COMPANY NOTE

on

mDR Limited

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mDR Limited

Company note
24 April 2018

Unrated

Current Price	0.3 cents
Fair Value	0.366 – 0.582
Up / (downside)	21.9% – 93.9%

Stock Statistics

Market cap	S$37.58m
52-low	0.2 cents
52-high	0.8 cents
Avg daily vol	16,180,994
No of share	12,528m
Free float	72.21%

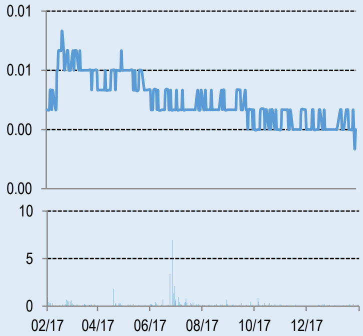
Key Indicators

ROE FY17	6.3%
ROA FY17	4.8%
P/BK	0.57x
Net gearing	Net cash

Major Shareholders

Lee Ewe Ming	20.78%
Ong Ghim Choon	7.01%

Historical Chart



Source: Bloomberg

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Buying into Future Growth

- **Background.** Mobile handset and accessories distributor, retailer and aftermarket services provider mDR Limited is seeking shareholders' approval at an EGM on 27 April 2018 to conduct a Rights-cum-Warrants Issue to raise funds in preparation for its expansion into New Businesses in Property and Investments.

- **New Businesses have showed results.** Growth has been mixed for mDR's Core Businesses. In 2017, gross profit fell by 2.1% despite revenue growth of 4.5%. In May 2017, mDR appointed its Executive Chairman Mr. Edward Lee Ewe Ming to the Board and thereafter started a new Investment segment that added S$1.5m of income and led group PATMI to grow by 39.5% from S$2.9m to S$4.1m in 2017. Showing confidence and commitment to shareholders, the group also raised dividends in 2017.

- **Rights cum Warrants Issue to fund business expansion**. The Rights-cum-Warrants Issue will allow mDR to make scale up the New Businesses and generate higher return. In turn, the warrants allow shareholders to increase future participation at a fixed cost, thereby enhancing return from future growth. One risk is that the proposed Investment mandate is extensive and may expose the group to more risks. However, mDR plans to impose higher Board oversight in investment decisions after approval has been obtained at the EGM.

- **Current fair value of S$46m – S$73m.** On a fully diluted basis, we value mDR at 0.151 – 0.229 cents versus a cost of 0.129 cents, assuming the conversion of only the in-the-money Warrants. Some premium of at least 16.5% has been added to the capital raised, to reflect future excess return. The Investment segment generated an annualised return of S$3m or 17.5% over invested capital in 2017, which led us to value the Investment segment today at a premium instead. Moreover, most of the funds raised will be used in the New Businesses. However, the wide bid-ask spread of 0.1 cent will limit the realization of any immediate gains. The group is probably targeting investors that aim to hold their shares over the next six to 36 months. This risk can be mitigated via various corporate actions e.g. a capital reduction or a share consolidation, after several years of profit growth.

- **More exciting outlook with new direction.** As the Warrants will mature over six, 18 and 36 months from their dates of issue, we expect the management to accelerate business momentum and introduce more new developments over these timeframes and enhance value, after approval has been obtained at the EGM. In turn, participating investors will benefit from potentially higher value creation and low entry prices. We do not rate mDR at this juncture due to the wide bid-ask spread and the absence of more information about future projects.

Key Financial Data

(S$ m, FYE Dec)	2015	2016	2017
Sales	318.95	263.29	275.03
Gross Profit	30.36	27.88	27.28
Net Profit	4.06	2.94	4.10
EPS (cents)	0.032	0.023	0.033
EPS growth (%)	NA	-28.1	43.5
PER (x)	9.38	13.04	9.09
NTA/share (cents)	0.499	0.514	0.524
DPS (cents)	0.00798	0.01038	0.01197
Div Yield (%)	2.66	3.46	3.99

