MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

Signature International Berhad

TP: RM1.10 *(+15.3%)*

Job Replenishment Faster than Execution

Last traded: RM0.955

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BUY

Tan Kam Meng, CFA | Tel: +603-2167 9605 | kmtan@ta.com.my | www.taonline.com.my

Management exclaimed in delight that "we have a situation now where job replenishment is faster than execution…". This has reaffirmed our view that the delay in job award has reached a critical stage where any further delay may defer project handover and subject to liquidated damages. In view of this, Signature has been aggressively buying back its shares as the market has not entirely priced in the increasing job flows. Maintain Buy on Signature with an unchanged target price of RM1.10/share.

Winds of change

Unfavourable project timing in 1HFY17. One of the key culprits to disappointing 1HFY17 profit growth (-42.2% YoY) was the drop in revenue as project executions remained at snail-pace. For instance, one of the key projects in KLCC, which the company secured in July-16 with a contract sum of RM38mn, that involves kitchen installation works are still pending on completion of the building superstructure 5 months after the award. However, management is positive that the situation would change from 4QFY17 onwards with strong contract wins in recent months.

Further delaying may cause LAD. From January to February 2017, Signature secured 8 new contracts worth RM34mn. This has boosted its order book to RM220mn as at Feb-17 (vs RM200mn in Dec-16). Moreover, the company is close to secure 8 other new contracts worth RM40mn, pending formal awards in these few months. According to management, the delay in contract awards in 2016 when property developers slowing down the work progress to smooth out their future incomes would likely push more jobs to 2017-2018. The contract delay, in our opinion, has reached a critical stage where any further delay may defer project handover and subject to liquidated damages (LAD).

Housing supply mix tilted toward property >500,000/unit. Beyond 2018, we remain upbeat and continue expecting the favourable mix of housing supply in Malaysia to bode well for Signature. Note that the increased supply of residential properties priced above RM500,000/unit continued to outweigh affordable housing in Klang Valley, Penang and Johor in Malaysia (see Figure 1). This upmarket and luxury home segment is the typical target market for Signature, a premier kitchen player in Malaysia.

Share Information	
Bloomberg Code	SIGN MK
Stock Code	SIGN (7246)
Listing	Main Market
Share Cap (mn)	233.0
Market Cap (RMmn)	222.5
Par Value (RM)	0.3
52-wk Hi/Lo (RM)	1.067/0.78
12-mth Avg Daily Vol ('000 shrs)	673.2
Estimated Free Float (%)	41.7
Beta (x)	0.6
Major Shareholders (%)	
	Tan Kee Chong (26.1%)
	Chooi Yeoy Sun (25.9%)
	RHB Asset Management (6.3%)

Forecast Revision	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	22.2	30.6
Consensus	21.1	26.2
TA's / Consensus (%)	105.4	117.1
Previous Rating	Buy (Maintained)	

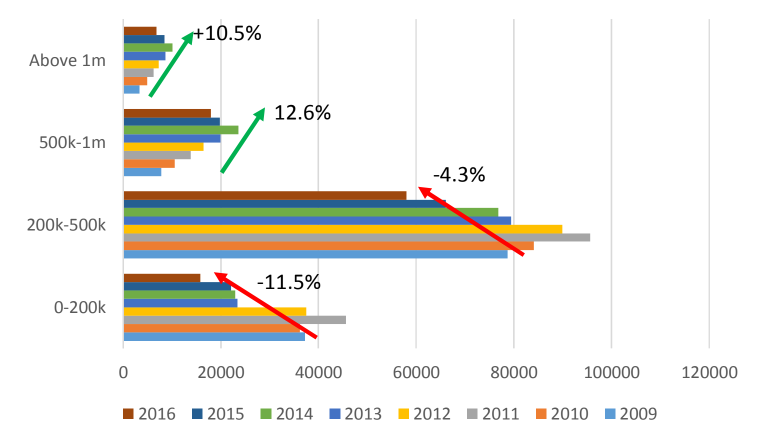
Financial Indicators	FY17	FY18
Net Gearing (%)	0.1	Net cash
FCF/share (sen)	(30.7)	13.8
P/CFPS (x)	nm	6.9
ROE (%)	13.4	17.0
NTA/Share (RM)	0.7	0.8
Price/NTA (x)	1.3	1.2

