

2QFY20 RESULTS UPDATE

28 February 2020

Chin Well Holdings Berhad

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

Price : RM1.18

Market Capitalization : RM344.6 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Hold

Chin Well: 2QFY20 results

| FYE Jun (RM mln) | Quarter-on-Quarter | | | Year-on-Year | | Cumulative | | |
|-----------------------|--------------------|--------|--------|--------------|--------|------------|--------|--------|
| | 2QFY20 | 1QFY20 | % chg | 2QFY19 | % chg | 1HFY20 | 1HFY19 | % chg |
| Revenue | 147.7 | 155.5 | -5.0% | 165.1 | -10.6% | 303.2 | 341.5 | -11.2% |
| Operating profit | 6.0 | 9.3 | -34.8% | 19.4 | -68.8% | 15.3 | 41.5 | -63.2% |
| Finance costs | (0.6) | (0.7) | | (0.8) | | (1.3) | (1.5) | |
| Pre-tax profit | 5.4 | 8.5 | -36.7% | 18.5 | -70.8% | 14.0 | 40.1 | -65.2% |
| Tax | (1.1) | (1.8) | | (2.9) | | (3.0) | (6.5) | |
| Net profit | 4.3 | 6.7 | -36.3% | 15.7 | -72.7% | 11.0 | 33.6 | -67.3% |
| Reported EPS (sen) | 1.5 | 2.3 | -36.2% | 5.3 | -72.6% | 3.7 | 11.4 | -67.3% |
| Op. profit margin | 4.1% | 6.0% | | 11.7% | | 5.0% | 12.2% | |
| Pre-tax margin | 3.7% | 5.5% | | 11.2% | | 4.6% | 11.7% | |
| Net profit margin | 2.9% | 4.3% | | 9.5% | | 3.6% | 9.8% | |
| Net assets/share (RM) | 1.96 | | | | | | | |

2QFY20 Results Review

- Chin Well's 2QFY20 results showed continued weakness with net profit falling 36.3% QoQ and 72.7% YoY. 1HFY20 net earnings of RM11.0 mln was below expectation, having accounted for only 20% of our estimate.
- 1HFY20 net profit fell drastically by 67.3% YoY on the back of 11.2% drop in revenue. Management cited several reasons for the weak performance that included trade uncertainties from the US-China trade war, slowdown in the European economy, Brexit, as well as intense competition in the region. We opine that competition outside the US has intensified with industry peers in China now selling their output to the rest of the world given the import tariff imposed by the US. This resulted in lower average selling price in many markets, affecting players such as Chin Well.

Revenue by geographical market

| RM mln | 1HFY20 | 1HFY19 | % chg |
|-----------------------|--------------|--------------|---------------|
| Malaysia | 160.8 | 115.3 | 39.4% |
| Vietnam | 2.1 | 3.5 | -38.9% |
| Other Asian countries | 32.4 | 48.0 | -32.6% |
| Europe | 53.9 | 133.1 | -59.5% |
| America | 49.2 | 13.3 | 270.0% |
| Others | 4.8 | 28.3 | -82.8% |
| Group | 303.2 | 341.5 | -11.2% |

- Geographically, local sales registered 39.4% increase in revenue, while the US-China trade tension provided opportunity for Chin Well to push its export sales to the US significantly higher by 270.0% YoY to RM49.2 mln. Unfortunately, these were insufficient to offset the decline in contribution from other countries, causing the Group revenue to fall 11.2% YoY. The European market was severely affected with sales plunging 59.5% YoY to RM53.9 mln from RM133.1 mln.
- Business segment-wise, both fastener products and wire products registered lower turnover and profitability. Net profit margin for fastener and wire products fell to 4.2% and 0.5% in 1HFY20 from 11.9% and 3.1% respectively by comparison to a year ago. Management also shared that it had increased trading activities in the fastener division to counter the drop in manufacturing sales and this contributed to the fall in profit margin as well.

