

## Chin Well Holdings Berhad

### On track for recovery

#### Summary

- Chin Well Holdings Bhd's 4QFY20 net loss stood at RM16.6m vs. a net profit of RM11.7m in the previous corresponding quarter, impacted by the lower turnover across both the fasteners and wire products segment. Revenue for the quarter fell 50.5% YoY to RM82.2m. The weaker 4QFY20 earnings also dragged the cumulative FY20 net profit to RM2.4m (-95.8% YoY), although revenue only contracted 21.3% YoY to RM535.8m.
- The reported net profit came in below expectations, accounting to only 8.6% of our previous full-year target of RM28.3m and 6.0% of consensus forecast of RM40.1m. The reported revenue, however, came within expectations, amounting to 98.7% of our and consensus full year revenue forecast of RM542.7m and RM543.0m respectively.
- Segment wise in 4QFY20, the fastener products segment pre-tax loss stood at RM15.4m against a pre-tax profit of RM15.3m on the weaker demand from Europe and tighter competition. The wire products segment pre-tax loss widened to RM0.4m from pre-tax loss of RM0.3m in the previous corresponding quarter.
- Following two consecutive bleak quarters (which close to 90% of worksites were halted), we expect recovery to take place on the back of the resumption of operations whilst the group will be kept busy to fulfill backlog orders. Still, the recovery is expected to be soft as companies scaled down their operations.
- At the same the time, the wired rod prices, a key material for fasteners production are on ascend in recent months. This implies that demand has start to pick-up in recent times, but has yet to recover towards pre-Covid-19 levels.
- Additionally, we also see margins remain weak following the re-opening of China economy as factories resume production. The import tariff imposed by the U.S. against China also does not bode well which could result in lower average selling prices as market players step up to protect their market share through stiffer price competition.

#### Quarterly performance

FYE Jun (RM m)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	166.2	150.4	82.2	(45.3)	(50.5)	680.7	535.8	(21.3)
EBITDA	16.6	10.0	(20.5)	(305.7)	(223.9)	80.0	3.3	(95.8)
PBT	13.9	9.6	(16.3)	(269.0)	(216.9)	68.8	7.3	(89.4)
PAT	11.7	8.0	(16.6)	(306.8)	(242.3)	57.6	2.4	(95.8)
Core PATMI	11.7	8.0	(16.6)	(306.8)	(242.3)	57.6	2.4	(95.8)
Reported PATMI	11.7	8.0	(16.6)	(306.8)	(242.3)	57.6	2.4	(95.8)
Core EPS (sen)	3.9	2.7	(5.5)	(306.8)	(242.3)	19.2	0.8	(95.8)
EBITDA margin (%)	10.0	6.6	(25.0)			11.8	0.6	
PBT margin (%)	8.4	6.4	(19.8)			10.1	1.4	
Core PATMI margin (%)	7.0	5.3	(20.2)			8.5	0.5	

#### Results Note – 4QFY20

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#### HOLD

Share price	RM1.01
Target price	RM1.07
Previous TP	RM1.07
Capital upside	5.9%
Dividend return	3.5%
Total return	9.4%

#### Company profile

Manufacturing and trading of fasteners and wire products

#### Stock information

Bursa Code	5007
Bloomberg ticker	CWH MK
Listing market	Main
Share issued (m)	299.5
Market Cap (m)	302.5
52W High/Low	1.71/0.71
Est. Free float	32.2%
3-mth avg vol ('000)	173.0
Shariah compliant	Yes

#### Major shareholders

	%
Benua Handal Sdn Bhd	56.1
Samarang UCITS	9.7
Prudential Unit Trusts	2.4

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return			
Absolute	-9.0	4.7	-42.3
Relative	-6.7	-3.0	-40.4

#### Earnings summary

FYE (Jun)	FY20	FY21f	FY22f
PATMI (m)	2.4	40.4	41.7
EPS (sen)	0.8	13.5	13.9
P/E (x)	10.7	7.5	7.3