Share Performance (%)		
Price Change	**SIGN**	**FBM KLCI**
1 mth	11.0	3.3
3 mth	20.1	6.6
6 mth	3.8	5.9
12 mth	(3.5)	1.9

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

Source: Bloomberg

Figure 1: Upmarket segment grew at 7yr CAGR of >10%



Source: NAPIC & TA Research

No significant progress in Battersea tender. As far as Battersea is concerned, there is no significant progress in terms of kitchen and wardrobe tenders for Phase 2 and Phase 3A. However, we remain confident that Signature would procure the kitchen and wardrobe contracts. Note that Battersea Phase 2 and Phase 3A are targeted for completion in period 4Q2019-3Q2020 and 4Q2020-2Q21, respectively. It is still early to call for kitchen and wardrobe tenders, which would usually take place when the project is more than 50% completed.

Bandar Enstek land will be a long term investment

RPGT hinders potential land sale gains. For Bandar Enstek land, Signature took possession of the landbank, measuring 38.86 acres, in Nov-16. Recently, there was an offer to acquire a portion of the landbank from Signature for RM50psf. Based on the land cost of RM30psf, the company can easily rake in RM8.7mn gain from selling the portion of the land. However, the RPGT implication has impeded the sales transaction as the gain would be taxed at 30%.

Prefer outright land sales. As there is no immediate plan to expand its current capacity, management did not rule out the possibility of joint developing the land with another property developer. However, this will be the least preferred option that may overly expose the company to property slowdown in Malaysia. In our opinion, investors should consider the land merely an asset for sale over the long term (6-years from Nov-16), which may give rise to a one-off special dividend in the future.

Share price support

YTD, Signature share price advanced by 20%, thanks to Signature's share buyback program, which neutralized the selling pressure from Value Partner. We believe the share buyback support is premised on the basis that the market has not fully factored in increasing job flow in the market this year. Looking at the group's balance sheet, the company had sufficient cash and short-term investment of RM69.6mn (net cash RM47.2mn) as at Dec-16, which can be used for share buyback program. Note that YTD, Signature has bought back 5.1mn shares (2.1% of outstanding shares) at an average price of RM0.89, boosting the group's cumulative treasury share to 11.2mn shares (4.7% of outstanding shares).

Forecast

We maintain our profit forecast.

Valuation

We reiterate our Buy recommendation on the stock with an unchanged target price of RM1.10 based on 10x CY17 EPS. At current price levels, we see little downside risk as the selling pressure from Value Partner has diminished after the fund management company disposed all its shares in Signature.

Profit and Loss (RM'mn)					
FYE June	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Revenue	**273.5**	**196.8**	**252.5**	**255.9**	**256.5**
COGS	(181.0)	(138.6)	(173.0)	(162.9)	(158.6)
Gross profit	92.5	58.2	79.5	93.0	97.9
EBITDA	**55.1**	**43.5**	**38.4**	**52.7**	**56.2**
Depr. & Amor.	(2.8)	(3.0)	(4.4)	(5.8)	(5.8)
Net finance cost	(2.4)	(2.1)	(3.6)	(5.0)	(2.7)
EI	(2.9)	23.5	0.0	0.0	0.0
PBT	46.9	62.0	30.5	41.9	47.8
Adj PBT	**49.9**	**38.5**	**30.5**	**41.9**	**47.8**
Tax	(12.2)	(11.4)	(7.3)	(10.1)	(11.5)
MI	(1.1)	(2.8)	(0.9)	(1.3)	(1.4)
Net profit	33.6	47.8	22.2	30.6	34.9
Core profit	**36.5**	**24.3**	**22.2**	**30.6**	**34.9**
EPS (sen)*	15.2	10.2	9.3	12.8	14.5
DPS (sen)*	5.0	12.0	5.0	5.0	5.5

