



# A-Sonic Aerospace Ltd

Trading below cash

SINGAPORE | LOGISTICS | NON-RATED (AMENDED)

16 March 2022

- A-Sonic is involved in freight forwarding of cargo via sea and air. China, including Hong Kong SAR, accounted for 74% of FY21 revenue.
- 2H21 PATMI jumped 127% YoY to US\$3.4mn on the back of an 85% surge in revenue. Freight forwarding rates have surged due to the lack of supply. Customers are more price inelastic as availability and securing slots more critical.
- The share price is trading at a 24% discount to net cash and 31% discount to book value. Dividend yield is 8.9%.

## Company Background

A-Sonic Aerospace Ltd was listed on the Catalist in 2003 as a supplier of aircraft systems and aerospace components. Today, the company is mainly engaged in logistics. It operates in 29 cities in 15 countries, spanning four continents in Asia, North America, the Indian sub-continent and Europe. Around 75% of freight forwarding is wholesale and 25% retail (or end to end delivery). Margins are higher for retail due to additional service provided including warehousing, truck, custom clearance, insurance, etc.

## Key Highlights

- Local player in air cargo terminal handling.** A-Sonic takes care of all air cargo unloaded in Singapore, before delivering to their customers which includes multi-national corporations in various industries, eg semiconductors, healthcare. It also collects goods from all over Singapore, to be exported overseas. As Singapore is a trade-focused country, it offers the advantage of having a Free Trade Zone (FTZ), which offers direct connections to the Changi Airfreight Centre. A-Sonic plays a key role in ensuring that goods and products are transported on time.
- Asset-light model.** In the coordination and shipment of goods from one place to another, A-Sonic offers IT solutions to integrate the end-to-end transportation process. This includes transporting the products from the manufacturer to the airport, before being shipped overseas, to reach the end-customer. The company does not have asset-heavy warehouses. Other than the leasehold office, non-current assets consist of mostly motor vehicles and right-of-use assets.
- Trading below cash.** The balance sheet is very strong, with net cash of US\$39.4mn. The share price is trading at a 24% discount to net cash and 31% discount to book value. Assuming all warrants are delisted, final number of shares listed would amount to 73,097,289 shares, and market capitalisation would increase to S\$43.5mn, according to last closing price of S\$0.595. This marks a 6% increase compared to the current market cap. Market cap would then be at a 19% discount to net cash, still very undervalued.
- Logistics business thriving in China and Hong Kong SAR.** 74% of FY21 revenue was derived from China and Hong Kong SAR. The 12-month moving average value of China's airfreight volume has been averaging growth of 15% in 2H21, and has already surged past pre-pandemic levels. In 2021, total air cargo loaded and discharged in Hong Kong increased 12.8% YoY to 4.98bn tonnes. Compared with the pre-pandemic level in 2019, it was also up 6%. China's airfreight volume in 2021 surged 16.2% to 27.8 ton-km mn.
- Dividend yield of 8.9% in FY21.** In FY21, the company declared a special dividend of 4.8 Scts/share, on top of a final dividend of 0.5 Scts/share. This implies a dividend yield of 8.9% and payout ratio of 34%. Since resuming profitability in FY18, dividend payout ratio and yield averaged 21% and 3.2% respectively. With strong cash generation and a robust balance sheet, consistency in dividend payments is expected.

## NON-RATED

CLOSING PRICE	SGD 0.595
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	N.A.

## COMPANY DATA

Bloomberg CODE:	ASON SP
O/S SHARES (MN) :	83.4
MARKET CAP (USD mn / SGD mn) :	36 / 50
52 - WK HI/LO (SGD) :	0.75 / 0.47
3M Average Daily T/O (mn) :	0.03

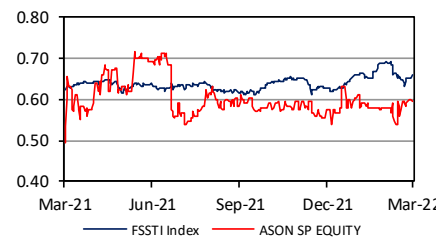
## MAJOR SHAREHOLDERS

Janet LC Tan	54.4%
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## PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.6	3.5	(5.6)
STI RETURN	(5.4)	4.2	7.7

