2QFY19 RESULTS UPDATE **27 February 2019**

Chin Well Holdings Berhad

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

Price :	**RM1.75**
Market Capitalization :	**RM524.2mln**
Market :	**Main Market**
Sector :	**Industrial Products**
Recommendation :	**Buy**

Chin Well: 2QFY19 results

FYE Jun		**Quarter-on-Quarter**		**Year-on-Year**		**Cumulative**		
(RM mln)	**2QFY19**	**1QFY19**	**%chg**	**2QFY18**	**%chg**	**1HFY19**	**1HFY18**	**%chg**
Revenue	165.1	176.3	-6.3%	160.5	2.9%	341.5	298.5	14.4%
Operating profit	19.4	22.2	-12.6%	19.1	1.4%	41.5	36.0	15.2%
Finance costs	(0.8)	(0.6)		(0.2)		(1.5)	(0.4)	
Pre-tax profit	18.5	21.5	-13.9%	18.9	-1.9%	40.1	35.6	12.5%
Tax	(2.9)	(3.6)		(3.5)		(6.5)	(6.3)	
Net profit	15.7	17.9	-12.6%	15.4	2.0%	33.6	29.3	14.6%
Reported EPS (sen)	5.3	6.1	-12.6%	5.1	3.7%	11.4	9.8	16.5%
Op. profit margin	11.7%	12.6%		11.9%		12.2%	12.1%	
Pre-tax margin	11.2%	12.2%		11.8%		11.7%	11.9%	
Net profit margin	9.5%	10.2%		9.6%		9.8%	9.8%	
Net assets/share (RM)	1.93							

2QFY19 Results Review

- Chin Well reported a decent 2QFY19 results with revenue and net profit rising 2.9% and 2.0% YoY to RM165.1 mln and RM15.7 mln respectively. While the cumulative 1HFY19 net profit of RM33.6 mln constituted 56% of our estimate, we consider the results broadly within expectation at this juncture due to potential fluctuation in profitability in 2HFY19.

- 1HFY19 revenue increased 14.4% YoY on improved sales from both key divisions – fasteners and wire products. Gross profit (GP) margin, however, declined 2.3 ppt to 16.1% from 18.4% a year ago, which we believe was attributable to fluctuation in raw materials prices and forex as well as competitive business environment. Fortunately, management was able to reduce administrative, selling and distribution costs to offset the drop in GP. This, along with lower effective tax rate, resulted in net profit margin sustaining at the similar rate as last year, which was 9.8%.

- Both fasteners and wire products divisions recorded higher turnover that were up 10.7% and 27.7% YoY respectively. In terms of bottom line, net profit from fasteners rose 9.6% YoY while wire products' profitability surged 33.7% YoY, albeit from a much smaller base.

- The Group recorded growth in sales across all geographical markets in 1HFY19 save for the Europe continent. Notwithstanding the decline, Europe remains the largest market for Chin Well at 39.0% of turnover, followed by Malaysia (33.8%), other Asian countries including Vietnam (15.1%) and the rest of world (12.2%).

Revenue by business segment

	Y-o-Y			Year-to-date		
RM mln	**2QFY19**	**2QFY18**	**%Chg**	**1HFY19**	**1HFY18**	**%Chg**
Revenue						
Fasteners products	123.3	121.8	1.3%	257.9	233.0	10.7%
Wire products	41.9	38.8	7.9%	83.5	65.4	27.7%
Group	**165.1**	**160.5**	**2.9%**	**341.5**	**298.5**	**14.4%**
Net Profit						
Fasteners products	14.7	14.3	2.6%	37.0	33.9	9.0%
Wire products	0.9	1.3	-31.2%	4.0	2.7	50.3%
Investment holding	0.1	(0.3)	nm	0.6	(0.5)	nm
Group	**15.7**	**15.4**	**2.0%**	**41.5**	**36.0**	**15.2%**
Net Profit Margin						
Fasteners products	11.9%	11.8%		14.3%	14.5%	
Wire products	2.2%	3.4%		4.8%	4.1%	
Investment holding	0.0%	nm		0.2%	nm	
Group	**9.5%**	**9.6%**		**12.2%**	**12.1%**	

Revenue by geographical market

RM mln	1HFY19	1HFY18	%chg
Malaysia	115.3	96.0	20.2%
Vietnam	3.5	2.1	68.7%
Other Asian countries	48.0	24.2	98.2%
Europe	133.1	142.1	-6.3%
Others	41.5	34.1	21.8%
Group	**341.5**	**298.5**	**14.4%**

- Chin Well continues to maintain a solid balance sheet with a net cash/share of 12.1 sen position as at end-Dec 2018, backed by net assets/share of RM1.93. The Group generated positive net operating cashflow of RM23.4 mln during 1HFY19.

- We maintain our existing FY19 and FY20 net profit estimates of RM60.0 mln and RM61.7 mln respectively. We continue to like Chin Well for its solid performance so far despite the prevailing challenging operating environment that includes the US-China war as well as fluctuations in raw material prices and forex. We believe management is capable to weather through the current business cycle given its in-depth expertise and experience. We expect both fasteners and wire products divisions to continue recording growth along with the economic and population growth. In particular, the Group opines the DIY segment (under fasteners business) would keep growing in Europe and US as Chin Well improves the distribution network in these markets.

- The Board has declared an interim dividend of 4.5 sen (2QFY18: 3.9 sen) during the quarter under review.

Recommendation

We maintain our **Buy** recommendation on Chin Well with a unchanged fair value of **RM2.10**. 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 8.7x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 4.8%.

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	20.0	20.6
Div/share (sen)	6.8	8.0	8.4	8.7
Payout ratio	40.0%	42.1%	42.1%	42.1%
BV/share (RM)	1.78	1.89	2.00	2.12
Cash flow/share (sen)	23.8	24.6	25.7	26.2

Key Valuation Metrics	**FY17A**	**FY18A**	**FY19F**	**FY20F**
P/E (x)	10.3	9.3	8.7	8.5
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	7.3	7.1	6.8	6.7
Dividend yield	3.9%	4.6%	4.8%	5.0%
ROE	9.5%	10.0%	10.0%	9.7%
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

DISCLAIMER

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