



Signature International Berhad

No Sign of Abating

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY

TP: RM3.65 (+58.0%)

Last traded: RM2.31

BUY

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Results preview

Signature International will report its 3QFY15 results performance this month and we expect the profit to come in between RM13mn and RM15mn. This represents growth of >100% YoY underpinned by: 1) Sizable orderbook of RM200mn as at Dec-14; 2) growing retail sales; and 3) small base effect.

Orderbook change

Based on the orderbook change from RM200mn in Dec-14 to RM160mn in Apr-15, it is estimated that Signature would at least recognized project revenue of RM40mn in 3QFY15 (or 1Q15). Assuming net margin of 18%, 3QFY15 project earnings are estimated to be at least RM7.2mn, which is 32% higher than the group's earnings in 3QFY14.

RM5mn in 4-days exhibition

However, what is more appealing to us is the increasing retail sales of kitchen systems, tracking the decent performance of project revenue. We understand from management that the company has raked in orders worth est.RM5.0mn in the 4-day HOMEDEC Fair held in KLCC Convention Centre recently.

We visited the exhibition on the first day (1 May 2015) and amazed by the scene that Signature's booth was so crowded with prospective buyers (at 12pm), seeking quotations from 20 over sale staff members. It took us close to 20 minutes to find a sales staff, who is free to work on our proposal. While working on our quotations, we understand from the sales person that the company is offering interest-free instalment schemes and other freebies such as free cabinet voucher worth RM1,500 for any purchase of kitchen cabinet valued at RM15,000 or more. Also, we were told that the sale target set by the company for this event is RM50,000/day for each sale staff, which works out to RM4mn for 20 staff over 4-days period. As such, in this exhibition, the company achieved retail sales, which exceeded its target.

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Considering annual retail sales of RM54.8mn in FY14 (or average RM13.7mn/quarter) and RM26.2mn in 6MFY15 (or average RM13.1mn/quarter) (see Chart 1), the RM5mn sales achieved in the exhibition is significant at circa 10% of annual sales (~38% of quarterly sales). Importantly, the strong sales are bucking the current weak trend in the property market as well as consumer spending post GST implementation.

Share Information

Bloomberg Code	SIGN MK
Stock Code	SIGN (7246)
Listing	Main Market
Share Cap (mn)	120.0
Market Cap (RMmn)	277.2
Par Value (RM)	0.5
52-wk Hi/Low (RM)	2.44/1.31
12-mth Avg Daily Vol ('000 shrs)	306.5
Estimated Free Float (%)	50.3
Beta (x)	1.2

Major Shareholders (%)

Tan Kee Chong	(24.9%)
Chooi Yeoy Sun	(24.8%)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	23.5	13.4
Net profit (RMm)	40.1	43.8
Consensus	37.1	43.3
TA's / Consensus (%)	108.0	101.1
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY15	FY16
Net Gearing (%)	9.4	Net cash
FCF/share (sen)	1.6	32.3
P/CFPS (x)	143.7	7.1
ROE (%)	29.6	26.5
NTA/Share (RM)	1.2	1.5
Price/NTA (x)	1.8	1.5

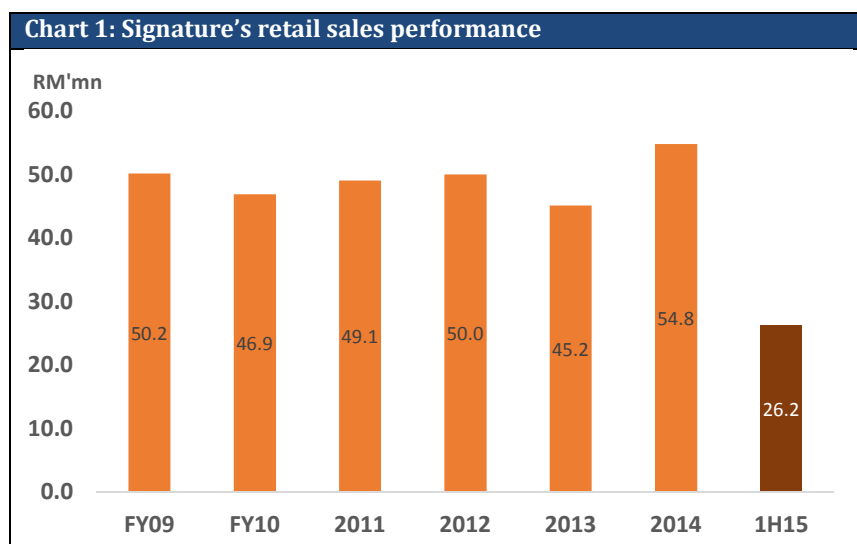
Share Performance (%)

Price Change	SIGN	FBM KLCI
1 mth	1.8	(2.4)
3 mth	28.3	(0.1)
6 mth	33.5	(0.9)
12 mth	65.0	(3.6)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg



Source: Signature

Impact

We raise our FY15-17 earnings projections by 9-23.5% after raising our FY15-17 retail sales assumptions by additional RM1-4mn. We also raise our blended margin higher to 38-39% (from 36-37%) due to increasing economies of scale.

