

1QFY20 RESULTS UPDATE

28 November 2019

Chin Well Holdings Berhad

Price : RM1.40

Market Capitalization : RM419.3 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Chin Well: 1QFY20 results

FYE Jun (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY20	4QFY19	% chg	1QFY19	% chg
Revenue	155.5	166.2	-6.5%	176.3	-11.8%
Operating profit	9.3	14.7	-37.0%	22.2	-58.2%
Finance costs	(0.7)	(0.8)		(0.6)	
Pre-tax profit	8.5	13.9	-38.7%	21.5	-60.3%
Tax	(1.8)	(2.3)		(3.6)	
Net profit	6.7	11.7	-42.4%	17.9	-62.6%
Reported EPS (sen)	2.3	4.0	-42.3%	6.1	-62.5%
Op. profit margin	6.0%	8.8%		12.6%	
Pre-tax margin	5.5%	8.4%		12.2%	
Net profit margin	4.3%	7.0%		10.2%	
Net assets/share (RM)	1.97				

1QFY20 Results Review

- Chin Well kicked off FY20 on a soft note with 1QFY20 topline and bottomline declining 11.8% YoY and 62.5% YoY respectively. The quarterly net profit of RM6.7 mln was below expectation as it accounted for only 11% of our earnings estimate.
- The culprit for the lackluster performance appeared to be the US-China trade war – the Group's export to a number of key markets declined by double digit percentage, outweighing the growth in local sales and increased export to the US. Management attributed this development to industry players in China diverting their exports away from the US to the rest of the world (e.g. Europe, Asia and other continents) where Chin Well sells to. With the flooding of Chinese products in these markets, supply increased and average selling prices fell.

Revenue by geographical market

RM mln	1QFY20	1QFY19	% chg
Malaysia	82.2	59.9	37.4%
Vietnam	1.3	1.8	-27.6%
Other Asian countries	15.9	21.0	-24.3%
Europe	26.3	74.9	-64.9%
America	26.7	5.2	414.7%
Others	3.0	13.7	-77.7%
Group	155.5	176.3	-11.8%

- Both key divisions – fastener products and wire products – recoded lower sales. While turnover of the former was only down by 5.3% YoY, net profit plunged 60.2% YoY which we attribute to margin compression as well in addition to lower sales. Additionally, management shared that there also was a delay in the setup of some new machineries for an expanded production plating

line in the fasteners division that affected some shipments of products to customers. All taken in, the segmental net profit margin for fastener was slashed to 5.0% vs. 11.8% in 1QFY19.

Revenue by business segment

RM mln	Y-o-Y		
	1QFY20	1QFY19	% Chg
Revenue			
Fasteners products	127.5	134.6	-5.3%
Wire products	27.9	41.7	-33.0%
Group	155.5	176.3	-11.8%
Net Profit			
Fasteners products	6.3	15.9	-60.2%
Wire products	0.2	1.7	-88.6%
Investment holding	0.2	0.3	-46.0%
Group	6.7	17.9	-62.6%
Net Profit Margin			
Fasteners products	5.0%	11.8%	
Wire products	0.7%	4.0%	
Investment holding	0.1%	0.2%	
Group	4.3%	10.2%	

- On a brighter note, Chin Well's balance sheet remained solid with a net cash/share of 16.4 sen as at end-Sept 2019, backed by net assets/share of RM1.97. The Group generated positive net operating cashflow of RM16.8 mln in 1QFY20.
- Looking ahead, while our expectation of Chin Well increasing its exports to the US (arising from the US-China trade tension) did materialize, it came at the expense of slower exports to the other markets after industry players in China diverted their export destination away from the US. In view of this development, we believe the intensity in competition has just notched up in these non-US markets. In mitigation, we understand management continues to work on expanding their network reach in the US and Europe for the fast-growing DIY fastener segment (which carries higher profit margin). We also expect the Group's export to the US to increase further.
- Other positive factors include prospective additional revenue once the expanded production plating line is up and running soon, as well as contribution from the increase in production of several new products in the wire products division. Against this backdrop, the Group's outlook in the second half of financial year should be better than the first half. All in all, having taken into consideration the expected slowdown in 1HFY20 balanced by a stronger 2HFY20, we revised our FY20 earnings estimate to RM55.1 mln from RM61.7 mln earlier.
- There is no dividend declared for the quarter under review.

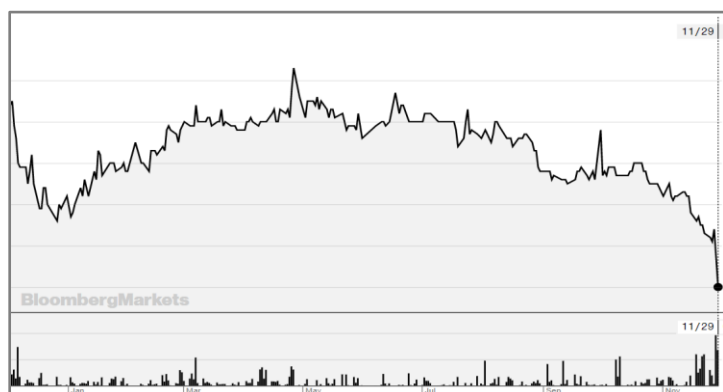
Recommendation

We retain our **Buy** call on Chin Well but lower our fair value to **RM1.84** (from RM2.10). We derive our fair value from pegging our revised FY20 earnings estimate against target PER of 10x (unchanged). By and large, we do still like Chin Well for i) solid fundamental backed by lean balance sheet with net cash position; ii) expanding of DIY fasteners segment; and iii) prudent and hands-on management. The current prospective FY20 valuation of 9.4x PER is undemanding, in our opinion, coupled with a healthy expected dividend yield of approximately 5.2%.

Key Financials (FYE Jun)	FY17A	FY18A	FY19A	FY20F
Revenue	521.3	591.3	680.7	664.2
<i>Revenue growth</i>	2.6%	13.4%	15.1%	-2.4%
EBIT (RM m)	63.3	68.1	71.8	68.3
Net profit (RM m)	50.9	55.9	57.6	55.1
<i>Net profit growth</i>	-19.7%	9.8%	3.0%	-4.4%
<i>Net profit margin</i>	9.8%	9.5%	8.5%	8.3%
EPS (sen)	17.0	18.8	19.2	18.4
Div/share (sen)	6.8	8.0	7.9	7.4
Payout ratio	40.0%	42.1%	40.0%	40.0%
BV/share (RM)	1.78	1.89	1.97	2.08
Cash flow/share (sen)	23.8	24.6	23.1	22.3

Key Valuation Metrics	FY17A	FY18A	FY19A	FY20F
P/E (x)	10.2	9.2	9.0	9.4
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	7.3	7.0	7.5	7.8
Dividend yield	3.9%	4.6%	4.5%	4.3%
ROE	9.5%	10.0%	9.8%	8.8%
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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