

4QFY18 RESULTS UPDATE

28 August 2018

# Chin Well Holdings Berhad

Price : RM1.67

Market Capitalization : RM500.2 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

## Chin Well: 4QFY18 results

FYE Jun (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY18	3QFY18	%chg	4QFY17	%chg	FY18	FY17	%chg
Revenue	150.0	142.8	5.1%	141.1	6.3%	591.3	521.3	13.4%
Operating profit	21.1	10.9	93.2%	11.4	84.7%	68.1	63.3	7.7%
Finance costs	(0.5)	(0.4)		(0.4)		(1.4)	(1.1)	
Pre-tax profit	20.6	10.5	95.8%	11.1	86.0%	66.7	62.2	7.3%
Tax	(2.6)	(2.0)		(2.0)		(10.9)	(11.3)	
Net profit	18.0	8.6	110.3%	9.1	97.3%	55.9	50.9	9.8%
Reported EPS (sen)	6.1	2.9	110.8%	3.1	99.0%	18.8	17.0	10.8%
Op. profit margin	14.1%	7.7%		8.1%		11.5%	12.1%	
Pre-tax margin	13.7%	7.4%		7.9%		11.3%	11.9%	
Net profit margin	12.0%	6.0%		6.5%		9.5%	9.8%	
Net assets/share (RM)	1.85							

## 4QFY18 Results Review

- Chin Well sprung a surprisingly robust set of 4QFY18 results to end the year on a strong note. With 4QFY18 net profit surging 97.3% YoY to RM18.0 mln, FY18 net profit came in at RM55.9 mln against our estimate of RM50.3 mln.
- The last time Chin Well's quarterly net profit hit RM18 mln mark was more than 2 years ago in 2QFY16. We note the jump in 4QFY18 net profit was achieved despite revenue rising only 6.3% YoY. Scrutinizing further on the segmental breakdown, we see that while both fasteners and wire products divisions recorded higher profitability, the bulk of increase in earnings actually came from the former.
- Contributing factors to the improved earnings for fasteners business include higher gross profit (GP) margin following increase in average selling price as well as lower selling and distribution expenses that was further boosted by reversal of provision for impairment loss on receivables.
- FY18 revenue and net profit were up 13.4% and 9.8% YoY respectively. The increase in top-line was due to higher sales achieved from both fasteners and wire products divisions. Meanwhile, the lower-than-proportionate rise in bottom line was a result of decline in GP margin in wire products coupled with a forex loss of RM0.2 mln vs. a forex gain of RM6 mln in FY17.
- Geographical market-wise, Malaysia and European countries remain the largest contributors of revenue, making up 77% of Group revenue. The balance came from other Asian countries and the rest of the world.

	Y-o-Y			Year-to-date		
	4QFY18	4QFY17	% Chg	FY18	FY17	% Chg
<b>Revenue</b>						
Fasteners products	114.6	114.8	-0.2%	449.3	428.2	4.9%
Wire products	35.4	26.3	34.7%	142.0	93.1	52.5%
<b>Group</b>	<b>150.0</b>	<b>141.1</b>	<b>6.3%</b>	<b>591.3</b>	<b>521.3</b>	<b>13.4%</b>
<b>Net Profit</b>						
Fasteners products	16.5	8.4	95.3%	53.2	41.2	29.2%
Wire products	1.8	1.1	56.0%	3.4	10.5	-68.2%
Investment holding	(0.2)	(0.4)	nm	(0.7)	(0.9)	nm
<b>Group</b>	<b>18.0</b>	<b>9.2</b>	<b>96.4%</b>	<b>55.9</b>	<b>50.9</b>	<b>9.8%</b>
<b>Net Profit Margin</b>						
Fasteners products	14.4%	7.3%		11.8%	9.6%	
Wire products	4.9%	4.3%		2.4%	11.3%	
Investment holding	nm	nm		nm	nm	
<b>Group</b>	<b>12.0%</b>	<b>6.5%</b>		<b>9.5%</b>	<b>9.8%</b>	

- On balance sheet strength, Chin Well remained in net cash position as at end-June 2018 with net cash/share of 14.9 sen. Net assets/share improved to RM1.85 in 4QFY18 from RM1.78 a year ago. The Group also generated positive net operating cashflow of RM21.0 mln in FY18.
- While we are heartened with the strong set of 4QFY18 results, we are, nevertheless, skewed towards maintaining our FY19 earnings of RM56.9 mln at this current amidst various uncertainties in the global market which makes the operating environment increasingly challenging. The ongoing US-China trade war too, added to the market jittery, in addition of fluctuating raw material prices and forex.
- Overall, we do maintain our positive position on the long-term prospects of Chin Well and reiterate our view on the growing demand for fastener products in tandem with the economic growth. With the imposition of safeguard duties by Government on imports of wire rods (a key raw material) from China, the Group now sources from other countries such as Vietnam and the Middle East. Additionally, Chin Well stated that it has also since obtained one year duty exemption from the Government. The Group expects the DIY segment to continue growing in Europe and US with the strengthening of distribution network in these markets.
- Chin Well declared an interim dividend of 4.1 sen (4QFY17: 3.3 sen) to be paid on 27 Sept 2018. Together with the earlier interim dividend of 3.9 sen declared in 2QFY18, total dividends in FY18 come to 8.0 sen, 17.6% higher than the 6.8 sen declared in FY7. This translates into a decent FY18 yield of 4.8% at current price.

## Recommendation

We maintain our **Buy** recommendation on Chin Well with an unchanged fair value of **RM1.90**, derived from 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 8.8x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 4.8%.

<b>Key Financials (FYE Jun)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19F</b>
Revenue	508.1	521.3	591.3	607.4
Revenue growth	1.1%	2.6%	13.4%	2.7%
EBITDA (RM m)	95.9	83.8	85.8	92.6
Net profit (RM m)	63.4	50.9	55.9	56.9
Net profit growth	55.6%	-19.7%	9.8%	1.8%
Net profit margin	12.5%	9.8%	9.5%	9.4%
EPS (sen)	21.2	17.0	18.8	19.0
Div/share (sen)	8.5	6.8	8.0	8.0
Payout ratio	40.2%	40.0%	42.1%	42.1%
BV/share (RM)	1.65	1.78	1.89	2.00
Cash flow/share (sen)	27.8	23.8	24.6	26.4

<b>Key Valuation Metrics</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19F</b>
P/E (x)	7.9	9.8	8.9	8.8
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	6.0	7.0	6.8	6.3
Dividend yield	5.1%	4.1%	4.8%	4.8%
ROE	12.8%	9.5%	10.0%	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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