

4QFY19 RESULTS UPDATE

29 August 2019

Chin Well Holdings Berhad

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

Price : RM1.73

Market Capitalization : RM518.1 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

Chin Well: 4QFY19 results

FYE Jun (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY19	3QFY19	% chg	4QFY18	% chg	FY19	FY18	% chg
Revenue	166.2	173.0	-3.9%	150.0	10.8%	680.7	591.3	15.1%
Operating profit	14.7	15.6	-6.0%	21.1	-30.5%	71.8	68.1	5.5%
Finance costs	(0.8)	(0.8)		(0.5)		(3.0)	(1.4)	
Pre-tax profit	13.9	14.8	-6.1%	20.6	-32.4%	68.8	66.7	3.1%
Tax	(2.3)	(2.5)		(2.6)		(11.2)	(10.9)	
Net profit	11.7	12.3	-5.4%	18.0	-35.2%	57.6	55.9	3.0%
Reported EPS (sen)	4.0	4.2	-5.3%	6.1	-34.6%	19.6	18.8	4.1%
Op. profit margin	8.8%	9.0%		14.1%		10.6%	11.5%	
Pre-tax margin	8.4%	8.6%		13.7%		10.1%	11.3%	
Net profit margin	7.0%	7.1%		12.0%		8.5%	9.5%	
Net assets/share (RM)	1.97							

4QFY19 Results Review

- Chin Well turned in record revenue of RM680.7 mln in FY19 after posting 15.1% increase YoY, while net profit rose by a smaller quantum of 3.0% YoY to RM57.6 mln. The results were within our expectation.
- The improvement FY19 performance was achieved on the back of higher contribution from both fasteners and wire products divisions. GP margin however, continued to face compression having fallen to 14.4% from 16.7% in FY18 and 17.6% in FY17. Management has been actively managing its administrative, selling and distribution costs to offset the decline in GP. As a result, Group net profit still recorded a modest 3.0% increase YoY with a net margin at 8.2% (FY18: 9.5%).
- Turnover from fasteners division was up 14.7% YoY mainly on higher trading of steel bars. Trading activities carry lower margin as compared to manufactured products, and as such, the net profit grew by a smaller quantum of 4.4% YoY.
- Wire products segment, meanwhile, saw net profit dropped 51.2% YoY to RM1.7 mln despite turnover growing 16.4% YoY. Profitability was affected by the high raw materials cost, coupled with start-up cost associated with a new production line that commenced production in April 2019.
- Geographically, Malaysia remains the largest market at 38.2%, followed by Europe (31.0%), other Asian countries including Vietnam (14.6%), America (10.6%) and the rest of world (5.6%). It is noteworthy to point out that the Group has now classified America as a standalone geographical market. We believe Chin Well has benefitted from the US-China trade tension with orders being diverted from China to Malaysia. This was evident with sales to America soaring 363.1% YoY to RM72.0 mln. However, this was achieved at the expense of slower exports to Europe which declined 14.1% to RM211.2 mln.

Revenue by business segment

RM mln	Y-o-Y			Year-to-date		
	4QFY19	4QFY18	% Chg	FY19	FY18	% Chg
Revenue						
Fasteners products	126.9	114.6	10.7%	515.5	449.3	14.7%
Wire products	39.3	35.4	11.0%	165.2	142.0	16.4%
Group	166.2	150.0	10.8%	680.7	591.3	15.1%
Net Profit						
Fasteners products	12.6	16.5	-23.4%	55.6	53.2	4.4%
Wire products	(0.7)	1.8	nm	1.7	3.4	-51.2%
Investment holding	(0.2)	(0.2)	nm	0.4	(0.7)	nm
Group	11.7	18.0	-35.2%	57.6	55.9	3.0%
Net Profit Margin						
Fasteners products	9.9%	14.4%		10.8%	11.8%	
Wire products	nm	5.0%		1.0%	2.4%	
Investment holding	nm	nm		0.1%	nm	
Group	7.0%	12.0%		8.5%	9.5%	

