



# MindChamps

## (MCHAMPS SP/CNE.SI)

### BUY - MAINTAIN

Price as of 11 May 2018	0.80
12M target price (S\$)	0.86
Previous target price (S\$)	na
Upside, incl. div (%)	8.0

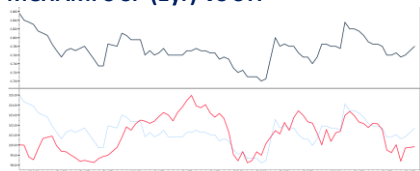
### Trading data

Mkt Cap (S\$m) / (US\$m)	193 / 142
Issued Shares (m)	242
Ave Daily Traded (3-Month) Vol / Val	0.2m / \$0.2m
52 week lo / hi	\$0.70 / \$0.99
Free Float	26.9%

### Major Shareholders

MindChamps Holdings	51.7%
Singapore Press Holding	20.0%

### MCHAMPS SP (1yr) VS STI



Source: Bloomberg

## China Expansion Nearing

### Event

**1Q18 Results.** Mindchamps reported 1Q18 net profits of S\$319,000 (-57% YoY), below our estimates of S\$1.1m. Revenues rose 36% YoY to S\$6m but higher operating costs (Cost of Sales +42% YoY, Administrative Expenses +63% YoY) from an increase in the number of centres and overseas expansion staff costs dragged net profits lower.

### Impact

**Seasonality.** The firm's businesses typically experience seasonal changes in student enrolments with student numbers being the lowest during Q1 of each calendar year due to the graduation of Kindergarten 2 students. Due to seasonality, we expect profit margins to recover as new students replace the graduated K2 students in the coming quarters.

**Lower Operating Profits.** YoY, operating profits dropped 17.8% to S\$656,000 due to an increase in administrative expenses. Administrative costs as a percentage of revenue rose to 57.4% from 47.8% in 2Q17, driven by the group hiring more people to support its overseas expansion. We expect these additional administrative costs to be mitigated by an increase in student count and school fees as the firm enters the Chinese market in the coming quarters.

**China Expansion.** We believe the group's establishment of US\$50m global fund with Temasek Holdings to be supportive for its China Expansion as the money could be used to invest into the China Preschool Fund. We look forward to the closing of the China Preschool Fund and a launch of preschools in China this coming August.

### Valuation & Action

We maintain a BUY on MindChamps with a target price of \$0.86, which implies a 23.2x 2018F EPS. Our forecast is based on a DCF model assuming 11.1% WACC and 3% terminal growth.

### Risks

Failure to raise enough capital for the US\$200m fund. Lacklustre reception to MindChamps brand in China, Reputation/Legal Risks.

### Financials & Key Operating Statistics

YE Dec SGD mn	2016	2017	2018F	2019F	2020F
Revenue	18.4	22.8	23.2	26.2	29.5
Operating Profit	6.3	6.3	7.7	8.6	9.6
Net Profit	5.8	4.9	7.3	8.1	9.1
P/E (x)	25.8	31.4	20.7	18.4	16.4
EPS	3.0	2.4	3.7	4.2	4.7
EPS Growth(%)	-	-18.1%	51.9%	12.6%	11.8%
GP Margin (%)	61.4%	66.3%	67.6%	66.4%	66.3%
Net Margin (%)	31.7%	21.5%	31.3%	31.1%	30.7%
Gearing (%)	50.4%	20.4%	22.6%	19.5%	19.3%
ROE (%)	140.0%	8.6%	11.9%	11.8%	11.7%

Source: Company Data, KGI Research

Marc Tan  
65 6202 1195  
marc.tan@kgi.com

See the last page for important disclosures.

