

# SHARIAH-COMPLIANT FUNDAMENTAL RESEARCH

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## SAMPLE COMPANY

Industry: **Building Construction**

Latest FY: **2019**

Country of Origin: **Singapore**

Currency: **Singapore Dollar (SGD)**

Date of Analysis: **12<sup>th</sup> August 2020**

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Does the firm have **sufficient equity** to pay liabilities?

**NO**

Liabilities-to-Equity **130.3%**

Is the firm **profitable**?

**YES**

Profit Margin (after tax) **3.8%**

Is the firm **growing**?

**NO**

Sales Growth **-0.5%**

## FINANCIAL HEALTHCHECK

Entity may be experiencing some volatility and challenges in its sales and profitability. Sales for the firm had been very neutral and reflected a muted performance. Demand for its goods and services were not apparent. Modest increase in costs was experienced by the firm during the period. The cost of generating additional revenue was slightly higher compared to the previous year. Profit levels remained modest relative to sales. May not be adequately attractive for shareholders who may demand for higher margins. Small decline in profit margins was experienced where this could signify increasing competition and operational costs during the period.

Limited value to shareholders in terms of profitability, margins and liability exposure. The shareholders experienced major constraints to their investments during the period. The valuation of the firm could be eroded significantly because of the decline in ROE. The Shareholder funds of the firm was somewhat average, relative to its total liability exposure during the period. There is very little risk that the liability exposure would affect the firm's underlying valuation for the period. There was a notable decline in the firm's overall profitability compared to the previous period. Profit levels remained modest relative to sales. May not be adequately attractive for shareholders who may demand for higher margins.

## FINANCIAL RISK AREAS

Modest increase in costs was experienced by the firm during the period.

**48.3%**

Business Performance

There was a notable decline in the firm's overall profitability compared to the previous period.

**37.9%**

Shareholders' Value

There is unlikely to be any movement in the direction of sales for the firm and indicated an indifferent growth position. Little evidence of any demand changes for its goods and services.

**60.0%**

Risk & Liabilities

In comparison over the two most recent years, the profitability of the firm experienced a notable decline.

**47.1%**

Productivity

## FINANCIAL OUTLOOK

**1**

Compare the cost behaviour against sales and profitability performance.

Business Performance

**2**

Evaluate major sources of revenue and detect for any significant withdrawal of major clients during the period.

Shareholders' Value

**3**

Assess the market place for products and services which may be used as a replacement or substitute for the firm's existing products and services.

Risk & Liabilities

**4**

Perform an assessment of clients contribution to revenues and determine whether any single or significant clients have materially affected the reduced level of sales.

Productivity



**AAOIFI  
Status:**

**COMPLIANT**

**SOLVENCY RISK  
EXPOSURES (SRE)**

**LIQUIDITY STATUS  
INDICATOR (LSI)**

**RECEIVABLE EXPOSURE  
LEVEL (REL)**

**FTSE**



Total Debt / Total Assets

**17.92%**  
**COMPLIANT**

(Cash + Short Term  
Investment + Other  
Investment) / Total Assets

**10.94%**  
**COMPLIANT**

(Cash + Net Receivables) /  
Total Assets

**68.37%**  
**NON - COMPLIANT**

**MSCI**



Total Debt / Total Assets

**17.92%**  
**COMPLIANT**

(Cash + Short Term  
Investment + Other  
Investment) / Total Assets

**10.94%**  
**COMPLIANT**

(Cash + Net Receivables) /  
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**68.37%**  
**NON - COMPLIANT**

**AAOIFI**



Total Debt / Total Assets

**17.92%**  
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(Cash + Short Term  
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Investment) / Total Assets

**10.94%**  
**COMPLIANT**

(Cash + Net Receivables) /  
Total Assets

**68.37%**  
**COMPLIANT**

**DJ**



Total Debt / Average  
Market Value

**42.17%**  
**NON - COMPLIANT**

(Cash + Short Term Investment +  
Other Investment) / Average  
Market Value

**25.75%**  
**COMPLIANT**

(Cash + Net Receivables) /  
Average Market Value

**160.92%**  
**NON - COMPLIANT**

**S&P**



Total Debt / Average  
Market Value

**17.92%**  
**COMPLIANT**

(Cash + Short Term Investment +  
Other Investment) / Average  
Market Value

**25.75%**  
**COMPLIANT**

(Cash + Net Receivables) /  
Average Market Value

**160.92%**  
**NON - COMPLIANT**

Was the firm able to generate **higher sales**?