Revenue by geographical market

RM mln	FY19	FY18	% chg
Malaysia	259.9	208.3	24.8%
Vietnam	6.0	5.7	5.0%
Other Asian countries	93.4	98.9	-5.6%
Europe	211.2	245.9	-14.1%
America	72.0	15.5	363.1%
Others	38.3	17.0	125.5%
Group	680.7	591.3	15.1%

- Chin Well's balance sheet remained solid with a net cash/share of 11.7 sen as at end-June 2019, backed by net assets/share of RM1.97. The Group generated positive net operating cashflow of RM38.0 mln in FY19.
- With FY19 results being in line with our expectation, we are maintaining our FY20 earnings estimate of RM61.7 mln. While operating environment remains challenging, management appears to be having the situation under control with the opex kept in check to counter the GP margin compression. We believe there are opportunities for the Group to capture more market share in the US with the ongoing US-China trade dispute. The DIY market segment in the US and Europe is expected to continue driving growth in the western hemisphere. The wire division, on the other hand, should perform better along the way as the new line ramps up production with outputs such as welded fencing, gabion and poultry mesh which carry higher profit margin.
- The Board has declared an interim dividend of 3.35 sen (4QFY18: 4.1 sen) during the quarter under review. This brings total dividend declared in FY19 to 7.85 sen, vs. 8.0 sen in FY18.

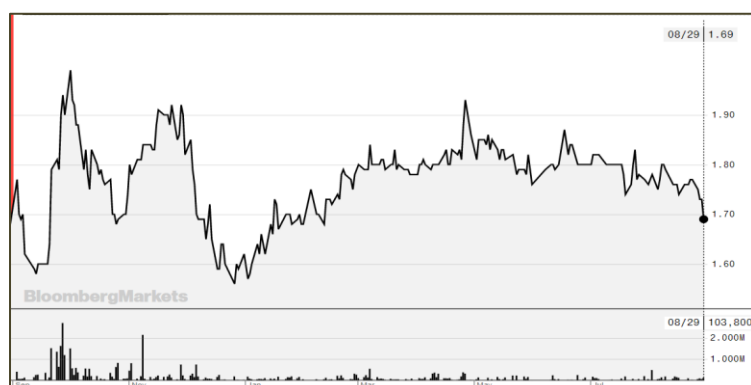
Recommendation

We retain our **Buy** call on Chin Well with an unchanged fair value of **RM2.10**. We derive our fair value from pegging our FY20 earnings estimate against target PER of 10x (unchanged). Overall, we still like Chin Well for i) its positive prospects in the next few years on the back of rising demand; 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 FY20 valuation of 8.4x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 4.8%.

Key Financials (FYE Jun)	FY17A	FY18A	FY19A	FY20F
Revenue	521.3	591.3	680.7	733.0
Revenue growth	2.6%	13.4%	15.1%	7.7%
EBIT (RM m)	63.3	68.1	71.8	76.7
Net profit (RM m)	50.9	55.9	57.6	61.7
Net profit growth	-19.7%	9.8%	3.0%	7.1%
Net profit margin	9.8%	9.5%	8.5%	8.4%
EPS (sen)	17.0	18.8	19.2	20.6
Div/share (sen)	6.8	8.0	7.9	8.2
Payout ratio	40.0%	42.1%	40.0%	40.0%
BV/share (RM)	1.78	1.89	1.97	2.09
Cash flow/share (sen)	23.8	24.6	23.1	24.5

Key Valuation Metrics	FY17A	FY18A	FY19A	FY20F
P/E (x)	10.2	9.2	9.0	8.4
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	7.3	7.0	7.5	7.1
Dividend yield	3.9%	4.6%	4.5%	4.8%
ROE	9.5%	10.0%	9.8%	9.8%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

Chin Well's last 12-month share price chart



Source: Bloomberg

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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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