

3QFY20 RESULTS UPDATE

10 FEB 2020

Perstima Bhd

Bursa / Bloomberg Code: 5436 / PER MK
Stock is Shariah-compliant.

Price : RM4.08

Market Capitalization : RM405.2 mln

Market : Main Market

Sector : Manufacturing

Recommendation : SELL

FYE Mar (RMm)	3QFY20	2QFY20	qoq %	3QFY19	yoy %	9MFY20	9MFY19	yoy %
Revenue	203.6	240.0	-15.2%	237.5	-14.3%	668.3	747.8	-10.6%
Cost of Sales	(190.9)	(225.3)	-15.3%	(222.2)	-14.1%	(622.3)	(695.9)	-10.6%
Gross Profit	12.7	14.6	-13.4%	15.3	-17.0%	46.0	51.9	-11.4%
Other Income/ (Opex)	(4.5)	(3.8)	18.6%	(2.6)	72.2%	(12.3)	(8.7)	41.6%
Operating Profit	8.1	10.8	-24.8%	12.6	-35.6%	33.7	43.2	-22.0%
Net interest	0.2	(0.1)	-238.6%	0.2	-34.2%	0.4	1.1	-62.9%
PBT	8.3	10.7	-22.5%	12.9	-35.6%	34.1	44.3	-23.0%
Tax	(2.0)	(2.4)	-16.6%	(2.7)	-28.3%	(7.8)	(9.8)	-20.1%
Tax rate	23.7%	22.1%		21.3%		22.9%	22.1%	
Net profit	6.3	8.3	-24.2%	10.1	-37.5%	26.3	34.5	-23.8%
EPS (sen)	6.4	8.4	-24.2%	10.2	-37.5%	26.5	34.8	-23.8%
Gross profit margin	6.2%	6.1%		6.4%		6.9%	6.9%	
Operating profit margin	4.0%	4.5%		5.3%		5.0%	5.8%	
Net profit margin	3.1%	3.5%		4.3%		3.9%	4.6%	

3QFY20 Results Review

- Perstima recorded a disappointing net profit of RM26.3 million for 9MFY20, which was only at 62.6% of our full-year forecast. The Group's bottom line was below our expectation as it was hit by a double whammy, i.e. a reduction in sales volume and selling price.
- Y-o-y, Perstima's revenue fell 14.3% for the current quarter due to lower sales volume and selling price. As a result, the Group recorded a drastic 37.5% decline in net profit while operating and net profit margins also narrowed. On a q-o-q basis, the Group's top and bottom lines decreased by 15.2% and 24.2%, respectively, while profit margins continued its downtrend.
- The Group has been experiencing intense competition post-expiration of anti-dumping duties and higher presence of imports, which had adversely affected sales volume since 4QFY19.
- Perstima's earnings were most heavily impacted in Malaysia, followed by Vietnam. Separately, its new subsidiary in Philippines was still at a preliminary stage; it has yet to generate revenue and incurred some startup cost for the current quarter.
- No dividend was declared in this quarter as historically dividends will only be announced at the end of the financial year. The Group remains in a healthy net cash position, at 68.7 sen/share.
- Management guided that the Group's operating environment will continue to be challenged by the higher presence of imports. The profitability of the Group will also be affected by the uncertainty and volatility of the MYR against USD.
- Given the Group's underperformance, we revise downwards our forecast for FY20 and FY21 estimates.
- Notably, Perstima offers an attractive dividend yield, estimated at an average of 5.9% over the next 2 years, while its balance sheet remains robust with a net cash position.

Recommendation

We downgrade our call from HOLD to SELL, with a lower target price of RM3.04. Derating catalysts include much poorer than anticipated financial results arising from intense competition post-expiration of anti-dumping duties and higher presence of imports. The fair value reflects a P/E multiple of 10.0x, applied on the average EPS forecasted for FY20 and FY21. The reduced fair value is attributable to the downward revision in projected net profits, arising from a decrease in revenue and profit margins for the next two financial years.

Key Financials (FYE Mar)	FY18	FY19	FY20E	FY21E
Revenue (RMm)	938.9	978.8	856.9	903.3
EBITDA (RMm)	44.5	60.5	53.1	57.4
EBITDA margin	4.7%	6.2%	6.2%	6.4%
Core net profit (RMm)	21.5	41.0	28.5	31.8
FD EPS (sen)	21.7	41.3	28.7	32.0
FD EPS growth	-60.9%	90.5%	-30.5%	11.5%
DPS (sen)	20.0	30.0	22.9	25.5
Payout ratio	92%	73%	80%	80%

Per Share Data (FYE Mar)	FY18	FY19	FY20E	FY21E
Book value (RM)	3.8	4.0	4.6	4.8
FCFE (RM)	0.6	0.0	0.7	0.4
Earnings (sen)	21.7	41.3	28.7	32.0
Net dividend (sen)	20.0	30.0	22.9	25.5
Payout ratio	92%	73%	80%	80%
P/E (x)	16.3	11.9	14.2	12.7
P/FCFE (x)	5.8	(112.9)	5.9	11.6
P/Book value (x)	0.9	1.2	0.9	0.8
Net dividend yield	5.7%	6.1%	5.6%	6.2%
ROE	5.7%	10.4%	6.3%	6.6%
Net gearing (x)		net cash	net cash	net cash

Perstima'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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