Source: Company, NRA Capital forecasts

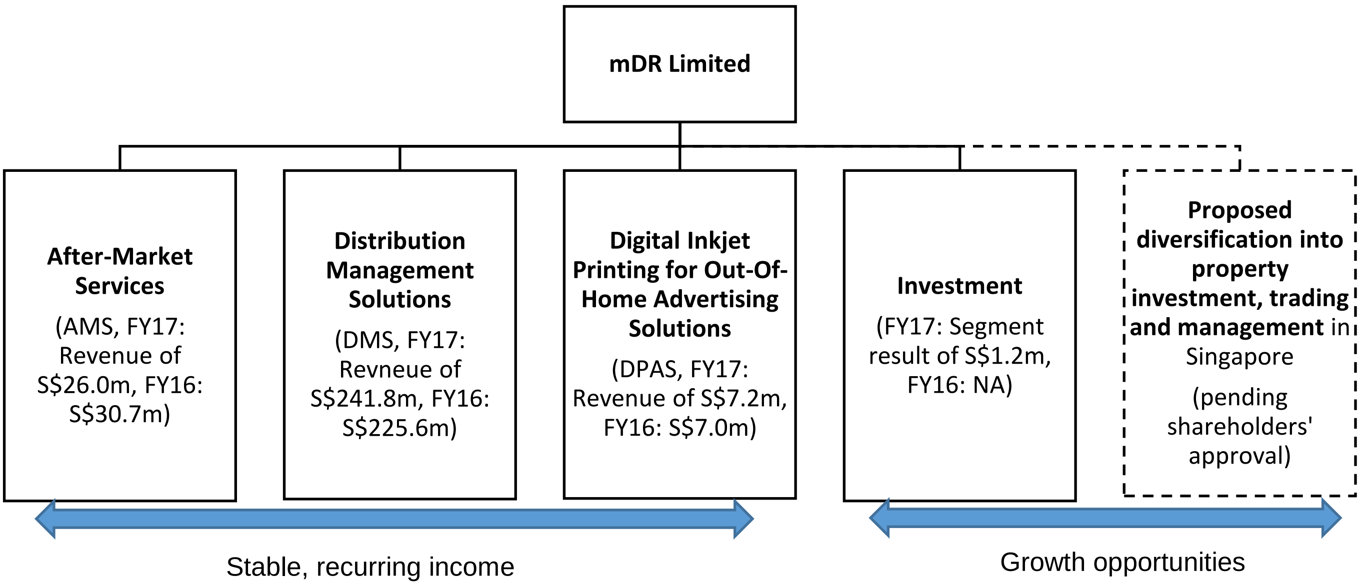
mDR Limited

Company background. mDR Limited is an established after-market service provider for mobile phones and various consumer electronic products. Its businesses are organised into four segments – a) After-Market Services (AMS), b) Distribution Management Solutions (DMS), c) Digital Inkjet Printing for Out-Of-Home Advertising Solutions (DPAS) and d) Investment. The Investment segment was added in 2017.

AMS provides after-market service for mobile equipment and consumer electronic products. DMS is a distributor and retailer of mobile telecommunication equipment and mobile related services, including prepaid cards. DPAS provides digital inkjet printing for point-of-sale and out-of-home advertising solutions. The Investment segment comprises of investment in marketable securities and loans.

Subject to the approval of shareholders at an EGM on 27 April 2018, mDR also plans to diversify and undertake a property business in Singapore, i.e. acquire, invest in, trade in and manage property and related assets in Singapore. The group also plans to develop and expand the Investment segment to invest and trade in a wider variety of asset classes and instruments, such as unquoted and quoted securities, REITs, private equity funds and corporate loans.

Figure 1: Business Segments



Source: Company, NRA Capital

Core businesses remained stable in 2017. For the financial year ended 31 December 2017, group revenue from continuing operations grew by 4% or S$11.74m to S$275.03m, mainly due to an increase in sale of handsets, wholesale of accessories and line connections for operators at the DMS segment. AMS segment revenue fell due to a decrease in repair volume. The DPAS segment's revenue remained stable at S$7.2m.

Gross margin retreated slightly from 10.6% in 2016 to 9.9% in 2017 due to lower revenue contribution by the higher margin AMS segment and lower DMS segment gross margin. The AMS segment had a gross margin of 25% in 2017. Although the DMS segment's gross margin fell from 8.2% in 2016 to 7.7% in 2017, segment gross profit still grew marginally or by S$0.1m in 2017 on higher revenue. Group gross profit fell by S$0.6m in 2017.

Estimated earnings of S$2.4m from the Core Businesses were also matched by positive operating cash flow of S$3.2m in FY17 (FY16: S$3.56m), indicating positive earnings quality.

New Investment segment contributed positively in 2017. Maiden contribution by the Investment segment added S$1.5m to the bottom-line in 2017 (comprising of S$1.1m of interest income from loans to a third party and S$0.39m of dividend income from investments in quoted equity instruments). As at 31 December 2017, loans and interest receivable from the third party amounted to S$3.8m. After 31 December 2017, the loans and interest receivable were derecognised following the repayment of S$1.5m and the transfer of the remaining balance of S$2.3m to the Chairman of the Company without recourse.

These are risky high yield loans that return commensurate interest of 3.5% to 4% per month (42% to 48% per annum) and they were secured by a corporate guarantee from the borrower's parent company and personal guarantees from both the Chairman of the borrower's parent company and the Chairman of the Company. The larger part of mDR's portfolio was invested in less risky marketable securities with a carrying value of S$13.2m. mDR recognized approximately half year of dividend income of S$0.39m from these investments, yielding an annualised rate of 5.9% on their carrying value as at year end. Due to positive contribution from the Investment segment in 2017, group PATMI grew by 40% from S$2.94m in 2016 to S$4.10m in 2017 despite total gross profit from other business segments declining slightly to S$27.3m.

Costs were also tightly controlled in 2017. Administrative expenses and other operating expenses fell by 1.8% or S$0.46m in 2017 to S$24.5m. The reduction in operating expenses is noteworthy as mDR added a new segment in 2017 – the Investment segment. It also added four new directors in 2017 in association with its plans to expand into property and to widen the scope of its investments. Despite these changes, administrative expenses fell, rather than rose in 2017.

Figure 2: Financial Summary

S$m	AMS	DMS	DPAS	Group (FY17)	FY16	Change
Revenue	26.03	241.76	7.25	275.03	263.29	4.5%
Gross profit	6.49	18.64	2.15	27.28	27.88	-2.2%
Gross margin	25.0%	7.7%	29.6%	9.9%	10.6%	
Interest income from loan to third party				1.10	0.00	
Dividend income				0.39	0.00	
Other operating income				0.94	0.78	20.2%
Administrative expenses				-18.38	-18.61	-1.2%
Other operating expenses				-6.12	-6.35	-3.7%
Share of profit of an associate				0.01	0.01	
Finance costs				-0.31	-0.11	193.4%
Profit before tax				4.92	3.61	36.2%
Income tax				-0.26	-0.12	122.2%
Continuing operations				4.66	3.49	33.4%
Discontinued operations				-0.44	-0.44	
PAT				4.22	3.05	
PATMI				4.10	2.94	
NCI				0.12	0.11	
PATMI from continuing operations				4.41	3.41	
Dividends				1.50	1.30	
Pay-out ratio				34.0%	38.1%	
Net operating cash flow				3.19	3.56	

