



# PSC Corporation Ltd

(PSCC SP/PSCC.SI)

## A defensive play amidst inflation

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- FY21 financials: Top-line growth.** Fuelled by the packaging segment, PSC's top line grew by 13.1% YoY in FY21. However, the overall bottom line declined by 9.7% YoY, due to lower other income and higher costs.
- Inorganic acquisitions.** In December 2021, PSC announced the acquisition of C.K.H. Food Trading Pte Ltd and 123 Mart Pte Ltd. The acquisition is effective 1 January 2022 and will open up more distribution channels for the company and is expected to drive the consumer segment revenue.
- Key revenue driver: Packaging business.** Despite the decline in the consumer segment revenue, the packaging segment revenue grew substantially, driven by higher sales volumes in both Singapore and China. The increase in average selling price from Singapore's operations also contributed to higher revenue. However, the underperformance of the consumer segment was due to the high base in 2020, as there was higher demand for essential products like rice and paper during the lockdown period in Singapore.
- We maintain PSC with a **NEUTRAL** rating but raised our target price to S\$0.45 from S\$0.42, based on an unchanged 11x P/E pegged to FY22F EPS.

Financials & Key Operating Statistics					
YE Dec (S\$'000)	2020	2021	2022F	2023F	2024F
Revenue	471,384	533,268	555,796	578,498	602,234
PATMI	33,098	29,893	31,096	32,357	33,702
EPS (cents)	4.02	3.54	3.75	3.98	4.22
EPS growth (%)	267.3	(12.0)	6.1	6.1	6.1
P/E (x)	9.95	11.31	10.66	10.05	9.47
DPS (Sing cents)	0.5	0.8	0.8	0.8	0.9
Div Yield (Y%)	1.3%	1.9%	2.0%	2.1%	2.2%
Net Profit Margin (%)	7.0%	5.6%	5.6%	5.6%	5.6%
Net Gearing (%)	(28.0%)	(30.3%)	(36.7%)	(42.6%)	(48.0%)
P/B (x)	0.61	0.56	0.53	0.49	0.46
ROE (%)	7.7%	6.3%	6.4%	6.4%	6.5%

Source: Company data, KGI Research

**FY21 financials review.** PSC's revenue jumped by 13.1% YoY to S\$533.3mn in FY21, however, net profit after tax declined by 9.7% YoY to S\$29.9mn. This was due mainly to a decrease in the one-off government grants and higher expenses such as labour costs. FY21 gross profit margin stood at 21.2%, a decrease of 2.1 percentage points compared to the previous period. Meanwhile, the net profit margin declined from 7% in FY20 to 5.6% in FY21.

**Inorganic acquisitions to spur growth.** In December 2021, PSC announced the acquisition of 40,000 ordinary shares or 80% of the issued and paid-up share capital of C.K.H. Food Trading Pte Ltd and 123 Mart Pte Ltd for a total consideration of S\$3.3mn. The acquisition is effective 1 January 2022. C.K.H. is a leading food distributor which supplies a wide variety of food products close to 1,500 establishments including wholesalers and e-commerce platforms such as Shopee, Lazada and Qoo10. Meanwhile, 123 Mart is a budget-friendly grocery minimart.

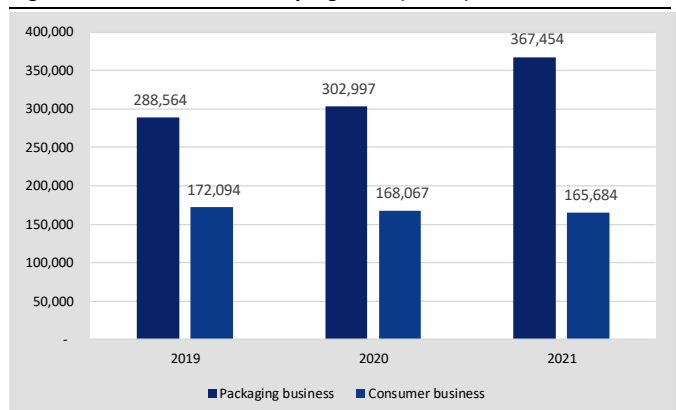
### Company Update: Neutral

Price as of 6 May 22 (SGD)	0.40	<b>Performance (Absolute)</b>	
12M TP (\$)	0.45	1 Month (%)	0.0
Previous TP (\$)	0.42	3 Month (%)	0.0
Upside, incl div (%)	5.2%	12 Month (%)	-11.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	221		
Issued Shares (mn)	553		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	33.5%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Goi Seng Hui	29.8%	5-Oct-21	S\$0.42
Violet Profit Holdings Ltd	24.2%		
Sin Huat Company Ltd	12.3%		

PSC's acquisition of C.K.H and 123 Mart will expand the company's distribution channels, improve economies of scale and overall bring synergy to the business.

