

Super Group (SUPER SP)

Share Price: SGD0.90

MCap (USD): 712M

Singapore

Target Price: SGD1.42 (+59%)

ADTV (USD): 0.7M

Consumer Staples

BUY

 (Unchanged)

New Product Rollout Begins

- Starting to roll out new products. Their higher ASPs should benefit growth & margins from FY16.
- Short-term, cut FY15 EPS by 21% for weak MYR & kyat & later-than-expected rollout.
- BUY with SGD1.42 TP, 1SD above 5-year P/E mean. Catalysts from signs of FY16 recovery, M&As & possibly more dividends.

What's New

Super has started to roll out its new Branded Consumer (BC) products in Singapore, Malaysia and China, followed by the rest of its markets by 1H16. ESSENSO micro-ground coffee, priced at a premium, has just been launched in Singapore and Malaysia. Its new products, mostly coffee, are priced 1.5-2x higher than its basic 3-in-1 offerings. They can be expected to lift prices and margins over time. We believe outperformance will come from retailers eager to work with Super to stimulate sales in a weak retail environment.

Elsewhere, we believe Food Ingredients (FI) could be boosted by China's incoming food policy emphasising supplier certification and the traceability of ingredients. As Super's plants in China are fully certified to meet the new regulations, we expect them to benefit.

Longer term, we believe Super's excellent financials will allow it to acquire its way into new growth areas and reward shareholders. We expect FCF to improve markedly from FY15, now that its heavy-capex phase is over.

Shorter term, steep currency weakness in Malaysia and Myanmar may affect profits in FY15. We cut EPS by 21%, to adjust for the extreme currency weakness in 3Q.

What's Our View

Maintain BUY with TP at SGD1.42, 1SD above its 5-year P/E mean. We expect catalysts to come from a potential recovery in FY16 with its new products, M&As and improving dividends.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	557.0	539.5	518.6	569.7	622.4
EBITDA	131.9	98.6	95.9	105.3	123.5
Core net profit	79.7	62.3	51.7	60.7	73.1
Core FDEPS (cts)	7.1	5.6	4.6	5.4	6.6
Core FDEPS growth(%)	0.8	(21.9)	(17.0)	17.5	20.3
Net DPS (cts)	4.5	3.1	3.5	4.5	4.5
Core FD P/E (x)	12.5	16.0	19.3	16.4	13.7
P/BV (x)	2.1	2.0	2.0	1.9	1.8
Net dividend yield (%)	5.0	3.5	3.9	5.0	5.0
ROAE (%)	18.4	12.9	10.3	11.8	13.7
ROAA (%)	14.0	10.1	8.2	9.5	11.1
EV/EBITDA (x)	15.5	12.3	9.4	8.6	7.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

52w high/low (SGD)	1.54/0.76
3m avg turnover (USDm)	0.7
Free float (%)	38.9
Issued shares (m)	1,115
Market capitalization	SGD998.4M
Major shareholders:	
-GOI SENG HUI SAM	15.0%
-TE LAY HOON	12.1%
-TEO KEE BOCK	11.7%

Share Price Performance



— Super Group - (LHS, SGD) — Super Group / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	14.0	(5.3)	(18.3)
Relative to index (%)	4.7	(0.6)	(11.8)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	4	3
	Maybank Consensus		% +/-
Target Price (SGD)	1.42	0.90	57.5
'15 PATMI (SGDm)	52	52	(1.3)
'16 PATMI (SGDm)	61	59	3.4

Source: FactSet; Maybank

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New branded consumer product rollout started

Super has started to soft-launch new BC products in Singapore, Malaysia and China in 3Q15, with official launches in 4Q15. They include:

- A premium-priced instant coffee that tastes close to freshly-brewed ground coffee. This will be sold under a new brand, ESSENSO, with Italian-style packaging. It was officially launched in Singapore on 2 Nov, followed by Malaysia on 3 Nov.
- Straits Asian coffee products from OWL in instant mix and steep formats such as White Coffee Tarik and Kopitiam Roast.