**NO**

Sales Growth

**-0.5%**

This indicates where the firm's topline is growing or not and to find out if there are any structural or cyclical factors affecting it.

Did **sales move faster** than cost growth?



**NO**

Cost Growth /Sales

**6.4%**

This gives a broad picture if the costs are growing in line with the growth in sales or if the firm is exposed to higher cost structure even if the sales is growing.

Was the company **financially strong** generally?



**NO**

Credit Score

**48.3%**

The credit score takes into account balance sheet and P&L of the company. A higher score indicates a stronger credit position.

Was the **exposure to liabilities** manageable?



**NO**

Liabilities to Equity

**130.3%**

This reflects the extent the firm is exposed to fixed obligations versus the capital it has built over the years and whether it has adequate buffer.

Was the company **relying heavily on short-term obligations**?



**YES**

Current Liability Ratio

**0.65**

Assesses the proportion of total liabilities that are due in the near term. A secondary measure of liquidity as it does not measure the firm's ability to pay for the liabilities.

Were the **shareholders well rewarded** by the firm's performance?



**NO**

Return on Equity

**6.14%**

This measure relates to how much profits the firm is generating for the company's shareholders; a higher ROE needs to be measured against the risks it is taking.

Were the **profit levels growing**?



**NO**

Pre-Tax Profit

**-53.7%**

A company that is showing consistent earnings growth indicates a positive outlook. A company that shows negative growth may indicate tougher times ahead.

Were the **assets generating profits**?



**YES**

Return on Asset

**1.8%**

This is a measure of how well the firm is utilising its assets to generate profits for the firm. A productive asset backed by a cost-efficient operation is a good indicator of a well-run firm.

# WORKING CAPITAL REQUIRED

Legend:



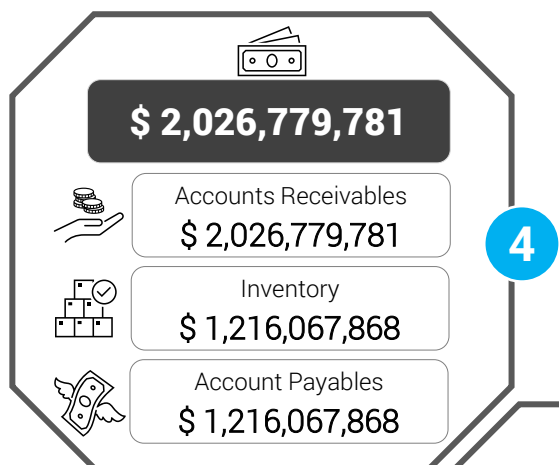
Amount of Net Working Capital Requirement