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec, USD (mn)	FY19	FY20	FY21
Revenue	206.1	269.4	461.1
EBITDA	5.7	9.9	12.3
PATMI	2.5	6.3	6.6
Diluted EPS (SGD cents)	5.9	14.9	13.8
P/E (X)	13.7	4.0	4.3
Dividend yield (%)	1.7%	0.6%	8.9%
ROE	9.4%	18.2%	15.3%
ROA	3.9%	8.0%	6.2%

Source: Company, PSR

## VALUATION METHOD

N.A.

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The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).

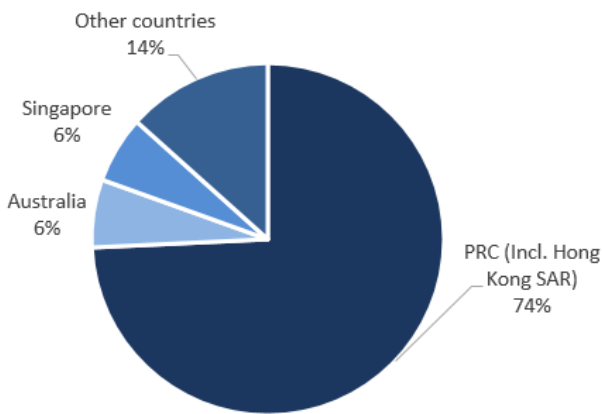
**REVENUE**

A-Sonic Aerospace provides logistic solutions, including international and domestic multi-modal transportation, warehousing distribution, customs clearance and airport ground services.

Revenue comprises air and sea freight, transportation, custom clearance, documentation, cartage, handling and transfers and delivery of goods. These services are recognised at a point in time when control over the goods to be shipped is transferred to the customer and the timing of which is determined by the delivery and shipping contractual terms.

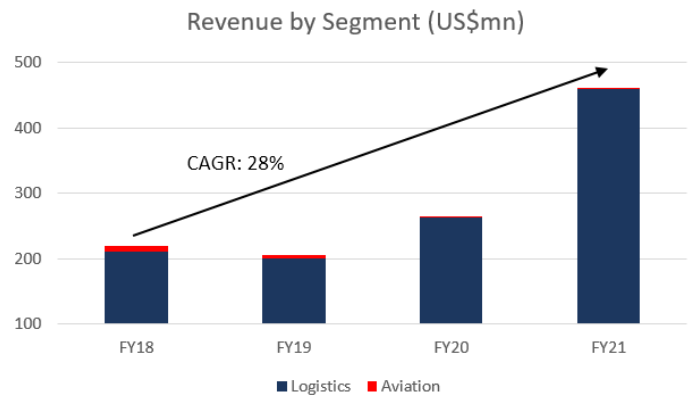
Almost 100% of the revenue is derived from the logistics segment, as A-Sonic has been gradually reducing their exposure to the aviation industry (i.e. the purchase and sale of aircraft systems and aerospace components) over the years (Figure 2).

