

2Q FYE DEC 2016 RESULTS REPORT

23 August 2016

Name of PLC: <i>GUH Holdings Bhd (GUH)</i>		Target Price:	RM 1.60
Business Summary : <i>Manufacturing of printed circuit board, property development, oil palm plantation and construction of water and wastewater treatment plants</i>			
Major Shareholders :			
<i>Tan Sri Dato' Seri H'ng Bok San & family</i>			19.49%
<i>HPBS SG For Gold Connection Assets Limited</i>			17.18%
<i>as at 31-Mar-2016</i>			
PLC Website : www.guh.com.my		Recommendation:	BUY
IR Contact: <i>Kee Gim Tee</i> <i>Company Secretary</i> gtkee@guh.com.my		Market Capitalisation:	RM 219.0m
		Current Price :	RM 0.83
		Market / Sector:	Industrial
		Stock Code:	3247
Analyst : <i>Lim Boon Ngee</i> <i>Tel : +603 2163 3200; Email : bnlim@bcta.com.my</i>			

Key Stock Statistics	2014	2015	2016F	2017F
EPS (sen)	7.8	3.8	8.5	10.1
P/E (x)	10.7	22.1	9.8	8.2
Net Dividend/Share (sen)	5.0	5.0	3.5	5.0
NTA/Share (RM)	1.86	1.95	2.00	2.05
Book Value/Share (RM)	1.87	1.96	2.01	2.06
Issued Capital (mil shares)	264.1	263.9	263.9	263.9
52-weeks Share Price Range (RM)			0.78 - 1.08	

Per Share Data	2014	2015	2016F	2017F
Year-end 31 Dec				
Book Value (RM)	1.87	1.96	2.01	2.06
Operating Cash Flow (sen)	5.2	2.3	7.1	17.0
EPS (sen)	7.8	3.8	8.5	10.1
Net Dividend/Share (sen)	5.0	5.0	3.5	5.0
Payout Ratio (%)	64.4	132.9	41.2	49.6
P/E (x)	10.7	22.1	9.8	8.2
P/Cash Flow (x)	15.9	35.6	11.7	4.9
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	6.0	6.0	4.2	6.0
ROE (%)	4.2	2.0	4.3	4.9
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.
<i>n.c. - net cash</i>				

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	299.38	285.37	326.79	359.88
EBITDA	38.23	25.98	37.97	42.67
Depreciation	(16.05)	(14.21)	(14.47)	(13.82)
Net interest income	4.50	4.67	5.24	5.24
Associate	6.96	2.22	-	-
Pre-tax Profit	33.64	18.67	28.74	34.08
Tax	(13.12)	(8.75)	(6.32)	(7.50)
Net Profit	20.51	9.93	22.42	26.58
EBITDA Margin (%)	12.8	9.1	11.6	11.9
Pre-tax Margin (%)	11.2	6.5	8.8	9.5
Net-Margin (%)	6.9	3.5	6.9	7.4

Share Price Chart



1. 2QFY16 Results Highlight

	2Q FY16	2Q FY15	Chg
	RMm	RMm	%
Revenue	82.83	70.74	17.1
Operating Profit	7.10	4.92	44.4
Finance	(0.21)	-	n.m.
Associate	(0.13)	0.98	n.m.
Pre-tax Profit	6.75	5.89	14.6
Net Profit	5.01	4.42	13.4
Operating Margin (%)	8.6	6.9	
Pre-tax Margin (%)	8.2	8.3	
Net-Margin (%)	6.0	6.2	

- GUH reported a strong improvement in core operating profit in 2QFY16.
- Turnover improved by 17.1% to RM82.83m in 2QFY16 due to sustained growth of PCB manufacturing division.

- Consequently, both PBT and net profit also grew by 13-15% in 2QFY16 to RM6.75m and RM5.01m respectively.
- Turnover at its core PCB manufacturing division grew by 8.4% in 2QFY16 to RM65.98m. Its profitability improvement was more impressive as this division recorded a PBT margin of 12.5% (2QFY16) as compared with 6.9% (2QFY15). As such, PBT nearly doubled to RM8.23m in 2QFY16 from RM4.21m in 2QFY15.

The strong performance was mainly due to GUH Penang which underwent a production rationalisation/streamlining, capacity expansion, quality enhancement, product diversification and cost control management back in FY13-14. After the initial gestation of qualification and trial production, as it has gained confidence from its MNC customers for its capability and quality, it has increasingly received larger orders since mid-FY15. The cost control management, quality enhancement and reject reduction rate have also led to improved profitability. In addition, its 2QFY16 profits also benefited from net forex gain of RM1.37m due to stronger US\$ and RMB.

Meanwhile, GUH Suzhou has continued with its steady performance.