The new products are priced 1.5-2x above Super's basic three-in-one coffee (16-18 cts/sachet). ESSENSO is being sold at SGD7.40 per pack of 25 sticks or 30 cts/stick. OWL's new products cost SGD5.15-6.10 per pack of 20-25 sachets or 24-26 cts/sachet.

Figure 1: New ESSENSO micro-ground coffee...



Source: Maybank KE

Figure 2: ... and OWL's range of Straits Asian coffee



Source: Maybank KE

Despite current economic weakness, we believe major retailers will be keen to stock its new products. Already, during our visit to a local supermarket in Singapore, we spotted Super's higher-value new products displayed at eye level, taking up more than half the shelf. By carrying Super's premium products for the mass consumer, retailers believe Super's promising products can stimulate their sales, à la Malee Sampran (MALEE TB, TP THB37.70) in Thailand. According to our Thai consumer analyst Maria Lapiz, Malee's premium juices are helping it buck weak consumer spending, supported by retailers such as 7-11 and Tesco-Lotus. In addition, by raising its ASPs into the "masstige" category, Super should be able to steer clear of the heavy discounting at the low-end where rivals such as Gold Kili compete at below 10 cts/bag.

We expect Super to roll out its new products in its other core markets soon, namely Thailand, Myanmar and the Philippines. Due to soft consumer markets in the region, this is likely to start only in 1H16.

As for its OWL brand, Super will be pushing out single-serve coffee capsules in partnership with Italian coffee company, Caffe Cagliari. This targets the corporate sector. Plans should be solidified soon. There is growing corporate demand in Singapore for capsule coffee given a shortage of manpower, especially trained baristas. OWL also plans to expand its franchise business in the region.

Rest of the markets will get them next year

Myanmar, due to the extreme weakness of the kyat, will probably see the new products last. Instead, Super will likely follow up with the following markets next year:

- **Thailand (30% of BS sales).** Although consumer sentiment is still weak, this market should continue to contribute to 30% of BC sales. We see more drivers in 2016 that should boost sales, as Super is likely to concentrate on making its new products a success in Thailand. The Thai government has been stimulating spending in rural areas, through cash transfers, funding schemes for certain industries such as handicrafts and cheaper loans to SMEs. This should support Super's push into the northern provinces. Our Thai colleague, Maria Lapiz, is keen on Malee Sampran for similar reasons.
- **China (7-8%).** 2H is usually a stronger period for BC sales in China, especially 4Q due to year-end school exams. We think there is attractive long-term upside for Super as its products are currently only available in part of Jiangsu province, that too, mainly cereals. Super intends to expand elsewhere and market more coffee variants, among others. Our China/HK consumer analyst Jacqueline Ko recommends Uni-President (220 HK, TP HKD9.05) for its niche, product differentiation and strong brand focus, traits closely shared by Super.
- **Philippines (2-3%).** Super is still the No. 4 player. We expect it to launch new products in 4Q15/1H16. Super and San Miguel recently injected USD1.1m altogether into their 30:70 JV, their first new capital injection in years. We believe this could precede a return to product expansion, supercharged by Super's new range. Recall that it had rationalised its Philippine portfolio to products that sell well, namely 3-in-1, sugar-free and white coffee. Its main competitor, URC, has executed well this year with the launch of many coffee SKUs, especially its Great Taste White 3-in-1s.
- **Indonesia (1-2%).** A single-digit-percentage market for Super but promising. Revenue and margins for branded Indonesian consumer-staple companies tracked by our Indonesian colleagues expanded in 3Q15. This not only suggests a reasonable environment for Super's BC business but also its FI business, where it supplies Indonesian consumers with processed ingredients such as non-dairy creamers.

