<i>Net Margin (%)</i>	10.2	15.4	15.4			

Source: RHB

**Figure 2: 3Q15 segmental breakdown**

FYE Dec (SGDm)	3Q14	2Q15	3Q15	q-o-q (%)	y-o-y (%)	Comments
<b>Revenue</b>						
North Asia	80.0	91.0	74.0	(18.7)	(7.5)	
South Asia	67.0	61.0	60.0	(1.6)	(10.4)	Malaysia was key under-performing market
Others	11.0	7.0	8.0	14.3	(27.3)	

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	648	691	607	657	723
Cost of sales	(193)	(205)	(172)	(189)	(209)
<b>Gross profit</b>	<b>455</b>	<b>486</b>	<b>435</b>	<b>468</b>	<b>514</b>
Gen & admin expenses	(124)	(144)	(140)	(149)	(160)
Other operating costs	(204)	(212)	(219)	(224)	(241)
<b>Operating profit</b>	<b>127</b>	<b>130</b>	<b>76</b>	<b>95</b>	<b>113</b>
Operating EBITDA	140	149	99	120	141
Depreciation of fixed assets	(11)	(7)	(11)	(13)	(15)
Amortisation of intangible assets	(2)	(12)	(12)	(12)	(12)
<b>Operating EBIT</b>	<b>127</b>	<b>130</b>	<b>76</b>	<b>95</b>	<b>113</b>
Net income from investments	3	1	2	3	3
Interest income	5	5	6	8	10
Interest expense	(6)	(3)	(5)	(5)	(5)
Exceptional income - net	(4)	-	-	-	-
<b>Pre-tax profit</b>	<b>125</b>	<b>132</b>	<b>79</b>	<b>100</b>	<b>121</b>
Taxation	(28)	(30)	(21)	(24)	(28)
Minority interests	(0)	(0)	2	(2)	(2)
<b>Profit after tax &amp; minorities</b>	<b>97</b>	<b>102</b>	<b>60</b>	<b>75</b>	<b>90</b>
<b>Reported net profit</b>	<b>97</b>	<b>102</b>	<b>60</b>	<b>75</b>	<b>90</b>
<b>Recurring net profit</b>	<b>101</b>	<b>102</b>	<b>60</b>	<b>75</b>	<b>90</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>127</b>	<b>130</b>	<b>76</b>	<b>95</b>	<b>113</b>
<b>Depreciation &amp; amortisation</b>	<b>14</b>	<b>19</b>	<b>24</b>	<b>25</b>	<b>27</b>
<b>Change in working capital</b>	<b>4</b>	<b>(16)</b>	<b>(3)</b>	<b>2</b>	<b>(4)</b>
Other operating cash flow	(9)	(1)	2	-	-
<b>Operating cash flow</b>	<b>135</b>	<b>131</b>	<b>98</b>	<b>122</b>	<b>137</b>
Interest received	5	5	6	8	10
Interest paid	(6)	(3)	(5)	(5)	(5)
Tax paid	(29)	(26)	(21)	(24)	(28)
<b>Cash flow from operations</b>	<b>105</b>	<b>107</b>	<b>78</b>	<b>102</b>	<b>113</b>
Capex	(11)	(24)	(15)	(20)	(20)
Other new investments	(4)	-	(15)	(5)	(5)
Other investing cash flow	11	1	(0)	(1)	(1)
<b>Cash flow from investing activities</b>	<b>(4)</b>	<b>(23)</b>	<b>(30)</b>	<b>(26)</b>	<b>(26)</b>
Dividends paid	(36)	(45)	(45)	(45)	(45)
Proceeds from issue of shares	(7)	140	-	-	-
Increase in debt	5	(18)	3	0	0
Other financing cash flow	(2)	(3)	(0)	(0)	(0)
<b>Cash flow from financing activities</b>	<b>(41)</b>	<b>73</b>	<b>(42)</b>	<b>(45)</b>	<b>(45)</b>
Cash at beginning of period	202	267	428	433	464
<b>Total cash generated</b>	<b>59</b>	<b>157</b>	<b>6</b>	<b>31</b>	<b>42</b>
Forex effects	6	1	-	-	-
<b>Implied cash at end of period</b>	<b>267</b>	<b>426</b>	<b>433</b>	<b>464</b>	<b>506</b>