Scenario

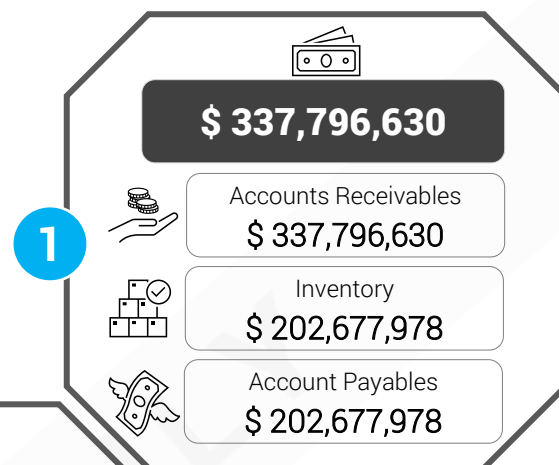
Currency: SGD

CREDIT TERMS:  
**180 Days**



4

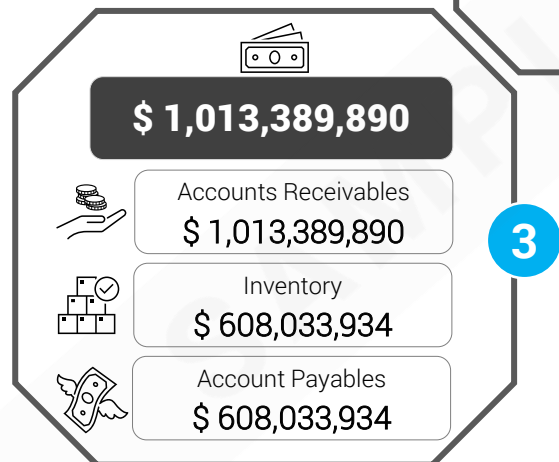
CREDIT TERMS:  
**30 Days**



1

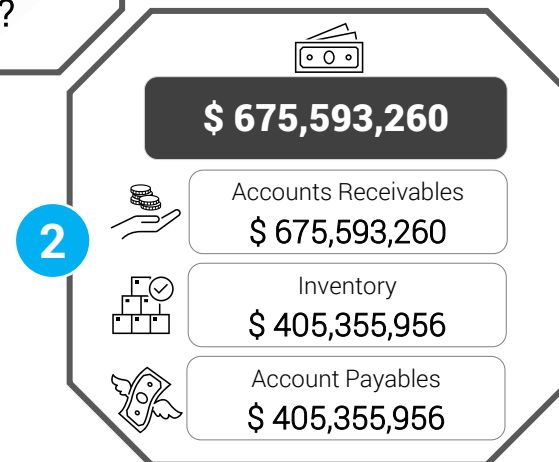
How much **WORKING CAPITAL** Is required by the business?

CREDIT TERMS:  
**90 Days**



3

CREDIT TERMS:  
**60 Days**



2

## NARRATIVE INSIGHTS

Based on four scenarios of operating cash cycle days, the firm is estimated to have funding gaps of between \$337,796,630 and \$2,026,779,781.

For every 30 days of delay of conversion into cash, the firm would require at least \$337,796,630 for its working capital needs.

Its last reported cashflow from operations was positive mainly due to a profitable position in profitability. No other sources of funding are available.

## CASHFLOW FROM OPERATIONS



**POSITIVE**

Overall, the cashflow from operations was positive, mainly due to a profitable position. There was an outflow of \$742,496 coming from receivables, an inflow of \$607,377 from payables.

## CASHFLOW FROM FINANCING



**NEGATIVE**

Overall, the cashflow from finances was negative, mainly due to a decrease position in borrowings. There was an outflow of \$476,482 coming from dividends, an outflow of \$192,059 from interest paid.

## CASHFLOW FROM INVESTMENTS



**POSITIVE**

Overall, the cashflow from investments was positive, mainly due to an inflow in purchases of property, plant and equipments and an inflow in addition in intangible assets, at a value of \$370,768 and \$20,000 respectively.

Legend:

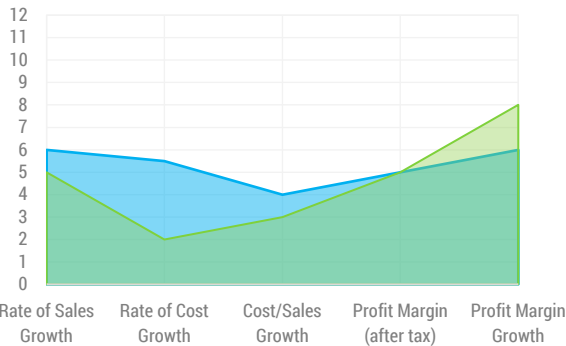


The Company



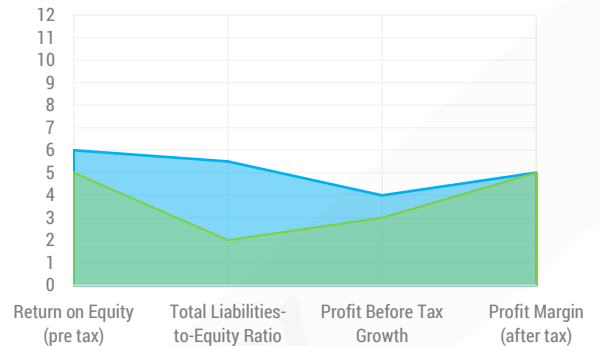
Industry

## Business Performance



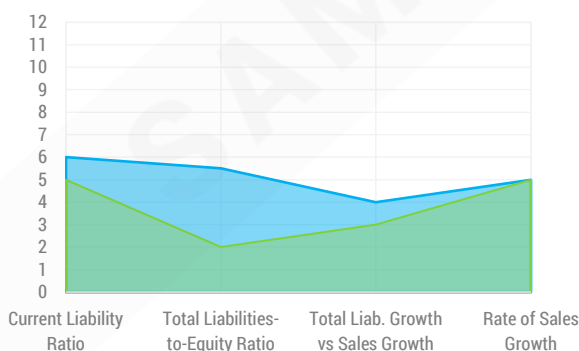
	Company	Industry	Variance
Rate of Sales Growth	-0.5%	7.0%	-7.5%
Rate of Cost Growth	6.8%	4.4%	2.4%
Cost/Sales Growth	6.4%	1.4%	5.0%
Profit Margin (after tax)	3.8%	5.0%	-1.2%
Profit Margin Growth	-4.9%	2.0%	-6.9%

## Shareholders' Value



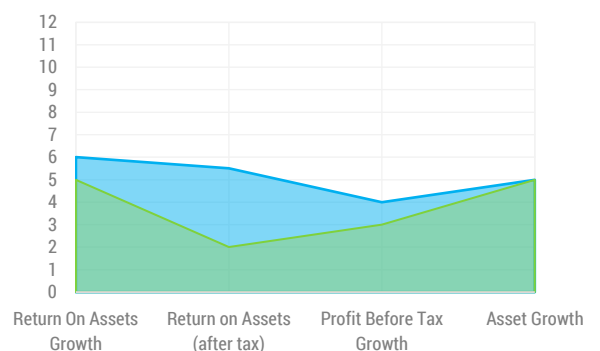
	Company	Industry	Variance
Return on Equity (pre tax)	6.1%	3.0%	3.1%
Total Liabilities-to-Equity Ratio	130.3%	9.0%	121.3%
Profit Before Tax Growth	-53.7%	6.0%	-59.7%
Profit Margin (after tax)	3.8%	5.0%	-1.2%

## Risks & Liabilities



	Company	Industry	Variance
Current Liability Ratio	36.9%	2.4%	34.5%
Total Liabilities-to-Equity Ratio	130.3%	9.0%	121.3%
Total Liab. Growth vs Sales Growth	23.0%	0.6%	22.4%
Rate of Sales Growth	-0.5%	7.0%	-7.5%