Figure 3: 3Q15 results of regional consumer-staple companies under coverage

	Rating	Revenue				Net Profit				Gross margin (%)		
		3Q15	3Q14	YoY (%)	QoQ (%)	3Q15	3Q14	YoY (%)	QoQ (%)	3Q15	2Q15	3Q14
Indonesia (IDR b)												
Indofood CBP	BUY	7,545	7,262	4	(12)	706	731	(3)	(25)	30.7	31.8	28.8
Mayora Indah	BUY	3,151	3,141	0	(23)	276	(54)	611	(14)	29.0	29.3	10.8
Malaysia (MYR m)												
Nestle Bhd	HOLD	1,218	1,157	5	7	179	150	19	45	37.9	39.0	36.7
Thailand												
Malee Sampran	BUY	1,340*	1,100	22	6	90*	66	37	10	33.5*	33.3	33.1
Philippines												
SM Pure Foods	BUY	Dairy business under Magnolia likely to have done well in 3Q15 due to El Nino-induced humid conditions										
RFM Corp	BUY	Branded consumer gained momentum in Jul-Aug. Indications positive for 3Q15										

* Forecast

Source: Companies, Maybank KE

Value-added FI a potential winner of new China policy

Super started to promote new value-added FI products such as nutritional oil powder and botanical herbal extracts in 2Q15. We believe there should be more concrete developments by year-end on supply contracts in China as well as exports to other markets such as Taiwan. With its new high-value ingredients and GMP-certified supplier status, Super should be able to take advantage of an upcoming major change in China’s infant-food policy. This has been several years in the making.

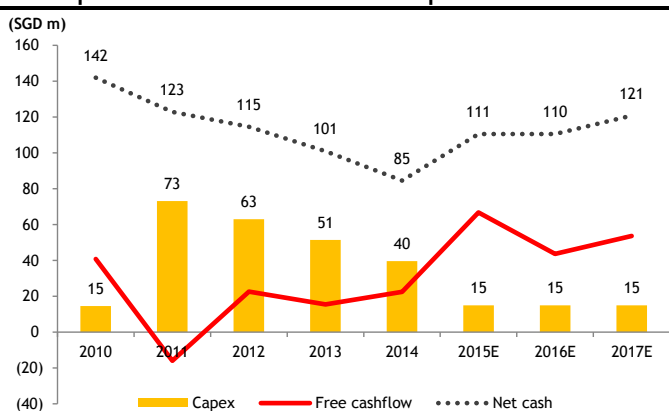
The China Food & Drug Administration (CFDA) is expected to announce a “One Brand, One Formula” policy for the infant-formula market in China soon. This policy is aimed at reducing the number of domestic brands from 2,000 to c.400. To gain CFDA approval, each brand must demonstrate a unique formulation with at least six nutrients that differ from other brands. This is likely to limit each company to not more than three brands, cutting the number of brands on the market dramatically. Moreover, in requiring producers to buy from certified suppliers, the policy aims to bolster food safety by promoting ingredient traceability.

Potential bottom-up catalysts: M&As, dividends

Super’s cash is piling up, now that its heavy-investment phase from 2011 is over. Lighter capex commitments and generally lower valuations than in 2012-13 open up two possibilities, in our view.

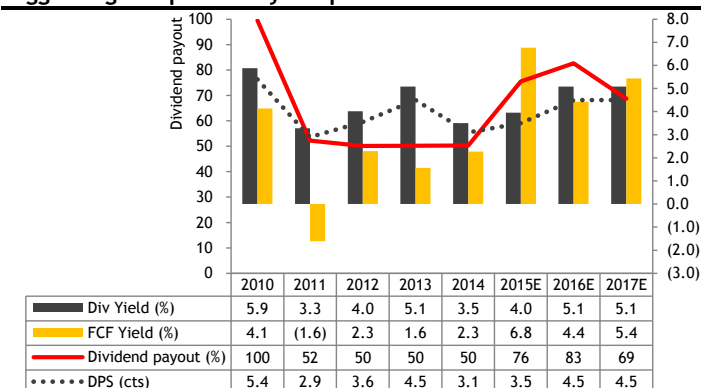
- **M&As.** Super is likely to be interested in acquiring or partnering local players in countries with big, young and growing populations such as Indonesia, the Philippines, Thailand and/or China, with a view to taking majority shares. Categories that could interest Super are likely to be coffee, tea or snack foods. In China, Super will probably also be keen on expanding its distribution network. Acquisitions could potentially be in the size of SGD100-200m.
- **Dividends.** Super has a policy of paying out at least 50% of its net profits. With FY15 being the first year of lower capex, a potential jump in its FCF may nudge management to consider a special dividend, on top of the 3.5 cts ordinary DPS we forecast.

