



## Signature International Berhad

Securing New Contracts Worth RM60mn

**TP: RM1.62** (69.6%)

Last traded: RM0.955

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**BUY**

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### Review

- Signature International's (Signature) FY16 reported earnings surged 32% to RM47.7mn due to a lumpy disposal gain of RM28.8mn recognised in 4QFY16. Stripping out the gain and other exceptional items, FY16 core profit plunged 22% to RM25.8mn. The results, however, beat our forecast by 8% and consensus estimates by 15%. The variance was largely due to higher-than-expected profit margin.
- FY16 core profit plunged 22% to RM25.8mn underpinned by lower revenue of 27.4%. The lower revenue can be attributed to slowdown in contract award in late-FY15, thus affecting FY16 project revenue. However, core PBT margin improved 3%-pts to 20% due to favourable product mix with higher contribution from retail sales.
- Balance sheet quality improved further by the land sales gain, which shored up Signature's net cash level to RM68.6mn (or 28.6sen/share) in 4QFY16 from RM0.7mn a quarter ago. The strong reported earnings and huge cash piles in 4QFY16 have prompted the company to clean up its balance sheet (write off bad debts and impair idle stocks), which is imperative to future earnings growth.
- For this quarter, the company proposed additional dividend of 2sen/share on top of the 10sen special dividend (which already paid in July), bringing the total FY16 dividend payment to 12sen/share vs. 5sen/share a year ago.

### Impact

- No change to our FY17-19 earnings projections. In our forecast, we project Signature to secure new jobs of RM206/205/217mn for FY17/18/19 respectively.

### Outlook

- Signature's orderbook stood at RM205mn as at July-16, up from RM165mn in May-16, after securing close to RM60mn new jobs. According to management, Signature has secured a contract to supply and install kitchen and wardrobe systems for Four Seasons development in KL worth approximately RM38mn. Also, it has been awarded a couple of projects worth RM10mn each recently. Currently, management is working on several small deals, which could sustain its order book above RM200mn.
- By November, Signature will take delivery of 5 parcels of industrial land, measuring 38.86 acres, at Techpark@Enstek, Bandar Baru Enstek, Seremban. Note that Signature entered into a sale and purchase agreement in 2014 to acquire this land for RM50.8mn, which is earmarked for expansion of its manufacturing facilities.
- However, we do not think the new facility at Techpark@Enstek is necessary now so it may build industrial properties for sale or outright sale of land to interested parties. Whatever it is, Signature would benefit from land price appreciation in that area. Based on our search in iProperty, the bid price of industrial land in Seremban is in the range

### Share Information

Bloomberg Code	SIGN MK
Stock Code	SIGN (7246)
Listing	Main Market
Share Cap (mn)	235.9
Market Cap (RMmn)	225.3
Par Value (RM)	0.3
52-wk Hi/Lo (RM)	1.305/0.721
12-mth Avg Daily Vol ('000 shrs)	1042.0
Estimated Free Float (%)	43.6
Beta (x)	0.8

### Major Shareholders (%)

Tan Kee Chong	(25.3%)
Chooi Yeoy Sun	(25.2%)
RHB Asset Management	(5.9%)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	37.5	40.2
Consensus	39.0	40.0
TA's / Consensus (%)	96.3	100.6
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY17	FY18
Net Gearing (%)	0.0	Net cash
FCF/share (sen)	(17.9)	15.1
P/CFPS (x)	nm	nm
ROE (%)	21.3	20.0
NTA/Share (RM)	0.8	0.9
Price/NTA (x)	0.6	0.5

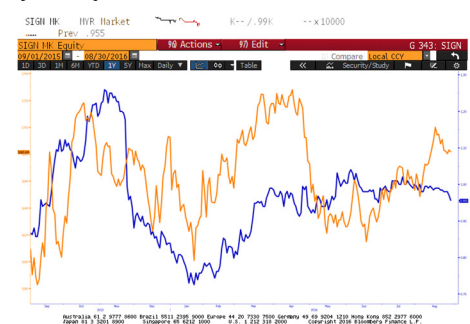
### Scorecard

	% of FY	
vs TA	108	Above
vs Consensus	115	Above

### Share Performance (%)

Price Change	SIGN	FBM KLCI
1 mth	(4.5)	1.7
3 mth	(5.7)	3.2
6 mth	19.7	1.6
12 mth	9.6	4.3

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



Source: Bloomberg

between RM50psf to 60psf. This is a steep appreciation as compared to RM30psf that Signature paid for its Enstek land.