Revenue by business segment

| RM mln | Y-o-Y | | | Year-to-date | | |
|--------------------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | 2QFY20 | 2QFY19 | % Chg | 1HFY20 | 1HFY19 | % Chg |
| Revenue | | | | | | |
| Fasteners products | 119.4 | 123.3 | -3.2% | 246.9 | 257.9 | -4.3% |
| Wire products | 28.3 | 41.9 | -32.3% | 56.2 | 83.5 | -32.7% |
| Group | 147.7 | 165.1 | -10.6% | 303.2 | 341.5 | -11.2% |
| Net Profit | | | | | | |
| Fasteners products | 4.0 | 14.7 | -73.1% | 10.3 | 30.6 | -66.4% |
| Wire products | 0.1 | 0.9 | -87.6% | 0.3 | 2.6 | -88.2% |
| Investment holding | 0.2 | 0.1 | 237.1% | 0.4 | 0.4 | -2.0% |
| Group | 4.3 | 15.7 | -72.7% | 11.0 | 33.6 | -67.3% |
| Net Profit Margin | | | | | | |
| Fasteners products | 3.3% | 11.9% | | 4.2% | 11.9% | |
| Wire products | 0.4% | 2.2% | | 0.5% | 3.1% | |
| Investment holding | 0.1% | 0.0% | | 0.1% | 0.1% | |
| Group | 2.9% | 9.5% | | 3.6% | 9.8% | |

- On balance sheet strength, Chin Well's capital position remained solid with a net cash/share of 5.3 sen as at end-Dec 2019, backed by net assets/share of RM1.96. The Group generated positive net operating cashflow of RM4.0 mln in 1HFY20.
- Given the soft 1HFY20 results, we reduced our FY20 net profit estimate further to RM29.0 mln from RM55.1 mln. The difficult operating environment has proven to be more challenging than initially thought, with lower turnover and margin compression having much larger adverse impact on bottom-line. Then, there is also the Covid-19 outbreak taking center stage attention now with the impact on businesses likely to be known only over the next quarter.
- On a more positive note, management expects pace to pick up in the second half of FY20 with more exports to the US, improvement in the DIY market in Europe and US with the increase in distribution network, and higher sales from its plant in Vietnam. The weaker RM against USD should help provide some cushion too. We are also introducing our FY21 revenue and net profit estimates of RM661.9 mln (+4.0%) and RM38.9 mln (34.4%), which factor in gradual recovery in trade activities and profit margins, though not quite fully recovered to the FY19 level where net profit hit RM57.6 mln.
- In tandem with the weaker results, Chin Well declared interim dividend of 1.5 sen for the quarter under review, vs. 4.5 sen a year ago.

Recommendation

With the outlook on Chin Well now becoming subdued due to the aforementioned reasons, we turn neutral and hence, downgrade our recommendation to **Hold** with a lower fair value of **RM1.30** (from RM1.84). Our fair value is derived from pegging our rolled-over FY21 earnings estimate against target PER of 10x (unchanged). By and large, we still like Chin Well for lean balance sheet and experienced management team. However, near-term prospects are muted given the highly challenging and tough operating environment, plagued by uncertainties brought about by the trade tension and Covid-19 outbreak.

| Key Financials (FYE Jun) | FY18A | FY19A | FY20F | FY21F |
|-----------------------------|-------|-------|--------|-------|
| Revenue | 591.3 | 680.7 | 636.8 | 661.9 |
| Revenue growth | 13.4% | 15.1% | -6.5% | 4.0% |
| EBIT (RM m) | 68.1 | 71.8 | 37.8 | 50.0 |
| Net profit (RM m) | 55.9 | 57.6 | 29.0 | 38.9 |
| Net profit growth | 9.8% | 3.0% | -49.7% | 34.4% |
| Net profit margin | 9.5% | 8.5% | 4.6% | 5.9% |
| EPS (sen) | 18.8 | 19.2 | 9.7 | 13.0 |
| Div/share (sen) | 8.0 | 7.9 | 3.9 | 5.2 |
| Payout ratio | 42.1% | 40.0% | 40.0% | 40.0% |
| BV/share (RM) | 1.89 | 1.97 | 2.03 | 2.11 |
| Cash flow/share (sen) | 24.6 | 23.1 | 13.7 | 17.0 |

| Key Valuation Metrics | FY18A | FY19A | FY20F | FY21F |
|-----------------------|----------|----------|----------|----------|
| P/E (x) | 6.3 | 6.1 | 12.2 | 9.1 |
| P/BV (x) | 0.6 | 0.6 | 0.6 | 0.6 |
| P/cashflow (x) | 4.8 | 5.1 | 8.6 | 6.9 |
| Dividend yield | 6.8% | 6.7% | 3.3% | 4.4% |
| ROE | 10.0% | 9.8% | 4.8% | 6.2% |
| 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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