

# Super Group (SUPER SP)

Consumer Non-cyclical - Food &amp; Beverage Products

Market Cap: USD683m

**Sell** (Maintained)

 Target Price: **SGD0.67**

 Price: **SGD0.87**

## Grinding through the quarter

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	0.89m/0.64m
Cons. Upside (%)	80.5
Upside (%)	-23.0
52-wk Price low/high (SGD)	0.76 - 1.54
Free float (%)	40
Share outstanding (m)	1,115
<b>Shareholders (%)</b>	
June Te Lay Hoon	12.2
David Teo Kee Bock	11.7
YHS Investment	11.7

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.0)	(3.9)	(3.9)	(32.0)	(19.1)
Relative	(11.9)	(3.0)	0.4	(17.7)	(8.6)

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**3Q15 results were below expectations, with recurring profit down 24% YoY to SGD7.8m. Weak consumption demand and more intensive competition affected both sales and margins and we expect this situation to persist for now. We are optimistic on the company's major new product launch, but expects cost investments before returns. We reduce our TP to SGD0.67 (from SGD0.77), and maintain SELL.**

- ◆ **Profit continues to decline.** Excluding fair value gains on investment securities, 3Q15 recurring net profit was down 24% YoY to SGD, continuing a similar decline trend since the beginning of the year. This was on a revenue decline of 7% YoY as well as deteriorating margins. Gross profit margins of 32.6% was better than 3Q14, but a sequential decline. Operating expenses also inched up.
- ◆ **Revenue decline exacerbated by weaker currencies.** Branded consumer segment was down 4% YoY, with no major product launches. Myanmar and Singapore showed stronger performance while the rest of its markets declined. China was a bright spot, with sales in East Asia up 38% YoY. Food ingredients segment was down 11%. Both segments were negatively impacted by weak currency.
- ◆ **Betting on Essenso.** The company launched a new instant coffee product in November, called Essenso MicroGround Coffee. This uses a proprietary technique to grind Arabica coffee beans into an instant coffee format and is targeted at a higher price segment customers. This is the major pillar of its new product innovation drive and the company will continue creating new products around this pillar next year.
- ◆ **Cost investments in the near-term.** We like Super's strategic direction towards new product innovation and brand, both for its own branded consumer products and food ingredients sale. However, returns are likely to be further out, after substantial cost investments. In the meantime, consumer spending is likely to remain muted in its key markets. We cut our FY15F-FY17F earnings by 24-30%, and our TP correspondingly to SGD0.67 (pegged to 15x FY16F). Maintain SELL.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	557	539	523	553	592
Reported net profit (SGDm)	99.9	68.8	43.2	49.8	56.1
Recurring net profit (SGDm)	82.7	61.3	43.2	49.8	56.1
Recurring net profit growth (%)	6.0	(25.9)	(29.4)	15.1	12.8
Recurring EPS (SGD)	0.07	0.05	0.04	0.04	0.05
DPS (SGD)	0.05	0.03	0.03	0.03	0.03
Recurring P/E (x)	11.7	15.8	22.4	19.5	17.3
P/B (x)	2.08	1.95	1.89	1.82	1.75
P/CF (x)	15.4	15.8	17.3	11.2	11.9
Dividend Yield (%)	5.2	3.6	2.9	3.1	3.5
EV/EBITDA (x)	6.6	9.2	10.6	9.2	7.8
Return on average equity (%)	23.1	14.3	8.6	9.5	10.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(46.1)	(44.9)	(37.8)