**Figure 1: Bulk of revenue derived from China (including Hong Kong SAR)**



Source: Company, PSR

**Figure 2: Revenue spiked in FY21**



Source: Company, PSR

## KEY HIGHLIGHTS

- 1. Local player in air cargo terminal handling.** A-Sonic takes care of all air cargo unloaded in Singapore, before delivering to their customers which includes multi-national corporations in various industries, eg semiconductors, healthcare. It also collects goods from all over Singapore, to be exported overseas. As Singapore is a trade-focused country, it offers the advantage of having a Free Trade Zone (FTZ), which offers direct connections to the Changi Airfreight Centre. A-Sonic plays a key role in ensuring that goods and products are transported on time.
- 2. Asset-light model.** In the coordination and shipment of goods from one place to another, A-Sonic offers IT solutions to integrate the end-to-end transportation process. This includes transporting the products from the manufacturer to the airport, before being shipped overseas, to reach the end-customer. The company does not have asset-heavy warehouses. Other than the leasehold office, non-current assets consist of mostly motor vehicles and right-of-use assets.
- 3. Trading below cash.** The balance sheet is very strong, with net cash of US\$39.4mn. The share price is trading at a 24% discount to net cash and 31% discount to book value. Assuming all warrants are delisted, final number of shares listed would amount to 73,097,289 shares, and market capitalisation would increase to S\$43.5mn, according to last closing price of S\$0.595. This marks a 6% increase compared to the current market cap. Market cap would then be at a 19% discount to net cash, still very undervalued.
- 4. Logistics business thriving in China and Hong Kong SAR.** 74% of FY21 revenue was derived from the China and Hong Kong SAR. The 12-month moving average value of China's airfreight volume has been averaging growth of 15% in 2H21, and has already surged past pre-pandemic levels. In 2021, total air cargo loaded and discharged in Hong Kong increased 12.8% YoY to 4.98bn tonnes. Compared with the pre-pandemic level in 2019, it was also up 6%. China's airfreight volume in 2021 surged 16.2% to 27.8 ton-km mn.
- 5. Dividend yield of 8.9% in FY21.** In FY21, the company declared a special dividend of 4.8 Scts/share, on top of a final dividend of 0.5 Scts/share. This implies a dividend yield of 8.9% and payout ratio of 34%. Since resuming profitability in FY18, dividend payout ratio and yield averaged 21% and 3.2% respectively. With strong cash generation and a robust balance sheet, consistency in dividend payments is expected.

## RISK FACTORS

- 1. Competition amidst supply chain challenges.** A-Sonic is present in 29 cities in 15 countries. It has logistics competitors from all around the world, and competition has intensified, especially due to the pandemic. Companies are investing heavily in automation, and seeking alternative solutions for customers in the business environment which has remained operationally challenging. A-Sonic could provide more value-added services to differentiate themselves.
- 2. Acquisition of new customers.** The logistics business grows through acquiring more customers. If it is unable to win more contracts or even loses clients, A-Sonic could face challenges. The company has to maintain its service quality, ensuring on-time pickup and delivery performance, while also keeping transportation costs down.

**INDUSTRY**

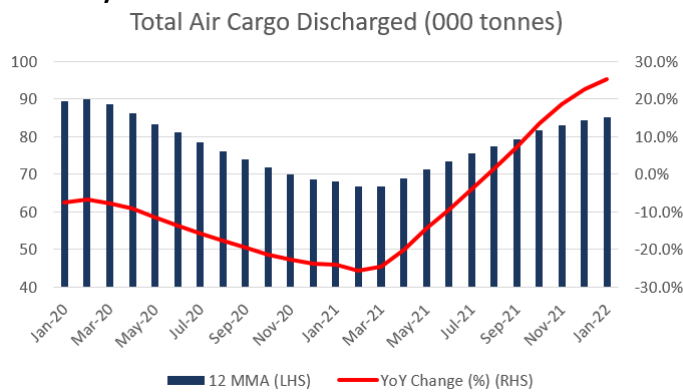
The logistics industry booms in times of crises that disrupt the international transport network. The surge in demand for various products, ranging from medical equipment like masks and personal protective equipment (PPEs), to work-from-home necessities including laptops and monitors, has caused supply chain disruptions. As ports remain congested, companies turn to transporting cargo by air, which is the more expensive option.

In Singapore, total air cargo discharged collapsed in April 2020, when the pandemic resulted in cancellation of flights. However, the recovery has been very strong, reaching pre-pandemic levels of 80k tonnes per month (Figure 3).

Air cargo volume in both Mainland China and Hong Kong both surged past pre-pandemic levels (Figures 5 and 6). On a 12-month moving average, the YoY growth in 2H21 averaged 15% in China. In 2021, total air cargo loaded and discharged from Hong Kong increased 12.8% YoY to 4.98bn tonnes. Compared with the pre-pandemic level in 2019, it was also up 6%. China's airfreight volume in 2021 surged 16.2% to 27.8 ton-km mn.

