



## Accrelist Ltd.

## Overweight

Current Price	S\$0.060*
Fair Value	S\$0.150*
Up / (downside)	150%

\*Consolidated basis

## Stock Statistics

Market cap	S\$16.75m
52-low	S\$0.040*
52-high	S\$0.120*
Avg daily vol	1,581,134
No of share	5,582.85m
Free float	64.49%

## Key Indicators

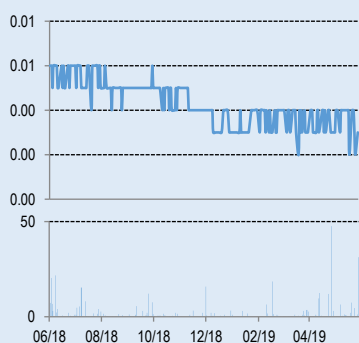
ROE 20F	5.5%
ROA 20F	2.9%
P/BV	0.41
Net gearing	23.3%

## Major Shareholders

Terence Tea	23.2%
EG Industries	5.2%

Source: Bloomberg

## Historical Chart



Source: Bloomberg

Liu Jinshu

(+65) 6236-6887  
jinshu.liu@tayronafinancial.com  
[www.tayronafinancial.com](http://www.tayronafinancial.com)

## Improved Execution Led to Higher Profitability

- Growth at the aesthetic medical business contributed positively.** Accrelist's results for FY19 ended 31 Mar 2019 demonstrated positive contribution from its newly acquired aesthetic medical business (Refresh Laser Clinics, now renamed as Accrelist Medical Aesthetics or AMA) and steady growth at its 65% owned subsidiary Jubilee Industries Holdings. Full year revenue grew by 49% year-on-year while losses attributable to shareholders narrowed to S\$71k. What's interesting is that AMA contributed S\$2.9m or 36% of group gross profit of S\$8.14m in 2H FY19, despite revenue of only S\$3.4m, thus raising the odds of a group turnaround.
- Carefully crafted and well executed strategy likely drove performance.** Before being acquired by Accrelist, AMA had revenue of only S\$1.9m and profit before tax (PBT) of S\$66k for 1H FY19 (Apr to Sep 2018). Subsequently, AMA's revenue and PBT ballooned to S\$3.4m and S\$1.09m respectively during 2H FY19 (Oct 18 to Mar 19). Growth was driven by the addition of new revenue sources such as radio frequency treatments and product sales, e.g. Korean skincare products. Previously, AMA would heavily rely on injectable treatments e.g. Botox for income. These moves and outcomes show that the acquisition of AMA was well planned with a post-acquisition strategy that has been successfully implemented.
- Targeting to double number of clinics across Singapore and Malaysia.** During 2019, AMA opened one new clinic at Clementi Mall, Singapore (SG) and shall open two clinics in Penang and Kuala Lumpur (KL), Malaysia (MY) respectively in Jun, cumulating in a network of 7 clinics in SG and MY. Plans are afoot to add another four to eight clinics, including one potential franchise outlet in Oct.
- Leveraging on Korean branding to attract consumers.** The KL clinic is a joint venture with Korean firm Ozhean Skin and Plastic Surgery Clinic. Two of Ozhean's doctors also serve as medical advisors to AMA. We envisage that AMA may continue to partner with Ozhean to also offer plastic surgery services, thus differentiating itself from other aesthetic clinics and facilitating entry into new markets.
- Trading at >50% discount from book value.** We are encouraged by AMA's performance, which has raised the outlook of the overall group. The key risk, in our view, is that Jubilee's profitability may decline after a period of high demand since end 2017. We previously valued Jubilee at S\$62.6m. In this update, we discounted our valuation of Jubilee by 50% to factor in more challenging conditions and valued AMA at 20x P/E, discounted by 15% over three years. These assumptions cumulate in a potential fair value of 0.8 cents, or 15.0 cents on a consolidated basis. Catalysts that will aid in the realization of our fair value include e.g. sustained positive profitability.