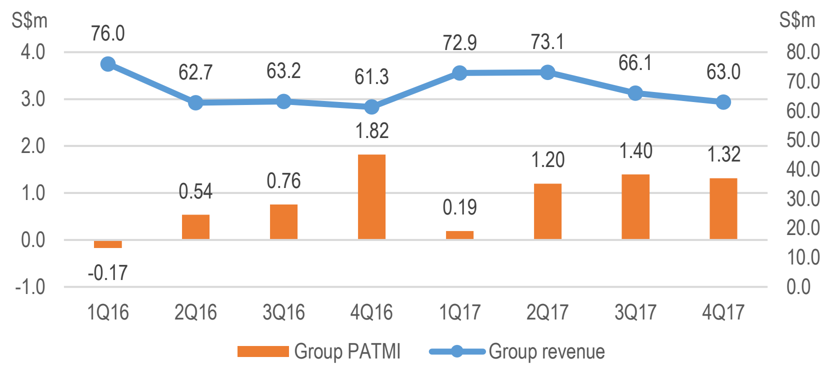
Pay-out ratio of more than 30%. The S$1.5m pay-out translates to a yield of 4% on the current market capitalisation of S$37.58m as at 18 April 2017.

Source: As extracted from company financial statements

More steady performance and higher dividends with new management. Of the four new directors appointed in 2017, three of them are independent directors and do not hold executive roles. The current Executive Chairman cum Non-Independent Executive Director Mr. Edward Lee Ewe Ming joined mDR on 11 May 2017, after acquiring shares from other shareholders and raising his stake from 2.73% to 19.65% on 5 May 2017. Consequently, Mr. Lee become the largest shareholder and the Controlling Shareholder of the group, after the last largest shareholder sold his entire 11.82% stake, also on 5 May 2017.

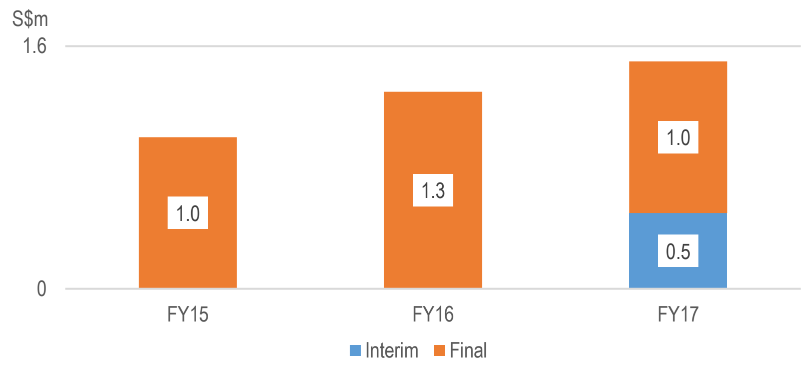
Since Mr. Lee joined the Board and added the Investment segment, mDR's performance has improved as indicated in our preceding analysis. The value created by reducing reliance on the Core Businesses can be seen from the fact that PATMI over 2Q17 to 4Q17 was higher than that of 2Q16 to 4Q17 and accounted for 95% of full year FY17 PATMI, even though revenue from the Core Businesses peaked at S$73.1m in 2Q17. Another change that occurred in 2017 was that mDR started paying out interim dividends. Total dividend was also raised from S$1.3m for 2016 to S$1.5m for 2017. These positives suggest improved corporate governance after Mr. Lee joined the group.

Figure 3: Quarterly Revenue and PATMI



Source: Company announcements

Figure 4: Dividend Payment



Source: Company announcements

Figure 5: Balance Sheet Summary

As at 31 December 2017, S$m				
Cash and cash balance	13.02		Bank loans and finance leases	6.59
Investment securities	13.23		Trade payables	11.87
Trade receivable	22.23		Other payables	6.70
Other receivables and prepayments	8.36		Income tax payable	0.07
Inventories	18.93		Deferred tax liabilities	0.44
PPE & investment in associate	11.22		**Total liabilities**	**25.67**
Goodwill	2.80		Current liabilities	24.59
Total assets	**89.79**			
Current assets	61.10		**Total common equity**	**65.64**
			Number of shares outstanding	12,528m
			Share price as at 18 April 2018	S$0.003
			Mkt cap	S$37.58m
			P/BV	**0.57x**

Source: financial figures are as extracted from company financial statements

Net cash balance sheet. mDR has net cash of S$6.43m as at 31 December 2017. Trade, other receivables, prepayments and inventories exceeded payables and deferred tax liabilities by S$30.44m. Hence, the group has adequate working capital to buffer against risks such as any impairment of trade receivables or write-down of inventories. Based on the current market capitalisation of S$37.58m, mDR trades at 0.57x its book value.

