

Stock Digest

Company Update – Chin Well Holdings Bhd

Wednesday, 06 Mar, 2019

Opportunities in Trade Tensions

Highlights

- Chin Well Holdings Bhd is planning to diversify its business to include one-stop warehousing services in Shah Alam. The automated warehouse is expected to cost RM12.0 mln and is scheduled to start operations this year.
- Upon completion, the new service will be offered to existing as well as new customers for storage purposes (i.e.: steel hardware products). The group has also acknowledged the possibility of establishing similar warehousing facilities in the future, although nothing is set in stone currently.
- Contribution from the warehousing services is expected to be negligible at the current juncture, while earnings growth is expected to be driven by higher sales volume, improved production efficiency, increased distribution network (in talks with U.S. DIY retailers) and improving margins from higher sales of value-added downstream wire products (i.e.: gabion, fences).
- We maintain our **BUY** recommendation on Chin Well with a higher target price of RM2.05 (from RM1.95) after rolling over our valuation to FY20 (from FY19), as we continue to see long-term investment merits, in-tandem with improving margins on better product mix (i.e.: downstream wire products) and higher sales volume. The share also offers a reasonable dividend yield of 4.5%-5.0%, which is paid bi-annually.

Financial Highlights					
FYE June (MYR mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	508.1	521.3	591.3	659.9	694.3
EBITDA	93.8	80.4	81.9	92.9	95.4
Net Profit	63.4	50.9	55.9	63.6	67.8
Revenue Growth (%)	1.1	2.6	13.4	11.6	5.2
EBITDA Growth (%)	24.5	-14.3	1.9	13.5	2.7
Net Profit Growth (%)	55.6	-19.7	9.8	13.8	6.6
EPS (sen)	21.5	17.3	19.0	21.6	23.0
P/E(x)	8.3	10.3	9.4	8.3	7.8
DPS (sen)	8.5	6.8	8.0	8.6	9.2
Dividend Yield (%)	4.7	3.8	4.5	4.8	5.1
P/BV (x)	1.1	1.0	1.0	0.9	0.9
ROE (%)	13.4	9.9	10.4	10.9	11.6

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: 1.79

Target Price: 2.05

Expected Return: +15.8%

Expected Dividend Return: +4.8%

Expected Total Return: +20.7%

FBM KLCI: 1,685.6

Key Statistics

Bursa Code: 5007

Bloomberg Ticker: CWH MK Equity

Stock Information: Principally involved in the manufacturing and trading of fastening and wire products

Listing Market: Main Market

Share Issued (mln): 294.1

Market Capital (RM mln): 526.5

Par Value (RM): N/A

52 week high/low: RM2.00/RM1.49

Estimated free float: 32.6%

Beta (x): 0.86

3-month average volume ('000): 94.3

Major Shareholders:

Benua Handal Sdn Bhd	55.1%
Samarang UCITS	7.5%
AIA Bhd	3.8%

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Prospects

The warehouse will have a built-up area of 25,479 sq. ft. and 12,920 storage areas. The automated facility will be rented out to both its existing and new customers. The rental rates will be different depending on the packages (i.e.: daily, monthly, annual rates) subscribed.

The facility is targeted at existing customers by providing additional warehouse space to store their products and local customers in need of storage spaces. The warehouse is not intended for internal usage and revenue is expected to realise by end-FY19 or early FY20. We are positive on the new stream of recurring income, albeit minor at the current juncture, as it will improve revenue contribution from value-added services provided by Chin Well.

The group is also in the midst of improving its wire production line to keep up-to-date with the latest technology, increasing machinery lifetime and quality of its wire products. This is also expected to improved floor efficiency, in-tandem with higher production volume. Meanwhile, consistent sales from both the upstream and downstream customers will keep Chin Well busy in the long run.