Key Financial Data (S\$ m, FYE Mar)	2017	2018	2019	2020F	2021F
Sales	0.87	112.49	167.13	190.87	214.29
Gross Profit	0.14	4.67	15.56	23.12	29.12
Profit before tax	-8.35	-0.35	0.90	3.82	7.17
Net Profit, net of non-controlling interests	-8.31	-0.31	-0.07	2.28	4.73
EPS (cents)	-0.16	-0.01	-0.00	0.04	0.08
EPS growth (%)	NM	NM	NM	NM	107%
PER (x)	NM	NM	NM	7.35	3.54
NAV/share (cents)	0.79	0.72	0.73	0.77	0.85
DPS (cents)	NM	NM	NM	NM	NM

Source: Company, Tayrona Financial

**Background of AMA.** AMA was started as Refresh Laser Clinic in December 2013. Its 100% acquisition by Accrelist was completed on 1 October 2018 for a consideration of S\$4m – S\$2m in cash and S\$2m in 250m shares of Accrelist at an issue price of S\$0.008 each. The acquisition of Refresh Laser Clinic comprised of four clinics located at Lot 1 Shoppers' Mall in Choa Chua Kang, Singpost Centre, Toa Payoh Hub and Bedok Mall respectively. A fifth clinic located at The Clementi Mall was opened after the acquisition. Services provided by AMA include botox injections, fillers, threading, skin resurfacing etc.

**Newly opened fifth clinic to add to growth in FY20.** Accrelist held the grand opening of AMA's fifth clinic at The Clementi Mall on 8 June 2019. We counted approximately 50 guests, with the lion dance performance attracting numerous onlookers.

According to the management, they endeavor to have each clinic staffed by a resident doctor who would be able to provide on-the-spot consultation. The shop unit is about 800 sq. ft. in size with four treatment rooms. We understand that each outlet will feature a similar number of treatment rooms. The rental rate is about S\$28 per sq. ft. per month. Assuming that each of AMA's outlets are of similar size and rental costs, annual rental expenses for four outlets is about S\$1.08m, and S\$1.34m for five outlets, against revenue of S\$3.4m from just four clinics during 2H FY19.

In general, the store opening and our discussions with the management suggest that AMA has an established store format and set of processes for the opening of more new stores in the future.

