3QFY18 RESULTS UPDATE **25 May 2018**

Chin Well Holdings Berhad

Bursa / Bloomberg Code: 5007 / CWH MK
Stock is Shariah-compliant.

Price :	**RM1.62**
Market Capitalization :	**RM485.2 mln**
Market :	**Main Market**
Sector :	**Industrial Products**
Recommendation :	**Buy**

Chin Well: 3QFY18 results

FYE Jun		**Quarter-on-Quarter**		**Year-on-Year**		**Cumulative**		
(RM mln)	**3QFY18**	**2QFY18**	**%chg**	**3QFY17**	**%chg**	**9MFY18**	**9MFY17**	**%chg**
Revenue	142.8	160.5	-11.1%	140.6	1.5%	441.2	380.2	16.1%
Operating profit	10.9	19.1	-42.7%	17.6	-37.8%	47.0	51.8	-9.3%
Finance costs	(0.4)	(0.2)		(0.3)		(0.9)	(0.8)	
Pre-tax profit	10.5	18.9	-44.3%	17.3	-39.2%	46.1	51.0	-9.6%
Tax	(2.0)	(3.5)		(2.6)		(8.2)	(9.1)	
Net profit	8.6	15.4	-44.3%	14.7	-41.7%	37.9	41.9	-9.7%
Reported EPS (sen)	2.9	5.1	-44.0%	4.9	-41.2%	12.7	14.0	-9.0%
Op. profit margin	7.7%	11.9%		12.5%		10.6%	13.6%	
Pre-tax margin	7.4%	11.8%		12.3%		10.5%	13.4%	
Net profit margin	6.0%	9.6%		10.4%		8.6%	11.0%	
Net assets/share (RM)	1.76							

3QFY18 Results Review

- Chin Well's 3QFY18 net profit declined 41.5% YoY to RM8.6 mln, resulting in 9MFY18 net profit reaching only RM37.9 mln which is below our expectation as it constituted only 66.6% of our earnings estimate.

- Analysis of the segmental breakdown revealed that the decline in 3QFY18 net profit was due to lower contribution from the fastener division while the wire rod business registered a loss. Net profit from fastener segment was down 18.3% YoY in tandem with 11.7% YoY drop in turnover due to the long winter season which affected export to the EU and US, coupled with weaker market sentiment following the announcement of US to impose tariff on steel and aluminum.

- The wire rod business, meanwhile, dipped into a net loss of RM0.3 mln in 3QFY18 despite turnover rising 61.1% YoY. The increase in turnover was attributed to higher demand for its grill mesh products. However, profitability was adversely affected by surge in raw material cost; payment of backdated safeguard import duty tax; cost incurred to upgrade facilities as well as higher administrative and selling expenses.

- The underperformance of the wire rod division resulted in the Group's 9MFY18 net profit down 9.7% YoY to RM37.9 mln although revenue was up 16.1% YoY to RM441.2 mln. Fastener products remain the key division at Chin Well, contributing some 76% to Group revenue and more than 90% to Group net profit.

- On balance sheet strength, Chin Well remained in net cash position as at end-Mar 2018 with net cash/share of 14.7 sen. Net assets/share, meanwhile, stood at RM1.76. The Group also generated a positive net operating cashflow of RM10.3 mln in 9MFY18.

	Y-o-Y			Year-to-date		
	3QFY18	**3QFY17**	**% Chg**	**9MFY18**	**9MFY17**	**% Chg**
Revenue						
Fasteners products	101.7	115.1	-11.7%	334.7	313.4	6.8%
Wire products	41.1	25.5	61.1%	106.5	66.8	59.5%
Group	**142.8**	**140.6**	**1.5%**	**441.2**	**380.2**	**16.1%**
Net Profit						
Fasteners products	8.9	10.8	-18.3%	36.8	32.8	12.2%
Wire products	(0.3)	4.0	nm	1.6	9.4	-82.9%
Investment holding	0.0	(0.2)	nm	(0.5)	(0.5)	5.4%
Group	**8.6**	**14.7**	**-41.7%**	**37.9**	**41.7**	**-9.2%**
Net Profit Margin						
Fasteners products	8.7%	9.4%		11.0%	10.5%	
Wire products	nm	15.8%		1.5%	14.1%	
Investment holding	nm	nm		nm	nm	
Group	**6.0%**	**10.4%**		**8.6%**	**11.0%**	

- In view of weaker-than-expected 3QFY18 results, we trimmed our FY18 and FY19 earnings estimate by 6%-11% to account for the lower gross profit margin and higher cost structure. Despite the setback in 3QFY18 results, we remain positive on the long-term prospects of Chin Well. We reiterate our view on the growing demand for fastener products in tandem with the economic growth. We do not expect the safeguard duty payment to recur in FY19 as the Group now sources its wire rods from other countries instead of China. We are nevertheless cognizant of the volatility in raw material prices and fluctuation in foreign currency, hence the ascription of lower profit margin.

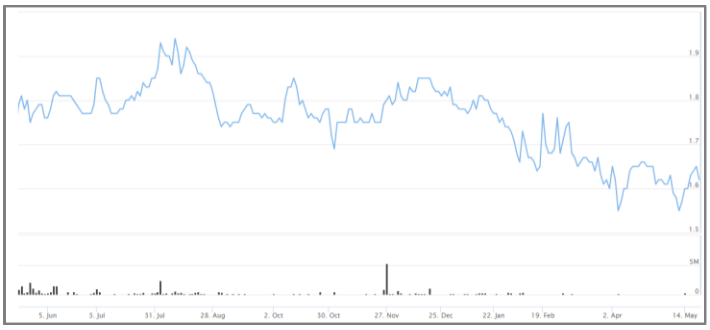
Recommendation

We maintain our **Buy** recommendation on Chin Well but lower fair value to **RM1.90** (from RM2.05), in line with the revision to our FY19 earnings estimate. We continue to derive fair value by pegging our FY19 profit forecast against target PER of 10x (unchanged). We like Chin Well for i) its positive prospects in the next few years, on the back of rising demand and declining supply of cheap inferior fasteners; ii) expanding of DIY fasteners segment; iii) prudent and hands-on management; as well as iv) its healthy balance sheet with net cash position. Current prospective FY19 valuation of 8.5x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 4.1%.

Key Financials (FYE Jun)	**FY16A**	**FY17A**	**FY18F**	**FY19F**
Revenue	508.1	521.3	567.0	607.4
Revenue growth	*1.1%*	*2.6%*	*8.8%*	*7.1%*
EBITDA (RM m)	95.9	83.8	83.6	92.6
Net profit (RM m)	63.4	50.9	50.3	56.9
Net profit growth	*55.6%*	*-19.7%*	*-1.2%*	*13.2%*
Net profit margin	*12.5%*	*9.8%*	*8.9%*	*9.4%*
EPS (sen)	21.2	17.0	16.8	19.0
Div/share (sen)	8.5	6.8	6.7	7.6
Payout ratio	40.2%	40.0%	40.0%	40.0%
BV/share (RM)	1.65	1.78	1.88	1.99
Cash flow/share (sen)	27.8	23.8	23.9	26.4

Key Valuation Metrics	FY16A	FY17A	FY18F	FY19F
P/E (x)	7.7	9.5	9.6	8.5
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	5.8	6.8	6.8	6.1
Dividend yield	5.2%	4.2%	4.1%	4.7%
ROE	12.8%	9.5%	8.9%	9.5%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

Chin Well's last 12-month share price chart



Source: Bursa Marketplace

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RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

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