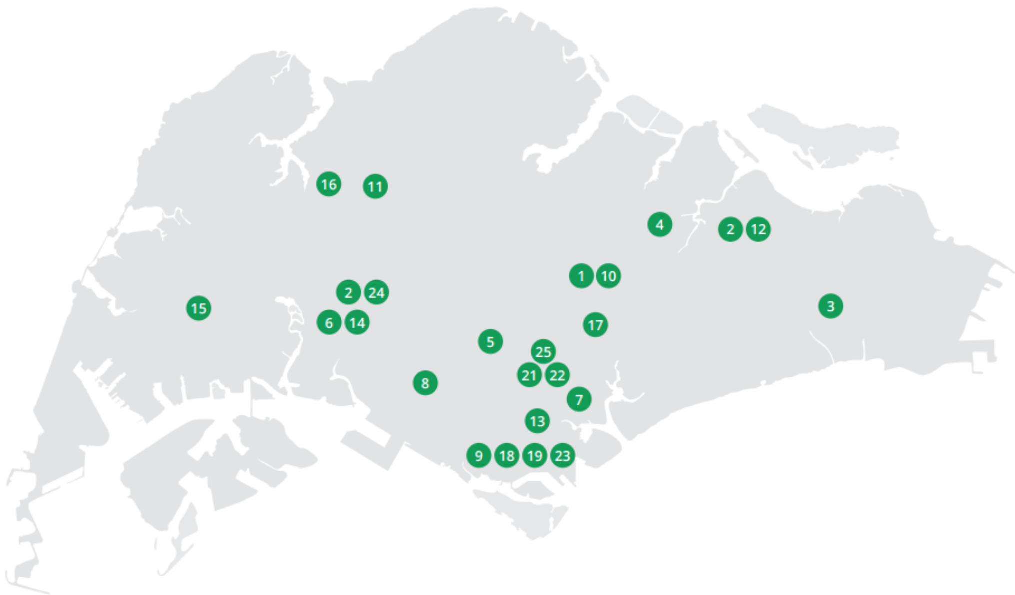
Current businesses have opportunities but face strong headwinds. The AMS and DMS business combined makes mDR one of the largest distributor, retailer and aftermarket service provider of mobile phones in Singapore. The DMS segment operates and manages a total of 21 stores (including two franchised stores) in Singapore, selling mobile phones (and M1 and Singtel line connections under the brands HandphoneShop and 3 Mobile respectively). Many of these stores are located within the same mall or vicinity to extract synergies in rental, delivery and inventory management costs. For instance, the group operates one HandphoneShop outlet and one 3 Mobile store in JEM.

Three of these stores are Samsung concept stores-cum service centres. The group also operates one Sony service centre. This retail network is in turn complemented by an e-commerce portal HandPhoneShop.com. From the product line perspective, the group is the authorised distributor of mobile devices and accessories for Huawei, LG, Nokia, Oppo, Samsung and Sony

Via its expertise in distribution and retail, opportunities for the group include a) the provision of distribution services for the fourth telco TPG Telecom, b) the sale of tier-2 handset brands as consumers wean off Apple and Samsung, c) the provision of third party aftermarket services and d) the distribution of prepaid cards. The group also distributes Singtel prepaid cards and services in Singapore. Backwards integration opportunities can also be tapped, via the DPAS segment which mainly operates in Malaysia. The DPAS segment can provide printing services for outdoor and point-of-sale advertisements.

The downside is that the telecommunication industry in Singapore is highly competitive and mature, with very high smartphone penetration. Major principals such as Samsung, M1 and Singtel also exercise significant bargaining power against the more fragmented base of local distributors and retailers.

Figure 6: mDR's Business Network



M1 Exclusive Distributor

10. **Junction 8**
Bishan Central,
#02-30, S(579837)
11. **Bukit Panjang Plaza**
1 Jelebu Road,
#03-19, S(677743)
12. **Compass One**
Sengkang Square,
#B1-12, S(545078)
13. **Great World City**
1, Kim Seng Promenade,
#02-36, S(237994)
14. **JEM**
50 Jurong Gateway Road,
#04-38, S(608549)
15. **Jurong Point**
1 Jurong West Central 2,
#B1-97, S(648886)
16. **LOT One Shoppers' Mall**
Choa Chu Kang Ave 4,
#B1-18, S(689812)
17. **Toa Payoh Central**
Blk 190, Lorong 6 Toa Payoh,
#01-548, S(310190)
18. **VivoCity**
1 Harbourfront Walk,
#02-216C, S(098585)

Handphone SHOP

Singtel Exclusive Retailer

1. **Junction 8**
Bishan Central,
#02-32, S(579837)
2. **Compass One**
1 Sengkang Square,
#B1-08, S(545078)
3. **East Point Mall**
3 Simei Street 6,
#B1- 05, S(528833)
4. **Hougang Mall**
90 Hougang Ave 10,
#04-17, S(538766)
5. **ION Orchard**
2 Orchard Turn,
#B4-22, S(238801)
6. **JEM**
50 Jurong Gateway Road,
#04-57, S(608549)
7. **Suntec City Mall**
3 Temasek Boulevard,
#02-318, S(038983)
8. **The Star Vista**
1 Vista Exchange Green,
#B1-26, S(138617)
9. **VivoCity**
1 Harbourfront Walk,
#02-216B, S(098585)

3 MOBILE

Samsung Experience Stores

19. **VivoCity**
1 Harbourfront Walk,
#02-28/29, S(098585)
20. **Westgate**
3 Gateway Drive,
#01-01, #02-01, S(608532)
21. **Plaza Singapura**
68 Orchard Road,
#B2-23, S(238839)

SA

Samsung Service Centres

22. **Plaza Singapura**
68 Orchard Road,
#B2-23, S(238839)
23. **VivoCity**
1 Harbourfront Walk,
#02-28/29, S(098585)
24. **Westgate**
3 Gateway Drive,
#01-01, #02-01, S(608532)

SAMSUNG

Sony Service Centre

25. **313@Somerset**
313 Orchard Road
#02-28 to 37, S(238895)

SONY

Pixio

26. **Pixio Sdn. Bhd.**
No. 32, Jalan 223/51A,
46100 Petaling Jaya,
Selangor DE, Malaysia
27. **United Pixio Sdn. Bhd.**
Lot 2597, Block 3,
MCLD Wisma United Borneo Press
Jalan Piasau, 98000 Miri
Sarawak, Malaysia

PiXiO

Source: Extracted from annual report

Proposed New Businesses will expand opportunity set. The proposed new businesses in investments and property will in turn expose the group to a wider set of opportunities to raise profitability. For instance, profit growth in 2017 would have been less robust if not for the high interest loans made to a third party. As per paragraph 8.2.1 of the shareholders' circular dated 10 April 2018, the Property Business will include:

a) Acquiring and holding of investments in residential, hospitality, commercial (retail and office), industrial and any other suitable types of properties (including mixed developments), and the holding of such properties for long term investment for the collection of rent, capital appreciation and/or provision of property related services and facilities.

b) Trading in properties, including the purchase and sale of properties with reasonable yield and/or capital growth potential.

c) Managing properties by providing to property owners and/or tenants services such as regular building maintenance and repairs, facilities management and supervision of the performance of service providers and contractors.

d) Any other activity related to or ancillary to the above.