Figure 1: Picture of Clinic @ #04-50 of The Clementi Mall



Source: Tayrona Financial

Figure 2: Lion Dance Performance



Source: Tayrona Financial

Figure 3: In-Store Promotion for Grand Opening Day Only



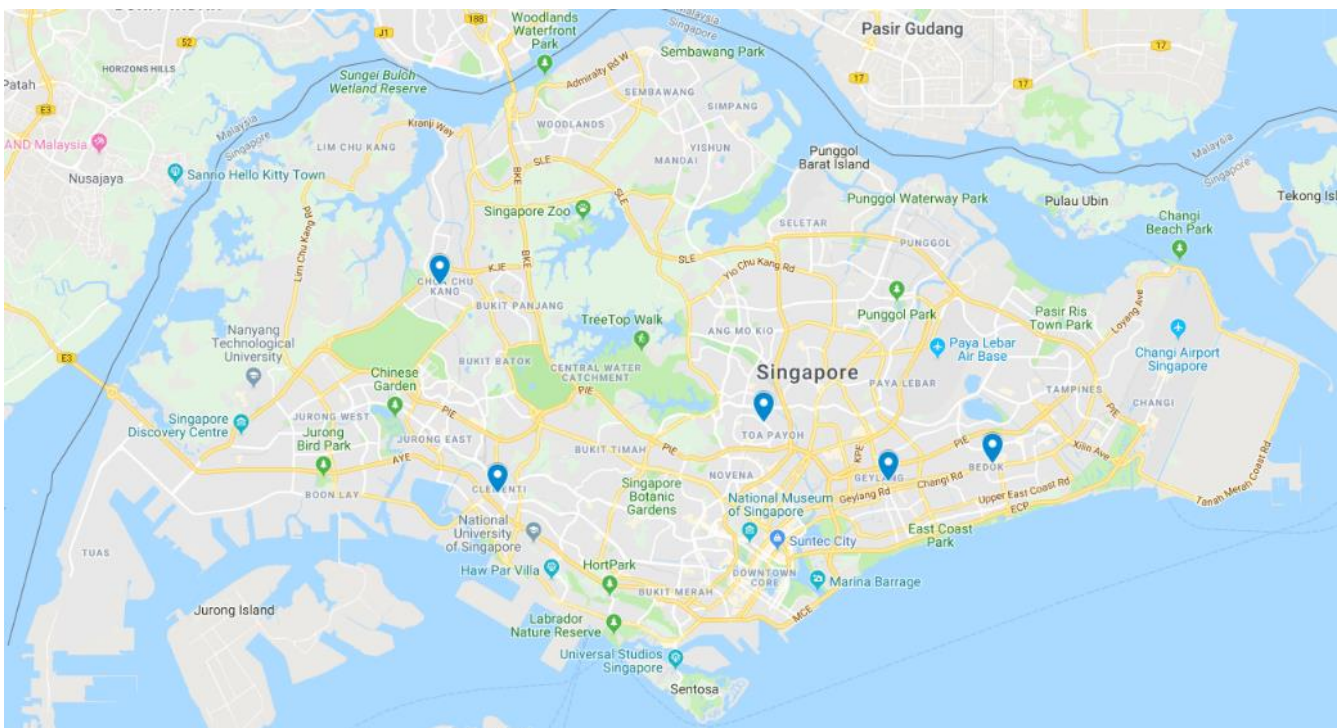
Source: Tayrona Financial

**Several new doctors joined the team in the past one year.** Based on the latest AMA presentation dated 28 May, AMA now has a team of six doctors, including Dr. Justin Tan and Dr. Nilesch who were not listed in a prior presentation conducted a year ago. Each doctor has about two to five years of experience in aesthetic medicine. Aesthetic medicine is not a specialty. However, doctors will have to obtain certificates of competence in order to provide specified treatments.

**Forming a board of medical advisors.** AMA has also formed a board of medical advisors during the past one year. Currently, there are three advisors, Dr. Jim Wong, Dr. Park Ji-Youn and Dr. Lee Yong Seok. Dr. Jim Wong is serving as AMA's Medical Development Director and Chief Trainer while Dr. Park will be based in Kuala Lumpur, Malaysia, where AMA will be opening a new clinic in June. Dr. Park is a dermatologist while Dr. Lee is a plastic surgeon. We reckon that Dr. Lee will be able to provide medical advice if AMA decides to provide plastic surgery services.

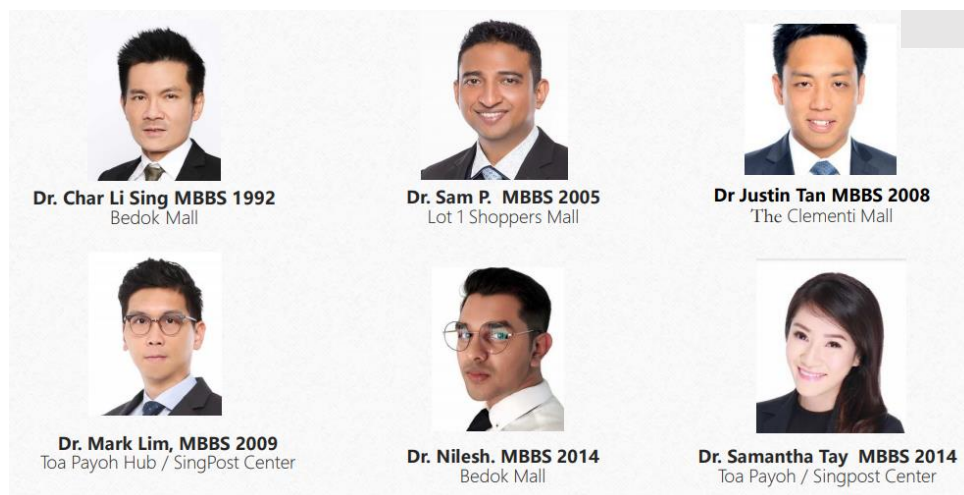
**Working with Korean doctors to differentiate itself.** Within the competitive field of aesthetic medicine, AMA's partnership with Dr. Park and Dr. Lee's Ozhean Skin and Plastic Surgery Clinic in Seoul, South Korea probably enhances the group's level of differentiation from other local aesthetic clinics.