Figure 4: FCF to improve on lower capex. We project SGD15m pa of replacement and maintenance capex for FY15-17E



Source: Company, Maybank KE

Figure 5: FCF yields to exceed ordinary DPS yields in FY15, suggesting the possibility of special dividend

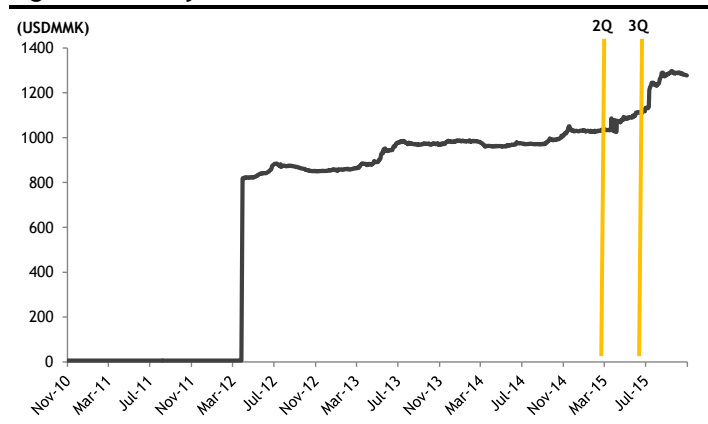


Source: Company, Maybank KE

3Q to be rough but the trough

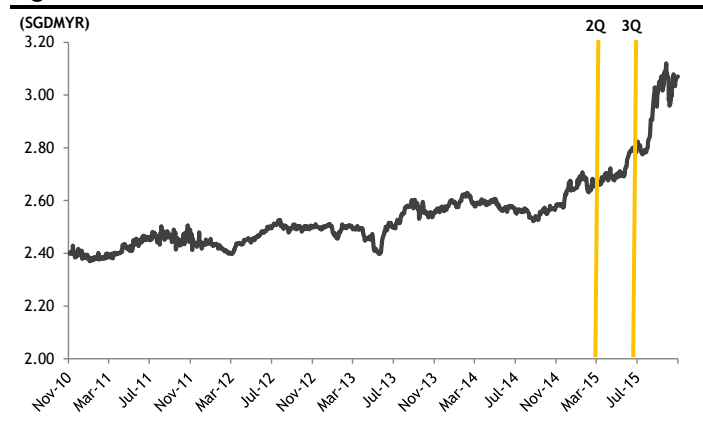
We expect MYR and Myanmar kyat weakness to crimp BC growth this year in these countries. The two currencies have fallen more than 20% YTD respectively against the USD, among the worst-performing Asian currencies. The bulk of the drop occurred in 3Q, which warrants more adjustments in our forecasts.

Figure 6: USD/kyat rates



Source: Bloomberg

Figure 7: SGD/MYR rates



Source: Bloomberg

- **Myanmar** is Super's second-biggest market, at 20% of BC sales or 13% of group revenue in FY14. Although Super sells to distributors in USD, it probably reduced its pricing in 3Q to maintain market share. It did the same thing in 2014, offering discounts to tide its distributors over until they could raise prices to offset currency falls. Other than currency woes, floods hit Myanmar in Jul-Sep. This could have disrupted distribution temporarily.
- **Malaysia** is its fourth-largest market, accounting for 15% of BC sales or 10% of group revenue in FY14. Super had to grapple with two things in Malaysia in 2015: GST implementation in April and MYR weakness in 3Q. We believe it started to introduce its new products at the end of September or early October, as we noticed billboards popping up along the North-South Expressway. However, this is likely to be too late to lift sales in 3Q. With the MYR's drop, Super is mainly eyeing volume growth through more marketing and promotional efforts in Malaysia to blunt the impact.

All in all, we cut EPS by 21-24% for FY15-17. We now expect FY15 EPS to fall 17% instead of rise 6%, followed by 18% growth in FY16. 1H15 revenue and net profit made up 47% and 48% of our original respective forecasts.