As part of the Property Business, the group may invest in shares or interests in entities that are in the Property Business. The circular also mentions that the group specifically intends to carry out the Property Business in Singapore only.

As per paragraph 8.2.2 of the shareholders' circular, the Investment Business shall be developed and expanded to include:

a) Investing in quoted and/or unquoted securities and investments in private and/or listed companies with the potential of business growth, M&A and trade sale. Such investments may be seed, angel, mezzanine and other forms of capital.

b) Trading in quoted and unquoted and/or other marketable securities.

c) Trading n cryptocurrencies and/or cryptographic tokens.

d) Pre-IPO investments.

e) Trading in futures, commodities, bonds, notes, funds and other securities, derivatives and financial products.

f) Investing in REITs.

g) Investing in PE funds, hedge funds and funds of funds.

h) Providing financing and loans to corporate entities and

i) Any other activity related to or ancillary to the above.

There shall be no sector, industry or geographical market restriction for the Investment Business. However, shareholders' approval will still be required for any major transaction where the NAV, PATMI and/or consideration of the assets transacted and/or number of shares to be issued exceed that of the group by 20%. If transactions aggregated over a 12-month period exceed these bases, the last of such transactions will also be subject to shareholder approval.

Board shall have greater oversight in investment decisions. We noted that the scope of Investments that can be undertaken is wide, if approved. While the wide scope affords flexibility in capturing investment opportunities, it also means that the group will be taking on extensive risks at the same time. We highlight four key controls

- An independent director shall be one of the dual signatories for withdrawal of amounts above S$5.0m.
- Any transaction of quantum above S$10m shall be conditional upon the positive recommendation of the audit committee. Currently, the audit committee comprise of three independent directors out of the six-member Board.
- Any investment-related decisions must be determined and approved by at least three quarters of the Board or five out of six members.
- A Board majority will also be required for the provision of financing and loans to any borrower, in addition to due diligence and know-your-client procedures.

These controls raise the threshold in the making of investment decisions where the key management running the New Businesses has less decision-making autonomy, especially in the case of large transactions.

Board composition is crucial. In this case, the three independent directors make up for half of the board and the existing group CEO (also a board director) oversees the Core Businesses.

The Executive Chairman Mr. Lee will be managing the New Businesses and report to the Board. Mr. Lee is also the Managing Director of Edward Lee Apartments Private Limited and Edward Lee Residences Private Limited. The full list of Directors, their interests in the company, abstentions from voting and more information about them can be found in mDR's 2017 annual report and in the shareholders' circular.

Will the Core Businesses today be disposed? The circular states that the group remains committed in the continuance of the current Core Businesses for so long as they remain viable. There could be synergies such as the location of logistics and office facilities (and even possibly retail outlets) in owned properties. Lower rental costs can help the Core Businesses to improve competitiveness.

Rights cum Warrants issue to fund the New Businesses. To fund the New Businesses, the group is undertaking a Rights-cum-Warrants issue structured such that

a) ONE Existing Share is entitled to TWO Rights Shares at 0.188 cents each.

b) ONE Right Share will in turn be entitled to THREE Tranche A Warrants, THREE Tranche B Warrants and THREE Tranche C Warrants for free.

Therefore, a shareholder with ONE share today will end up with THREE shares and 18 detachable warrants upon the completion of the Rights-cum-Warrants issue, by subscribing and paying 0.376 Singapore cents for the two Rights Shares. Alternatively, the shareholder may also subscribe for ONE Right Share (and NINE free warrants) only, by paying 0.188 cents.

Mr. Lee currently owns 20.78% of the existing issued shares, and he has given an irrevocable undertaking to subscribe and pay in full for his pro-rata entitlement of the Rights Shares with Warrants. Mr. Lee may subscribe for excess rights according to the scenarios depicted in Figure 7.

Figure 7: Summary of Resolutions to be approved, their inter-conditionality and Undertakings

A) Summary of Resolutions

Ordinary Resolution 1: The Rights cum Warrants Issue

- Subject to the approval by shareholders of Ordinary Resolution 3

Ordinary Resolution 2 - The Whitewash Resolution

- Subject to the approval by shareholders of Ordinary Resolution 1
- Shareholders, other than Mr. Edward Lee and parties not independent of him, waive their rights to receive a mandatory general offer if Mr. Lee's shareholdings exceed 30%, due to a) his subscription of the Rights Shares and additional shares arising from the conversion of the free Warrants and b) including any excess Rights Shares subscribed and received, and additional shares arising from the conversion of free Warrants arising from the subscription of excess Rights Shares.

Ordinary Resolution 3 - Proposed Diversification to Property and Investment

B) Summary of Possible Scenarios arising from inter-conditionality of resolutions and Implications

Other scenarios are not possible due to inter-conditionality.