Figure 4: Location of AMA Clinics in Singapore (Blue Markers)



Source: Company, Google Maps

Figure 5: Team of Doctors



Source: Company

Figure 6: Medical Advisors



Source: Company

Figure 7: Financial Summary of AMA

Financials 2018/19	Pre Acquisition	Post Acquisition	Full Year
	Apr - Sep 18	Oct '18 - Mar 19	FY2019
Total Income	\$ 1,883,087.86	\$ 3,388,418.52	\$ 5,271,506.38
Total COGS	\$ 377,970.48	\$ 413,366.22	\$ 791,336.70
Gross Profit	\$ 1,505,117.38	\$ 2,975,052.30	\$ 4,480,169.68
Total Expense	\$ 1,454,229.32	\$ 1,865,509.92	\$ 3,319,739.24
Net Ordinary Income	\$ 50,888.06	\$ 1,109,542.38	\$ 1,160,430.44
Net Other Income	\$ 14,963.80	\$ (22,360.60)	\$ (7,396.80)
Profit Before Tax	\$ 65,851.86	\$ 1,087,181.78	\$ 1,153,033.64

Source: Company

**Streamlining other businesses.** As for the group's other businesses, Accrelist has zoomed in on facial recognition technology as a start, taking on the role of systems integration for users to implement facial recognition technology to e.g. manage visitors.

**Valuation.** We are encouraged that Accrelist's aesthetic medicine business appears to be taking off. In turn, success in this area will justify a valuation premium on top of Accrelist's stake in Jubilee.

Barriers of entry into aesthetic medicine are lower as aesthetic medicine is not a specialty and some general practitioners do provide basic aesthetic treatments. Most general practitioners in our peer group of healthcare service providers are not profitable on a trailing 12-month basis. Raffles Medical trades at about 26 times P/E.

That said, the profitability of AMA, in terms of return on Accrelist's investment (half year PBT of S\$1.08m over an acquisition cost of S\$4m), is higher than most listed specialist healthcare companies. In turn, these companies trade at an average of 19.77x P/E. On balance, we decided to value AMA at 20 times P/E which we further discounted by 30% over three years, to factor in time required for AMA to reach significant size. In all, our valuation works out to a fair value of 0.76 cents (rounded to 0.8 cents) per share. Accrelist is proposing to consolidate every 20 existing shares into one Consolidated Share. On a consolidated basis, our estimated value is about 15.2 cents (rounded to 15.0 cents) per Consolidated Share.

**Key risks** include any potential slowdown in the business of Jubilee, which may affect the profitability of the overall group.

**Recommendation.** Accrelist currently trades at about 0.3 cents per share. Hence, our valuation suggests significant upside. That said, the group's share price may be depressed due to issues such as low liquidity and a poor track record of profitability. If the group manages to grow both AMA and Jubilee, we reckon that a share price of 0.8 cents per share can still be achieved. Maintain **Overweight** with high-risk qualification.

