

7 August 2018

Consumer Non-cyclical | Education

MindChamps Preschool

Buy (Maintained)

Target Price: SGD1.00

Price: SGD0.67

Market Cap: USD118m

Bloomberg Ticker: MCHAMPS SP

More Acquisitions To Come

Maintain BUY with TP under review pending a call with management later today. 2Q18 results announced yesterday evening missed. Although 2Q18 PATMI surged 83% YoY, 1H18 results represented only 21% of our full-year estimate compared to 1H17 results that accounted for 29% of FY17 recurring PATMI. We think there is potential for catch-up in 2H18, given MindChamps has completed the acquisition of four Australian preschools in Jun and Jul 2018. It also announced the acquisition of another two preschools in Australia, which is expected to have a positive impact to FY18F earnings.

MindChamps released 2Q18 results yesterday evening. Highlights are:

- Remarkable earnings growth.** 2Q18 revenue grew 60% to SGD7.6m while PATMI surged 83% to SGD1.3m. This was largely attributed to the consolidation of four Australian preschools acquired in Nov 2017. However, we had expected much stronger results from both Singapore and Australia operations.
- EBITDA from Singapore company-owned-company-operated (COCO) preschools fell 4%.** Although 2Q18 revenue from Singapore COCO segment grew 13%, EBITDA margin fell 4.8ppts YoY, leading to a 4% decline in EBITDA. The increase in cost is in part due to higher professional fees, and also marketing expense for new overseas business – parked under this segment.
- EBITDA from Australia COCO preschools also missed.** Based on the IPO prospectus, the four Australian preschools generated sales of SGD3.5m and EBITDA of SGD1.5m in 1H17, prior to MindChamps' acquisition. However, as at 1H18, revenue stood at SGD3.2m (-8% YoY) while EBITDA was down 33% YoY to SGD1m.
- Potential for catch-up in 2H18.** Although 1H18 results represented only 21% of our full-year estimate, this is not significantly different from 2017's trend, where 1H17 constituted 29% of FY17 recurring PATMI. We think there is potential for earnings to catch-up in 2H18, with the quarterly improvement in enrolment. We note that 2Q18 Australia COCO preschools' EBITDA margins rose to 44% from 16% in 1Q18. Moreover, with the completion of the acquisitions of another four Australian preschools in mid-June and end-July as well as another two preschool acquisitions in the pipeline, 2H18 PATMI should be stronger than 1H18.

We are reviewing our earnings forecast and TP. More details would be unveiled after our call with management. Our current TP is SGD1.00.

2Q18 results summary

(SGD m)	2Q18	1Q18	QoQ (%)	2Q17	YoY (%)	Comments
Revenue	7.6	6.0	27.3	4.8	60.3	YoY increase is mainly attributed to the consolidation of four Australia preschools acquired in Nov 2017. QoQ improvement was due to seasonal increment in enrolment rates.
Gross profit	4.9	3.4	42.7	2.7	78.0	
Gross margin (%)	63.9	63.9		57.5		
Operating profits	1.5	0.7	>100	0.8	92.1	Australian schools generated higher margins.
Op margin (%)	20.1	20.1		16.7		
PATMI	1.3	0.3	>200	0.7	83.4	
Net margin (%)	16.5	16.5		14.4		

Source: Company data, RHB

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	18.4	22.8	33.3	41.5	47.2
Reported net profit (SGDm)	5.4	4.6	7.6	9.9	11.6
Recurring net profit (SGDm)	5.4	5.1	7.6	9.9	11.6
Recurring net profit growth (%)		(5.9)	49.1	30.6	17.2
Recurring EPS (SGD)	0.03	0.02	0.03	0.04	0.05
DPS (SGD)	0.02	na	0.01	0.01	0.02
Recurring P/E (x)	22.4	31.9	21.4	16.4	14.0
P/B (x)	43.5	2.9	2.6	2.3	2.1
P/CF (x)	30.2	29.3	15.5	15.1	12.6
Dividend Yield (%)	3.1	na	1.1	1.9	2.4
EV/EBITDA (x)	17.3	17.0	10.6	8.1	6.8
Return on average equity (%)		15.1	12.7	15.0	15.8
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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