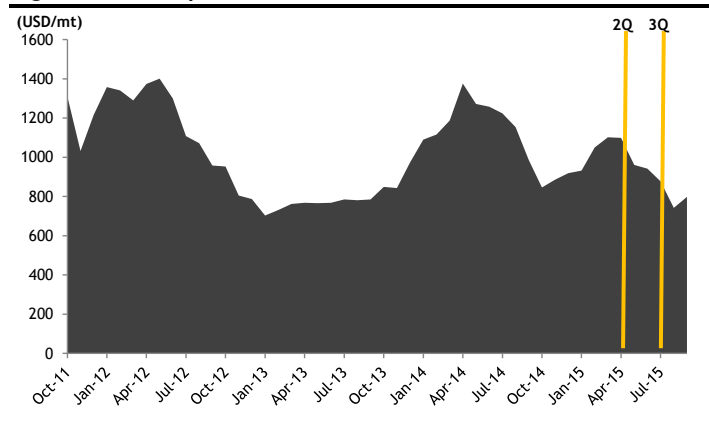
Figure 8: Revised forecasts

FYE Dec (SGD m)	FY15E			FY16E			FY17E		
	Old	New	Rev'n (%)	Old	New	Rev'n (%)	Old	New	Rev'n (%)
Revenue	558.7	518.6	(7)	621.0	569.7	(8)	685.9	622.4	(9)
Net Profit	65.9	51.7	(22)	80.1	60.7	(24)	95.7	73.1	(24)
EPS	5.9	4.6	(21)	7.2	5.4	(24)	8.6	6.6	(24)
YoY (%)	6	(17)		21	18		20	20	

Source: Maybank KE

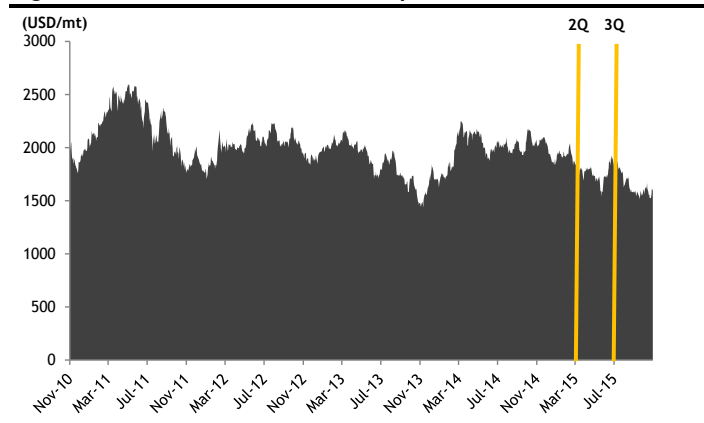
As the bulk of the currency weakness occurred in 3Q15, 3Q is likely to mark Super's trough. We expect constant gross margins as the prices of its most important raw materials such as coffee, sugar and hydrogenated palm kernel oil (HPKO) remain low, with no signs of impact from El Nino.

Figure 9: HPKO prices declined further in 3Q...



Source: Bloomberg

Figure 10: ... as did robusta coffee prices



Source: Bloomberg

Figure 11: A closer look at group COGS

Major costs	(%)
Major commodity-based raw materials	
- Coffee	23
- HPKO	15
- Sugar	7
- Non-dairy creamer	30
Flavourings	10
Packaging & overheads	15
Total	100

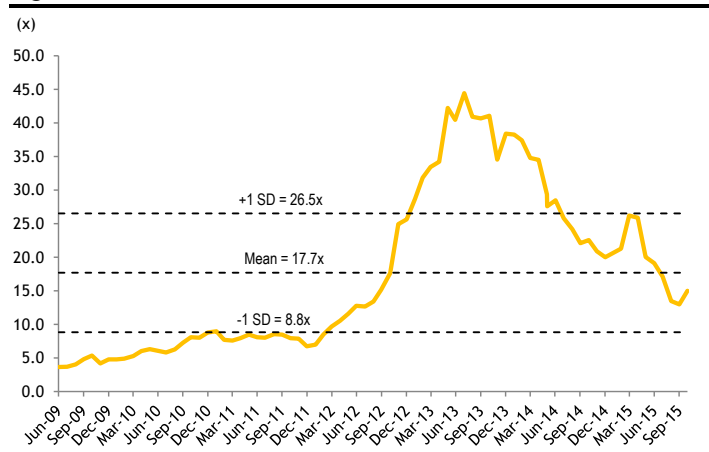
Source: Company, Maybank KE

Valuations & Recommendation

Super has underperformed the market since mid-2014. It trades below its long-term 5-year P/E and P/BV means. We believe catalysts in the next 12 months will spring from its high-margin premium products that could recharge its growth in FY16, M&As and improving dividends. Maintain BUY with TP still at SGD1.42, 1SD above its 5-year P/E mean.