**Packaging business outlook.** PSC's packaging business is the main growth driver of the company and revenue grew 21.3% YoY to S\$367.4mn in FY21. Packaging business made up 62.6%/64.3%/68.9% of total revenue in FY19/20/21, commanding a greater share of revenue YoY and offsetting the decrease in revenue from the consumer segment.

Figure 1: Revenue breakdown by segments (S\$'000)



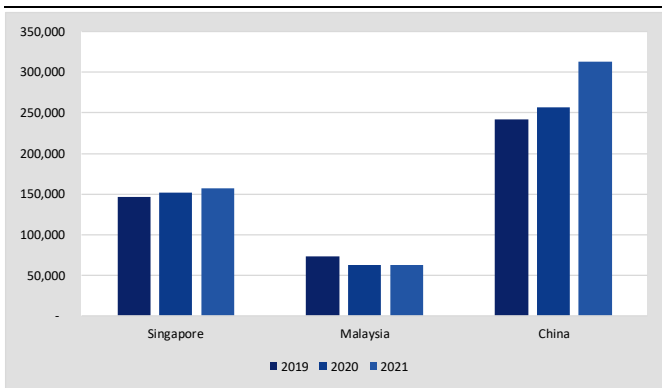
Source: Company, KGI Research

- Valuation & Action:** We maintain PSC with a **NEUTRAL** rating but raised our target price to S\$0.45 from S\$0.42, based on an unchanged 11x P/E pegged to FY22F EPS.
- Risks:** Downward pressure on margins due to higher costs; Slowdown of China's economic activities.

**China’s slowdown in economic growth is a potential headwind.** China accounted for approximately 52% to 59% of total revenue over the past three years, and Singapore was the next revenue contributor. China’s 1Q22 GDP expanded by 4.8% YoY. The better-than-expected performance is owing to the country’s strong fundamentals – industrial production, consumption growth, construction activity, fixed asset investment, and foreign direct investments. However, lockdowns in major cities such as Shanghai are taking an increasing toll on the economy, which is expected to eat into 2Q22 growth, challenging Beijing’s already ambitious growth target of around 5.5% this year.

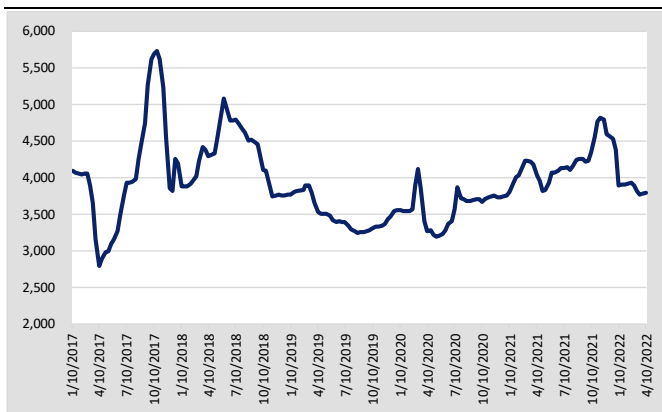
In addition, the market price of corrugated paper has started to decline since 1Q22, erasing most of its gains in 2021. Lockdowns, supply-chain disruptions, and logistic delays led to the overall decline in consumer consumption and e-commerce sales as consumers turned to necessities.

