

27 November 2018

Consumer Non-cyclical | Commercial Services

## Neo Group

### Stretched Balance Sheet a Key Concern

We are ceasing coverage on Neo Group due to low interest and trading liquidity of the stock. Our last recommendation was NEUTRAL with a TP of SGD0.64. As the group continues to embark on an acquisition spree, we view the high net gearing ratio of >1.9x as worrisome amidst the rising interest rate environment. We note that the new acquisitions could take more time to turn around and ramp up, while the high interest cost erodes the earnings of its core catering brands.

**Founded in 1992, Neo Group is the leading social events food caterer in Singapore.** Its core brands include Neo Garden, Orange Clove and Deli Hub. In recent years, it further ventured into food manufacturing and food trading & supplies through the acquisition of Thong Siek, CT Vegetables and U Market, amongst others.

**Unstoppable expansion...** On top of the above acquisitions for greater vertical integration, the group continues to expand aggressively in the catering space. It established new catering subsidiaries including *Gourmetz*, *Kim Paradise* and *Savoury Catering* to cater to the childcare segment and *Tingkat* business. This year it also acquired *Lavish Dine* and *How Catering*, with the former providing high-end catering and the latter, to service the corporate/public sector.

**... but at a high cost.** The group's high net gearing ratio stood at 1.9x as at 30 Sep 2018 and net current liability position remains a tall concern. In FY18, finance cost eroded 43% of EBIT. We note that the group is taking active steps to cut down on low margin business to improve on profitability and turn around new businesses. However if the group continues its acquisition spree through increased borrowings, we see more downside pressure on future earnings.

Target Price: N/A  
Price: SGD0.44  
Market Cap: USD46.7m  
Bloomberg Ticker: NGL SP

#### Share Data

Avg Daily Turnover (SGD/USD) 0m/0m  
52-wk Price low/high (SGD) 0.72 - 0.38  
Free Float (%) 17.8  
Shares outstanding (m) 147  
Estimated Return N/A

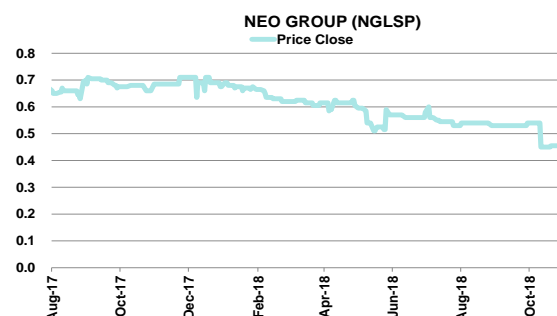
#### Shareholders (%)

Kah Kiat Neo 68.6  
Oi Peng Liew 5.5  
Kwang Boon Lee 3.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(38.7)	(3.3)	(19.4)	(19.4)	(36.5)
Relative	(29.6)	(7.4)	(15.7)	(7.5)	(26.4)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Mar-16	Mar-17	Mar-18	Mar 19F	Mar 20F
Total turnover (SGDm)	125.4	162.0	178.2	177.4	183.1
Reported net profit (SGDm)	3.3	3.4	3.9	3.8	3.6
Recurring net profit (SGDm)	3.9	3.4	3.9	3.8	3.6
Recurring net profit growth (%)	100.6	(13.4)	16.1	(4.1)	(4.5)
Recurring EPS (SGD)	0.03	0.02	0.03	0.03	0.02
DPS (SGD)	0.01	0.01	0.01	0.01	0.01
Recurring P/E (x)	32.7	16.3	18.8	16.2	16.9
P/B (x)	2.1	1.9	1.8	1.7	1.6
P/CF (x)	16.6	16.8	3.7	3.7	4.2
Dividend Yield (%)	2.3	2.3	1.8	1.8	1.5
EV/EBITDA (x)	9.4	13.4	8.6	7.5	7.2
Return on average equity (%)	19.8	9.9	9.6	10.3	9.2
Net debt to equity (%)	162.4	180.0	167.9	165.5	162.2
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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