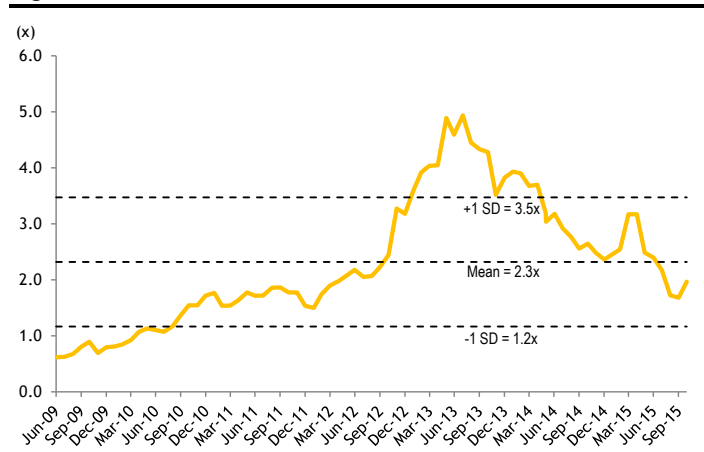
We think that Super deserves a premium for its migration to a platform that should support superior growth metrics once its new products are fully digested by all its markets. In our view, its brand has gotten stronger, products streamlined and upgraded to the premium segment and markets carrying more potential, such as China. Last but not least, it is in excellent financial shape to acquire its way into new growth sources as well as reward shareholders for their patience, in our view.

Figure 12: Forward P/E...



Source: Bloomberg, Maybank KE

Figure 13: ... and P/BV



Source: Bloomberg, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	10.0	14.5	19.3	16.4	13.7
Core P/E (x)	12.5	16.0	19.3	16.4	13.7
Core FD P/E (x)	12.5	16.0	19.3	16.4	13.7
P/BV (x)	2.1	2.0	2.0	1.9	1.8
P/NTA (x)	2.1	2.0	2.0	1.9	1.8
Net dividend yield (%)	5.0	3.5	3.9	5.0	5.0
FCF yield (%)	1.5	2.2	6.7	4.4	5.4
EV/EBITDA (x)	15.5	12.3	9.4	8.6	7.3
EV/EBIT (x)	17.4	14.9	12.7	11.3	9.3

INCOME STATEMENT (SGD m)

Revenue	557.0	539.5	518.6	569.7	622.4
Gross profit	209.5	189.6	185.2	208.5	230.3
EBITDA	131.9	98.6	95.9	105.3	123.5
Depreciation	(14.8)	(17.0)	(24.4)	(25.0)	(26.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	117.2	81.6	71.5	80.3	96.7
Net interest income / (exp)	(0.2)	0.3	0.9	2.8	3.1
Associates & JV	(2.4)	(0.6)	(0.4)	1.7	1.9
Exceptionals	(53.9)	(56.2)	(54.5)	(57.0)	(65.2)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	114.5	81.3	71.9	84.8	101.6
Income tax	(11.1)	(9.8)	(17.6)	(21.2)	(25.4)
Minorities	(3.4)	(2.8)	(2.6)	(2.8)	(3.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	99.9	68.8	51.7	60.7	73.1
Core net profit	79.7	62.3	51.7	60.7	73.1

BALANCE SHEET (SGD m)