Source: Company data, RHB

## Financial Exhibits

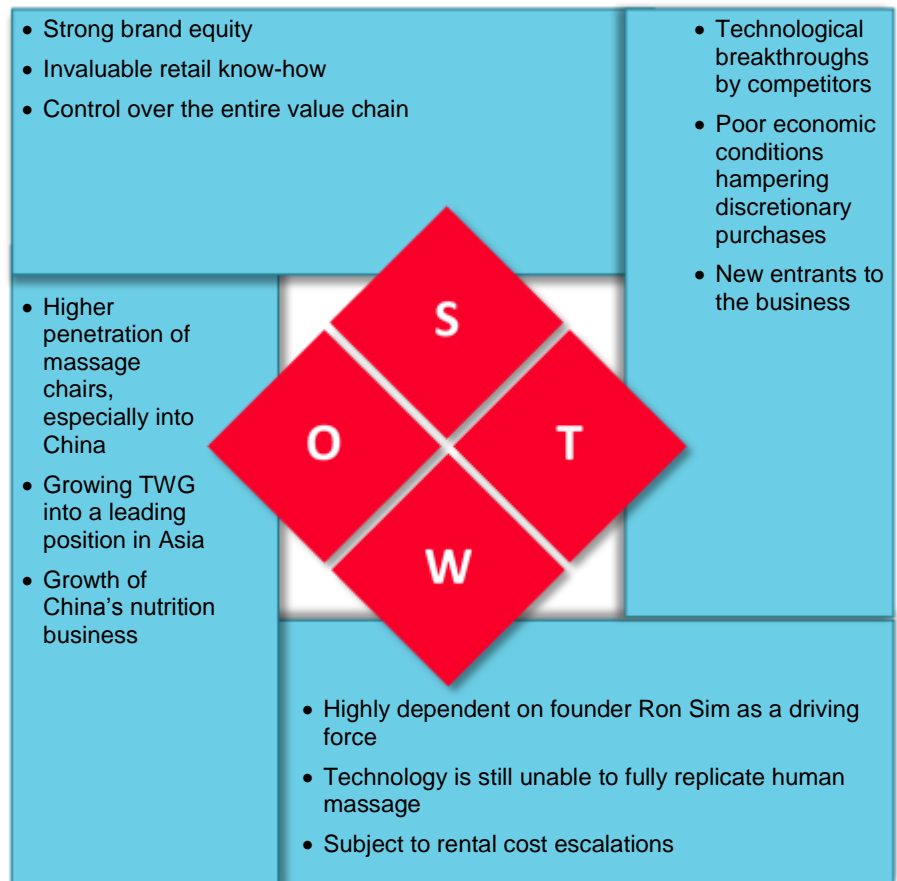
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	291	456	461	492	534
Inventories	73	72	66	67	74
Accounts receivable	54	60	53	58	63
<b>Total current assets</b>	<b>418</b>	<b>588</b>	<b>581</b>	<b>617</b>	<b>672</b>
Total investments	47	54	71	78	86
Tangible fixed assets	25	31	35	42	47
Intangible assets	190	181	170	158	147
Total non-current assets	262	266	275	278	280
<b>Total assets</b>	<b>680</b>	<b>854</b>	<b>856</b>	<b>895</b>	<b>952</b>
Short-term debt	155	17	20	20	20
Accounts payable	102	96	80	88	97
Other current liabilities	41	43	45	45	45
<b>Total current liabilities</b>	<b>297</b>	<b>157</b>	<b>145</b>	<b>153</b>	<b>162</b>
Total long-term debt	-	168	167	167	167
Other liabilities	39	36	37	37	37
<b>Total non-current liabilities</b>	<b>39</b>	<b>204</b>	<b>204</b>	<b>204</b>	<b>204</b>
<b>Total liabilities</b>	<b>336</b>	<b>361</b>	<b>349</b>	<b>357</b>	<b>366</b>
Share capital	271	440	455	485	530
<b>Shareholders' equity</b>	<b>271</b>	<b>440</b>	<b>455</b>	<b>485</b>	<b>530</b>
Minority interests	73	54	52	53	56
<b>Total equity</b>	<b>344</b>	<b>493</b>	<b>507</b>	<b>538</b>	<b>586</b>
<b>Total liabilities &amp; equity</b>	<b>680</b>	<b>854</b>	<b>856</b>	<b>895</b>	<b>952</b>