### Recommendation

- We maintain our target price at RM1.62/share based on unchanged PE of 10x CY17 EPS. We view the current price level as an attractive entry point for investors to ride on future earnings uptrend whilst downside risk is protected by company share buy-back scheme. **Maintain Buy**

### Earnings Summary (RM mn)

FYE June 30	2015	2016	2017F	2018F	2019F
Revenue	273.5	198.1	276.8	293.5	293.6
EBITDA	55.1	42.3	54.7	61.7	67.0
EBITDA margin (%)	20.1	21.3	19.8	21.0	22.8
Pretax profit	46.9	62.1	51.4	55.1	61.1
Adj PBT	49.9	40.2	51.4	55.1	61.1
Reported net profit	33.6	47.7	37.5	40.2	44.6
Core profit	36.5	25.8	37.5	40.2	44.6
Reported EPS (sen) *	14.0	19.9	15.6	16.8	18.5
Core EPS (sen) *	15.2	10.8	15.6	16.8	18.5
Core EPS growth (%)	52.0	(29.2)	45.2	7.2	10.5
PER (x)	6.3	8.9	6.1	5.7	5.2
GDPS (sen) *	5.0	12.0	5.5	6.0	7.0
Div yield (%)	5.2	12.6	5.8	6.3	7.3
Core ROE (%)	27.5	16.8	21.3	20.0	19.6

\* Adjusted for the proposed one to two share split

### 4QFY16 Financial Statements

YE June 30 (RMmn)	4Q15	3Q16	4Q16	% QoQ	% YoY	FY15	FY16	% YoY
Revenue	55.0	54.7	43.5	(20.4)	(20.8)	272.9	198.1	(27.4)
EBIT	4.9	7.3	41.4	470.7	743.1	50.4	64.2	27.3
Finance cost	(0.6)	(0.5)	(0.7)	44.1	13.6	(2.4)	(2.1)	(13.4)
EI	1.8	0.1	21.4	>100	>100	3.0	21.9	>100
PBT	4.3	6.8	40.7	501.0	846.7	49.2	62.1	26.2
Adjusted PBT	2.5	6.7	19.3	188.7	686.0	46.2	40.2	(13.0)
Tax	(0.8)	(1.6)	(6.2)	281.4	693.6	(12.0)	(11.5)	(4.1)
MI	0.3	(0.1)	(2.3)	>100	>-100	(1.1)	(2.8)	161.3
Net profit	3.9	5.0	32.2	>100	>100	36.1	47.7	32.2
Adj net profit	2.0	4.9	10.8	>100	>100	33.1	25.8	(22.0)
EPS (sen)	3.2	4.2	13.4	>100	>100	30.2	26.4	(12.6)
Adj. EPS (sen)	1.7	4.1	4.5	9.0	>100	27.7	17.0	(38.5)
DPS (sen)	3.0	10.0	2.0	(80.0)	(33.3)	5.0	12.0	140.0
				%pts	%pts			%pts
EBITDA margin (%)	8.9	13.3	95.1	81.8	86.1	18.5	32.4	13.9
Core PBT margin (%)	4.5	12.2	44.4	32.1	39.9	16.9	20.3	3.4
Core profit margin (%)	3.7	9.0	24.9	15.9	21.2	12.1	13.0	0.9
Effective tax rate (%)	31.8	24.3	32.1	7.8	0.3	26.0	28.7	2.7

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