Valuation

We raise Signature's target price at RM3.65/share (from RM3.22/share previously), based on unchanged 10x FY16 EPS. We reiterate our buy recommendation given the favourable change in the property trend, which bodes well for Signature's future earnings. Also, the share disposal by HSC Healthcare to below 5% augurs well for tradability of Signature's shares in the market.

Financial Statements (FYE June)

<i>Profit and Loss (RM'mn)</i>	2013	2014	2015F	2016F	2017F
Revenue	120.8	178.7	290.7	309.5	297.8
COGS	(85.6)	(115.6)	(176.6)	(188.4)	(186.3)
Gross profit	35.2	63.2	114.0	121.1	111.5
EBITDA	12.4	34.5	61.3	65.0	57.6
Depr. & Amor.	(2.5)	(2.6)	(2.8)	(2.9)	(2.8)
Net finance cost	(1.6)	(1.9)	(2.1)	(2.2)	(1.8)
EI	0.4	(4.5)	2.3	0.0	0.0
PBT	8.8	25.5	58.8	60.0	53.0
Adj PBT	8.4	30.0	56.5	60.0	53.0
Tax	(3.7)	(5.9)	(14.7)	(14.4)	(12.7)
MI	(0.5)	(0.3)	(1.7)	(1.8)	(1.6)
Net profit	4.6	19.2	42.4	43.8	38.7
Core profit	4.2	23.8	40.1	43.8	38.7
EPS (sen)	3.5	20.0	31.6	36.5	32.2
DPS (sen)	1.5	5.0	9.0	11.0	11.0

<i>Cash Flow (RM'mn)</i>	2013	2014	2015F	2016F	2017F
PBT	8.8	25.5	58.8	60.0	53.0
Non- cash item	2.3	7.1	1.6	2.9	2.8
Chg in working capital	2.5	(21.8)	(37.6)	(8.7)	7.7
Tax	(3.1)	(5.1)	(14.7)	(14.4)	(12.7)
Others	(0.5)	(0.4)	(1.2)	0.0	0.0
CFO	10.0	5.3	6.9	39.8	50.8

Capex	(1.8)	(1.6)	(5.0)	(1.0)	(1.0)
Others	0.3	(5.6)	0.0	0.0	0.0
CFI	(1.5)	(7.2)	(5.0)	(1.0)	(1.0)
Net Borrowing/Rpmt	(1.9)	(1.1)	5.0	(3.0)	(5.0)
Dividend Paid	(1.8)	(1.8)	(10.8)	(13.2)	(13.2)
Others	(0.9)	0.2	0.0	0.0	0.0
CFF	(4.7)	(2.7)	(5.8)	(16.2)	(18.2)

<i>Key Assumptions (RM'm)</i>	2013	2014	2015F	2016F	2017F
Project revenue	75.7	123.9	232.2	248.3	235.8
Retail sales	45.2	54.8	58.5	61.1	62.0
New projects secured	-	-	200	235	195
New bids	-	-	300	350	400

<i>Balance Sheet (RM'mn)</i>	2013	2014	2015F	2016F	2017F
PPE	7.4	46.5	48.7	46.8	45.0
Investment properties	16.4	31.0	39.0	39.0	39.0
Others					
LT Assets	23.8	79.8	90.0	88.1	86.3
Inventories	14.2	16.7	26.6	28.4	28.1
Trade & other receivables	56.6	70.6	107.6	121.7	122.0
Cash & Cash equivalent	19.8	15.3	11.4	34.0	65.6
Others					
ST Assets	168.2	145.2	180.3	218.8	250.4
Total Assets	192.0	225.1	270.3	306.9	336.7
Trade and other payables	27.4	51.1	60.4	67.6	75.2
ST Borrowings	2.6	2.9	2.9	2.9	2.9
Others					
ST Liabilities	64.8	81.4	90.6	97.9	105.5
LT Borrowings	18.9	17.6	22.6	19.6	14.6
Others	2.5	2.5	2.5	2.5	2.5
LT Liabilities	21.5	20.1	25.1	22.1	17.1
Share Cap	60.0	60.0	60.0	60.0	60.0
Reserves					
Shareholder's Funds	103.3	120.7	150.0	180.6	206.1
MI	2.4	2.9	4.6	6.4	8.0
Liabilities + Equities	192.0	225.1	270.3	306.9	336.7

<i>Ratios</i>	2013	2014	2015F	2016F	2017F
EPS Growth (%)	(36.7)	479.5	57.6	15.6	(11.6)
PER (x)	66.9	11.5	7.3	6.3	7.2
Div Yield (%)	0.6	2.2	3.9	4.8	4.8
Net cash (RMm)	(1.7)	(5.3)	(14.1)	11.4	48.1
Net gearing (x)	0.0	0.0	0.1	Net cash	Net cash
ROE (%)	4.1	21.2	29.6	26.5	20.0
ROA (%)	2.3	11.4	16.2	15.2	12.0
NTA (RM)	0.86	1.01	1.25	1.50	1.72
P/NTA (x)	2.7	2.3	1.8	1.5	1.3
EV/EBITDA (x)	22.5	8.2	4.8	4.1	4.0

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