Cash & Short Term Investments	100.9	104.5	125.5	120.5	125.7
Accounts receivable	94.6	99.0	96.7	109.3	124.5
Inventory	101.6	115.1	105.3	121.7	139.8
Property, Plant & Equip (net)	250.6	276.3	267.4	257.4	245.5
Intangible assets	3.0	3.0	3.0	3.0	3.0
Investment in Associates & JVs	19.4	7.6	7.6	7.6	7.6
Other assets	28.9	25.6	24.6	26.4	28.2
Total assets	599.1	631.1	630.1	645.8	674.4
ST interest bearing debt	0.2	20.2	15.0	10.0	5.0
Accounts payable	84.7	79.5	71.1	78.0	85.3
LT interest bearing debt	0.2	0.0	0.0	0.0	0.0
Other liabilities	27.0	14.0	16.0	17.0	19.0
Total Liabilities	112.5	114.1	101.7	105.1	108.9
Shareholders Equity	466.9	497.6	510.2	520.8	543.7
Minority Interest	19.7	19.5	18.2	19.9	21.8
Total shareholder equity	486.6	517.0	528.4	540.7	565.4
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	599.1	631.1	630.1	645.8	674.4

CASH FLOW (SGD m)

Pretax profit	114.5	81.3	71.9	84.8	101.6
Depreciation & amortisation	14.8	17.0	24.4	25.0	26.9
Adj net interest (income)/exp	0.2	(0.3)	(0.9)	(2.8)	(3.1)
Change in working capital	(32.9)	(18.7)	4.8	(23.9)	(27.9)
Cash taxes paid	(9.7)	(10.7)	(18.9)	(22.7)	(27.0)
Other operating cash flow	(20.0)	(6.6)	0.4	(1.7)	(1.9)
Cash flow from operations	66.8	62.0	81.8	58.7	68.6
Capex	(51.4)	(39.6)	(15.0)	(15.0)	(15.0)
Free cash flow	15.4	22.4	66.8	43.7	53.6
Dividends paid	(39.6)	(50.2)	(39.0)	(50.2)	(50.2)
Equity raised / (purchased)	0.0	0.0	(0.0)	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(0.2)	19.6	(5.3)	(5.0)	(5.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	8.7	9.0	(0.0)	(0.1)	(0.1)
Effect of exch rate changes	2.0	2.1	(0.8)	6.3	6.6
Net cash flow	(13.7)	2.8	21.6	(5.3)	5.0

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.3	(3.2)	(3.9)	9.8	9.2
EBITDA growth	30.1	(25.3)	(2.8)	9.8	17.3
EBIT growth	30.4	(30.3)	(12.4)	12.3	20.4
Pretax growth	25.4	(29.0)	(11.6)	17.9	19.8
Reported net profit growth	26.4	(31.2)	(24.8)	17.5	20.3
Core net profit growth	0.9	(21.9)	(17.0)	17.5	20.3
Profitability ratios (%)					
EBITDA margin	23.7	18.3	18.5	18.5	19.9
EBIT margin	21.0	15.1	13.8	14.1	15.5
Pretax profit margin	20.6	15.1	13.9	14.9	16.3
Payout ratio	50.2	50.3	75.5	82.6	68.7
DuPont analysis					
Net profit margin (%)	17.9	12.7	10.0	10.7	11.7
Revenue/Assets (x)	0.9	0.9	0.8	0.9	0.9
Assets/Equity (x)	1.3	1.3	1.2	1.2	1.2
ROAE (%)	18.4	12.9	10.3	11.8	13.7
ROAA (%)	14.0	10.1	8.2	9.5	11.1
Liquidity & Efficiency					
Cash conversion cycle	56.9	91.6	105.5	103.9	112.7
Days receivable outstanding	61.5	64.6	67.9	65.1	67.6
Days inventory outstanding	95.5	111.5	118.7	113.1	120.1
Days payables outstanding	100.1	84.5	81.2	74.3	75.0
Dividend cover (x)	2.0	2.0	1.3	1.2	1.5
Current ratio (x)	3.1	3.2	3.7	3.9	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	5.3	5.5	6.2	6.1	6.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.0	0.2	0.2	0.1	0.0
Capex/revenue (%)	9.2	7.3	2.9	2.6	2.4
Net debt/ (net cash)	(100.5)	(84.2)	(110.5)	(110.5)	(120.7)

Source: Company; Maybank

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