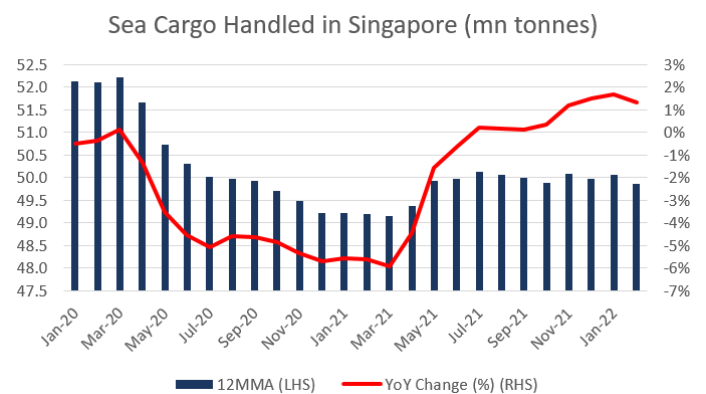
On the contrary, recovery in ocean cargo volume remains weak. In 2021, Hong Kong cargo discharged by port fell 8.7% to 99mn tonnes (Figure 7).

**Figure 3: Air cargo in Singapore on strong recovery momentum since July 2020**



Source: Singstat, PSR

**Figure 4: Sea cargo handled in Singapore down 1.7% YoY in 2021**



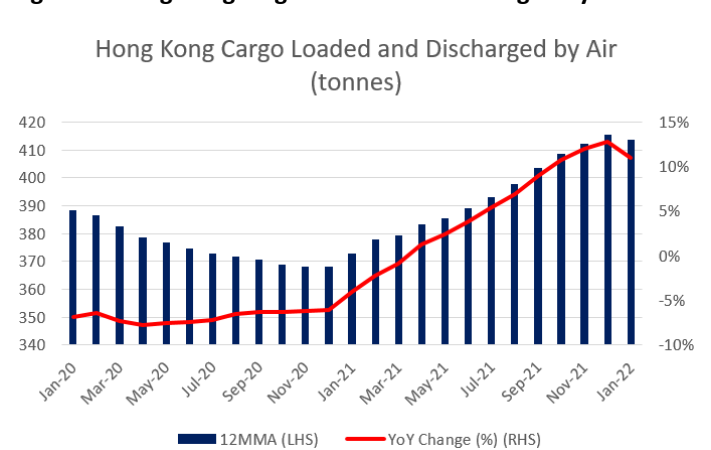
Source: Maritime Port Authority, PSR

**Figure 5: China airfreight volume recovering to above pre-pandemic levels**



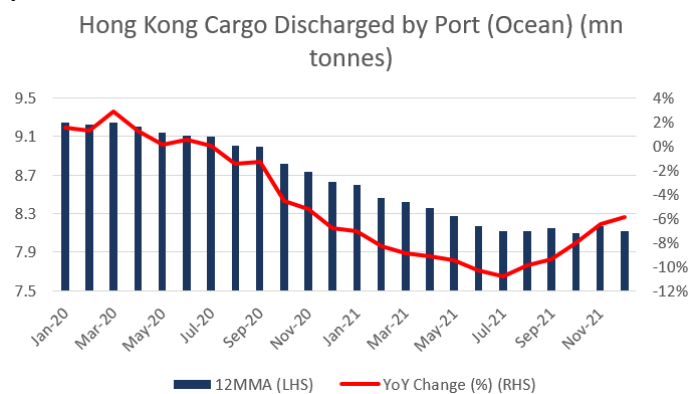
Source: Civil Aviation Administration of China, PSR

