

1QFY19 RESULTS UPDATE

28 August 2018

Chin Well Holdings Berhad

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

Price : RM1.86

Market Capitalization : RM575.1 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

Chin Well: 1QFY19 results

FYE Jun (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY19	4QFY18	%chg	1QFY18	%chg
Revenue	176.3	150.0	17.5%	137.9	27.8%
Operating profit	22.2	21.1	4.8%	16.9	30.7%
Finance costs	(0.6)	(0.5)		(0.2)	
Pre-tax profit	21.5	20.6	4.4%	16.7	28.9%
Tax	(3.6)	(2.6)		(2.7)	
Net profit	17.9	18.0	-0.4%	14.0	28.3%
Reported EPS (sen)	6.1	6.1	0.5%	4.7	30.6%
Op. profit margin	12.6%	14.1%		12.3%	
Pre-tax margin	12.2%	13.7%		12.1%	
Net profit margin	10.2%	12.0%		10.1%	
Net assets/share (RM)	1.87				

1QFY19 Results Review

- Chin Well kicked off the new fiscal year on a strong note with 1QFY19 net profit rising 28.3% YoY to RM17.9 mln, accounting for 31.5% of our initial FY19 estimate. The variance was largely due to stronger-than-expected increase in turnover from fasteners products as well as improvement in profitability of wire products.
- Group turnover was up 27.8% YoY on higher contributions from both the fasteners (+21.0% YoY) and wire products (+ 56.3% YoY) during the quarter under review. Gross profit (GP) however, increased by smaller magnitude of 4.3% YoY, affected by higher raw material costs. 1QFY19 GP margin came in at 15.2% vs. 18.2% a year ago. Notwithstanding this, lower administrative cost and higher other income segment closed the gap and pushed net profit up 28.3% YoY. As a result, 1QFY19 net profit margin of 10.2% was similar to the 10.1% in 1QFY18.
- In terms of geographical performance, all key markets reported encouraging increase in sales. Europe is the largest market for Chin Well, having contributed 42.5% to revenue, followed by Malaysia (34.0%), other Asian countries including Vietnam (14.1%) and the rest of world (9.5%).

Revenue by geographical market

	1QFY19	1QFY18	%chg
Malaysia	59.9	49.8	20.3%
Vietnam	1.8	1.1	56.0%
Other Asian countries	23.0	9.0	156.6%
Europe	74.9	70.0	7.0%
Others	16.8	8.1	107.8%
	176.3	137.9	27.8%

Revenue by business segment

	Y-o-Y		
	1QFY19	1QFY18	%Chg
Revenue			
Fasteners products	134.6	111.3	21.0%
Wire products	41.7	26.7	56.3%
Group	176.3	137.9	27.8%
Net Profit			
Fasteners products	15.9	13.6	17.0%
Wire products	1.7	0.6	176.9%
Investment holding	0.3	(0.2)	nm
Group	17.9	14.0	28.3%
Net Profit Margin			
Fasteners products	11.8%	12.2%	
Wire products	4.0%	2.3%	
Investment holding	0.2%	nm	
Group	10.2%	10.1%	

- On balance sheet strength, Chin Well continues to be in net cash position as at end-Sept 2018 with net cash/share of 14.2 sen, while net assets/share stood at RM1.87. The Group also generated positive net operating cashflow of RM10.1 mln during this period.
- Given the strong set of 1QFY19 numbers, we upgrade our FY19 earnings by 5% to RM60.0 mln after inputting assumptions for higher sales of fastener products coupled with tighter administrative cost. We also introduce our FY19 earnings estimate at RM61.7 mln (+3.0% YoY). The modest expectation in FY19 profit growth takes into consideration the prevailing uncertainties in the global market that include the US-China war as well as fluctuations in raw material prices and forex, resulting in the increasingly challenging operating environment.
- In spite of the difficult times, we believe the top leadership of Chin Well has extensive experience and in-depth knowledge of the industry dynamics – having been in this business for more than 30 years – to weather through the current business cycle. On a positive note, we continue to expect growing demand for fastener products in tandem with the economic and population growth. In particular, the Group opines the DIY segment would keep growing in Europe and US, and they are working to strengthen the distribution network in these markets.
- As expected, no dividend was declared for the quarter under review.

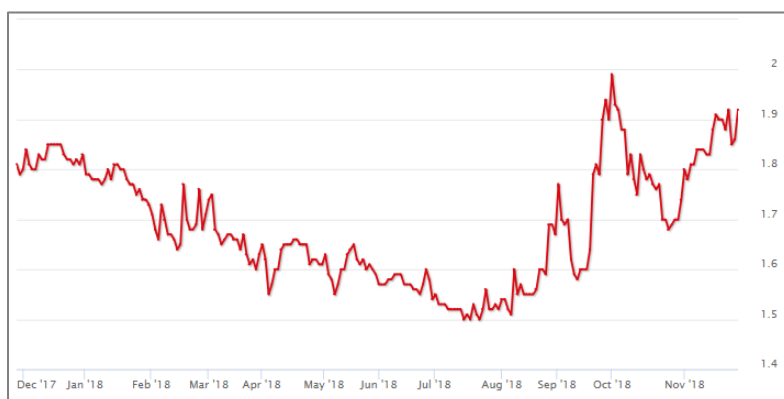
Recommendation

We maintain our **Buy** recommendation on Chin Well with a higher fair value of **RM2.10** (from RM1.90), following our rollover of valuation to FY19. We continue to derive our fair value from pegging our FY19 earnings estimate 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 8.8x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 4.7%.

Key Financials (FYE Jun)	FY17A	FY18A	FY19F	FY20F
Revenue	521.3	591.3	623.4	658.5
Revenue growth	2.6%	13.4%	5.4%	5.6%
EBITDA (RM m)	83.8	85.8	91.8	92.7
Net profit (RM m)	50.9	55.9	60.0	61.7
Net profit growth	-19.7%	9.8%	7.3%	3.0%
Net profit margin	9.8%	9.5%	9.6%	9.4%
EPS (sen)	17.0	18.8	20.4	21.0
Div/share (sen)	6.8	8.0	8.6	8.9
Payout ratio	40.0%	42.1%	42.1%	42.1%
BV/share (RM)	1.78	1.89	2.01	2.13
Cash flow/share (sen)	23.8	24.6	25.7	26.2

Key Valuation Metrics	FY17A	FY18A	FY19F	FY20F
P/E (x)	11.0	9.9	9.1	8.9
P/BV (x)	1.0	1.0	0.9	0.9
P/cashflow (x)	7.8	7.6	7.2	7.1
Dividend yield	3.7%	4.3%	4.6%	4.8%
ROE	9.5%	10.0%	10.2%	9.9%
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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