



## Signature International Berhad

### Slowdown in Contract Awards

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**TP: RM3.16 (+22.5%)**

Last traded: RM2.58

**BUY**

Tan Kam Meng, CFA

Tel: +603-2167 9605

kmtan@ta.com.my

www.taonline.com.my

#### Review

- Signature International's (Signature) 1QFY16 core earnings of RM4.6mn came in below our expectation at 12% of our full-year forecast and 9% of consensus estimates. The variance was largely due to lower project revenue.
- Signature's 1Q16 earnings contracted 17.7% YoY to RM4.6mn. Although PBT margin increased by 1%-pt due to better revenue mix, this was insufficient to absorb the 24.4% decline in revenue, which contributed mainly by the drop in project revenue.
- On QoQ basis, net earnings grew more than double as 1QFY16 PBT margin normalised to 15% as compared to 4% in 4QFY15. The low PBT margin in 4QFY15 was due to recognition of omitted expenses, which were not recognised in 1Q-3QFY15.

#### Impact

- Signature's earnings tend to fluctuate due to short contract duration of typical six to nine months and the timing of contract award. For instance, the company recognised 77% of its FY15 earnings in just two quarters during 2QFY15 to 3QFY15 after securing a few sizeable projects in end-FY14. As such, given the benefit of doubt, we cut our FY16-18 earnings by only 2.1-4.6% after trimming our project revenue lower.

#### Outlook

- In our last report, we highlighted that FY16 earnings will be back-end loaded as developers have been slow in dishing out kitchen projects amid the current week property market. However, we opine that project awards will resume in 1Q16 or developers could face penalties for late completions of those properties launched two to three years ago. Having said that, we expect the upcoming sizable project to come from Country Garden for its township development in Johor Bahru. We expect this project to boost Signature's order book to RM170mn from RM142mn as at Sep-15.
- For FY16, we expect earnings to be supported by the retail segment, which commands better gross margin of 50% than the margin of project revenue of 20%. This is on the back of lower group's revenue underpinned by lower project revenue, which accounts for 66% (76% in FY15) of total revenue. Note that in the recent HOMEDEC Fair held in KLCC Convention Centre, the company managed to secure up to RM5mn orders within 3 days. This amazing result is in line with the increasing supply of residential units in the market.

#### Recommendation

- We cut Signature's target price to RM3.16/share (from RM3.30) based on unchanged 10x FY16 EPS. However, we reiterate our buy recommendation given the current favourable property trend with increasing supply of upmarket properties, which bodes well for Signature's future earnings.

#### Share Information

Bloomberg Code	SIGN MK
Stock Code	SIGN (7246)
Listing	Main Market
Share Cap (mn)	120.0
Market Cap (RMmn)	309.6
Par Value (RM)	0.5
52-wk Hi/Lo (RM)	3.27/1.53
12-mth Avg Daily Vol ('000 shrs)	781.2
Estimated Free Float (%)	37.5
Beta (x)	0.7
<b>Major Shareholders (%)</b>	
	Tan Kee Chong (25.0%)
	Chooi Yeoy Sun (24.7%)
	HSBC (6.6%)

#### Forecast Revision

	FY16	FY17
Forecast Revision (%)	(4.6)	(3.9)
Net profit (RMmn)	36.7	39.1
Consensus	48.1	47.7
TA's / Consensus (%)	76.3	82.2
Previous Rating	Buy (Maintained)	

#### Financial Indicators

	FY16	FY17
Net Gearing (%)	Net cash	Net cash
FCF/share (sen)	21.1	24.2
P/CFPS (x)	12.2	10.7
ROE (%)	23.3	21.5
NTA/Share (RM)	1.4	1.6
Price/NTA (x)	1.8	1.6

#### Scorecard

	% of FY	
vs TA	12	Below
vs Consensus	9	Below

#### Share Performance (%)

Price Change	SIGN	FBM KLCI
1 mth	(1.1)	(2.3)
3 mth	9.3	9.1
6 mth	(0.4)	(6.5)
12 mth	48.3	(8.9)

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



Source: Bloomberg

**Earnings Summary (RM mn)**

<b>FYE June 30</b>	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue	178.7	273.5	226.4	277.1	295.9
EBITDA	34.5	55.1	55.2	58.1	60.5
EBITDA margin (%)	19.3	20.1	24.4	21.0	20.4
Pretax profit	25.5	46.9	50.3	53.6	56.5
Adj PBT	30.0	49.9	50.3	53.6	56.5
Reported net profit	19.2	33.6	36.7	39.1	41.3
Core profit	23.8	36.5	36.7	39.1	41.3
Reported EPS (sen)	16.2	28.0	30.6	32.6	34.4
Core EPS (sen)	20.0	30.4	30.6	32.6	34.4
Core EPS growth (%)	479.5	52.0	0.4	6.7	5.4
PER (x)	10.4	6.8	6.8	6.4	6.1
GDPS (sen)	5.0	10.0	10.0	11.0	12.0
Div yield (%)	2.4	4.8	4.8	5.3	5.8
Core ROE (%)	21.2	27.5	23.3	21.5	19.8

**1QFY16 Financial Statements**

<b>YE June 30 (RMmn)</b>	<b>1Q15</b>	<b>4Q15</b>	<b>1Q16</b>	<b>% QoQ</b>	<b>% YoY</b>	<b>3M15</b>	<b>3M16</b>	<b>% YoY</b>
Revenue	59.3	55.0	44.9	(18.3)	(24.4)	59.3	44.9	(24.4)
EBIT	8.7	4.9	7.3	48.0	(16.6)	8.7	7.3	(16.6)
Finance cost	(0.5)	(0.6)	(0.4)	(32.6)	(24.6)	(0.5)	(0.4)	(24.6)
EI	1.1	1.8	0.3	(82.1)	(70.8)	1.1	0.3	(70.8)
PBT	9.3	4.3	6.9	59.4	(26.2)	9.3	6.9	(26.2)
Adjusted PBT	8.2	2.5	6.5	165.3	(20.1)	8.2	6.5	(20.1)
Tax	(2.3)	(0.8)	(1.8)	132.8	(21.7)	(2.3)	(1.8)	(21.7)
MI	(0.3)	0.3	(0.1)	(140.1)	(52.5)	(0.3)	(0.1)	(52.5)
Net profit	6.7	3.9	4.9	26.6	(26.7)	6.7	4.9	(26.7)
Adj net profit	5.5	2.0	4.6	125.2	(17.7)	5.5	4.6	(17.7)
EPS (sen)	5.6	3.2	4.1	28.1	(26.8)	5.6	4.1	(26.8)
Adj EPS (sen)	4.7	1.7	3.8	128.0	(17.8)	4.7	3.8	(17.8)
DPS (sen)	0.0	6.0	0.0	nm	nm	0.0	0.0	nm
				<b>%pts</b>	<b>%pts</b>			<b>%pts</b>
EBITDA margin (%)	14.7	8.9	16.2	7.3	1.5	14.7	16.2	1.5
Core PBT margin (%)	13.7	4.5	14.5	10.1	0.8	13.7	14.5	0.8
Core profit margin (%)	9.3	3.7	10.2	6.5	0.8	9.3	10.2	0.8
Effective tax rate (%)	28.5	31.8	27.9	(3.9)	(0.6)	28.5	27.9	(0.6)

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Kaladher Govindan – Head of Research