Despite increased sales from Europe, sales growth is expected to be slower in FY19, compared to FY18, as customers hold off bulk purchases in-view of price volatilities amid the ongoing U.S.-Sino trade tensions. On the positive side, enquiries from U.S.-based customers that are looking to lower supply risks have also increased in the same period. Chin Well is planning to use the opportunity to widen its sales and distribution network in the U.S. for customers hoping to diversify its supply chain following increased trade risks.

Valuation and Recommendation

We left our FY19 estimates unchanged, although we tweaked our FY20 net profit and revenue marginally lower to RM67.8 mln (-2.5%) and RM694.3 (-1.8%) respectively, after adjusting our forex assumptions to account for a weaker USD.

Our target price is arrived by ascribing an unchanged target PER of 9.0x to its FY20 EPS of 23.0 sen. The group is currently trading at a trailing PER of 7.8x, which is below its five-year average PER of 10.0x – indicating room for more upsides, in our opinion.

The target PER is at a small premium to PER of its closest peer, **Tong Herr Resources Bhd**, premised on Chin Well's higher margins and the positive growth outlook in the fasteners landscape in Europe.

Downside risks to our call include sudden spike in raw material prices, tighter competition, volatile forex movements and unforeseen change in the global trade landscape (i.e.: trade war).

Income Statement					
FYE June (MYR mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	508.1	521.3	591.3	659.9	694.3
EBITDA	93.8	80.4	81.9	92.9	95.4
Depreciation & Amortisation	19.9	20.5	17.7	15.9	16.2
Net Interest Income/(Expense)	0.9	2.3	2.6	-0.5	2.9
Pre-tax Profit	74.8	62.2	66.7	76.6	82.1
Effective Tax Rate	15.3%	18.1%	16.3%	17.0%	17.5%
Net Profit	63.4	50.9	55.9	63.6	67.8
EBITDA Margin	18.5%	15.4%	13.8%	14.1%	13.7%
Pre-tax Margin	14.7%	11.9%	11.3%	11.6%	11.8%
Net Margin	12.5%	9.8%	9.5%	9.6%	9.8%

Source: Company Data & MSSB Research

Balance Sheet					
FYE June (MYR mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Total Assets	610.5	621.3	665.1	663.0	682.5
Fixed Assets	153.0	149.5	139.0	142.9	147.5
Current Assets	452.4	466.7	521.1	515.1	530.0
Other LT Assets	5.2	5.1	5.0	5.0	4.9
Current Liabilities	106.3	79.4	114.0	69.6	89.3
LT Liabilities	8.5	8.4	7.9	9.4	9.4
Share Capital	149.8	177.9	177.9	177.9	177.9
Total Equity	495.7	533.5	543.2	584.0	583.8
Minority Interests	N/A	N/A	N/A	N/A	N/A

Source: Company Data & MSSB Research

Per Share Data					
FYE June (MYR mln)	FY16A	FY17A	FY18A	FY19F	FY20F
Book Value (sen)	168.5	181.4	184.7	198.6	198.5
Cash Flow (sen)	25.8	1.4	-0.2	24.4	25.8
Net Earnings (sen)	21.5	17.3	19.0	21.6	23.0
Dividend (sen)	8.5	6.8	8.0	8.6	9.2
Payout Ratio (%)	39.5	39.3	38.2	40.0	40.0
Dividend Yield (%)	4.7	3.8	4.5	4.8	5.1
PER (x)	8.3	10.3	9.4	8.3	7.8
P/Cash Flow (x)	6.9	129.8	-735.5	7.3	6.9
P/Book Value (x)	1.1	1.0	1.0	0.9	0.9
ROA(%)	10.4	8.2	8.4	9.6	9.9
ROE (%)	12.8	9.5	10.3	10.9	11.6
Gearing (%)	12.2	9.0	13.5	4.1	7.0
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	2.29%	1.70%	6.55%
Relative (%)	2.17%	1.86%	15.07%

Source: Bloomberg

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