Starburst Holdings Limited

31 August 2021

Non-Rated

Price: S$0.200 **(as at 30 August 2021)**

BBG	STARB SP
Market cap	S$49.7 million
Price (30 August 2021)	S$0.200
52-week range	S$0.120 – S$0.435
Target Price	Non-rated
Shares Outstanding	248.3 million
Free Float	30.3%
Major Shareholder	Lim Chin Wah 35.8% Yap Tin Foo 33.9%

P/BV (06/21)	1.3x
Net debt to EBITDA (12/20)	0.9x

Source: Company data, Bloomberg, SAC Capital

Analyst
Lim Li Jun Tracy +65 6232 3239
tlim@saccapital.com.sg

A burst of energy

Revenue shot up by 2.1x. 1H revenue more than doubled from S$9.7m to S$20.5m, and almost matched FY20 revenue, with more projects on hand with the commencement of three projects. Post-reporting period in July, Starburst secured new contracts worth S$4.7m. Recurring revenue (i.e. maintenance services) was flat at S$3.8m.

Gross margin increased from 45.9% in 1H20 to 60.3% in 1H21, due to economies of scale from more projects undertaken. Starburst also booked a one-off forex gain of S$0.1m. Net profit jumped 3.5x, from S$2.1m to S$7.4m.

The Group declared a 0.6 cent/share dividend, translating to a 20.0% payout of 1H's net profit. Currently, the reported total orderbook on hand sits at ~S$69.6m.

Geopolitical tensions an ironic opportunity. From the India-China border disputes, to China-Taiwan tensions, to the US-China trade war that has yet to be resolved, the US' withdrawal from Afghanistan adds to the ongoing geopolitical tensions around the world. Starburst's revenue from the Middle Eastern region made up 28.8% of its 1H's revenue, compared to 13.7% a year ago, reflecting higher spending potential, which is expected with a fall in peacefulness in the region.

Covid-19 may have trimmed defense budgets. According to International Institute for Strategic Studies, defense spending by Middle East countries is less than previously expected. With budget cuts, and adjustments to estimates, the total defense spending by the top six Middle East countries has been revised down by US$46.3 billion. As a percentage of GDP, however, the Middle Eastern countries still show sizable military spend, with Oman taking the number one spot at 11.0% of GDP, and Saudi Arabia at 8.4%.

Key risks: Near term contract expiry, political instability in key markets, defense budget cuts. Key management staff were reported to be under investigation by the authorities.

Key Financials

Year ended 31 December	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue (S$'m)	18.3	15.9	7.2	9.2	21.8
EBIT (S$'m)	-10.4	0.5	-3.8	-2.0	7.1
Net profit (S$'m)	-11.7	0.1	-4.2	-2.4	9.1
Basic EPS (S cents)	-4.69	0.06	-1.74	-0.98	3.73
Dividend per share (S cents)	0.25	0.25	0.25	0.25	1.25
Net cash / (debt) (S$'m)	-13.7	-2.1	-4.8	-7.1	-7.0
Valuation					
EBIT margin (%)	-56.8	3.1	-53.3	-21.3	32.4
ROIC (%)	-23.8	1.4	-11.6	-6.2	24.3
EV/EBITDA (x)	NA	25.0	NA	NA	7.0
P/E (x)	NA	357.2	NA	NA	5.4
Dividend yield (%)	1.3	1.3	1.3	1.3	6.3

Investment Highlights

Revenue shot up by 2.1x

Segment Revenue (S$'m)	1H21	1H20
Firearms shooting ranges	11.4	3.6
Tactical training mock-ups	5.2	2.2
Maintenan-ce services and others	3.8	3.8
Total	**20.5**	**9.7**

Source: Company Data, SAC Capital

1H revenue rose more than doubled from S$9.7m to S$20.5m, with more projects on hand with the commencement of three projects (see below), which almost last year's full year revenue. Post-reporting period in July, Starburst secured new contracts worth S$4.7m. Recurring revenue (i.e. maintenance services) was flat at S$3.8m, but with the higher revenue clocked in 1HFY21, it made up a smaller 18.7% of total revenue, compared to 39.5% a year ago.