## Results Comparison

**Figure 1: Results Comparison**

SGD (\$'000)	1Q2017	1Q2018	YoY (%)	Comments
Revenue	4,431	6,008	35.6	Mainly due to increased number of students after the acquisitions of 4 preschool centres in Australia in November 2017
Gross Profit	2,607	3,424	31.3	
Gross Margin (%)	58.8	57.0		
Administrative Costs	(2,117)	(3,447)	62.8	Mainly due to an increase in the number of staff to support the group's overseas business expansion
Administrative Cost/Revenue (%)	(47.8)	(57.4)		
Operating Profit	798	656	-17.8	
Operating Margin(%)	18.0	10.9		
Net Profit	747	319		

Source: Company Data, KGI Research

**Figure 2: DCF Valuation**

Valuation - DCF	2016	2017	2018F	2019F	2020F
Net Profit	5,833	4,890	7,679	8,604	9,581
Net cash flows generated from operating activities	3,990	5,513	8,474	9,114	10,188
Free Cash Flow	3,340	5,074	8,035	8,675	9,749
Terminal Growth Rate			3.00%		
WACC			11.06%		
Enterprise Value			\$128,635		
Enterprise Value - Debt + Cash (Equity Value)			\$161,061		
Weighted Average Number of Ordinary Shares			186,413		
Fair Value Per Share			0.86		
2018F EPS (Cents)			3.72		
Implied 2018F EPS			23.23		

Source: KGI Research

**Figure 3: Comparable of Regional Education Firms and Regional Early Education Firms**

Company	Last Price	Market Cap (\$\$mn)	Return on Equity (%)		P / E (x)			Div Yield (%)		Gearing (x) Current
			Last FY	FY+1	Last FY	FY+1	FY+2	Last FY	FY+1	
Mindchamps Preschool Ltd	SGD 0.80	193	8.6	11.9	31.4	20.7	18.4	0.0	1.9	0.2
<u>Regional Early Education Companies</u>										
Ryb Education Inc-Adr	USD 17.15	670	12.6	1.7	61.6	343.0	24.9	0.0	-	0.5
China Maple Leaf Educational	HKD 12.00	3,044	16.9	18.6	18.3	26.4	21.3	2.3	1.5	0.4
G8 Education Ltd	AUD 2.49	1,138	10.8	11.1	17.9	12.0	10.1	5.3	7.6	0.3
Average			13.4	10.5	32.6	127.1	18.7	2.5	4.6	0.4
<u>Regional Education Companies</u>										
Wisdom Education Internation	HKD 5.94	2,066	15.5	16.5	25.1	29.2	22.5	0.9	1.4	0.5
China Yuhua Education Corp L	HKD 4.94	2,746	18.5	16.4	21.5	25.1	20.0	3.1	2.0	0.3
Vircsend Education Co Ltd	HKD 4.61	2,425	11.8	14.2	41.6	28.6	21.0	1.0	1.3	0.4
Average			15.3	15.7	29.4	27.6	21.2	1.7	1.6	0.4
<b>Total Average (Education)</b>			<b>14.4</b>	<b>13.1</b>	<b>31.0</b>	<b>77.4</b>	<b>20.0</b>	<b>2.1</b>	<b>2.8</b>	<b>0.4</b>