**Figure 8: Indicative Valuation**

	S\$m	
Valuation of Jubilee	62.58	as per last report
Accrelist share of Jubilee	40.64	@64.9%
Discount by 50%	-20.32	
<b>Estimated fair value</b>	<b>20.32</b>	Current market cap of Jubilee is S\$26.7m. Accrelist's 64.9% share is worth S\$17.35m
Estimated future value of AMA	36.09	Pretax profit of S\$1.09m x 2 x (1 - 17% tax rate) = S\$1.8m x 20x P/E = S\$36.09m
Discount back by 3 years @ 15% pa	-6.40	Assume AMA will take three years to grow
<b>Estimated fair value</b>	<b>22.16</b>	
<b>Total fair value</b>	<b>42.48</b>	20.32 + 22.16
Number of shares (millions)	5,582.8	
<b>Fair value per share (Singapore cents)</b>	<b>0.761</b>	<b>Rounded to 0.8 cents</b>
<b>Fair value per Consolidated Share (Singapore cents)</b>	<b>15.21</b>	<b>Rounded to 15 cents</b>

Source: Tayrona Financial

Figure 9: Peer Comparison

Company Name	Mkt Cap (\$m)*	Revenue (\$m)	Profit growth	ROE	Debt / Equity	P/Sales	P/E	P / EBITDA	P/B	EV / EBITDA
<b>Family medicine, general practitioners, diversified outpatient healthcare services</b>										
Raffles Medical Group Ltd	1,834.3	497.24	-3.0%	8.8%	4.1%	3.69	26.63	17.83	2.24	14.93
Thomson Medical Group Ltd	1,454.3	217.61	-58.4%	1.9%	80.3%	6.68	165.92	28.39	2.52	26.37
Healthway Medical Corp Ltd	126.8	111.11	NM	-3.8%	-4.7%	1.14	NM	NM	0.71	NM
Clearbridge Health Ltd	76.3	7.97	NM	-31.6%	0.2%	9.58	NM	NM	1.59	NM
AsiaMedic Ltd	4.7	18.83	NM	-70.7%	1.1%	0.25	NM	NM	1.07	NM
<b>Average</b>	<b>699.3</b>	<b>170.6</b>	<b>-30.7%</b>	<b>-19.1%</b>	<b>16.2%</b>	<b>4.27</b>	<b>96.3</b>	<b>23.1</b>	<b>1.6</b>	<b>20.6</b>
<b>Predominantly dental services</b>										
Q&M Dental Group Singapore Ltd	388.9	121.10	-46.6%	11.2%	70.1%	3.21	29.70	16.83	3.38	18.07
Aoxin Q & M Dental Group Ltd	72.5	23.93	NM	-2.2%	7.3%	3.03	NM	62.23	1.49	65.27
New Silkroutes Group Ltd	54.2	473.17	NM	-7.7%	4.5%	0.11	NM	84.81	0.80	49.76
<b>Average</b>	<b>171.9</b>	<b>206.07</b>	<b>-46.6%</b>	<b>0.5%</b>	<b>27.3%</b>	<b>2.12</b>	<b>29.70</b>	<b>54.63</b>	<b>1.89</b>	<b>44.36</b>
<b>Specialists</b>										
Talkmed Group Ltd	696.6	66.18	5.8%	38.4%	-92.8%	10.52	22.83	18.89	8.57	16.88
Singapore Medical Group Ltd	185.3	87.43	17.2%	10.0%	13.9%	2.12	15.08	8.98	1.38	3.71
Singapore O&G Ltd	171.6	35.21	-2.4%	18.9%	-45.9%	4.87	19.59	12.11	3.68	8.90
ISEC Healthcare Ltd	165.0	40.13	2.1%	12.4%	-33.6%	4.11	19.36	12.37	2.39	10.71
HC Surgical Specialists Ltd	82.6	17.09	85.1%	43.5%	-13.9%	4.83	10.58	8.13	4.07	7.90
Asian Healthcare Specialists Ltd	75.0	11.16	40.3%	18.2%	-50.2%	6.72	31.18	26.20	3.14	18.22
<b>Average</b>	<b>229.4</b>	<b>42.87</b>	<b>24.7%</b>	<b>23.6%</b>	<b>-37.1%</b>	<b>5.53</b>	<b>19.77</b>	<b>14.45</b>	<b>3.87</b>	<b>11.05</b>

