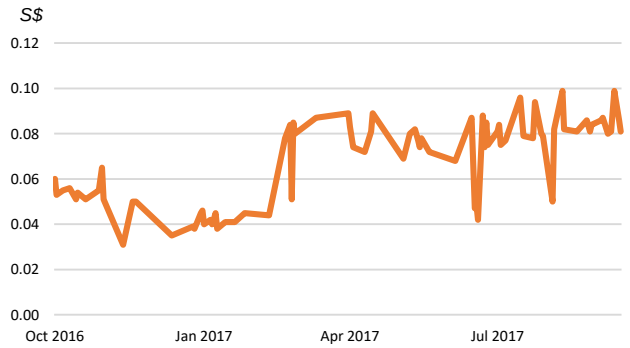
Far East Group Limited

Date: 26 October 2017

Non Rated

FEG SP
Price: S$0.110 (as at 25th October 2017)



Share price	1M	3M	6M	1Y
Far East	37.5%	37.5%	37.5%	83.3%
Catalist Index	(2.4)%	(7.6)%	10.1%	2.6%

Market capitalisation	S$11.9 million
Current price	S$0.110
Shares outstanding	108,480,000
Free Float	14.6%
Major shareholders	Universal Pte. Ltd* 58.86% Leng Chee Keong 6.77%

Source: Company data, Bloomberg, SAC Advisors

**Universal Pte. Ltd. is an investment holding company incorporated in Singapore and its 63,855,000 shares in the Company are held through a nominee, UOB Kay Hian Private Limited. The shareholders are Estate of Loh Ah Peng @ Loh Ee Ming, Loh Mun Yew, Loh Pui Lai, Lum Soo Mooi (spouse of Loh Ah Peng @ Loh Ee Ming) and Loh Pui Pui (daughter of Loh Ah Peng @ Loh Ee Ming and Lum Soo Mooi, and sibling of Loh Min Yew and Loh Pui Lai), with shareholding interest of 40.68%,27.42%, 10.68%, 10.33% and 10.89% respectively.*

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One Stop Refrigeration Systems Provider

A leading regional distributor of commercial and light industrial refrigeration systems. Far East Group Limited and together with its subsidiaries, ("**Far East**", "**Company**" or the "**Group**") is one of the pioneers in the refrigeration and air-conditioning systems and products for the Heating, Ventilation, Air-conditioning and Refrigeration ("**HVAC&R**") industry.

Leading player with an established track record and reputation. The Company has a track record of over 58 years as a specialist in the HVAC&R industry, they have successfully built up their reputation as a reliable refrigeration and air-conditioning systems provider in the commercial and light industrial (refrigeration), residential and commercial (air-conditioning) as well as oil, marine and gas (refrigeration and air-conditioning) business segments in the South East Asian region.

Established and strong business relationships with their business partners. As a testament to the customer satisfaction and loyalty, 50% of their active customer base of more than 1,000 customers are repeat customers. With considerable experience in the HVAC&R industry, they have built strong relationships with an extensive network of suppliers and customers. In most cases, they have more than 10 years working relationship with most of their suppliers, and in particular, they have established strong working relationships with Bitzer and Casel SRL over the past 30 years. This allows them to enjoy timely supply of quality products at competitive prices and at better terms.

Wide distribution network. The Group has a wide distribution network regionally including South East Asia, Hong Kong, the People's Republic of China, IndoChina and Indonesia. Most of the companies within the Group are equipped with showrooms, retail facilities and warehouses, to provide timely deliveries, and quality products and services to their customers.

Key risks: (i) Dependent on a major supplier; and (ii) susceptible to raw materials price.