Source: Company data, RHB

Figure 1: 3Q15 results

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
<b>Revenue</b>	<b>129.5</b>	<b>125.5</b>	<b>121.0</b>	<b>(3.6)</b>	<b>(6.6)</b>	<b>385.8</b>	<b>368.2</b>	<b>(4.6)</b>	Both branded consumer and food ingredients sale down
<b>Gross Profit</b>	<b>41.5</b>	<b>44.6</b>	<b>39.5</b>	<b>(11.5)</b>	<b>(4.9)</b>	<b>135.2</b>	<b>128.0</b>	<b>(5.3)</b>	Lower margins in 3Q15 due to higher overheads
Gross Margin (%)	32.0	35.5	0.3			35.0	34.8		
<b>EBITDA</b>	<b>17.4</b>	<b>21.6</b>	<b>15.3</b>	<b>(29.1)</b>	<b>(11.9)</b>	<b>62.3</b>	<b>59.5</b>	<b>(4.6)</b>	
EBITDA Margin (%)	13.4	17.2	12.7			16.2	16.2		
Depreciation & Amortisation	(5.4)	(6.1)	(6.3)	3.2	17.2	(12.9)	(18.6)	44.3	
<b>EBIT</b>	<b>12.0</b>	<b>15.5</b>	<b>9.0</b>	<b>(41.8)</b>	<b>(25.0)</b>	<b>49.5</b>	<b>40.9</b>	<b>(17.3)</b>	Higher operating expenses despite weaker revenue
EBIT Margin (%)	9.3	12.3	7.4			12.8	11.1		
Net Interest	0.8	(0.5)	(0.4)	(3.9)	n.m	1.5	0.5	(64.7)	
JV and Associates	(0.1)	0.0	(0.0)	(2,500.0)	(77.8)	(0.4)	(0.2)	(56.3)	
Net other income	0.5	0.4	1.5	292.0	193.4	1.2	2.5	109.7	
<b>Pretax profit</b>	<b>13.2</b>	<b>15.4</b>	<b>10.0</b>	<b>(35.0)</b>	<b>(24.1)</b>	<b>51.7</b>	<b>43.7</b>	<b>(15.4)</b>	
Pretax Margin (%)	10.2	12.3	8.3			13.4	11.9		
Tax	(2.7)	(4.3)	(2.9)	(34.2)	7.3	(6.9)	(10.9)	58.8	Higher effective tax due to expiry of tax holidays
Effective tax rate (%)	(20.2)	(28.1)	(28.5)			(13.3)	(25.0)		
Less: Minorities	0.5	0.6	(0.3)	(146.9)	n.m	1.6	1.4		
<b>PATMI</b>	<b>10.0</b>	<b>10.5</b>	<b>7.4</b>	<b>(29.3)</b>	<b>(25.6)</b>	<b>43.2</b>	<b>31.4</b>	<b>(27.4)</b>	
<b>Core PATMI</b>	<b>10.3</b>	<b>10.8</b>	<b>6.8</b>	<b>(37.4)</b>	<b>(34.5)</b>	<b>43.2</b>	<b>31.4</b>	<b>(27.4)</b>	
Net Margin (%)	8.0	8.6	5.6			11.2	8.5		

Source: Company, RHB

Figure 2: 3Q15 segmental breakdown

FYE Dec (SGDm)	3Q14	2Q15	3Q15	q-o-q (%)	y-o-y (%)	9M14	9M15	y-o-y (%)	Comments
<b>Revenue</b>									
Branded Consumer	82.0	80.0	78.9	(1.4)	(3.8)	254.2	243.1	(4.4)	Partially negatively affected by weak regional currencies
Ingredients	47.5	45.5	42.0	(7.7)	(11.6)	131.5	125.0	(5.0)	

Source: Company, RHB

Figure 3: New product launch

It was just 28 years ago, in 1987, when Super fathered the concept of 3in1 instant coffee. So began an eventful journey that led us to where we now stand – on the cusp of a new milestone. True to our pioneering spirit, we have once again accomplished a breakthrough: ESSENSO™ MicroGround Coffee – The new platinum standard in instant coffee, the best of its class. ESSENSO™ MicroGround Coffee represents the company's step towards refreshing its product offerings to appeal and to stay relevant with today's consumers.

