

2QFY18 RESULTS UPDATE

1 March 2018

Chin Well Holdings Berhad

Price : RM1.71

Market Capitalization : RM512.2 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Chin Well: 2QFY18 results

FYE Jun (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY18	1QFY18	%chg	2QFY17	%chg	1HFY18	1HFY17	%chg
Revenue	160.5	137.9	16.4%	126.3	27.1%	298.5	239.6	24.6%
Operating profit	19.1	16.9	12.6%	18.8	1.8%	36.0	34.2	5.3%
Finance costs	(0.2)	(0.2)		(0.2)		(0.4)	(0.5)	
Pre-tax profit	18.9	16.7	13.1%	18.5	2.0%	35.6	33.7	5.5%
Tax	(3.5)	(2.7)		(4.1)		(6.3)	(6.7)	
Net profit	15.4	14.0	9.9%	14.4	6.6%	29.3	27.1	8.4%
Reported EPS (sen)	5.1	4.7	10.1%	4.8	6.9%	9.8	9.0	8.6%
Op. profit margin	11.9%	12.3%		14.9%		12.1%	14.3%	
Pre-tax margin	11.8%	12.1%		14.7%		11.9%	14.1%	
Net profit margin	9.6%	10.1%		11.4%		9.8%	11.3%	
Net assets/share (RM)	1.83							

2QFY18 Results Review

- Chin Well's 1HFY18 net profit of RM29.3 mln came in within our expectations, accounting for approximately 51% of our earnings estimate.
- 1HFY18 revenue increased 24.6% y-o-y to RM298.5 mln on higher contributions from both fasteners and wire products' divisions. Net profit, however, rose at a slower pace of 8.4% y-o-y to RM29.3 mln, affected by higher forex loss incurred. As a result, net profit margin lowered to 9.8% in 1HFY18 vs. 11.3% a year ago.
- Segmentally, fastener products registered 17.5% and 27.3% y-o-y growth in turnover and net profit, respectively, on the back of higher export sales to European countries. Meanwhile, the wire division surged 58.5% y-o-y, albeit from a much lower base. Despite the increase in topline, net profit from the wire division fell 64.0% y-o-y to RM1.9 mln, affected by surge in raw material prices as well as increase in administrative expenses.
- Fastener products remain the key division at Chin Well, contributing some 82% 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-Dec 2017 with net cash/share of 20.1 sen. Net assets/share, meanwhile, stood at RM1.83. The Group also generated a positive net operating cashflow of RM17.9 mln in 1HFY18.

	Y-o-Y			Year-to-date		
	2QFY18	2QFY17	% Chg	1HFY18	1HFY17	% Chg
Revenue						
Fasteners products	121.8	101.5	20.0%	233.0	198.3	17.5%
Wire products	38.8	24.8	56.2%	65.4	41.3	58.5%
Group	160.5	126.3	27.1%	298.5	239.6	24.6%
Net Profit						
Fasteners products	14.3	10.5	36.6%	27.9	21.9	27.3%
Wire products	1.3	4.2	-67.9%	1.9	5.4	-64.0%
Investment holding	(0.3)	(0.2)	nm	(0.5)	(0.3)	98.9%
Group	15.4	14.4	6.6%	29.3	27.1	8.4%
Net Profit Margin						
Fasteners products	11.8%	10.3%		12.0%	11.1%	
Wire products	3.4%	16.8%		3.0%	13.1%	
Investment holding	nm	nm		nm	nm	
Group	9.6%	11.4%		9.8%	11.3%	

- We maintain our FY18 and FY19 earnings estimates at RM56.9 mln and RM60.7 mln respectively at this juncture. We remain positive on the prospects of Chin Well riding on the growing demand for fastener products in tandem with the economic growth. We expect sales from the DIY segment, which carry higher profit margin, to continue rising with the increase of distribution network in the European and US markets. As for the wire division, Chin Well has rolled out new products to add variety and option for its customers. Nevertheless, we are also cognizant that there are operating challenges faced by the Group that include the volatility in raw material prices and fluctuation in foreign currency.
- The Board declared an interim dividend of 3.9 sen during the quarter under review, which is higher than the 3.5 sen declared in the previous corresponding quarter.

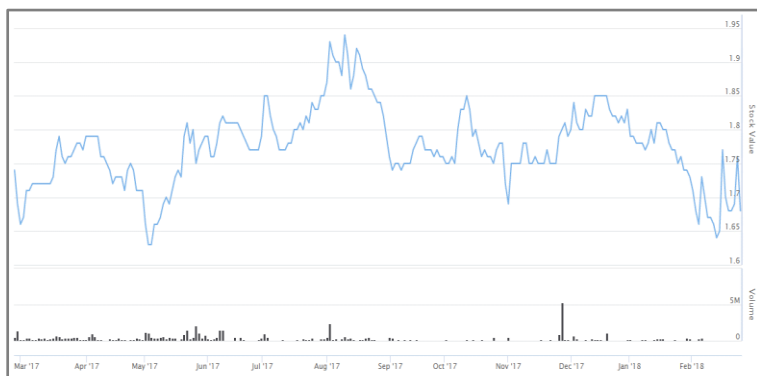
Recommendation

We maintain our **Buy** recommendation on Chin Well with an unchanged fair value of **RM2.05**, which is derived from pegging our FY19 net profit forecast of RM60.7 mln against the target PER of 10x (unchanged). We like Chin Well for i) its improving prospects over the next few years, on the back of rising demand and declining supply of cheap inferior fasteners; ii) expanding of DIY fasteners segment that boasts higher profit margin; iii) prudent and hands-on management; as well as iv) its healthy balance sheet with net cash position.

Key Financials (FYE Jun)	FY16A	FY17A	FY18F	FY19F
Revenue	508.1	521.3	539.1	566.7
<i>Revenue growth</i>	1.1%	2.6%	3.4%	5.1%
EBITDA (RM m)	95.9	83.8	90.1	96.8
Net profit (RM m)	63.4	50.9	56.9	60.7
<i>Net profit growth</i>	55.6%	-19.7%	11.8%	6.7%
<i>Net profit margin</i>	12.5%	9.8%	10.6%	10.7%
EPS (sen)	21.2	17.0	19.0	20.3
Div/share (sen)	8.5	6.8	7.6	8.1
Payout ratio	40.2%	40.0%	40.0%	40.0%
BV/share (RM)	1.65	1.78	1.89	2.02
Cash flow/share (sen)	27.8	23.8	26.1	27.7

Key Valuation Metrics	FY16A	FY17A	FY18F	FY19F
P/E (x)	8.1	10.1	9.0	8.4
P/BV (x)	1.0	1.0	0.9	0.8
P/cashflow (x)	6.2	7.2	6.6	6.2
Dividend yield	5.0%	4.0%	4.4%	4.7%
ROE	12.8%	9.5%	10.0%	10.1%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

Chin Well's last 12-month share price chart



Source: Bursa Marketplace

Analyst:
Nicole Tan
nicole@zj.com.my
03-2032 2328

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

DISCLAIMER

This report has been prepared by ZJ Advisory Sdn Bhd pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under MidS.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This research report is available at MidS' website. For more information on MidS and for other research reports, please visit www.bursamids.com.

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 27, 27th Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