\*As at 30 May 2019. Revenue = Trailing 12-month sales. Profit growth = year-on-year change in trailing 12-month profit or loss attributable to shareholders. ROE = return on average common equity. Debt/Equity = Net cash divided by common equity. P/Sales, P/E, P/EBITDA and EV/EBITDA are based on trailing 12-month data. Enterprise value excludes goodwill and intangible assets. Net debt includes lease liabilities arising from right-of-use assets.

Source: Bloomberg, Tayrona Financial

Figure 10: Financial Summary of Accrelist, Jubilee and Other Businesses

S\$m (Y/E March)	1H18	2H18	1H19	2H19	FY18	FY19
<b>Accrelist</b>						
Revenue	40.01	72.48	88.41	78.72	112.49	167.13
Gross profit	3.27	1.39	7.42	8.14	4.67	15.56
Other income and other charges	-3.38	8.87	-0.36	2.48	5.49	2.12
Marketing and distribution expenses	-0.26	-0.77	-0.84	-0.81	-1.03	-1.65
Administrative expenses	-2.49	-6.42	-5.87	-8.18	-8.91	-14.05
Finance costs	-0.27	-0.60	-0.58	-0.95	-0.87	-1.53
Share of profit of associated company	0.33	-0.03	0.27	0.18	0.30	0.45
Profit before tax	-2.80	2.44	0.04	0.85	-0.35	0.89
Income tax expense	0.00	0.54	-0.03	-0.21	0.54	-0.24
Profit after tax	-2.80	2.99	0.01	0.65	0.19	0.66
Profit attributable to shareholders	-3.09	2.78	-0.63	0.56	-0.31	-0.07
Non-controlling interests	0.28	0.21	0.64	0.09	0.50	0.73
Gross margin	8.2%	1.9%	8.4%	10.3%	4.1%	9.3%
<b>Jubilee</b>						
Revenue	87.48	72.48	88.41	75.28	159.95	163.69
Gross profit	5.58	2.05	7.42	5.20	7.64	12.62
Other income	-0.37	3.31	0.02	1.28	2.94	1.30
Distribution and marketing	-0.52	-0.72	-0.78	-0.64	-1.24	-1.43
Administration	-3.88	-4.05	-3.99	-4.61	-7.93	-8.61
Finance	-0.42	-0.75	-0.41	-0.62	-1.18	-1.04
Share of profit of associated company	0.41	0.28	0.27	0.39	0.70	0.66
Profit before tax	0.82	0.12	2.52	0.98	0.94	3.50
Income tax expense	-0.01	0.01	-0.03	-0.22	0.00	-0.25
Profit after tax	0.81	0.12	2.49	0.76	0.93	3.26
Gross margin	6.4%	2.8%	8.4%	6.9%	4.8%	7.7%
<b>Accrelist, less Jubilee</b>						
Revenue		0.00	0.00	3.44		3.44
Gross profit		-0.66	0.00	2.94		2.94
Other income		5.56	-0.38	1.21		0.82
Distribution and marketing		-0.05	-0.05	-0.17		-0.22
Administration		-2.37	-1.88	-3.57		-5.45
Finance		0.16	-0.17	-0.33		-0.49
Share of profit of associated company		-0.31	0.00	-0.21		-0.21
Profit before tax		2.33	-2.48	-0.13		-2.61
Income tax expense		0.54	0.00	0.01		0.01
Profit after tax		2.86	-2.48	-0.12		-2.60
Gross margin				85.4%		85.4%

\*Jubilee only became a subsidiary of Accrelist on 29 June 2017 (during 1H FY18).



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