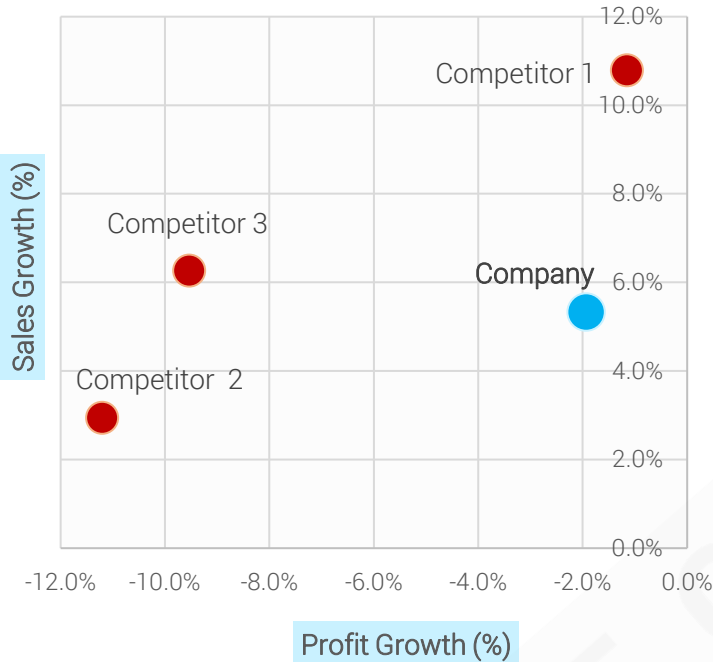
## Productivity



	Company	Industry	Variance
Return On Assets Growth	-2.9%	1.0%	-3.9%
Return on Assets (after tax)	1.8%	1.6%	0.2%
Profit Before Tax Growth	-53.7%	6.0%	-59.7%
Asset Growth	14.0%	3.6%	10.4%

## BUSINESS PERFORMANCE

Peer Analysis: Business Performance



From a topline growth perspective, THE COMPANY's sales fared lower than the average of its peers; it grew 5.3% as compared to 10.8% (Competitor 1), 2.9% (Competitor 2), 6.3% (Competitor 3).

Meanwhile, comparing profit growth levels, THE COMPANY's profits fared better than the average of its peers; it declined by 1.9% as compared to -1.2% (Competitor 1), -11.2% (Competitor 2), -9.53% (Competitor 3).

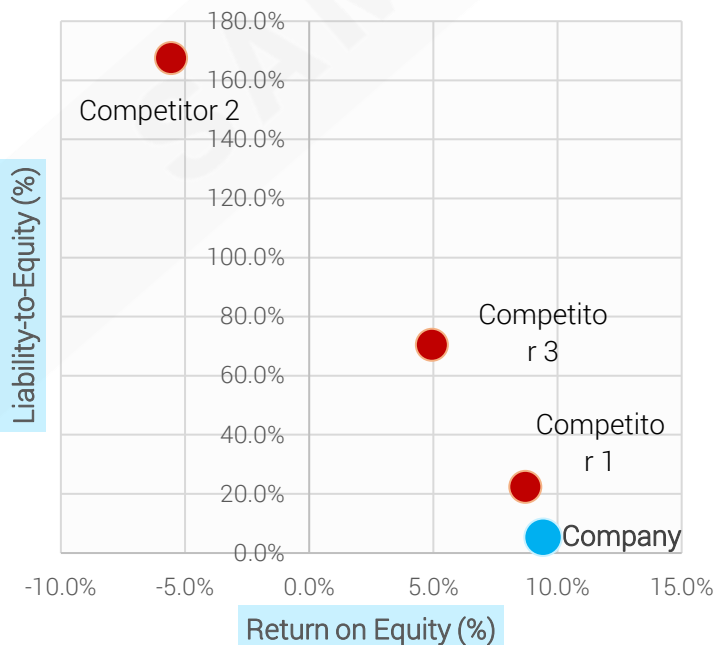
THE COMPANY was ranked 3rd in terms of its sales growth and 2nd in terms of its profit growth as compared to its peers.

THE COMPANY's sales growth position was behind by 5.45% against Competitor 1, which was ranked 1st in position.

THE COMPANY's profit growth position was behind by 0.78% against Competitor 1 which was ranked 1st in position.

## RISK RETURNS

Peer Analysis: Risk Return



On a standalone basis, THE COMPANY took on 8.3x more risk to generate every unit of return.

Competitor 1 registered a liability to equity ratio of 22.4% (lower than THE COMPANY), and ROE of 0.0% (lower than THE COMPANY).

