

Chin Well Holdings Berhad

Recovery progress still tepid

Summary

- Chin Well Holdings Bhd's 2QFY21 net profit rose 34.3% YoY to RM5.7m, on better product mix that yields higher margins. Revenue for the quarter, however, declined 19.7% YoY to RM116.8m. For 6MFY21, cumulative net profit fell marginally by 0.7% YoY to RM10.9m. Revenue for the period decreased 25.5% YoY to RM226.0m.
- The reported net profit came in only at 27.3% of our full-year target of RM39.9m and 32.1% of consensus forecast of RM34.0m. The reported revenue amounted to 39.8% of our full year revenue forecast of RM567.6m and 41.4% of consensus forecast at RM546.0m.
- Segment wise in 2QFY21, the fastener products segment pre-tax profit was largely flat at RM5.0m as the higher DIY fasteners sales that yields better margins offset the weaker sales. The wire products segment pre-tax profit, however, surged 22.2x YoY to RM3.4m on higher sales to the local market at a better profit margin. Chin Well continues to maintain a lean balance sheet with a net cash position of RM58.6m in 2QFY21. An interim dividend of 1.5 sen per share, payable on 21st May 2021 was declared.
- With the recovery still remain at infant stage, we reckon that outlook remains challenging as global economic recovery remains at an uneven patch with temporary shutdown in manufacturing activities and tepid demand. While the North America segment remains upbeat, the softer demand from other regions of the world continues to bog down the overall performance.
- On the raw material prices wise, the wired rod prices, a key material for fasteners production are on ascend in recent months. Hence, prospective customers may adopt a wait-and-see approach before taking further action.
- We expect margins remain sluggish amidst the stiffer competition from China. Overall recovery will be capped by the slower orders from Europe, owing to the differences in the products mix and product requirements between the two regions. This comes even as shipments to US continue to register steady growth.

Quarterly performance

| FYE Jun (RM m) | 2QFY20 | 1QFY21 | 2QFY21 | QoQ (%) | YoY (%) | 6MFY20 | 6MFY21 | YoY (%) |
|-----------------------|--------|--------|--------|---------|---------|--------|--------|---------|
| Revenue | 147.7 | 107.4 | 118.6 | 10.4 | (19.7) | 303.2 | 226.0 | (25.5) |
| EBITDA | 5.0 | 6.8 | 11.2 | 64.0 | 122.6 | 13.9 | 18.1 | 30.1 |
| PBT | 5.4 | 6.8 | 8.2 | 19.7 | 51.4 | 14.0 | 15.0 | 7.7 |
| PAT | 4.3 | 5.2 | 5.7 | 11.2 | 34.3 | 11.0 | 10.9 | (0.7) |
| Core PATMI | 4.3 | 5.2 | 5.7 | 11.2 | 34.3 | 11.0 | 10.9 | (0.7) |
| Reported PATMI | 4.3 | 5.2 | 5.7 | 11.2 | 34.3 | 11.0 | 10.9 | (0.7) |
| Core EPS (sen) | 1.4 | 1.7 | 1.9 | 11.2 | 34.3 | 3.7 | 3.6 | (0.7) |
| EBITDA margin (%) | 3.4 | 6.4 | 9.5 | | | 4.6 | 8.0 | |
| PBT margin (%) | 3.7 | 6.4 | 6.9 | | | 4.6 | 6.6 | |
| Core PATMI margin (%) | 2.9 | 4.8 | 4.8 | | | 3.6 | 4.8 | |

Results Note – 2QFY21

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HOLD

| | |
|-----------------|--------|
| Share price | RM1.03 |
| Target price | RM0.94 |
| Previous TP | RM1.11 |
| Capital upside | -8.7% |
| Dividend return | 4.9% |
| Total return | -3.9% |

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) | 308.5 |
| 52W High/Low | 1.37/0.68 |
| Est. Free float | 32.0% |
| Beta (x) | 0.6 |
| 3-mth avg vol ('000) | 137.9 |
| Shariah compliant | Yes |

Major shareholders

| | % |
|------------------------|------|
| Benua Handal Sdn Bhd | 56.2 |
| Samarang UCITS | 9.8 |
| Prudential Unit Trusts | 2.4 |

Share price vs. KLCI (%)

| | 1M | 3M | 12M |
|--------------|------|-----|-------|
| Hist. return | | | |
| Absolute | -1.0 | 2.0 | -24.3 |
| Relative | -1.7 | 3.6 | -28.8 |

Earnings summary

| FYE (Jun) | FY20 | FY21f | FY22f |
|-----------|-------|-------|-------|
| PATMI (m) | 2.7 | 27.2 | 35.0 |
| EPS (sen) | 0.9 | 9.1 | 11.7 |
| P/E (x) | 114.0 | 11.3 | 8.8 |