Key Historical Financials

Year ended December (S$'000)	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	28,864	35,634	36,670	34,811	39,162
% Growth	N/A	24.2%	2.9%	(5.1%)	12.5%
Gross profit	8,019	11,520	11,699	10,000	9,639
Gross profit margin	28.0%	32.3%	31.9%	28.7%	24.6%
Profit/(loss) before tax	606	3,238	1,496	(1,226)	(1,596)
Profit/(loss) before tax margin	2.1%	9.1%	4.1%	(3.5%)	(4.1%)
Profit/(loss) attributable to owners	384	2,771	1,268	(1,278)	(1,179)
EPS/(LPS) (Singapore cents)	0.53	3.91	1.17	(1.18)	(1.09)
P/E (x)	15.3	2.1	6.9	N/A	N/A
Net Debt/Equity					3.4%

^EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding

Investment Highlights

Business Overview:

Established in 1953 and listed on the Singapore Stock Exchange since 8 August 2011, Far East Group is one of the pioneers in the refrigeration and air-conditioning businesses in Singapore. Today, it has built up a strong network to become a comprehensive provider of refrigeration and air-conditioning systems and products for the Heating, Ventilation, Air-conditioning and Refrigeration industry.

Far East Group is one of the pioneers in the refrigeration and air-conditioning systems and products for the Heating, Ventilation, Air-conditioning and Refrigeration ("**HVAC&R**") industry. Far East provides end-to-end solutions in cooling and refrigeration ranging from consulting to after-sales support, and is principally engaged in the sourcing and distribution of a wide range of agency products as well as the manufacturing and distribution of heat exchangers and condensing units under its proprietary brand "Eden".

Leading player with an established track record and reputation. The Company has a track record of over 58 years as a specialist in the HVAC&R industry, they have successfully built up their reputation as a reliable refrigeration and air-conditioning systems provider in the commercial and light industrial (refrigeration), residential and commercial (air-conditioning) as well as oil, marine and gas (refrigeration and air-conditioning) business segments in the South East Asian region.

They have a diversified customer base comprising mainly distributors, dealers, refrigeration and air-conditioning contractors who supply to end-users in various industries such as retail (Carrefour, Metro, Tesco, Giant, Cold Storage and NTUC Fairprice), food and beverage (Resorts World Sentosa and Marina Bay Sands), pharmaceuticals (HSA (Singapore Blood Bank)), hospitality (The St. Regis Singapore, Shangri-La Hotel Singapore and Capella Singapore), logistics (CIAS Flight Kitchen), food processing (Chun Cheng Fishery and Angliss Singapore) and shipping (Jurong Shipyard Pte Ltd, Keppel Shipyard Limited and Sembawang Shipyard Pte Ltd).

Established and strong business relationships with their business partners. As a testament to the customer satisfaction and loyalty, 50% of their active customer base of more than 1,000 customers are repeat customers. With considerable experience in the HVAC&R industry, they have built strong relationships with an extensive network of suppliers and customers. In most cases, they have more than 10 years of working relationship with most of their suppliers, and in particular, they have established strong working relationships with Bitzer and Casel SRL over the past 30 years. This allows them to enjoy timely supply of quality products at competitive prices and at better terms.

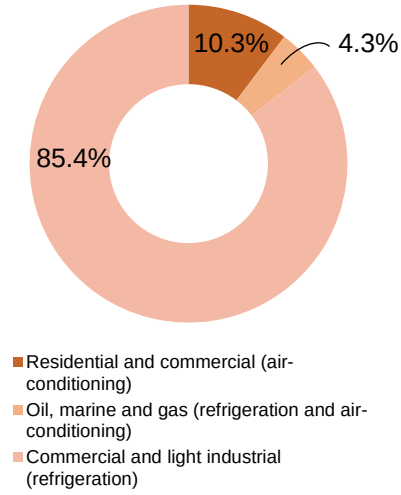
Investment Highlights

Wide distribution network. The Group has a wide distribution network regionally including South East Asia, Hong Kong, the People's Republic of China, IndoChina and Indonesia. Most of the companies within the Group are equipped with showrooms, retail facilities and warehouses, to provide timely deliveries, and quality products and services to their customers.

In addition to the above, they have a wide number of distributors and dealers, who are well-established and have a wide business and distribution network in their respective countries, including Malaysia, Thailand, the Philippines, Myanmar, Mauritius, Vietnam, Sri Lanka and Indonesia. At the moment, they have approximately 20 distributors and dealers who distribute their products to end users, sub-distributors and sub-dealers, refrigeration and air-conditioning contractors and/or original equipment manufacturer customers in the South East Asian region.