**Figure 2: Revenue breakdown by countries (S\$'000)**



Source: Bloomberg, KGI Research

**Figure 3: China Market Price of Corrugated Paper Index (CEFWCPAP)**



Source: Bloomberg, KGI Research

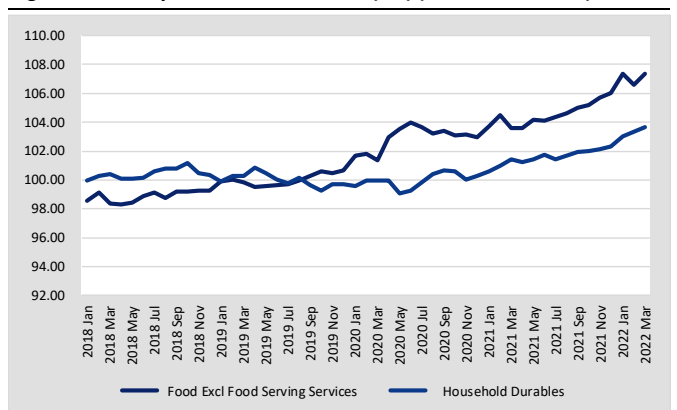
**Singapore’s surge in CPI.** Consumer prices in Singapore saw a spike in March 2022 on the back of higher food, services, and private transport costs. Core inflation rose to a 10-year high of 2.9% YoY in March, up from 2.2% in February. Meanwhile, food inflation rose by 3.3% in March, compared to 2.3% in the previous month, as the prices of both non-cooked food and food services increased at a faster pace.

Sharply higher global commodity prices and renewed supply disruptions because of both the Russia-Ukraine crisis and the regional pandemic situation are adding to pre-existing global inflationary pressures. Against this backdrop, the consumer price in Singapore is expected to increase and remain elevated for some time. Consumer prices in Singapore are set to rise further as businesses will pass on accumulating costs to customers.

Being able to pass on rising costs to customers will only ensure the stability of the consumer segment’s gross margins. However, the bottom line will likely still face headwinds moving forward as inflationary pressures such as rising wages, distribution costs and other expenses will impact the net profit. From the latest set of financial results, the net margin in FY21 stood at 5.7%, as compared to 7.1% in FY20. Revenue also dropped slightly by 1.4% YoY in FY21.

**Overall growth bolstered by the packaging segment.** On a positive note, however, the overall bottom line is still expected to grow due to a higher sales mix contribution from the packaging segment which historically has higher net margins. Packaging segment’s net margin was 8.4% in FY21, compared to 9.9% in FY20. The consumer segment’s revenue is expected to grow in FY22, driven by the economies of scale from the recent acquisition of C.K.H. Food Trading Pte Ltd and 123 Mart Pte Ltd.

**Figure 4: Monthly Consumer Price Index (CPI) (2019 As Base Year)**



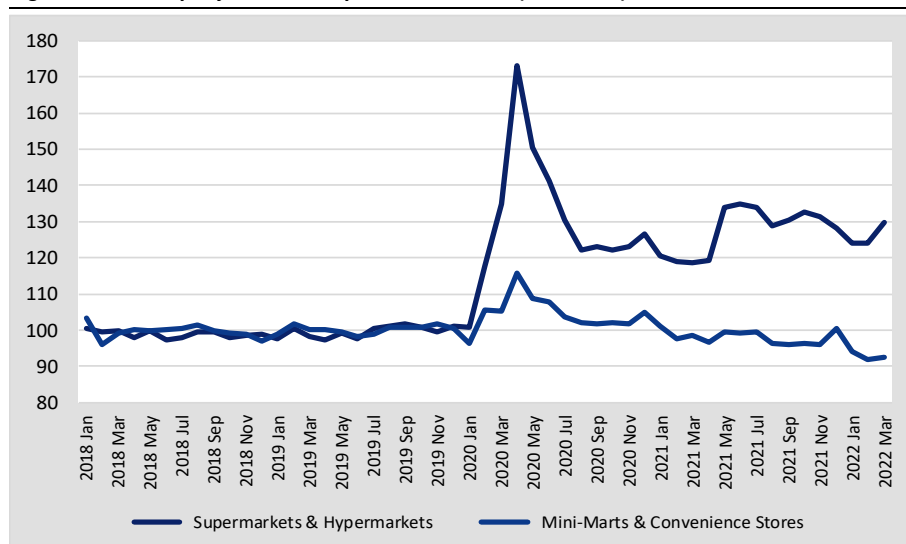
Source: Singapore Department of Statistics, KGI Research

**Stable outlook.** We expect the consumer segment revenue to grow by 2.5% YoY in FY22, mainly driven by the acquisition of C.K.H. Food Trading Pte Ltd and 123 Mart Pte Ltd. The forecast is relatively conservative as livelihood is normalizing back to pre-pandemic levels and consumption of consumer goods will likely be less robust compared to a high base in 2020. Singapore has lifted almost all dining and cross-border restrictions and as such, the demand for household consumer goods will likely plateau. The Retail Sales Index in 1Q22 remained relatively higher compared to pre-covid levels, even though correcting significantly from the high base in 2020. Moving forward, inflationary pressures from higher food costs, packaging and logistics will likely be the driving factors for higher upstream prices. Higher average selling prices are expected to buoy the overall top line for the consumer segment.