Source: Bloomberg, Company Data, KGI Research

## Financials

FYE 31 December

<b>INCOME STATEMENT (SGD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Revenue	18.4	22.8	23.2	26.2	29.5
Gross Profit	12.4	15.1	15.4	17.4	19.4
<b>Operating Profit</b>	<b>6.3</b>	<b>6.3</b>	<b>7.7</b>	<b>8.6</b>	<b>9.6</b>
<b>EBITDA</b>	<b>6.8</b>	<b>7.2</b>	<b>8.9</b>	<b>9.9</b>	<b>11.0</b>
<b>Net Profit</b>	<b>5.8</b>	<b>4.9</b>	<b>7.3</b>	<b>8.1</b>	<b>9.1</b>
Total Comprehensive Income to Equity Holders	5.4	4.4	6.9	7.8	8.7
<b>BALANCE SHEET (SGD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Cash and cash equivalents	3.9	39.4	46.4	51.3	60.1
Trade and other receivables	5.4	7.9	8.1	9.1	10.3
<b>Total Non-Current Assets</b>	<b>6.6</b>	<b>23.8</b>	<b>24.1</b>	<b>24.7</b>	<b>25.4</b>
<b>Total Assets</b>	<b>15.9</b>	<b>71.2</b>	<b>78.6</b>	<b>85.2</b>	<b>95.8</b>
Trade and other payables	5.2	5.0	5.2	5.8	6.6
Other current liabilities	2.6	4.7	7.8	6.0	7.0
<b>Total Non-Current Liabilities</b>	<b>3.9</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>
<b>Total Liabilities</b>	<b>8.0</b>	<b>14.5</b>	<b>17.8</b>	<b>16.6</b>	<b>18.5</b>
<b>Total Equity</b>	<b>4.2</b>	<b>56.7</b>	<b>60.8</b>	<b>68.6</b>	<b>77.4</b>
<b>CASH FLOW STATEMENT (SGD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Depreciation	0.2	0.4	0.4	0.5	0.5
Changes in working capital	(24.7)	(12.1)	(0.3)	(3.7)	(3.3)
<b>Cash from operations</b>	<b>4.0</b>	<b>5.5</b>	<b>8.5</b>	<b>9.1</b>	<b>10.2</b>
<b>Cash from investing</b>	<b>(1.7)</b>	<b>(18.9)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(1.2)</b>
Dividends paid	(5.1)	(2.5)	0.0	(2.8)	0.0
<b>Cash from financing</b>	<b>(5.3)</b>	<b>48.9</b>	<b>(0.3)</b>	<b>(3.0)</b>	<b>(0.3)</b>
<b>Net increase in cash</b>	<b>(3.0)</b>	<b>35.5</b>	<b>7.0</b>	<b>4.9</b>	<b>8.8</b>
Beginning cash	6.9	3.9	39.4	46.4	51.3
Ending cash	3.9	39.4	46.4	51.3	60.1
<b>KEY RATIOS</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
DPS (SGD cents)	0.0	0.0	1.5	0.0	0.0
Dividend yield %	0.00%	0.00%	1.93%	0.00%	0.00%
NAV per share (SGD cents)	2.3	30.4	32.6	36.8	41.5
PE(x)	25.8	31.4	20.7	18.4	16.4
<b>Profitability (%)</b>					
GP Margin	61.4%	66.3%	67.6%	66.4%	66.3%
Net Margin	31.7%	21.5%	31.3%	31.1%	30.7%
ROE	140.0%	8.6%	11.9%	11.8%	11.7%
ROA	36.6%	6.9%	9.2%	9.5%	9.5%
<b>Financial Structure (x)</b>					
Total Liabilities/Total Assets	0.5	0.2	0.2	0.2	0.2
Quick Ratio	1.2	4.9	4.2	5.1	5.2

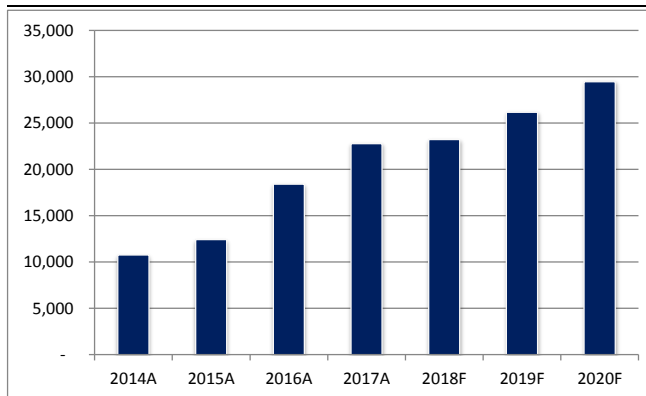
Source: Company Data, KGI Research

**Figure 4: Company profile**

Mindchamps is Singapore’s largest operator and franchisor of premium range preschool centres. It is the only preschool operator globally to nurture children with and own intellectual property on the Champion Mindset, a unique curriculum backed by over a decade of research and development in early childhood education, neuroscience, child psychology and theatre.