Source: Company data, RHB

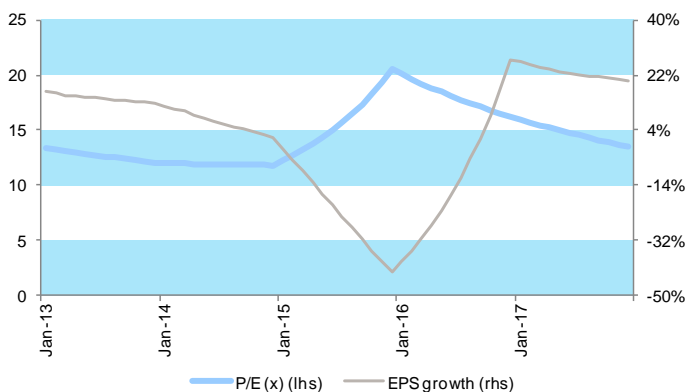
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	7.6	6.7	(12.1)	8.2	10.0
Operating profit growth (%)	9.8	2.5	(41.8)	25.5	19.4
Net profit growth (%)	12.1	4.8	(41.3)	25.3	20.0
EPS growth (%)	12.9	1.6	(42.5)	26.8	20.0
BVPS growth (%)	39.0	51.8	5.9	6.6	9.3
Operating margin (%)	19.6	18.8	12.4	14.4	15.7
Net profit margin (%)	15.1	14.8	9.9	11.4	12.5
Return on average assets (%)	16.9	13.3	7.0	8.6	9.8
Return on average equity (%)	41.7	28.7	13.4	16.0	17.8
Net debt to equity (%)	(39.6)	(54.9)	(54.1)	(56.6)	(59.3)
DPS	0.06	0.06	0.06	0.06	0.06
Recurrent cash flow per share	0.15	0.14	0.10	0.13	0.15

Source: Company data, RHB

## SWOT Analysis

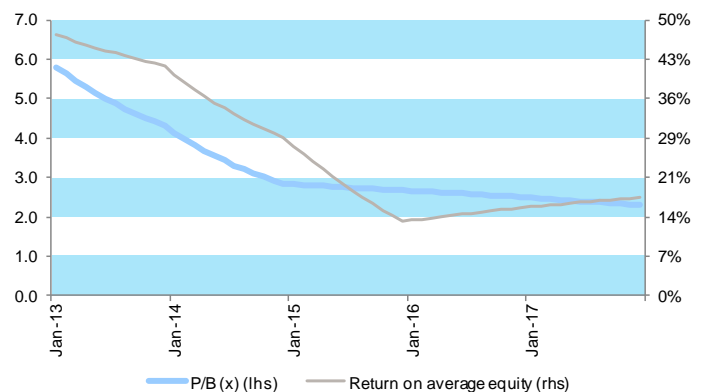


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

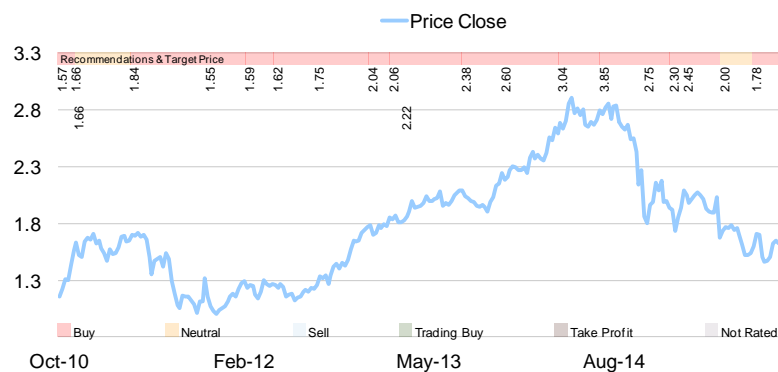


Source: Company data, RHB

## Company Profile

OSIM is a leading lifestyle company in Asia, with a strong stable of brands that includes OSIM, GNC, RichLife and TWG Tea. Approximately 75% of sales are derived from OSIM, which is the undisputed number one brand for massage chairs in its core markets like China, Hong Kong, Taiwan, Malaysia and Singapore. The company was established by current CEO Ron Sim in the 1980s. In total, it has more than 855 outlets in Asia.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-24	Buy	1.78	1.54
2015-05-06	Neutral	2.00	1.74
2015-02-04	Buy	2.45	2.02
2015-01-04	Buy	2.30	1.94
2014-12-31	Buy	2.30	1.98
2014-10-29	Buy	2.75	1.94
2014-08-27	Buy	3.85	2.74
2014-08-01	Buy	3.85	2.85
2014-08-01	Buy	3.85	2.85
2014-07-10	Buy	3.85	2.80

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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