Company Background

Revenue Breakdown (FY2016)



Source: Company data, SAC Advisors

- Far East is a comprehensive provider of refrigeration and air-conditioning systems and products for the HVAC&R industry.
- The Group provides end-to-end solutions in cooling and refrigeration ranging from consulting to after-sales support, and is principally engaged in the sourcing and distribution of a wide range of agency products as well as the manufacturing and distribution of heat exchangers and condensing units under its proprietary brand "Eden".

Bitzer Open Type Compressor (used in oil, marine and gas)



Source: Company data

- Their core business can be categorised into three business segments:

(a) Residential and commercial (air-conditioning): This segment relates to sales and distribution of air-conditioning materials which mainly relates to sale and distribution of air-conditioning materials which mainly comprises copper pipes, copper tubes, Class O and Class 1 closed cell insulation pipes and sheets, PVC trunkings, electrical wires and refrigerants;

(b) Oil, marine and gas (refrigeration and air-conditioning): This segment relates to sales and distribution of a range of air-conditioning and refrigeration systems suitable for the oil, marine and gas industry. These products include the Group's brand of heat exchangers and packaged condensing unit installed onboard ships, vessels and oil rigs, which are primarily used to preserve food, other perishables and also to provide air-conditioning for the living and working spaces of the vessel's crew; and

(c) Commercial and light industrial (refrigeration): This segment relates to sale of refrigeration component parts including compressors, condensers, condensing units, multiple compressor rack units, electronic controls, energy management solutions, service equipment and tools and the Group's range of thermal heat exchangers comprising evaporators, condensers and custom coils.

Products

"Eden" brand of heat exchangers and condensing units

The Group manufactures and distributes our "Eden" brand of heat exchangers and condensing units, as well as represents and distributes agency products. They have about 13 series with more than 300 models of evaporators, condensers and condensing units to serve the cooling requirements of different business segments.

Product	Product description
Cabinet unit coolers 	These evaporators are used in commercial refrigerators, wine coolers, convenience stores and small cold rooms. They are designed for energy-saving purposes and offer more storage space due to their slim design profile.
Low profile unit coolers 	These evaporators are used in hotels, restaurants, supermarkets, convenience stores and food processing factories. They are designed for energy-saving purposes with efficient air circulation and have modern aesthetic appearances.
High profile unit coolers 	These evaporators are used in supermarkets, hypermarkets, logistics hubs and food processing factories. They are designed for applications which require high air circulation and usage purposes.
Low air unit coolers / Dual throw unit coolers 	These evaporators are used in food processing rooms, wine coolers and supermarkets. They are designed for food processing areas which require controlled temperatures and comfort cooling in work areas.
Heavy duty unit coolers 	These evaporators are used in semi-blast freezing rooms, large cold storage rooms and logistics hubs. They are designed for large cold rooms which require critical air circulation applications.

Source: Company data

Financial Summary

Revenue model

- The core business can be broadly categorised into two business segments:

(a) Commercial and light industrial: This segment accounts for the bulk of their revenue and relates to the sale of refrigeration component parts including compressors, condensers, condensing units, multiple compressor racks units, electronic controls, energy management solutions, service equipment and tools and the Group's range of thermal heat exchangers comprising evaporators, condensers and custom coils.

This segment accounted for 85% of total FY16 revenue.

(b) Residential and commercial: This is their second largest revenue contributor and relates to the sale and distribution of air-conditioning materials which mainly comprises copper pipes, copper tubes, Class O and Class 1 closed cell insulation pipes and sheets, PVC trunkings, electrical wires and refrigerants.

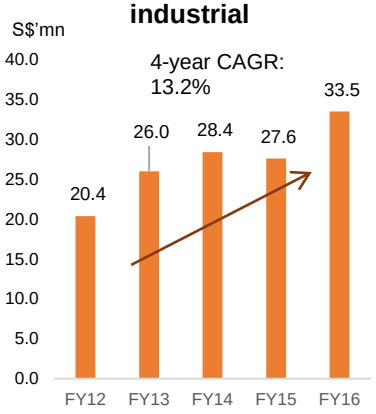
This segment accounted for 10.3% of total FY16 revenue.