Competitor 2 registered a liability to equity ratio of 167.6% (lower than THE COMPANY), and ROE of 0.0% (lower than THE COMPANY).

Competitor 3 registered a liability to equity ratio of 70.4% (lower than THE COMPANY), and ROE of 0.0% (lower than THE COMPANY).



# STRATEGIC RISK CHECKLIST



## ACTION STEPS

		ACTION STEPS				
<b>BUSINESS PERFORMANCE</b>	<b>PHASE 1</b>	Compare the cost behaviour against sales and profitability performance.	Clarify how sustainable the cost containment will be.	Identify trends and drivers in the industry that may affect expenditure levels in the future.		
	<b>PHASE 2</b>	Conduct a competitive analysis of similar products and services in the marketplace.	Evaluate the price elasticity of the underlying goods and services.	Phase out slow moving offerings in the sales mix.	Review pricing policy and margins - whether any adjustments had resulted in lower volume but higher margins.	Rank and tier the quality of customers; evaluate the value-add that each customer brings to the firm.
<b>SHAREHOLDERS' VALUE</b>	<b>PHASE 1</b>	Determine whether the main reason for profits growth was due to margins/sales management or leverage.	Ascertain the level of risks undertaken by the firm to generate the current/recent profit growth.	Evaluate the sustainability of the performance in subsequent years as this may be a one-off streak.	Examine whether there are single major client or large contract that resulted in the strong performance.	Ascertain whether there are any possible mergers and acquisitions or non-organic growth to maintain position.
	<b>PHASE 2</b>	Perform a comparison analysis between the trends of the levels of liability and sales in the business, over the two most recent operating years of the business.	Perform an analysis of the payment policies for suppliers of the firm, as well as its banking facilities to gain a better understanding of the liability management of the firm.	Determine how easy it is for the firm to obtain financing for its operations over the short and long-term.	Review the current business plans/strategies for future business expansion and/or capital raising.	Establish whether the firm can rely on expanding its internal financing or manage its working capital to efficiently run the business as a going concern.
<b>RISKS &amp; LIABILITIES</b>	<b>PHASE 1</b>	Assess the market place for products and services which may be used as a replacement or substitute for the firm's existing products and services.	Perform an assessment of the changes in demand for the goods and services, at different varying prices.	Identify the individual products which contribute least to the topline and consider removing them from the product range.	Perform a price analysis to determine whether there had been any price adjustments which resulted in higher volumes but lower prices.	Develop and review a customer/client database and individually assess each customer/client for their potential to the firm.
	<b>PHASE 2</b>	Evaluate liability trends in past years and compare against revenue.	Assess creditor payment policies and drawdown facilities to have better understanding how the firm manages its liabilities.	Examine the firm's access to trade finance and long-term financing facilities.	Obtain insights on the firm's expansion plans and financing strategies.	Ascertain the extent the firm relies on internal financing to expand or manage its working capital needs.
<b>PRODUCTIVITY</b>	<b>PHASE 1</b>	Establish management antecedents of the firm's expansion plans if any.	Examine the firm's current level of resources in terms of its current assets and how these are being deployed.	Evaluate historical trends of asset levels - both for fixed and current levels.	Ascertain the use and functions of the asset types that were acquired.	
	<b>PHASE 2</b>	Examine to what extent price margins or debt acquisition was responsible for the increased level of profits.	Assess to what extent was the increase in profitability, generated by increased risks undertaken by the firm.	Analyse whether the profitability growth experienced by the firm is sustainable, or whether it was more of a short term improvement.	Determine whether the increased level of profitability growth was a result of a single client / contract.	Identify whether the firm's dominant position, can be maintained through organic or non-organic means.