Scenarios	A	B	C	D
Resolution 1	Not Approved	Approved	Approved	Not Approved
Resolution 2	Not Approved	Not Approved	Approved	Not Approved
Resolution 3	Approved	Approved	Approved	Not Approved
Our View*	**Risky**	**Somewhat Risky**	**Least Risky Option**	**Status Quo**

Most preferred

- Company may raise funds through other means that may still dilute existing shareholders in the future.
- Shareholders lose out on the upside potential from the Warrants.

- Mr. Lee will subscribe and pay for less than or up to his full pro-rata entitlement of Rights Shares and any excess Rights Shares, such that he holds not less than 29.0%, but not exceeding 29.99% of the enlarged share capital after the Rights cum Warrants Issue (Refer to paragraph 2.6 (d) of the circular).

- Mr. Lee's shareholdings will be capped at 29.99% without making a general offer.
- Mr. Lee has prepared S$9.8m to pay for his full entitlement of Rights Shares.
- If less than S$17.26m is raised from the other shareholders (equivalent to the subscription of 46.2% of the other shareholders' full entitlement of Rights Shares), Mr. Lee will subscribe for less than his full entitlement to keep his shareholdings at not less than 29.0%.
- If less than S$5.0m is raised from the other shareholders (equivalent to the subscription of 13.4% of the other shareholders' full entitlement of Rights Shares), the company would raise less than S$9.8m.
- Therefore, there is the risk that inadequate funds are raised for meaningful investments in the New Businesses, and thus severely limit upside to shareholders.

- If less than 13.4% of the other shareholders' full entitlement of Rights Shares are taken up and no warrants have been converted, Mr. Lee can only convert up to 241m of his warrants for S$0.24m, based on the Tranche A Warrants conversion price of S$0.001, out of a maximum potential of S$42.6m from the Tranche A and Tranche B Warrants.
- In turn, the company may still have to turn to private placements and other forms of potentially dilutive means of funding in the future, especially if there is inadequate funding from the conversion of Warrants, without shareholders' approval of a whitewash resolution in the future.
- On the other hand, shareholders will retain their rights to a general offer, which we do not think is foreseeable if the Rights cum Warrants Issue is completed as Mr. Lee will have to offer a premium for the existing shares, Rights Shares and Warrants after investing additional money in the company.

- Mr. Lee will subscribe and pay for his full pro-rata entitlement of Rights Shares.

- Mr. Lee will apply for excess Rights Shares at his option and sole discretion.

- However, Mr. Lee will limit his number of excess Rights Shares such that his shareholdings will not exceed 44.04% of the combined number of existing shares and Rights Shares AND 84.64% of the combined number of a) existing shares, b) Rights Shares and c) addition shares arising from the conversion of Warrants, under the assumption that Mr. Lee fully converts his Warrants.

- Company has certainty that it will raise at the minimum S$9.8m and up to S$42.6m if Mr. Lee converts his Tranche A and Tranche B warrants in full. Commercially, the company's operational flexibility to invest a wider variety of assets is materially enhanced.

- Mr. Lee will have more flexibility in converting his warrants to fund the company. This will result in stronger alignment of interests between him and other shareholders, and any transactions by him to convert the warrants will send signals to shareholders about prospects.

***We are not the Independent Financial Advisers for this transaction. Shareholders should refer to their circular for the recommendation by the directors and the opinion of the Independent Financial Advisers.**

Source: Shareholders circular dated 10 April 2018

Figure 8: Summary of Rights Shares and Warrants

	Shareholders' Entitlement	Issue Price	Conversion Price	Conversion Ratio	Exercise Period
Rights Share	Two Rights Shares for every One Existing Share	0.188 cents	Not Applicable	Not Applicable	Not Applicable
Tranche A Warrants	Three warrants for every Rights Share	Free	0.1 cent	1 Warrant: 1 Share	Six months
Tranche B Warrants	Three warrants for every Rights Share	Free	0.11 cents	1 Warrant: 1 Share	18 months
Tranche C Warrants	Three warrants for every Rights Share	Free	0.7 cents	1 Warrant: 1 Share	36 months
*Each Rights Share and shares arising from conversion of the Warrants shall rank pari passu with existing shares. **The Warrants shall be convertible from the date of issue and until their maturity.					

Source: Shareholders circular dated 10 April 2018

Voting for all three resolutions offers least risk and most upside potential from New Businesses. In Figure 5, we provided our views on the various voting outcomes – risky, somewhat risky and least risky. Specifically, we are referring to the risks of

a) Dilution from future fundraising exercises
b) Inadequate funding to scale up the New Businesses
c) The alignment of interests between Mr. Lee and other shareholders

In view of the above factors, voting for all three resolutions will seem like the best option.

Voting for the Rights-cum-Warrants Issue and the Diversification (i.e. Resolutions 1 and 3) will raise the risks of future dilution, inadequate funding (and slow growth) and reduce alignment of interests between Mr. Lee and other shareholders. This is because Mr. Lee will subscribe for less than his full entitlement of Right Shares if less than 46.2% of the other shareholders' Rights Shares are taken up, leading to less funds raised if the take-up of the Rights Shares is low.

In addition, Mr. Lee will be prevented from converting 100% of his warrants due to the 29.99% cap on his shareholdings, if Resolution 2 is not approved. In this case, the company's flexibility will be reduced as it will be prevented from raising as much funds from Mr. Lee in the future without shareholders' approval. We do not foresee Mr. Lee making a general offer if the Rights Issue-cum-Warrants is completed and additional funds have been invested in the company.

However, there may be shareholders who would vote against resolutions 1 and 2 or against all three resolutions. These would be shareholders without the financial resources to participate in the Rights-cum-Warrants Issue or shareholders who would favour an exit.