This segment grew at a CAGR of 52.2% from FY11 to FY16, and its contribution of revenue to the Group has increased over the years. In the latest FY16, total revenue from this segment accounted for 52.3% of total revenue.

(c) Oil, marine and gas: This segment relates to sales and distribution of a range of air-conditioning and refrigeration systems suitable for the oil, marine and gas industry. These products include the Group's brand of heat exchangers and packaged condensing units installed onboard ships, vessels and oil rigs, which are primarily used to preserve food, other perishables and also to provide air-conditioning for the living and working spaces of the vessel's crew.

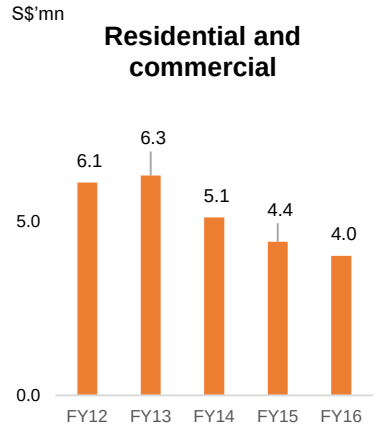
This segment accounted for 4.3% of total FY16 revenue.

Commercial and light industrial



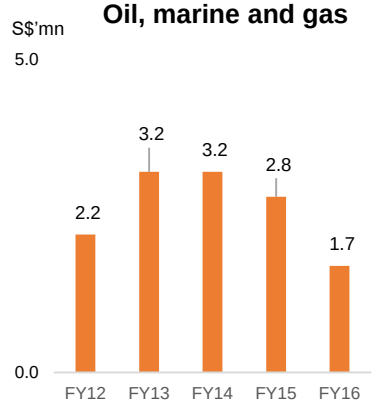
Source: Company data, SAC Advisors

Residential and commercial



Source: Company data, SAC Advisors

Oil, marine and gas



Source: Company data, SAC Advisors

Revenue Breakdown	FY12	FY13	FY14	FY15	FY16
Commercial and light industrial	71.3%	73.1%	77.3%	79.4%	85.4%
Oil, marine and gas	7.6%	9.1%	8.9%	8.1%	4.3%
Residential and commercial	21.1%	17.8%	13.8%	12.6%	10.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

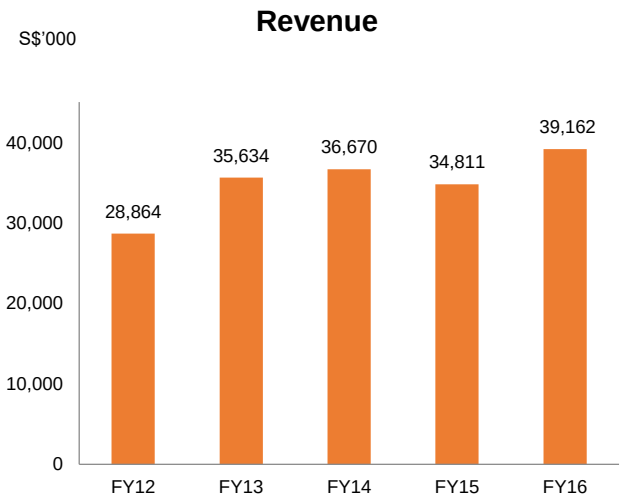
Source: Company data, SAC Advisors

Financial Summary

Foreign markets offset sales declines in Singapore

Despite lower sales in Singapore, Far East saw revenue increased by S$4.4 million or 12.5% in FY16 mainly due to increased sales from Malaysia, Indonesia, Hong Kong and China markets.

Specifically, the revenue growth from the commercial and light industrial (refrigeration) segment offset the declines in the residential and commercial (air-conditioning) as well as the oil, marine and gas (refrigeration and air-conditioning) segments.



Source: Company data, SAC Advisors

Management

Mr. Steven Loh Mun Yew is the Chief Executive Officer and Executive Director. Mr Steven Loh was appointed to the Board of Far East Group in 1990. He has over 26 years of experience in the HVAC&R industry. He is responsible for the formulation and execution of the Group's business strategies, strategic directions and expansion plans, as well as managing the Groups' overall business development and financial performance. He joined the Group in 1990 as a retail sales executive and has risen through the ranks to become the Group's Assistant Managing Director in 2000, overseeing its operations and financial performance. He graduated from the University of the Pacific, Stockton, California, with a degree in Bachelor of Science in Electrical Engineering in 1987.