## FINANCIAL DATA

Currency: SGD	2019	2018	% Change
<b>Sales</b>	\$ 201,275,678.00	\$ 202,238,336.00	-0.5%
<b>Profit Before Tax</b>	\$ 11,196,299.00	\$ 24,194,056.00	-53.7%
<b>Profit After Tax</b>	\$ 7,732,039.00	\$ 17,659,692.00	-56.2%
<b>Total Asset</b>	\$ 420,173,976.00	\$ 368,677,637.00	14.0%
<b>Total Liabilities</b>	\$ 237,720,342.00	\$ 194,069,747.00	22.5%
<b>Current Liabilities</b>	\$ 155,082,125.00	\$ 122,699,512.00	26.4%
<b>Shareholders' Fund</b>	\$ 182,453,634.00	\$ 174,607,890.00	4.5%

## PERFORMANCE METRICS

 <b>Business Potential Ratios</b>		 <b>Risk &amp; Valuation Ratios</b>	
	%		%
<b>Rate of Sales Growth</b>	-0.5%	<b>Return on Equity (pre tax)</b>	6.1%
<b>Rate of Cost Growth</b>	6.8%	<b>Total Liabilities-to-Equity Ratio</b>	130.3%
<b>Cost/Sales Growth</b>	6.4%	<b>Profit Before Tax Growth</b>	-53.7%
<b>Profit Margin (after tax)</b>	3.8%	<b>Profit Margin (after tax)</b>	3.8%
<b>Profit Margin Growth</b>	-4.9%	<b>Current Liability Ratio</b>	36.9%
<b>Return On Assets Growth</b>	-2.9%	<b>Total Liability Growth vs Sales Growth</b>	23.0%
<b>Return on Assets (after tax)</b>	1.8%	<b>Rate of Sales Growth</b>	-0.5%
<b>Profit Before Tax Growth</b>	-53.7%		
<b>Asset Growth</b>	14.0%		

## SAMPLE COMPANY

### WORDCLOUD

**SENTIMENT  
SCORE**

**8.8**

Impact on the  
business

**NEUTRAL**



**Explanation to the score:**

The related news extracted has a sentiment score of **8.8**. This means that the overall sentiment or tone of the extracted news is essentially neutral.

### Latest News

**Is SAMPLE COMPANY A Risky Investment?** | Simply Wall St, August 6, 2020

David Iben put it well when he said, 'Volatility is not a risk we care about. What we care about is avoiding the permanent loss of capital.' So it seems the smart money knows that debt – which is usually involved in bankruptcies – is a very important factor, when you assess how risky a company is. We can see that SAMPLE COMPANY does use debt in its business. But the more important question is: how much risk is that debt creating? Why Does Debt Bring Risk? Debt and other liabilities become risky for a business when it cannot easily fulfill those obligations, either with free cash flow or by raising capital at an attractive price. In the worst case scenario, a company can go bankrupt if it cannot pay its creditors. However, a more usual (but still expensive) situation is where a company must dilute shareholders at a cheap share price simply to get debt under control. By replacing dilution, though, debt can be an extremely good tool for businesses that need capital to invest in growth at high rates of return. The first step when considering a company's debt levels is to consider its cash and debt together.

**SAMPLE COMPANY seeks extension for disposal of assets competing with SLB unit** | Business Times, May 24, 2020

SAMPLE COMPANY has asked for a further extension of time to dispose of competing business in relation to its unit SLB Development, both the mainboard-listed construction firm and Catalist-listed SLB announced on Friday night. The Singapore Exchange said it has no objections to granting an extension, subject to SLB announcing the extended deadline and the rationale for seeking an extension, Lian Beng's plans to fulfil the disposal by the new deadline, and the audit committee's views on whether the extension will be prejudicial to SLB and its minority shareholders. Before SLB was listed in 2018, SAMPLE COMPANY's business had included property development. To mitigate potential conflicts of interest with SLB post-listing, Lian Beng had voluntarily undertaken to dispose of three properties in Australia and wind up or liquidate two companies.