Cash Flow (RM'mn)					
FYE June	**2015**	**2016**	**2017F**	**2018F**	**2019F**
PBT	46.9	62.0	30.5	41.9	47.8
Non- cash item	6.0	(37.7)	4.4	5.8	5.8
Chg in working capital	(15.9)	(6.3)	(36.4)	0.6	(0.2)
Tax	(13.8)	(13.0)	(7.3)	(10.1)	(11.5)
Others	(0.8)	18.5	0.0	0.0	0.0
CFO	**22.4**	**23.5**	**(8.9)**	**38.2**	**41.9**
Capex	(4.3)	(1.8)	(65.0)	(5.0)	(4.0)
Others	(7.9)	52.7	0.0	0.0	0.0
CFI	**(12.1)**	**50.8**	**(65.0)**	**(5.0)**	**(4.0)**
Net Borrowing/Rpmt	1.7	(3.4)	40.0	(5.0)	(4.0)
Dividend Paid	(6.0)	(13.8)	(12.0)	(12.0)	(13.2)
Others	1.6	(3.6)	0.0	0.0	0.0
CFF	**(2.7)**	**(20.9)**	**28.0**	**(17.0)**	**(17.2)**

Key Assumptions (RM'n	**2015**	**2016**	**2017F**	**2018F**	**2019F**
Project revenue	208.7	141.8	189.6	191.1	189.7
Retail sales	64.8	55.0	63.0	64.8	66.8
New projects secured	-	-	194	193	215
New bids	-	-	350	400	400

Balance Sheet (RM'mn)					
FYE June	**2015**	**2016**	**2017F**	**2018F**	**2019F**
PPE	49.3	36.3	97.0	96.2	94.4
Investment properties	35.9	35.6	35.6	35.6	35.6
Others	2.3	3.5	3.5	3.5	3.5
LT Assets	87.5	75.5	136.1	135.3	133.5
Inventories	17.6	17.0	26.1	24.6	23.9
Trade & other receivables	71.6	62.7	89.5	90.5	90.7
Cash & Cash equivalent	47.2	93.3	47.4	63.7	84.4
Others	38.8	42.2	42.2	42.2	42.2
ST Assets	**175.2**	**215.3**	**205.2**	**221.0**	**241.2**
Total Assets	**262.7**	**290.8**	**341.3**	**356.2**	**374.7**
Trade and other payables	49.0	55.3	54.7	54.8	54.1
ST Borrowings	3.3	3.7	3.7	3.7	3.7
Others	37.7	42.6	42.6	42.6	42.6
ST Liabilities	**90.1**	**101.5**	**100.9**	**101.0**	**100.4**
LT Borrowings	20.6	21.2	61.2	56.2	52.2
Others	2.9	2.9	2.9	2.9	2.9
LT Liabilities	**23.5**	**24.1**	**64.1**	**59.1**	**55.1**
Share Cap	60.0	60.1	60.1	60.1	60.1
Reserves	84.8	100.6	110.8	129.4	151.1
Shareholder's Funds	**144.8**	**160.7**	**170.9**	**189.5**	**211.2**
MI	4.3	4.5	5.4	6.7	8.1
Liabilities + Equities	**262.7**	**290.8**	**341.3**	**356.2**	**374.7**

Ratios	**2015**	**2016**	**2017F**	**2018F**	**2019F**
EPS Growth (%)	52.0	(32.8)	(9.3)	37.6	13.5
PER (x)*	6.1	9.1	10.0	7.3	6.4
Div Yield (%)*	5.4	12.9	5.4	5.4	5.9
Net cash (RMm)	23.2	68.5	(17.4)	3.8	28.5
Net gearing (x)	Net cash	Net cash	0.1	Net cash	Net cash
ROE (%)	27.5	15.9	13.4	17.0	17.4
ROA (%)	15.0	8.8	7.0	8.8	9.5
NTA (RM)*	0.60	0.67	0.71	0.79	0.88
P/NTA (x)*	1.5	1.4	1.3	1.2	1.1
EV/EBITDA (x)	3.6	3.6	6.3	4.2	3.5

** Based on outstanding shares of 240mn after the proposed share split of 1 into 2 shares*

Stock Recommendation Guideline

BUY : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.
Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

for TA SECURITIES HOLDINGS BERHAD(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research