Source: Company

## 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	557	539	523	553	592
Cost of sales	(348)	(350)	(343)	(359)	(381)
<b>Gross profit</b>	<b>209</b>	<b>190</b>	<b>180</b>	<b>194</b>	<b>210</b>
Gen & admin expenses	(54)	(56)	(60)	(63)	(66)
Selling expenses	(63)	(63)	(65)	(69)	(71)
Other operating costs	24	10	3	4	5
<b>Operating profit</b>	<b>117</b>	<b>80</b>	<b>58</b>	<b>66</b>	<b>78</b>
Operating EBITDA	131	97	83	92	104
Depreciation of fixed assets	(15)	(17)	(25)	(26)	(26)
<b>Operating EBIT</b>	<b>117</b>	<b>80</b>	<b>58</b>	<b>66</b>	<b>78</b>
Net income from investments	(2)	(1)	(1)	-	-
Interest income	0	-	2	2	2
Interest expense	(0)	2	(1)	(1)	(1)
<b>Pre-tax profit</b>	<b>114</b>	<b>81</b>	<b>59</b>	<b>67</b>	<b>78</b>
Taxation	(11)	(10)	(14)	(15)	(17)
Minority interests	(3)	(3)	(2)	(3)	(5)
<b>Profit after tax &amp; minorities</b>	<b>100</b>	<b>69</b>	<b>43</b>	<b>50</b>	<b>56</b>
<b>Reported net profit</b>	<b>100</b>	<b>69</b>	<b>43</b>	<b>50</b>	<b>56</b>
<b>Recurring net profit</b>	<b>83</b>	<b>61</b>	<b>43</b>	<b>50</b>	<b>56</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>117</b>	<b>80</b>	<b>58</b>	<b>66</b>	<b>78</b>
<b>Depreciation &amp; amortisation</b>	<b>15</b>	<b>17</b>	<b>25</b>	<b>26</b>	<b>26</b>
<b>Change in working capital</b>	<b>(36)</b>	<b>(19)</b>	<b>(13)</b>	<b>8</b>	<b>(6)</b>
Other operating cash flow	(23)	(8)	(1)	1	-
<b>Operating cash flow</b>	<b>72</b>	<b>71</b>	<b>69</b>	<b>101</b>	<b>98</b>
Interest received	0	-	2	2	2
Interest paid	(0)	2	(1)	(1)	(1)
Tax paid	(10)	(11)	(14)	(15)	(17)
<b>Cash flow from operations</b>	<b>63</b>	<b>62</b>	<b>56</b>	<b>87</b>	<b>81</b>
Capex	(46)	(30)	(15)	(10)	(10)
Other new investments	-	-	1	-	-
Other investing cash flow	8	3	(3)	-	-
<b>Cash flow from investing activities</b>	<b>(38)</b>	<b>(27)</b>	<b>(17)</b>	<b>(10)</b>	<b>(10)</b>
Dividends paid	(40)	(50)	(28)	(30)	(34)
Increase in debt	(0)	20	0	(0)	(0)
Other financing cash flow	(2)	(3)	0	(0)	0
<b>Cash flow from financing activities</b>	<b>(42)</b>	<b>(34)</b>	<b>(28)</b>	<b>(30)</b>	<b>(34)</b>
Cash at beginning of period	112	99	101	112	159
<b>Total cash generated</b>	<b>(17)</b>	<b>0</b>	<b>11</b>	<b>47</b>	<b>38</b>
Forex effects	4	2	-	-	-
<b>Implied cash at end of period</b>	<b>99</b>	<b>101</b>	<b>112</b>	<b>159</b>	<b>197</b>