Mr. David Leng Chee Keong is the Chief Operating Officer (Sales and Marketing) and Executive Director. Mr David Leng joined the Group as Business Development Director and Assistant Group Managing Director in 2004, and was appointed to the Board in 2005, he is responsible for overseeing the Group's sales, strategic marketing and business development, as well as growing the Group's business in the Southeast Asia region.

Mr. Allan Ward is responsible for the engineering and design of "Eden" products, research and development activities, manufacturing activities, and ensuring the Group's design philosophies are not compromised. He commenced his career in 1963 with Cooney Refrigeration Pty Ltd in Australia and worked his way to the position of engineer director in 1975, before joining F Muller Pty Ltd in Australia as refrigeration division business unit manager. There, he was responsible for domestic sales, international business development, and engineering of refrigeration products until 1988.

Key Risks

Dependent on a major supplier
Bitzer is one of their major suppliers who supply them with compressors, condensers, receivers and relevant spare parts. According to their offer document in 2011, purchases from Bitzer accounted for approximately 30% of the Group's purchases. As they do not enter into long-term contract with Bitzer, there is no assurance that it will continue to fulfil their requirements and expectations in terms of cost and product quality.

Susceptible to fluctuations in the prices of their agency products and raw materials
The Group's products comprise mainly compressors, condensers, controllers, valves and copper pipes, and we estimate that these account for approximately 88% of their overall cost of sales. The prices of such products which they can secure from their suppliers are influenced by factors including the volume of their purchases and the general market conditions affecting such products.

Income Statement (S$'000)

	Fiscal Year Ended				
	FY12	FY13	FY14	FY15	FY16
Revenue	**28,864**	**35,634**	**36,670**	**34,811**	**39,162**
Less: Cost of sales	(20,665)	(24,114)	(24,971)	(24,811)	(29,523)
Gross Profit	8,019	11,520	11,699	10,000	9,639
Other operating income	660	1,045	1,143	869	1,003
Distribution and selling expenses	(2,704)	(3,542)	(3,903)	(4,597)	(4,633)
Administrative expenses	(5,239)	(5,426)	(7,077)	(6,878)	(6,908)
Other operating expenses	(7)	(159)	(35)	(275)	(310)
Profit/(loss) from operations	**729**	**3,438**	**1,827**	**(880)**	**(1,208)**
Finance expenses	(138)	(222)	(341)	(368)	(400)
Interest income	15	22	10	22	12
Loss before tax	**606**	**3,238**	**1,496**	**(1,226)**	**(1,596)**
Tax credit/expenses	(221)	(414)	(282)	(408)	190
Loss for the year	**385**	**2,824**	**1,214**	**(1,634)**	**(1,406)**
Profit/(loss) attributable to: Owners of company	**384**	**2,771**	**1,268**	**(1,278)**	**(1,179)**
Non-controlling interests	1	18	(54)	(356)	(226)
Earnings/(loss) per share:					
-Basic and diluted (SG cents)	**0.53**	**3.91**	**1.17**	**(1.18)**	**(1.09)**

Balance Sheet (S$'000)