For the packaging segment, we maintain the same 5% YoY top-line growth rate as our previous forecast, which is a conservative estimate compared to the 21.3% YoY growth in FY21, considering the possible headwinds which the company will face moving forward.

Gross profit margin is adjusted downwards to 21.2% for FY22 and beyond, in line with FY21 actual results.

**Figure 5: Seasonally Adjusted Monthly Retail Sales Index (2017 = 100)**



Source: Singapore Department of Statistics, KGI Research

**Figure 6: Comparison of previous and revised forecasts**

S\$'000	2021 Previous Forecast	2021 Actual	2022 Previous Forecast	2022 Revised Forecast
Consumer business	163,866	165,684	165,504	169,826
Packaging business	351,476	367,454	369,050	385,827
Others	263	130	265	143
<b>Revenue</b>	<b>515,605</b>	<b>533,268</b>	<b>534,820</b>	<b>555,796</b>
Cost of sales	(400,625)	(420,042)	(415,555)	(437,787)
<b>Gross Profit</b>	<b>114,980</b>	<b>113,226</b>	<b>119,265</b>	<b>118,009</b>
Profit after tax	29,829	29,893	31,143	31,096
NCI	(9,782)	(10,327)	(10,213)	(10,327)
<b>PATMI</b>	<b>20,047</b>	<b>19,566</b>	<b>20,930</b>	<b>20,769</b>