One possible scenario is for Mr. Lee to make an offer to the existing shareholders, before raising funds via e.g. a rights issue or private placement after some time, e.g. six months later. However, Mr. Lee will have to spend S$14.8m to S$38.7m to raise his stake from 20.78% to 51% - 100%, based on an offer price of 30% premium above the current share price of 0.3 cents; when the same funds can be used to grow the company and enhance shareholder value. Then, shareholders can exit in the market at potentially higher prices.

Moreover, mDR's shareholder base is fragmented. Mr. Lee owns 20.78% of the group, followed by the Group CEO Mr. Ong Ghim Choon who owns 7%. The next two largest shareholders own approximately 4.5% and 3.4% of mDR as at 16 March 2018. Hence, the odds of a third party making a general offer is low. Therefore, voting for all three resolutions will offer the most upside and least risk by providing certainty of funding to grow the New Businesses.

Should an investor buy-in now? Currently, mDR's share price has fully factored in the Rights cum Warrants Issue, assuming full subscription. If the Rights Shares, Tranche A and B Warrants are fully subscribed and converted accordingly, an investor who acquires 1 share at 0.3 cents today will suffer a loss of 0.1% on a fully diluted basis, mainly due to the Rights cum Warrants Issue expenses of about S$0.35m. Conversely, if only 50% of the other shareholders subscribe and convert their entitlements, this investor will enjoy a gain of 11.5%, before transaction costs (See Figure 7 for workings). Given that there are 10,248 shareholders as at 16 March 2018, we reckon that the Rights Shares may not be fully subscribed.

Figure 9: Theoretical Ex-Rights Share Price Under Various Scenarios

	Minimum - No whitewash resolution - Mr. Lee subscribes for 1,450m Rights Shares	Minimum - Whitewash resolution approved - Mr. Lee subscribes for 5,207m Rights Shares	Mr. Lee subscribes for 5,207m Rights Shares. – Other shareholders subscribe for 50% of their entitlement	Maximum
Number of shares to be issued				
- from issue of Rights Shares	1,450	5,207	10,169	25,056
- from conversion of Tranche A Warrants	198	15,620	30,508	75,169
- from conversion of Tranche B Warrants	NA	15,620	30,508	75,169
We disregard the Tranche C Warrants as their conversion price is significantly higher than the current market price. To be prudent, we also do not assign any value to these warrants, even though they are detachable.				
Number of shares today (m shares)	**12,528**	**12,528**	**12,528**	**12,528**
After issue of Rights Shares	13,979	17,735	22,697	37,585
After conversion of Tranche A warrants	14,176	33,355	53,205	112,754
After conversion of Tranche B warrants	**14,176**	**48,975**	**83,712**	**187,924**
Proceeds raised (S$ m)				
After issue of Rights Shares, less expenses of S$0.35m	2.38	9.44	18.77	46.76
After conversion of Tranche A warrants	0.20	15.62	30.51	75.17
After conversion of Tranche B warrants	0	17.18	33.56	82.69
Market capitalisation today (S$ m)	37.58	37.58	37.58	37.58
After issue of Rights Shares, less S$0.35m	39.96	47.02	56.35	84.34
After conversion of Tranche A warrants	40.16	62.64	86.86	159.51
After conversion of Tranche B warrants	40.16	79.83	120.42	242.20
Theoretical ex-rights share price (cents)				
After issue of Rights Shares, less S$0.35m	0.286	0.265	0.248	0.224
After conversion of Tranche A warrants	0.283	0.188	0.163	0.141
After conversion of Tranche B warrants	0.283	0.163	0.144	0.129
Average cost of 1 share today (cents)	0.3	0.3	0.3	0.3
Average cost of 1 share + 2 Rights Shares	0.225	0.225	0.225	0.225
1 + 2 Rights Shares + 6 Tranche A Warrant Shares	0.142	0.142	0.142	0.142
1 + 2 Rights Shares + 6 Tranche A Warrant Shares + 6 Tranche B Warrant Shares	0.129	0.129	0.129	0.129
Theoretical return				
Average cost of 1 share + 2 Rights Shares	26.9%	17.7%	10.2%	**-0.4%**
1 + 2 Rights Shares + 6 Tranche A Warrant Shares	99.8%	32.5%	15.1%	-0.2%
1 + 2 Rights Shares + 6 Tranche A Warrant Shares + 6 Tranche B Warrant Shares	**119.5%**	26.3%	11.5%	-0.1%

Source: NRA Capital

mDR Limited

Figure 7 shows a scenario where shareholders can get higher gains by not voting for the whitewash resolution and by lowering their average cost via the conversion of the Tranche A and B Warrants. However, this scenario only applies if less than 13.4% of the other shareholders' Rights Shares are taken up. So long as more than 13.4% of the other shareholders' Rights Shares are taken up, the pay-offs will be the same as that of having the whitewash resolution approved. Moreover, actual returns are lower once we factor in the bid-ask spread of 0.1 cents.

Notwithstanding the Rights Issue, mDR appears undervalued. mDR's closest SGX listed peer is probably TeleChoice International Limited. TeleChoice currently has a market capitalisation of S$120.4m and trades at 14.7x P/E and 1.6x P/B. Conversely, mDR trades at a market capitalisation of S$37.6m at a P/E of 9.16x and P/B of 0.57x. We also attempted to value mDR based on a sum-of-parts approach. Valuing the Core Businesses at 8 to 15x adjusted earnings and including the revalued investment assets and cash at balance sheet as at 31 December 2017, we can value mDR at S$45.83m to S$72.87m, translating to potential upside of 21.9% to 93.9% over its current market cap of S$37.6m.