**Figure 6: Hong Kong cargo loaded and discharged by air**



Source: CEIC, PSR

**Figure 7: Hong Kong cargo discharged by port below pre-pandemic levels**



Source: CEIC, PSR

## COMPARABLES

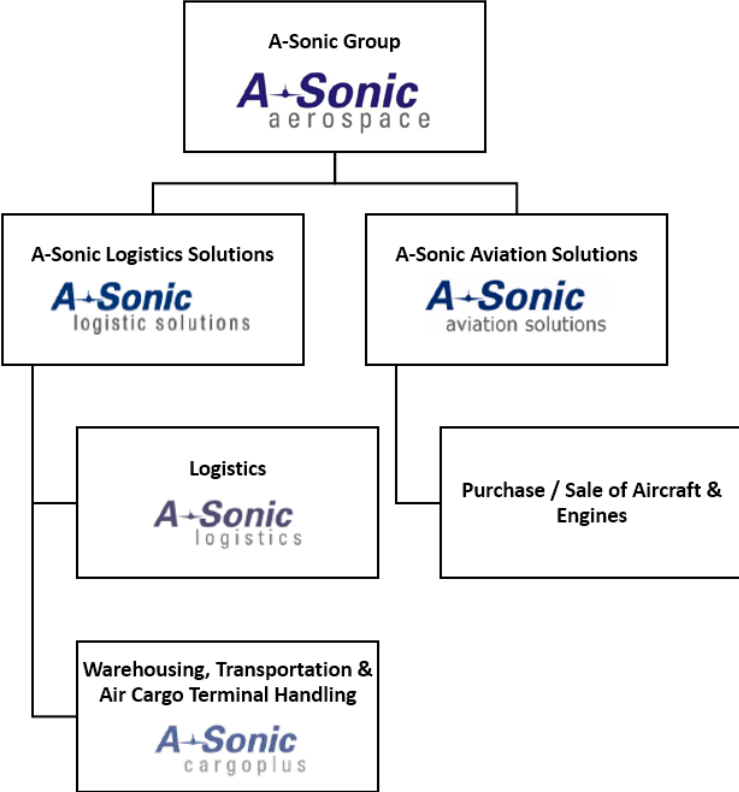
**Figure 8: A-Sonic is highly undervalued, despite other metrics being comparable**

Company	1 Mth	3 Mth	YTD	Currency	Share Px	Mkt. Cap.	P/E			P/B	Dividend	ROE	Gearing	EBITDA
	Perf.	Perf.	Perf.				Yr 0	Yr 1	Yr 2					
Kuehne and Nagel International	6.7%	-1.2%	-7.2%	CHF	273.10	35,098	16.2	16.4	23.1	10.25	1.6%	72.4%	58.8%	11.2%
ST Engineering	5.0%	7.2%	6.9%	SGD	4.03	9,194	22.0	21.5	19.2	n.a.	3.7%	n.a.	79.3%	13.6%
XPO Logistics	1.9%	-1.2%	-8.3%	USD	70.97	8,147	24.2	13.3	12.3	7.17	n.a.	17.5%	394.9%	10.4%
Saia Inc	-6.6%	-19.3%	-23.2%	USD	258.79	6,834	27.0	20.6	18.4	5.59	n.a.	23.2%	13.1%	22.1%
Kerry Logistics	-22.5%	-25.8%	-20.4%	HKD	15.48	3,576	9.7	7.5	10.0	0.92	2.9%	19.1%	41.3%	12.2%
ArcBest Corporation	-7.1%	-19.4%	-29.9%	USD	84.00	2,066	9.7	7.7	7.8	2.25	0.4%	24.3%	36.3%	10.8%
A-Sonic Aerospace	2.6%	7.2%	-5.6%	SGD	0.60	36	5.5	n.a.	n.a.	0.60	1.5%	16.9%	2.7%	2.7%
	2.6%	-3.2%	-7.5%		64,951		17.3	15.3	17.8	7.15		45.6%	97.4%	12.6%

Source: Bloomberg, PSR (Closing prices as at 15 March 2022)