	Fiscal Year Ended				
	FY12	FY13	FY14	FY15	FY16
As at 31 Dec					
Fixed assets	7,056	16,375	17,316	16,228	15,754
Land use right	-	2,166	2,129	2,102	2,017
Intangible assets	-	872	797	717	600
Other non-current assets	313	255	234	177	435
Total non-current assets	**7,369**	**19,668**	**20,476**	**19,224**	**18,806**
Inventories	8,918	10,386	11,418	12,832	8,596
Trade debtors	6,414	7,618	7,419	6,618	8,101
Other receivables	443	1,432	837	932	566
Other current assets	1,785	2,697	1,619	1,180	2,433
Cash and bank balances	3,486	6,154	5,694	4,488	5,786
Total current assets	**21,046**	**28,287**	**26,987**	**26,050**	**25,482**
Trade payables	1,606	2,412	1,953	1,867	1,910
Advance payment from customers	-	-	-	463	645
Other current liabilities	7,709	10,741	11,756	13,794	14,963
Total current liabilities	9,315	13,153	13,709	16,124	17,158
Deferred tax liabilities	78	84	150	104	9
Finance lease obligations	20	12	455	66	83
Term loans (non-current liabilities)	32	5,869	3,772	2,254	1,493
Total non-current liabilities	**130**	**5,965**	**4,377**	**2,424**	**1,585**
Share Capital	13,956	19,264	19,264	19,264	19,264
Retained earnings	5,943	8,383	9,033	7,408	6,228
Other reserve	(1,114)	(1,174)	(1,231)	(1,991)	(2,386)
Total shareholder's equity	18,785	26,473	27,066	24,681	23,106
Non-controlling interests	185	2,364	2,311	2,045	2,079
Total equity	**18,970**	**28,837**	**29,377**	**26,726**	**25,185**

Cash Flow Statement (S$'000)

	Fiscal Year Ended				
	FY12	FY13	FY14	FY15	FY16
Profit/(Loss) before tax	**606**	**3,238**	**1,496**	**(1,226)**	**(1,597)**
Depreciation & amortisation	375	891	1,383	1,627	1,633
Change in working capital	1,626	(1,328)	836	(1,691)	1,647
Others	1,054	(1,198)	(1,302)	(137)	289
Net Cash (used in)/ from operations	**3,661**	**1,603**	**2,413**	**(1,427)**	**1,972**
Purchase of PPE	(286)	(1,748)	(895)	(536)	(1,372)
Others	4	(8,631)	208	331	1,054
Net Cash (used in)/ from investing	**(282)**	**(10,379)**	**(687)**	**(205)**	**(318)**
Net increase in equity	0	5,308	0	0	0
Net increase in debt	(75)	5,689	(105)	(555)	1,112
Others	(1,947)	714	(2,376)	1,017	(1,448)
Net Cash (used in)/ from financing	**(2,022)**	**11,711**	**(2,481)**	**462**	**(336)**

Ratios

	Fiscal Year Ended				
	FY12	FY13	FY14	FY15	FY16
Profitability (%)					
Gross profit/(loss) margin	28.0%	32.3%	31.9%	28.7%	24.6%
Operating profit/(loss) margin	2.5%	9.6%	5.0%	(2.5%)	(3.1%)
Profit/(loss) before tax margin	2.1%	9.1%	4.1%	(3.5%)	(4.1%)
Liquidity (x)					
Current ratio	2.3	2.2	2.0	1.6	1.5
Quick ratio	1.3	1.4	1.1	0.8	1.0
Interest coverage ratio	5.9	17.2	5.5	2.5	3.1
Net Debt to Equity	Net cash	Net cash	Net cash	1.0%	3.4%
Valuation (x)					
P/S	0.3	0.2	0.2	0.3	0.2
P/E	15.3	2.1	6.9	N/A	N/A
Core P/E at target price	N/A	N/A	N/A	N/A	N/A
P/B	0.5	0.3	0.3	0.3	0.3
P/NTA	N/A	N/A	N/A	N/A	N/A
Cash Conversion Cycle					
Trade receivable days	82	78	74	69	76
Inventory days	158	157	167	189	106
Trade payable days	28	37	29	27	24
CCC days	211	199	212	231	158
Returns					
Return on equity	N/A	11.8%	4.2%	(5.8%)	(5.4%)
Return on capital employed	N/A	N/A	N/A	N/A	N/A
Dividend payout ratio	N/A	N/A	N/A	N/A	N/A

n.m.: not meaningful

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Party	**Quantum of position**
Nil	Nil

As of the date of this report, SAC Advisors and its associates, including SAC Capital, do not have any business relations with Far East Group Limited within the past 12 months, except for:

Company	**Nature of business relation**	**Date of business relation**
Far East Group Limited	Continuing Sponsor	Ongoing

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Analyst name	Quantum of position
Nil	Nil

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(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Advisors or SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.