Relative performance chart



Valuation & Recommendation

- With the reported earnings coming below our forecast, we trimmed our earnings estimates by 31.8% and 15.8% to RM27.2m and RM35.0m for FY21f and FY22f respectively, taking into account of the slower-than-expected recovery, coupled with the higher effective tax rate. Consequently, we maintained our **HOLD** recommendation on Chin Well, but with a lower target price of RM0.94 (from RM1.11).
- Our target price is derived by pegging a target PER of 8.0x to our rolled-over FY22f EPS of 11.7 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 4.9% for both FY21f and FY22f respectively.
- Risk to our recommendation 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 |
| Revenue | 591.3 | 680.7 | 535.8 | 531.1 | 565.8 | Cash | 117.7 | 124.3 | 110.3 | 97.4 | 97.4 |
| EBITDA | 81.9 | 80.0 | 19.4 | 45.6 | 56.1 | Receivables | 124.0 | 134.0 | 103.2 | 95.3 | 100.8 |
| EBIT | 64.2 | 68.3 | 6.2 | 34.8 | 44.8 | Inventories | 237.2 | 266.3 | 262.6 | 265.9 | 263.5 |
| Net finance income/ (cost) | 2.6 | 0.6 | 1.3 | 1.5 | 1.8 | PPE | 139.0 | 154.3 | 162.3 | 167.4 | 173.1 |
| Associates & JV | 1.0 | 2.0 | 3.0 | 4.0 | 4.0 | Others | 47.3 | 25.4 | 40.1 | 51.6 | 54.0 |
| Profit before tax | 66.7 | 68.8 | 7.6 | 36.3 | 46.6 | Assets | 665.1 | 704.3 | 678.5 | 677.6 | 688.8 |
| Tax | (10.9) | (11.2) | (4.9) | (9.1) | (11.7) | Debits | 73.1 | 89.2 | 71.3 | 95.0 | 80.0 |
| Net profit | 55.9 | 57.6 | 2.7 | 27.2 | 35.0 | Payables | 21.5 | 19.3 | 19.7 | 18.6 | 19.8 |
| Minority interest | - | - | - | - | - | Others | 27.3 | 18.4 | 19.5 | 26.1 | 16.0 |
| Core earnings | 55.9 | 57.6 | 2.7 | 27.2 | 35.0 | Liabilities | 121.9 | 126.8 | 109.8 | 138.8 | 115.0 |
| Exceptional items | - | - | - | - | - | Shareholder's equity | 543.2 | 577.4 | 568.8 | 538.8 | 573.8 |
| Reported earnings | 55.9 | 57.6 | 2.7 | 27.2 | 35.0 | Minority interest | - | - | - | - | - |
| | | | | | | Equity | 543.2 | 577.4 | 568.8 | 538.8 | 573.8 |
| 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 | 68.8 | 7.6 | 36.3 | 46.6 | Core EPS (sen) | 18.7 | 19.2 | 0.9 | 9.1 | 11.7 |
| Depreciation & amortisation | 17.7 | 11.7 | 13.1 | 10.8 | 11.3 | P/E (x) | 5.5 | 5.4 | 114.0 | 11.3 | 8.8 |
| Changes in working capital | 18.8 | 41.4 | (34.9) | (3.5) | 1.8 | DPS (sen) | 8.0 | 7.9 | 1.5 | 5.0 | 5.0 |
| Share of JV profits | - | - | - | - | - | Dividend yield | 7.8% | 7.6% | 1.5% | 4.9% | 4.9% |
| Taxation | (12.4) | (13.6) | (9.7) | (9.1) | (11.7) | BVPS (RM) | 1.81 | 1.93 | 1.90 | 1.80 | 1.92 |
| Others | - | - | - | - | - | P/B (x) | 0.6 | 0.5 | 0.5 | 0.6 | 0.5 |
| Operating cash flow | 20.7 | 38.0 | 36.7 | 29.8 | 43.8 | EBITDA margin | 13.8% | 11.8% | 3.6% | 8.6% | 9.9% |
| Net capex | 11.8 | 26.4 | 21.1 | 15.9 | 17.0 | EBIT margin | 10.8% | 10.0% | 1.2% | 6.6% | 7.9% |
| Others | - | - | - | - | - | PBT margin | 11.3% | 10.1% | 1.4% | 6.8% | 8.2% |
| Investing cash flow | (7.6) | (22.8) | (15.0) | (12.4) | (13.5) | PAT margin | 9.5% | 8.5% | 0.5% | 5.1% | 6.2% |
| Changes in borrowings | 25.0 | 16.1 | 20.0 | (15.0) | (15.0) | Core PAT margin | 9.5% | 8.5% | 0.5% | 5.1% | 6.2% |
| Issuance of shares | - | - | - | - | - | ROE | 10.3% | 10.0% | 0.5% | 5.1% | 6.1% |
| Dividends paid | (21.4) | (25.3) | (14.2) | (15.0) | (15.0) | ROA | 8.4% | 8.2% | 0.4% | 4.0% | 5.1% |
| Others | - | - | - | - | - | Net gearing | - | - | - | - | - |
| Financing cash flow | (6.6) | (8.4) | (38.0) | (15.0) | (15.0) | | | | | | |
| Net cash flow | 6.4 | 6.8 | (16.3) | 2.4 | 15.3 | | | | | | |
| Forex | (3.4) | 0.5 | 2.4 | (15.3) | (15.3) | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 113.9 | 116.9 | 124.3 | 110.3 | 97.4 | | | | | | |
| Ending cash | 116.9 | 124.3 | 110.3 | 97.4 | 97.4 | | | | | | |

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