Appendix 1: Business Segments

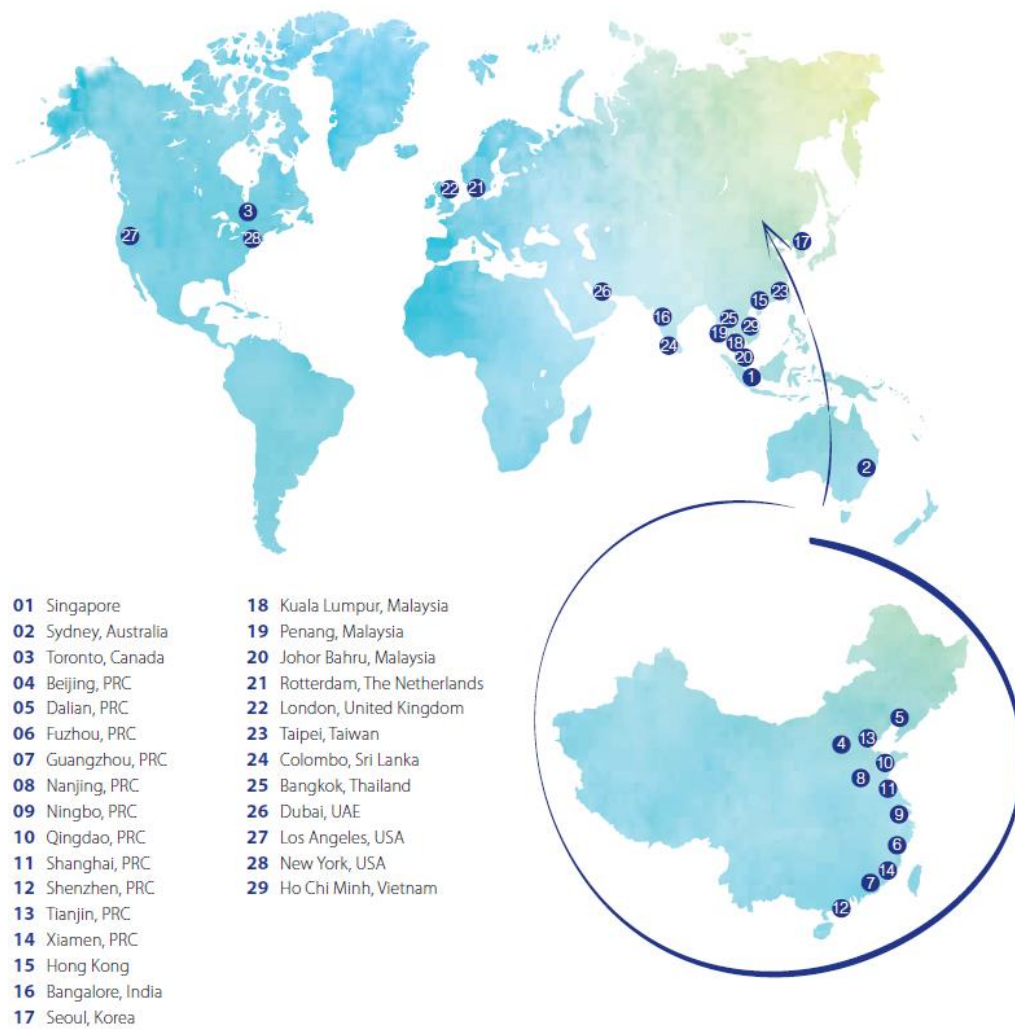
Figure 9: A-Sonic’s business segments



Source: Company, PSR

Appendix 2: A-Sonic’s Geographical Presence

Figure 10: A-Sonic’s geographical presence



Source: Company

## Financials

### Income Statement

Y/E Dec, USD '000	FY19	FY20	FY21
<b>Revenue</b>	<b>206,072</b>	<b>269,427</b>	<b>461,070</b>
Freight charges	(175,837)	(236,940)	(417,602)
Staff costs	(16,935)	(17,012)	(23,829)
Other operating expenses	(3,713)	(5,633)	(7,451)
<b>EBITDA</b>	<b>5,671</b>	<b>9,853</b>	<b>12,291</b>
Depreciation	(1,915)	(1,800)	(1,589)
<b>EBIT</b>	<b>3,756</b>	<b>8,053</b>	<b>10,702</b>
Finance costs	(275)	(133)	(50)
<b>Profit before tax</b>	<b>3,481</b>	<b>7,920</b>	<b>10,652</b>
Taxation	(374)	(282)	(1,550)
Minority interest	574	1,311	2,484
<b>PATMI</b>	<b>2,533</b>	<b>6,327</b>	<b>6,618</b>

### Per share data

Y/E Dec	FY19	FY20	FY21
Basic EPS (USD cents)	4.33	10.82	11.32
Basic EPS (SGD cents)	5.91	14.90	15.20
Diluted EPS (USD cents)	4.33	10.82	10.27
Diluted EPS (SGD cents)	5.91	14.90	13.79
DPS (SGD cents)	1.00	0.38	5.30
BVPS (USD cents)	46.13	59.32	73.93