Source: Company data, RHB

## Financial Exhibits

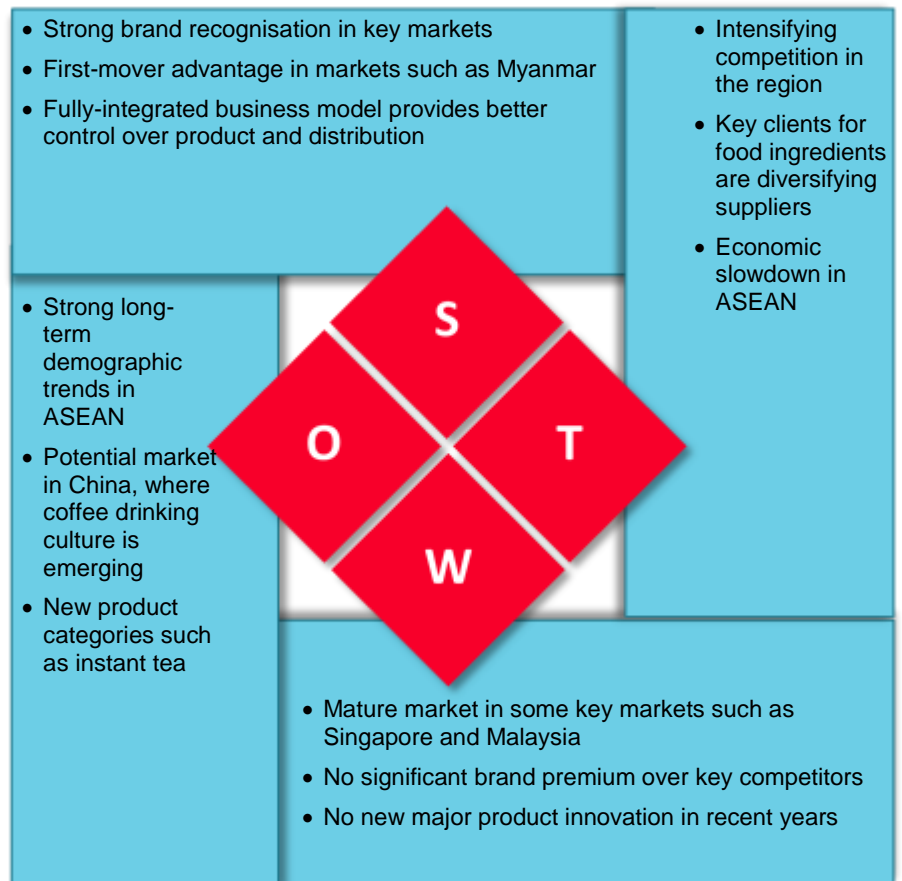
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	101	104	114	161	199
Inventories	102	115	113	118	120
Accounts receivable	123	124	126	130	139
Other current assets	-	0	2	2	2
<b>Total current assets</b>	<b>326</b>	<b>344</b>	<b>355</b>	<b>411</b>	<b>460</b>
Total investments	19	8	10	10	10
Tangible fixed assets	251	276	266	251	234
Intangible assets	3	3	3	3	3
Total other assets	0	0	0	0	0
Total non-current assets	273	287	280	264	248
<b>Total assets</b>	<b>599</b>	<b>631</b>	<b>635</b>	<b>676</b>	<b>708</b>
Short-term debt	-	20	20	20	20
Accounts payable	98	79	66	84	89
Other current liabilities	8	8	8	8	8
<b>Total current liabilities</b>	<b>105</b>	<b>107</b>	<b>94</b>	<b>112</b>	<b>117</b>
Other liabilities	7	7	7	8	8
<b>Total non-current liabilities</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>8</b>
<b>Total liabilities</b>	<b>113</b>	<b>114</b>	<b>101</b>	<b>120</b>	<b>125</b>
Other reserves	467	498	513	533	555
<b>Shareholders' equity</b>	<b>467</b>	<b>498</b>	<b>513</b>	<b>533</b>	<b>555</b>
Minority interests	20	19	21	23	28
Other equity	-	-	(0)	0	(0)
<b>Total equity</b>	<b>487</b>	<b>517</b>	<b>534</b>	<b>556</b>	<b>584</b>
<b>Total liabilities &amp; equity</b>	<b>599</b>	<b>631</b>	<b>635</b>	<b>676</b>	<b>708</b>