Figure 10: Valuation

Adjustments to recurring Core Business PATMI	S$m
As Reported PATMI for 2017	**4.10**
Interest income from loans to a third party	-1.10
Dividend income	-0.39
Liabilities written back	-0.21
Bad debt recovered	-0.25
Attributable loss from discontinued operations	0.30
Adjusted PATMI	**2.44**

P/E Multiple	8x P/E	10x P/E	15x P/E
Adjusted PATMI x P/E Multiple	19.54	24.43	36.65

Balance Sheet Items	S$m	
Interest income from loans to a third party	1.10	
Dividend income	0.39	Annualised
Total (as reported and annualised)	1.49	2.98
Fair value of loans and investment securities		
Based on 15% capitalisation rate	**19.87**	
Based on 10% capitalisation rate	**29.80**	
Book value of loans and investment securities		
Loans to third party	3.83	
Investment in securities	13.23	
Total	**17.06**	
Premium from book value @ 15% cap rate	2.81	16.5%
Premium from book value @ 10% cap rate	12.74	74.7%
Cash in bank – Current	11.58	11.58
Cash in bank – Non-current	1.44	1.44
Fair value of loans and securities	19.87	29.80
Bank loans	-5.49	-5.49
Current portion of finance lease	-0.46	-0.46
Finance lease	-0.65	-0.65
Revalued investment portfolio and net cash	**26.29**	**36.22**

Valuation	Lower Bound	Upper Bound
Fair value of Core Businesses	19.54	36.65
Revalued assets	26.29	36.22
TOTAL	**45.83**	**72.87**
Market cap @ 20 April 2018	37.58	37.58
Variance	**21.9%**	**93.9%**
Number of shares (m)	12,528	12,528
Fair value per share	**0.366 cents**	**0.582 cents**

This premium represents the excess return above cost of capital, which is reasonable given the high yield achieved in 2017 by the group. This also justifies the wide Investment mandate to invest across various asset classes.

Source: NRA Capital

Figure 10: Valuation – Continued

	Lower Bound	Upper Bound	Upper Bound
Fair value today (S$m)	**45.83**	**72.87**	**72.87**
Estimated take-up of Rights Issue	100%	Mr Lee – 100% Other shareholders – 50%	100%
Est. proceeds (S$m)	204.61	82.83	204.61
Revised fair value (S$m)	**250.44**	**155.70**	**277.48**
Number of shares (m shares)	187,924	83,712	187,924
Diluted fair value (cents)	0.133	0.186	0.148
Cost of 1 share + 2 Right Shares + 12 Warrant Shares (cents)	0.129	0.129	0.129
Upside	**3.31%**	**44.18%**	**14.46%**
Assuming some positive return is generated on cash raised, equivalent to that of existing portfolio as at 31 December 2017			
Premium over book value (%)	**16.5%**	**74.7%**	**74.7%**
- S$m	33.66	61.87	152.84
Revalued and diluted fair value (S$m)	**284.10**	**217.57**	**430.32**
Number of shares	187,924	83,712	187,924
Value per share (cents)	**0.151**	**0.260**	**0.229**
Cost of 1 share + 2 Right Shares + 12 Warrant Shares (cents)	0.129	0.129	0.129
Upside	**17.19%**	**101.48%**	**77.51%**

Source: NRA Capital

Upside of 3.3% - 14.5% on fully diluted basis. To be prudent, we also calculated the upside after dilution, but without taking into consideration future upside from the new capital raised. Under this scenario, the upside is diluted to 3.3% - 14.5% if the Rights Issue is fully taken up and the Tranche A and B Warrants are fully converted. If we assume that the other shareholders will take up 50% of their Rights Shares entitlement and fully convert the Tranche A and B Warrants, the upper bound of our valuation will still yield upside of 44.2%.

Fully diluted upside rises to 17.2% - 77.5% after including potential future investment returns. If we assume that the cash raised will also be able to generate a premium over book value of 16.5% to 75% (as per our revaluation of mDR's investments assets as 31 December 2017), the post-dilution upside remains at 17.2% to 77.5% for 100% take-up and 101.5% for 50% take-up by the other shareholders.

Key Risks. The Core Businesses operate in highly competitive environments and are susceptible to margin pressure from key principals such as handset OEMs and telecommunication network operators. While they are profitable today and there are opportunities to grow, their outlook remains uncertain even though the Core Businesses appear undervalued on a peer comparison basis.

To accelerate growth, the group plans to enter New Businesses of Property and Investments. While the Investment segment has some initial success, we have no information on future projects as the group has yet to identify any specific project at this stage. Future plans will probably also depend on funds raised.

The bid-ask spread of 0.1 cents is about 33.3% of mDR's current share price. Hence, there may not be sufficient liquidity for shareholders to sell their shares. The wide spread also introduces uncertainty to transaction costs. The current theoretical ex-rights share price is 0.129 cents (including the conversion of the Tranche A and B Warrants). This means that shareholders will lose 22.5% or gain 55.2% to sell their shares, depending on whether the bid price is 0.1 or 0.2 cents.

Recommendation. In view of the wide bid-ask spread and the lack of information as to future projects, we decide not to rate mDR at this junction. However, we can conclude that

a) The pace of new business development will likely accelerate and potentially spur more interest in the company after the New Businesses are approved.

b) Approving all three resolutions is likely to be the most favourable for the company as the controlling shareholder will have more flexibility in funding future investments via the conversion of his warrants in the company.

   That said, we are not the independent financial advisers for this transaction and shareholders should refer to their financial advisers, the shareholders' circular, the recommendation of the company's directors and the opinion of the independent financial advisers in making their decisions as to whether to approve the resolutions.

c) Investors that buy-in today and subscribe for the Rights Issue will be able to ride on future growth through their warrants.