### Cash Flow

Y/E Dec, USD '000	FY19	FY20	FY21
<b>CFO</b>			
<b>Profit before tax</b>	<b>3,481</b>	<b>7,920</b>	<b>10,652</b>
Adjustments	1,503	(1,607)	1,608
WC changes	(6,284)	3,060	1,482
<b>Cash generated from ops</b>	<b>(1,300)</b>	<b>9,373</b>	<b>13,742</b>
Income tax paid	(121)	(142)	(1,164)
<b>Cashflow from ops</b>	<b>(1,421)</b>	<b>9,231</b>	<b>12,578</b>
<b>CFI</b>			
CAPEX, net	(544)	(150)	(634)
Others	700	5,022	34
<b>Cashflow from investments</b>	<b>156</b>	<b>4,872</b>	<b>(600)</b>
<b>CFE</b>			
Loans, net of repayments	53	(2,476)	(1,678)
Dividends paid	(432)	(419)	(442)
Others	(2,111)	(1,828)	(1,395)
<b>Cashflow from financing</b>	<b>(2,490)</b>	<b>(4,723)</b>	<b>(3,515)</b>
Net change in CCE	(3,755)	9,380	8,463
<b>CCE, end</b>	<b>20,478</b>	<b>30,271</b>	<b>38,647</b>

Source: Company, Phillip Securities Research (Singapore)

### Balance Sheet

Y/E Dec, USD '000	FY19	FY20	FY21
<b>ASSETS</b>			
Cash and cash equivalents	20,856	30,649	39,438
Trade and other receivables	32,738	40,166	56,948
Inventories	1,262	902	902
<b>Total current assets</b>	<b>55,652</b>	<b>72,652</b>	<b>100,206</b>
PPE	7,293	6,104	6,171
<b>Total non-current assets</b>	<b>8,632</b>	<b>6,324</b>	<b>6,474</b>
<b>Total Assets</b>	<b>64,284</b>	<b>78,976</b>	<b>106,680</b>
<b>LIABILITIES</b>			
Trade and other payables	30,177	40,640	60,931
Bank borrowings	4,285	1,755	74
Others	1,974	1,543	2,179
<b>Total current liabilities</b>	<b>36,436</b>	<b>43,938</b>	<b>63,184</b>
Lease liabilities	874	348	260
<b>Total non-current liabilities</b>	<b>874</b>	<b>348</b>	<b>260</b>
<b>Total Liabilities</b>	<b>37,310</b>	<b>44,286</b>	<b>63,444</b>
<b>Net assets</b>	<b>26,974</b>	<b>34,690</b>	<b>43,236</b>
<b>Represented by:</b>			
Share capital	51,758	51,758	51,758
Accumulated losses	(14,457)	(8,549)	(2,314)
Foreign currency translation reserve	(7,480)	(6,968)	(7,166)
Non-controlling interest	(2,847)	(1,551)	958
<b>Total Equity</b>	<b>26,974</b>	<b>34,690</b>	<b>43,236</b>

### Valuation Ratios

Y/E Dec	FY19	FY20	FY21
P/E (X)	13.74	3.99	4.31
P/B (X)	0.95	0.74	0.59
EV/EBITDA (X)	1.07	-0.50	-1.05
Dividend yield (%)	1.7%	0.6%	8.9%
<b>Growth &amp; Margins</b>			
<b>Growth</b>			
Revenue	-6.2%	30.7%	71.1%
EBITDA	214.4%	73.7%	24.7%
EBIT	257.7%	114.4%	32.9%
PATMI	71.0%	149.8%	4.6%
<b>Margins</b>			
Gross margin	14.7%	12.1%	9.4%
EBITDA margin	2.8%	3.7%	2.7%
EBIT margin	1.8%	3.0%	2.3%
Net profit margin	1.2%	2.3%	1.4%
<b>Key Ratios</b>			
ROE (%)	9.4%	18.2%	15.3%
ROA (%)	3.9%	8.0%	6.2%
Net Gearing (%)	Net cash	Net cash	Net cash



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