Gross margin increased from 45.9% in 1H20 to 60.3% in 1H21, due to economies of scale from more projects undertaken. Starburst also booked a one-off forex gain of S$0.1m. Net profit jumped 3.5x, from S$2.1m to S$7.4m.

The Group declared a 0.6 cent/share dividend, translating to a 20.0% payout of 1H's net profit.

Projects on hand that will add to 2H21's revenue

Currently, the reported total orderbook on hand sits at ~S$69.6m.

- A S$4.7 million contract for the supply, delivery and installation of range equipment and specialist works for firearms training facilities in Southeast Asia and the Middle East and North Africa, which is scheduled to be completed by August 2022.
- A S$7.9 million contract for the design, supply, installation, testing and commissioning of an indoor and outdoor shooting ranges training facility in the Middle East, which is scheduled to be completed by November 2022.
- A S$6.4 million contract for the design and build of an indoor shooting range training facility in Southeast Asia, which is scheduled to be completed by April 2022.
- Two contracts aggregating to a value of S$9.7 million for maintenance services works, which have a base contract period of 3 years with an option to renew for another 3 years, ending December 2026 and February 2027 respectively.
- A S$40.9 million contract involving design, supply, delivery and installation of a firearms training facility in Southeast Asia, which is scheduled to be completed by February 2022.
- A S$13.1 million contract involving the upgrading of a tactical training mock-up facility in Southeast Asia, which is scheduled to be completed by July 2021. (completed)

Warrants expired 14 June 2021

On 15 June 2016, the Company issued 62.5m warrants at an issue price of S$0.01 for each warrant, at an exercise price of S$0.25 for each new share. The warrants will expire on 14 June 2021.

In 1H, total number of shares increased by 25K with the exercise of warrants. In FY20, 7.5m new shares were issued. The warrants are dilutive in nature. Total shares increased to 259.49m as at 30 Jun, from 259.46m as at 31 Dec.

Investment Highlights

Geopolitical tensions an ironic opportunity

From the India-China border disputes, to China-Taiwan tensions, to the US-China trade war that has yet to be resolved, the US' withdrawal from Afghanistan adds to the ongoing geopolitical tensions around the world. Violence remains rampant with the intensification of conflicts in some. Starburst's revenue from the Middle Eastern region made up 28.8% of its 1H's revenue, compared to 13.7% a year ago, reflecting higher spending potential. With a fall in peacefulness in the region, Middle East's defense expenditure can be expected to expand at a robust pace amid elevated threats.

Covid-19 may have trimmed defense budgets

According to International Institute for Strategic Studies, defence spending by Middle East countries is less than previously expected. With budget cuts, and adjustments to estimates, the total defense spending by six Middle East countries has been revised down by US$46.3 billion. Saudi Arabi is ranked sixth in the world for its military spending, at US$57.5 billion recorded in 2020 (2019: US$61.9 billion).

As a percentage of GDP, however, the Middle Eastern countries still show sizable military spend, with Oman taking the number one spot at 11.0% of GDP, and Saudi Arabia at 8.4%.

Rank	Country	Region	Spend as a % of GDP (2020)
#1	Oman	Middle East	11.0%
#2	Saudi Arabia	Middle East	8.4%
#3	Algeria	North Africa	6.7%
#4	Kuwait	Middle East	6.5%
#5	Israel	Middle East	5.6%
#6	Russia	Europe/Asia	4.3%
#7	Morocco	North Africa	4.3%
#8	Iraq	Middle East	4.1%
#9	Ukraine	Europe	4.1%
#10	Pakistan	South Asia	4.0%

Source: SIPRI, Visual Capitalist

While tensions drive defense spending and potentially higher demand for training facilities, political instability may cause project delays which raise operating costs.

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