

1QFY21 RESULTS UPDATE

14 SEPTEMBER 2020

Perstima Bhd

Price : RM3.94

Market Capitalization : RM391.3 mln

Market : Main Market

Sector : Manufacturing

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

Recommendation : SELL

FYE Mar (RMm)	1QFY21	4QFY20	qoq %	1QFY20	yoy %	1QFY21	1QFY20	yoy %
Revenue	200.6	191.1	5.0%	224.8	-10.7%	200.6	224.8	-10.7%
Cost of Sales	(182.1)	(182.7)	-0.3%	(206.1)	-11.6%	(182.1)	(206.1)	-11.6%
Gross Profit	18.5	8.4	121.4%	18.7	-0.6%	18.5	18.7	-0.6%
Other Income/ (Opex)	(5.2)	(1.9)	176.0%	(3.9)	34.3%	(5.2)	(3.9)	34.3%
Operating Profit	13.3	6.5	105.5%	14.8	-9.8%	13.3	14.8	-9.8%
Net interest	0.2	0.5	-60.7%	0.4	-40.1%	0.2	0.4	-40.1%
PBT	13.5	7.0	92.6%	15.1	-10.5%	13.5	15.1	-10.5%
Tax	(3.1)	(2.4)	27.7%	(3.5)	-11.6%	(3.1)	(3.5)	-11.6%
Tax rate	22.8%	34.4%		23.1%		22.8%	23.1%	
Net profit	10.4	4.6	126.8%	11.6	-10.2%	10.4	11.6	-10.2%
EPS (sen)	10.5	4.6	126.7%	11.7	-10.2%	10.5	11.7	-10.2%
Gross profit margin	9.2%	4.4%		8.3%		9.2%	8.3%	
Operating profit margin	6.6%	3.4%		6.6%		6.6%	6.6%	
Net profit margin	5.2%	2.4%		5.2%		5.2%	5.2%	

1QFY21 Results Review

- Perstima's net profit of RM10.4 million in 1QFY21 came in above our expectation, forming 47% of our full-year forecast for FY21. The outperformance was due to the Group's wider-than-expected gross profit margin for the current quarter, though we note that the Group's 1Q results tend to be better than the other quarters based on its past two financial years.
- Y-o-y, Perstima's revenue fell 10.7% for the current quarter due to lower sales volume and selling price in Malaysia. The fall was moderated by an increase in sales volume in Vietnam. Given the weaker top line, the Group's net profit decreased by a similar magnitude of 10.2% as operating and net profit margins remained stable.
- On a q-o-q basis, the Group's top line increased by 5.0%, assisted by the better performance in Vietnam – stronger sales volume and selling price – for the current quarter. As profit margins more than doubled compared to 4QFY20, Perstima's net profit rose 126.8% in 1QFY21.
- Sales performance in Malaysia continued to be on a downtrend as the Group is faced with intense competition post-expiration of anti-dumping duties and higher presence of imports, which had adversely affected sales volume since 4QFY19.
- Management guided that the Group's operating environment will continue to be challenged by the higher presence of imports and the volatility of exchange rate. Also, the COVID-19 pandemic has added another layer of uncertainty to its business performance. In view of the challenges highlighted above, we still expect Perstima's earnings to reduce by 4.5% in FY21. We expect a pick-up in revenue in FY22 as the impact from anti-dumping duties normalise, but start-up costs from the new plant in the Philippines are anticipated to weigh on the Group's earnings in FY22.
- Perstima's new subsidiary in the Philippines was still at a preliminary stage; it has yet to generate revenue and incurred some start-up costs for the current quarter. Perstima is constructing its new plant in the Philippines, which had commenced in August 2019 and is expected to complete in 2H 2021. Construction progress is at 47.00% as at end-June 2020.
- This new plant will add 200,000 MT per annum (or 63%) of tinsplate and tin free steel manufacturing capacity to the Group. Nonetheless, earnings contribution from the new plant is uncertain given the current economic slowdown amid the global pandemic. We view that the Group might be saddled high start-up cost arising from depreciation, financing and other costs before utilisation of the plant reaches an optimum level and contribute positively to the Group.

- Construction of the new plant in the Philippines is expected to cost USD65.9 million (or RM275.5 million). The management plans to fund it via proceeds from the issuance of rights shares, bank borrowings and internally generated funds.
- On 18 August 2020, Perstima obtained shareholders' approval to proceed with the issuance of up to 19,860,944 rights shares to existing shareholders on the basis of 1 right for every 5 shares at an issue price to be determined later. In this regard, Perstima's three major shareholders (i.e. Versalite Sdn Bhd, JFE Shoji Corporation and JFE Steel Corporation) have given an undertaking to subscribe to their respective proportion of the rights shares. In addition, the subscriber of the rights will be entitled to 1 bonus issue for every 2 rights subscribed, which had also been approved in the extraordinary general meeting on the same date.
- The subscription of rights shares by shareholders would dilute the EPS and it remains uncertain on when the new plant can contribute meaningfully to the Group's earnings due to the current economic slowdown.
- The Group remained in a healthy net cash position, at 45.2 sen/share as at end-June 2020, albeit halved from the 92.5 sen/share a quarter ago, due to negative operating cash flow for the current quarter.
- Notably, Perstima offers an estimated dividend yield averaging 5.8% over the next 2 years, while its balance sheet remains robust with a net cash position. We expect Perstima to be able to fund the new plant in the Philippines with internally generated funds and proceeds from the issuance of the rights shares.

Recommendation

We maintain our SELL call, with a higher target price of RM3.34 (from RM3.00 previously) due to an upward revision in gross profit margin to 7.4% (from 6.3% previously), given the margin improvement in the current quarter. The fair value reflects a P/E multiple of 12.0x, applied on the average EPS forecasted for FY21 and FY22. That said, the SELL call is maintained to reflect continued weakness in earnings arising from the demand shock caused by intense competition post-expiration of anti-dumping duties, as well as adverse economic impact from COVID-19.

Key Financials (FYE Mar)	FY19	FY20	FY21E	FY22E
Revenue (RMm)	978.8	859.4	760.9	837.0
EBITDA (RMm)	60.5	49.6	48.8	54.4
EBITDA margin	6.2%	5.8%	6.4%	6.5%
Core net profit (RMm)	41.0	30.9	29.5	25.8
FD EPS (sen)	41.3	31.1	29.7	26.0
FD EPS growth	90.5%	-24.7%	-4.5%	-12.6%
DPS (sen)	30.0	30.0	24.2	21.2
Payout ratio	73%	96%	81%	81%

Per Share Data (FYE Mar)	FY19	FY20	FY21E	FY22E
Book value (RM)	4.0	4.1	5.7	6.1
FCFE (RM)	0.0	0.4	0.3	-0.8
Earnings (sen)	41.3	31.1	29.7	26.0
Net dividend (sen)	30.0	30.0	24.2	21.2
Payout ratio	73%	96%	81%	81%
P/E (x)	11.9	15.8	13.3	15.2
P/FCFE (x)	(112.9)	12.0	13.0	(4.9)
P/Book value (x)	1.2	1.2	0.7	0.6
Net dividend yield	6.1%	6.1%	6.1%	5.4%
ROE	10.4%	7.7%	5.2%	4.3%
Net gearing (x)	net cash	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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