Source: Company, KGI Research

**Financials**

FYE 31 December					
<b>INCOME STATEMENT (S\$'000)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Revenues</b>	<b>471,384</b>	<b>533,268</b>	<b>555,796</b>	<b>578,498</b>	<b>602,234</b>
Cost of sales	(361,760)	(420,042)	(437,787)	(455,669)	(474,365)
<b>Gross Profit</b>	<b>109,624</b>	<b>113,226</b>	<b>118,009</b>	<b>122,829</b>	<b>127,869</b>
Other income	6,052	5,607	5,844	6,083	6,332
Distribution expenses	(42,400)	(45,639)	(47,567)	(49,510)	(51,541)
Administrative expenses	(31,001)	(32,466)	(33,838)	(35,220)	(36,665)
Impairment of trade and other receivables	(634)	(852)	(888)	(924)	(962)
Other expenses	(227)	(1,249)	(1,302)	(1,355)	(1,411)
<b>Profit from operation</b>	<b>41,414</b>	<b>38,627</b>	<b>40,259</b>	<b>41,903</b>	<b>43,623</b>
Finance expenses	(1,174)	(1,082)	(1,203)	(1,263)	(1,293)
<b>Profit before income tax</b>	<b>40,240</b>	<b>37,545</b>	<b>39,056</b>	<b>40,640</b>	<b>42,329</b>
Income tax expense	(7,142)	(7,652)	(7,960)	(8,283)	(8,627)
<b>Profit</b>	<b>33,098</b>	<b>29,893</b>	<b>31,096</b>	<b>32,357</b>	<b>33,702</b>
NCI	(10,855)	(10,327)	(10,327)	(10,327)	(10,327)
PATMI	22,243	19,566	20,769	22,030	23,375
<b>BALANCE SHEET (S\$'000)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Cash and cash equivalents	163,987	203,230	247,685	288,791	328,973
Trade and other receivables	132,587	145,952	145,952	145,952	145,952
Inventories	52,697	63,809	63,809	63,809	63,809
Other current assets	1,252	947	947	947	947
<b>Total current assets</b>	<b>350,523</b>	<b>413,938</b>	<b>458,393</b>	<b>499,499</b>	<b>539,681</b>
Property, plant and equipment	162,230	159,095	150,737	142,038	132,982
Intangible assets	1,106	1,157	1,157	1,157	1,157
Investment properties	11,525	678	642	604	564
Other non-current assets	3,544	3,774	3,774	3,774	3,774
<b>Total non-current assets</b>	<b>178,405</b>	<b>164,704</b>	<b>156,310</b>	<b>147,573</b>	<b>138,477</b>
<b>Total assets</b>	<b>528,928</b>	<b>578,642</b>	<b>614,703</b>	<b>647,072</b>	<b>678,158</b>
Trade and other payables	73,242	72,894	72,894	72,894	72,894
Lease liabilities	2,688	1,771	1,771	1,771	1,771
Loans and borrowings	51,838	80,204	89,575	94,260	96,602
Other current liabilities	2,615	3,770	3,770	3,770	3,770
<b>Total current liabilities</b>	<b>130,383</b>	<b>158,639</b>	<b>168,010</b>	<b>172,695</b>	<b>175,037</b>
Lease liabilities	17,045	15,487	15,487	15,487	15,487
Loans and borrowings	10,244	3,815	3,815	3,815	3,815
Other non-current liabilities	7,171	7,298	7,298	7,298	7,298
<b>Total non-current liabilities</b>	<b>34,460</b>	<b>26,600</b>	<b>26,600</b>	<b>26,600</b>	<b>26,600</b>
<b>Total liabilities</b>	<b>164,843</b>	<b>185,239</b>	<b>194,610</b>	<b>199,295</b>	<b>201,637</b>
Unitholders' funds and reserves	364,085	393,403	420,093	447,777	476,521
<b>Total liabilities and equity</b>	<b>528,928</b>	<b>578,642</b>	<b>614,703</b>	<b>647,072</b>	<b>678,158</b>
<b>CASH FLOW STATEMENT (S\$'000)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Profit before tax</b>	<b>40,240</b>	<b>37,545</b>	<b>39,056</b>	<b>40,640</b>	<b>42,329</b>
Adjustments	14,894	14,198	17,934	18,678	19,422
<b>Operating cash flows before WC changes</b>	<b>55,134</b>	<b>51,743</b>	<b>56,990</b>	<b>59,318</b>	<b>61,752</b>
Changes in working capital	(8,775)	(20,800)	-	-	-
Income tax paid	(4,770)	(6,490)	(7,960)	(8,283)	(8,627)
<b>Cash flows from operations</b>	<b>41,589</b>	<b>24,453</b>	<b>49,030</b>	<b>51,035</b>	<b>53,125</b>
Capital expenditure	1,412	2,090	-	-	-
Others	(7,418)	2,940	(8,337)	(8,677)	(9,034)
<b>Cash flows from investing</b>	<b>(6,006)</b>	<b>5,030</b>	<b>(8,337)</b>	<b>(8,677)</b>	<b>(9,034)</b>
Lease payments	(2,256)	(2,192)	(1,203)	(1,263)	(1,293)
Dividends paid	(2,517)	(6,134)	(4,406)	(4,673)	(4,959)
Interest paid	(2,628)	(2,703)	-	-	-
Other financing cashflow	(282)	15,150	9,371	4,685	2,343
<b>Cash flows from financing</b>	<b>(7,683)</b>	<b>4,121</b>	<b>3,762</b>	<b>(1,251)</b>	<b>(3,909)</b>
<b>Net increase in cash</b>	<b>27,900</b>	<b>33,604</b>	<b>44,455</b>	<b>41,106</b>	<b>40,182</b>
Beginning Cash	121,990	152,321	187,372	231,827	272,933
<b>Ending cash</b>	<b>152,321</b>	<b>187,372</b>	<b>231,827</b>	<b>272,933</b>	<b>313,115</b>
<b>KEY RATIOS</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
DPS (SGD cents)	0.5	0.8	0.8	0.8	0.9
Dividend yield (%)	1.3	1.9	2.0	2.1	2.2
NAV per share (SGD cents)	0.7	0.7	0.8	0.8	0.9
Price/NAV (x)	0.6	0.6	0.5	0.5	0.5
<b>Profitability</b>					
Gross Margin (%)	23.3	21.2	21.2	21.2	21.2
Net Margin (%)	7.0	5.6	5.6	5.6	5.6
ROA (%)	4.2	3.4	3.4	3.4	3.4
ROE (%)	7.7	6.3	6.4	6.4	6.5
<b>Financial Structure</b>					
Interest Coverage Ratio (x)	35.3	35.7	33.5	33.2	33.7
Gearing Ratio (%)	(28.0)	(30.3)	(36.7)	(42.6)	(48.0)

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<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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