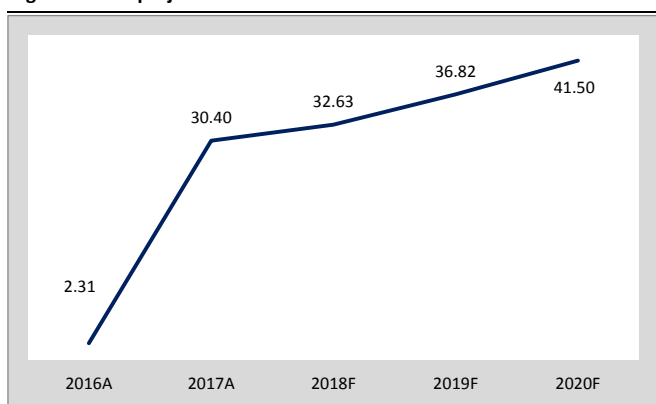
Source: Company Data

**Figure 5: Projected revenue (\$'000)**



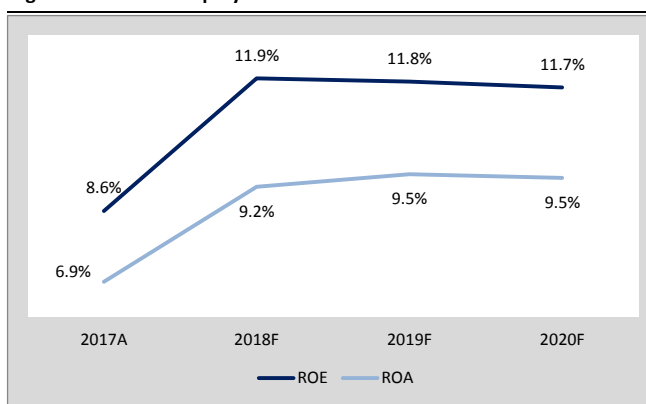
Source: Company Data, KGI Research

**Figure 6: NAV projections**



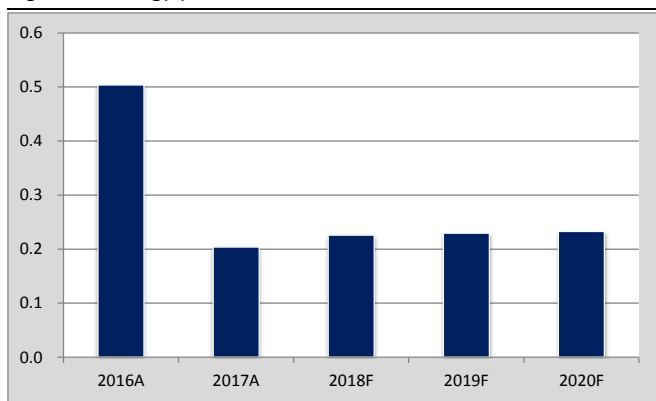
Source: Company Data, KGI Research

**Figure 7: Return on Equity vs Return on Assets**



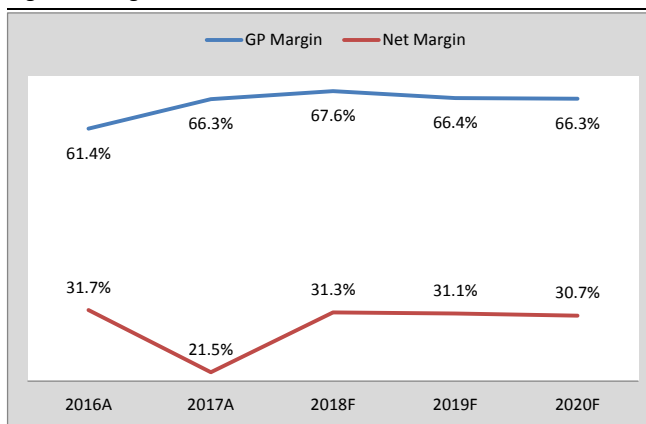
Source: Company Data, KGI Research

**Figure 8: Gearing(X)**



Source: Company Data, KGI Research

**Figure 9: Margins**



Source: Company Data, KGI Research

**KGI's Ratings**

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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