Source: Company data, RHB

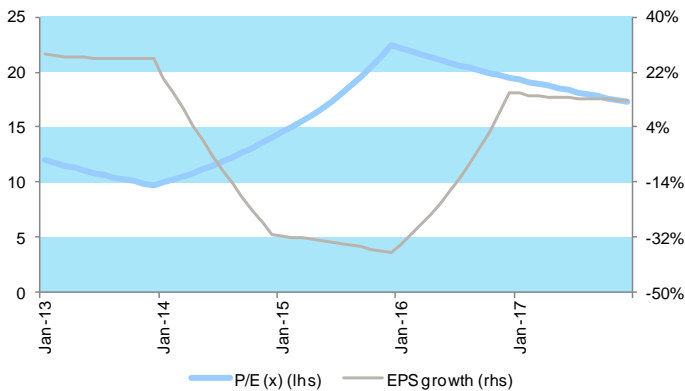
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	7.3	(3.1)	(3.0)	5.7	7.0
Operating profit growth (%)	30.7	(31.3)	(27.0)	13.3	17.3
Net profit growth (%)	26.3	(31.2)	(37.1)	15.1	12.8
EPS growth (%)	26.3	(31.2)	(37.1)	15.1	12.8
BVPS growth (%)	17.0	6.6	3.0	3.9	4.2
Operating margin (%)	20.9	14.9	11.2	12.0	13.1
Net profit margin (%)	17.9	12.7	8.3	9.0	9.5
Return on average assets (%)	17.5	11.2	6.8	7.6	8.1
Return on average equity (%)	23.1	14.3	8.6	9.5	10.3
Net debt to equity (%)	(20.7)	(16.3)	(17.7)	(25.4)	(30.6)
DPS	0.05	0.03	0.03	0.03	0.03
Recurrent cash flow per share	0.06	0.06	0.05	0.08	0.07

Source: Company data, RHB

## SWOT Analysis

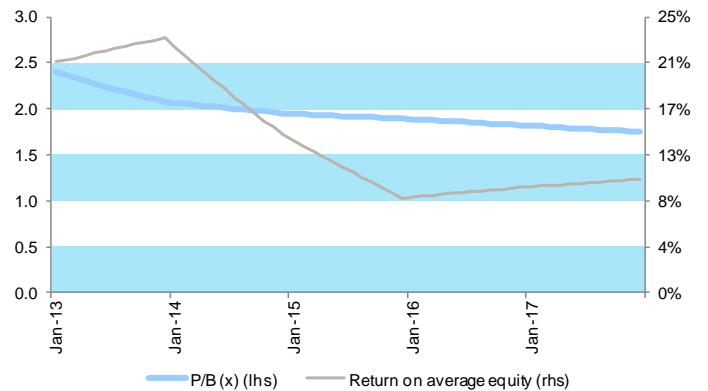


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Super Group is an integrated food and beverage (F&B) company, specialising in 3-in-1 coffee which it first pioneered in the 1980s under its flagship Super brand. It is now a leading player in Asean, with top three market share for 3-in-1 format coffee in Singapore, Malaysia, Thailand and Myanmar. The company also supplies to third parties under its food ingredients business.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-13	Sell	0.77	0.91
2015-05-13	Sell	0.90	1.28
2015-03-02	Sell	0.92	1.29
2014-11-11	Sell	0.90	1.06
2014-08-12	Neutral	1.34	1.40
2014-08-12	Neutral	1.34	1.40
2014-07-17	Neutral	1.47	1.49
2013-11-13	Buy	3.99	1.56
2013-11-12	Neutral	3.99	1.79
2013-08-13	Neutral	4.58	2.49

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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