**Hit by construction halt, Lian Beng Group earnings fall 12.8% y-o-y in FY2020** | The Edge Singapore, July 29, 2020

SAMPLE COMPANY posted a 12.8% y-o-y fall in earnings to \$28.7 million for the FY2020 ended May 31, although revenue increased 43.8% y-o-y to \$556.0 million for the same period, owing to higher revenue generated from the construction segment. "The higher revenue from the construction segment was due to the progressive revenue recognition of construction projects for about the first 10 months of FY2020. The Group did not record much revenue for the months of April and May as a result of circuit breaker measures implemented by the Singapore government to combat the Covid-19 pandemic," says the company via an SGX filing on July 27. Earnings per share fell to 5.73 cents in FY2020 from 6.58 cents in FY2019. In line with the increase in construction activity following the commencement of new projects, cost of sales outstripped the growth in revenue, rising 54.6% y-o-y to \$471.58 million in FY2020. In light of the above, gross profit increased marginally by 3.3% to \$84.5 million in FY2020 from \$81.8 million in FY2019.



## SINGAPORE ECONOMY

WORDCLOUD

SENTIMENT  
SCORE

16.2



Explanation to the score:

The related news extracted has a sentiment score of **16.2**. This means that the overall sentiment or tone of the extracted news is somewhat positive / enthusiastic.



### Latest News

#### **Singapore must remain open to benefit from Asia's growth: Heng** | Business Times, August 10, 2020

Singapore can contribute to and benefit from Asia's growth only if it remains open and connected to the world, while forging new partnerships and evolving its approaches, Deputy Prime Minister Heng Swee Keat said. In a keynote speech at the FutureChina Global Forum on Tuesday, Mr Heng noted that many workers are anxious about their jobs and the benefits of economic openness. "But we must not undermine what has made us successful, by closing ourselves off from the world," said Mr Heng, who is also Finance Minister. "To ensure that the benefits of globalisation remain beneficial to all countries, we will have to restructure our economies and upskill our workers." In Singapore, the government is adjusting its employment policies, upskilling workers and strengthening its social safety nets to ensure they continue to serve the interests of Singaporeans, he said. China, too, is continuing to reform its economy, and President Xi Jinping has spoken about how the domestic market for goods and services and "international circulation" must reinforce each other in the country's new economic model, Mr Heng noted.

#### **Singapore announces another \$5.8 billion to boost its coronavirus-hit economy** | CNBC, August 7, 2020

Singapore's Deputy Prime Minister and Finance Minister Heng Swee Keat announced another 8 billion Singapore dollars (\$5.8 billion) to support an economy under pressure from the coronavirus pandemic. The country's open and trade-dependent economy has been among the hardest hit in Asia following lockdown measures around the world aimed at slowing the spread of the coronavirus. Singapore's government has allocated another 8 billion Singapore dollars (\$5.8 billion) to support the economy that has come under pressure from the coronavirus pandemic, Deputy Prime Minister and Finance Minister Heng Swee Keat said Monday. "The resulting economic impact has been severe," Heng, who's also coordinating minister for economic policies, said in a televised address. He added that "the global economy remains very weak" and any recovery "will depend on how well countries contain the spread of the virus."

#### **'Great Urgency' to Make Over Singapore's Economy, Says President** | Bloomberg, August 4, 2020

With the coronavirus pandemic threatening the global openness and integration that have allowed Singapore to prosper, President Halimah Yacob said there's "great urgency" to transform the city-state's economy. "Much of our economy thrives because we have made ourselves a vibrant hub for the region and an attractive place for trade, investments, talent and ideas," Halimah said Monday, addressing the first session of parliament since July's general election. "We cannot take our hub status for granted, or assume that its scope and role will remain the same." She said the country will resume air travel safely and help its companies develop links to new markets. Meanwhile, efforts to bolster resilience in critical areas such as food, health care and supply chain management can become new sources of growth, while the Southeast Asian nation will also make a major push for sustainable growth including for green financing across the region, she said.



# AIX

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STOCK EXCHANGES GLOBALLY

A Digital AI Labs project by Bulle8 / MyFinB

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