#### Relative performance chart



## Valuation & Recommendation

- While we maintained our FY21f forecast premised to the recovery in ASP and production, we introduce our FY22f with revenue and net profit rising modestly at 3.0% YoY to RM658.6m and 3.2% YoY to RM41.7m respectively supported by the improving economic prospect.
- We maintained our **HOLD** recommendation on Chin Well with an unchanged target price of RM1.07. Our target price is derived by pegging a target PER of 8.0x to FY21f EPS of 13.5 sen. The target PER is also similar to the PER of its closest peer, Tong Herr Resources Bhd. We also note that prospective dividend yields are also fairly attractive at 5.0% for both FY21f and FY22f respectively.
- Downside risks to our call include sudden spike in raw material prices, further tighter competition, volatile forex movements and unforeseen changes in the global trade landscape, sluggish demand as the industry struggles to recover to norm.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Jun (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Jun (RM m)	FY18	FY19	FY20	FY21f	FY22f
<b>Revenue</b>	591.3	680.7	535.8	639.1	658.6	Cash	117.7	124.2	117.2	87.8	76.8
EBITDA	81.9	80.0	19.4	57.4	59.1	Receivables	124.0	149.1	132.1	126.1	129.9
EBIT	64.2	68.6	6.2	46.6	47.8	Inventories	237.2	266.3	267.1	253.0	260.7
Net finance income/ (cost)	2.6	0.6	1.1	1.5	1.8	PPE	139.0	154.6	157.6	166.0	174.4
Associates & JV	1.0	2.0	3.0	4.0	4.0	Others	47.3	10.3	14.7	61.6	80.3
<b>Profit before tax</b>	<b>66.7</b>	<b>69.2</b>	<b>7.3</b>	<b>48.1</b>	<b>49.6</b>	<b>Assets</b>	<b>665.1</b>	<b>704.6</b>	<b>688.7</b>	<b>694.6</b>	<b>722.1</b>
Tax	(10.9)	(11.2)	(4.9)	(7.7)	(7.9)	Debts	73.1	89.2	110.0	95.0	80.0
<b>Net profit</b>	<b>55.9</b>	<b>57.9</b>	<b>2.4</b>	<b>40.4</b>	<b>41.7</b>	Payables	21.5	29.3	26.7	29.8	30.7
Minority interest	-	-	-	-	-	Others	27.3	8.4	34.8	9.4	9.4
<b>Core earnings</b>	<b>55.9</b>	<b>57.9</b>	<b>2.4</b>	<b>40.4</b>	<b>41.7</b>	<b>Liabilities</b>	<b>121.9</b>	<b>126.8</b>	<b>170.6</b>	<b>133.3</b>	<b>119.2</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	543.2	577.7	518.1	561.2	602.9
<b>Reported earnings</b>	<b>55.9</b>	<b>57.9</b>	<b>2.4</b>	<b>40.4</b>	<b>41.7</b>	Minority interest	-	-	-	-	-
						<b>Equity</b>	<b>543.2</b>	<b>577.7</b>	<b>518.1</b>	<b>561.2</b>	<b>602.9</b>
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Jun (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	66.7	69.2	7.3	48.1	49.6	Core EPS (sen)	18.7	19.3	0.8	13.5	13.9
Depreciation & amortisation	17.7	11.4	13.1	10.8	11.3	P/E (x)	5.4	5.2	125.0	7.5	7.3
Changes in working capital	18.8	45.3	(12.4)	(23.2)	10.6	DPS (sen)	8.0	7.9	3.5	5.0	5.0
Share of JV profits	-	-	-	-	-	Dividend yield	7.9%	7.8%	3.5%	5.0%	5.0%
Taxation	(12.4)	(13.5)	(4.9)	(7.7)	(7.9)	BVPS (RM)	1.81	1.93	1.73	1.87	2.01
Others	-	-	-	-	-	P/B (x)	0.6	0.5	0.6	0.5	0.5
<b>Operating cash flow</b>	<b>20.7</b>	<b>38.0</b>	<b>12.3</b>	<b>31.6</b>	<b>50.5</b>	EBITDA margin	13.8%	11.8%	3.6%	9.0%	9.0%
Net capex	11.8	26.4	16.1	19.2	19.8	EBIT margin	10.8%	10.1%	1.2%	7.3%	7.3%
Others	-	-	-	-	-	PBT margin	11.3%	10.2%	1.4%	7.5%	7.5%
<b>Investing cash flow</b>	<b>(7.6)</b>	<b>(22.8)</b>	<b>(12.6)</b>	<b>(15.7)</b>	<b>(16.3)</b>	PAT margin	9.5%	8.5%	0.5%	6.3%	6.3%
Changes in borrowings	25.0	16.1	20.0	(15.0)	(15.0)	Core PAT margin	9.5%	8.5%	0.5%	6.3%	6.3%
Issuance of shares	-	-	-	-	-	ROE	10.3%	10.0%	0.5%	7.2%	6.9%
Dividends paid	(21.4)	(25.3)	(10.5)	(15.0)	(15.0)	ROA	8.4%	8.2%	0.4%	5.8%	5.8%
Others	-	-	-	-	-	<b>Net gearing</b>	-	-	-	-	-
<b>Financing cash flow</b>	<b>(6.6)</b>	<b>(8.4)</b>	<b>9.5</b>	<b>(30.0)</b>	<b>(30.0)</b>						
<b>Net cash flow</b>	<b>6.4</b>	<b>6.8</b>	<b>9.3</b>	<b>(14.0)</b>	<b>4.3</b>						
Forex	(3.4)	0.5	(16.3)	(15.3)	(15.3)						
Others	-	-	-	-	-						
Beginning cash	113.9	116.9	124.2	117.2	87.8						
Ending cash	116.9	124.2	117.2	87.8	76.8						

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