



# MindChamps

## (MCHAMPS SP/CNE.SI)

### Cease Coverage

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

- 3Q18 results.** MindChamps reported 3Q18 net profit of S\$1.2mn (+3.5% YoY) and revenue of S\$9.2mn (+74% YoY). While revenue growth was strong, higher operating costs from preparations for global expansion and set up costs drove operating margins lower to 18.4% from 24.5% in 3Q17.
- Cease Coverage.** Mindchamps' China expansion was an integral theme to our investment thesis. Recent acquisitions however, have been centred on Australia and new franchises in Asia, while updates of its China expansion continue to be muted. In light of these developments, we have decided to cease our coverage on MindChamps until further updates of its China expansion are announced.

#### Financials & Key Operating Statistics

YE Dec SGD mn	2016	2017	2018F	2019F	2020F
Revenue	18.4	22.8	30.3	36.0	42.3
Operating Profit	75.6	81.9	87.2	94.6	101.5
EBITDA	62.7	69.5	74.1	80.4	86.2
Net Profit	10.3	11.4	6.5	8.6	7.1
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%	15.2%	15.3%	15.2%
ROA	36.6%	6.9%	11.5%	12.1%	12.0%
Total Liabilities/Total Assets	50.4%	20.4%	24.8%	21.0%	20.7%
Quick Ratio	1.2	4.9	3.7	4.6	4.7
Total Assets	15.9	71.2	82.6	92.4	108.1
Total Liabilities	8.0	14.5	20.5	19.4	22.4

Source: Company Data, KGI Research

**3Q18 results dragged down by acquisition costs.** Gross margins dropped to 56.4% from 63.9% in the previous quarter and 64.6% in 2017 while operating margins dropped to 18.4% from 20.1% in the previous quarter and 24.5% in 2017. The latest acquisitions have incurred higher costs and affected profitability for the past 2 quarters but management remains confident that profitability will increase at the end of the financial year once revenues from the newly acquired centres are consolidated on a full year basis.

Figure 1: Quarterly Results Comparison

SGD (\$'000)	3Q2017	3Q2018	3Q YoY (%)	Comments
Revenue	5,271	9,172	74.0	Driven by increased number of students after acquisitions in Australia and Singapore
Gross Profit	3,404	5,177	52.1	
Gross Margin (%)	64.6	56.4		Driven by higher academic staff costs after new acquisitions
Administrative Costs	(2,293)	(4,329)	88.8	95% of the increase was due to maintenance costs from new centres and staff costs for overseas business expansion
Marketing Costs	(114)	(194)		
Administrative Cost/Revenue (%)	(43.5)	(47.2)		
Marketing Costs/Revenue (%)	(2.2)	(2.1)		
Operating Profit	1,294	1,691	30.7	
Operating Margin(%)	24.5	18.4		
Net Profit	1,128	1,167	3.5	

Source: Bloomberg, KGI Research

#### Cease Coverage

Price as of 9 Nov 18 (SGD)	0.63	<b>Performance (Absolute)</b>	
12M TP (\$)	-	1 Month (%)	0.0
Previous TP (\$)	0.86	3 Month (%)	-9.9
Upside, incl div (%)	-	12 Month (%)	-
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	152		
Issued Shares (mn)	242		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	26.9%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Mindchamps Holdings	51.7%	13-Aug-18	BUY \$0.86
Singapore Press Holdings	20.0%	-	-
-	-	-	-

**Cease Coverage.** While we expect higher profitability from the company after full-year consolidation of its latest acquisitions, our investment thesis was built around the expansion of its China business. As a result, we've decided to cease coverage on the company until new details on its China expansion are released.

**Valuation & Action:** Our last recommendation was a BUY with a TP of 0.86 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

INCOME STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Revenue	18.4	22.8	30.3	36.0	42.3
Gross Profit	12.4	15.1	20.1	23.9	27.9
<b>Operating Profit</b>	<b>6.3</b>	<b>6.3</b>	<b>10.0</b>	<b>11.8</b>	<b>13.8</b>
<b>EBITDA</b>	<b>6.8</b>	<b>7.2</b>	<b>11.4</b>	<b>13.3</b>	<b>15.4</b>
<b>Net Profit</b>	<b>5.8</b>	<b>4.9</b>	<b>9.5</b>	<b>11.2</b>	<b>13.0</b>
Total Comprehensive Income to Equity Holders	5.4	4.4	9.2	10.9	12.7
BALANCE SHEET (SGD mn)	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalents	3.9	39.4	47.9	55.0	67.8
Trade and other receivables	5.4	7.9	10.6	12.5	14.7
<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>82.6</b>	<b>92.4</b>	<b>108.1</b>
Trade and other payables	5.2	5.0	6.7	8.0	9.5
Other current liabilities	2.6	4.7	8.9	6.6	8.1
<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>20.5</b>	<b>19.4</b>	<b>22.4</b>
<b>Total Equity</b>	<b>4.2</b>	<b>56.7</b>	<b>62.2</b>	<b>73.0</b>	<b>85.7</b>
CASH FLOW STATEMENT (SGD mn)	2016A	2017A	2018F	2019F	2020F
Depreciation	0.2	0.4	0.6	0.7	0.8
Changes in working capital	(24.7)	(12.1)	(9.5)	(7.3)	(6.9)
<b>Cash from operations</b>	<b>4.0</b>	<b>5.5</b>	<b>10.0</b>	<b>12.2</b>	<b>14.2</b>
<b>Cash from investing</b>	<b>(1.7)</b>	<b>(18.9)</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>
Dividends paid	(5.1)	(2.5)	0.0	(3.7)	0.0
<b>Cash from financing</b>	<b>(5.3)</b>	<b>48.9</b>	<b>(0.4)</b>	<b>(3.9)</b>	<b>(0.3)</b>
<b>Net increase in cash</b>	<b>(3.0)</b>	<b>35.5</b>	<b>8.5</b>	<b>7.1</b>	<b>12.8</b>
Beginning cash	6.9	3.9	39.4	47.9	55.0
Ending cash	3.9	39.4	47.9	55.0	67.8
KEY RATIOS	2016A	2017A	2018F	2019F	2020F
DPS (SGD cents)	0.0	0.0	1.5	0.0	0.0
Dividend yield %	0.00%	0.00%	2.18%	0.00%	0.00%
NAV per share (SGD cents)	2.3	23.5	25.7	30.2	35.5
PE(x)	23.2	36.8	18.4	15.5	13.2
<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%	15.2%	15.3%	15.2%
ROA	36.6%	6.9%	11.5%	12.1%	12.0%
<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	3.7	4.6	4.7

Source: Company Data, KGI Research

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<b>Rating</b>	<b>Definition</b>
	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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