- Despite a 33.2% increase in turnover of property division to RM4.72m in 2QFY16, it continued to register a dismal PBT of RM0.05m in 2QFY16. This was due mainly to reclassification of compensation received from government for demolition of buildings of RM0.4m to other payables in Apr-16.
- Although turnover of water and wastewater division jumped to RM9.88m in 2QFY16 from RM3.90m in 2QFY15, it continued to record a pretax loss of RM0.46m in 2QFY16 as compared with PBT of RM0.12m in 2QFY15. This was due mainly to initial start-up loss of two new projects, Kerian WTP (Perak) and Sawah Raja WTP (Negeri Sembilan) secured in 4QFY15. However, the loss reduced from RM0.90m (1QFY16) to RM0.46m (2QFY16).
- The smaller divisions such as sale of electrical appliances and oil palm divisions combined reported a small PBT of RM0.29m in 2QFY16 as compared with RM0.50m in 2QFY15.
- GUH owns a 20% stake in Cambodia Utilities Pte Ltd (CUPL), which is a concession holder of a BOT power plant in Phnom Penh, Cambodia. This 18-years concession expired in May-15. In the absence of income from CUPL and coupled with impairment loss and reduced gain from financial assets, its non-operating segments recorded a pretax loss of RM1.35m in 2QFY16 as compared with RM0.55m in PBT in 2QFY15.

1H FY16 Results Highlight

	1H FY16	1H FY15	Chg
	RMm	RMm	%
Revenue	156.24	137.22	13.9
Operating Profit	9.87	9.02	9.5
Finance	(0.21)	-	n.m.
Associate	(0.14)	3.14	n.m.
Pre-tax Profit	9.52	12.16	(21.7)
Net Profit	7.68	9.24	(16.9)
Operating Margin (%)	11.9	12.7	
Pre-tax Margin (%)	11.5	17.2	
Net-Margin (%)	9.3	13.1	

- In 1HFY16, although turnover grew by 13.9% to RM156.24m, both PBT and net profit declined by 21.7% and 16.9% to RM9.52m and RM7.68m each.
- This was attributed to poorer performance in 1QFY16 which only recorded a PBT of RM2.77m due mainly to unrealised forex loss of RM2.51m in 1QFY16. In addition, the impact of the absence of

profit contribution from CUPL and impairment loss on financial assets also adversely impacted its profits performance.

2. Earnings Outlook

- GUH is an investment holding with diversified businesses in PCB manufacturing, property development as well as water and wastewater treatment. Its other smaller divisions are sale of electrical appliances and oil palm plantation.
- Underpinned by the shift of its focus to better margin car audio, automotive electronics, and home appliance, as well as better cost and quality control, reduced reject rate, the improving profits trend of **GUH Penang** is expected to be sustainable going into FY16 and FY17.
- Performance from **GUH Suzhou** is expected to remain steady due to its exposure to home appliance sector.
- For its **property development division**, GUH plans to launch RM100m worth of residential projects in Taman Bukit Kepayang, Seremban in Negeri Sembilan in FY16. This comprises a mixture of terrace (RM45m) and semi-D (RM50m) houses. It currently still has a landbank of 130 acres in Seremban, which can sustain its property development division for the next 5 years. The property sector is currently adversely affected by weak consumer spending and tighter lending by banks. However, GUH has strong competitive edge and financial position to ride out the cycle. It has established long-term reputational track record. In addition, its cheap land cost of around RM5.00 psf provides it with pricing and products flexibility.

For the newly acquired Sungai Bakat land, it is planning a light industrial park with a gross development value (GDV) of RM126m on an enlarged land size of 17.3 acres. The project is targeted to be launched towards end-FY16. The land is strategically located near the Batu Kawan Industrial Park, which has attracted an increasing number of MNCs setting up factories.

However, the finalisation of these new launches depends largely on the property market condition, which is currently dampened by weak market sentiment and more stringent bank lending policy.

- **Water and wastewater treatment division** under wholly-owned Teknoserv, offers promising prospects. It currently has 3 projects in hand with an outstanding orderbook of about RM122m, out of which RM100m is unbilled as at end-FY15. This will be progressively recognised over the next 18 months. The unbilled sales of RM100m translate into a turnover cover of almost 3.8x over average turnover of water and wastewater division of RM26m over FY14-15. It's also currently tendering for 10 water and wastewater projects worth RM1.6bn. We expect contribution from this division to improve in FY16 underpinned by higher progress billings from existing projects.
- With the expiry of CUPL's concession in May-2015, there will be no profit contribution from CUPL.
- Despite the acquisition of Sg Bakat land (RM22.60m) and acquisition of a 25% stake of Straits International Education Group (SIEG) (first tranche of RM5.0m), its balance sheets remain strong with a net cash position of RM100.4m as at end-2QFY16, which translates into RM0.38/share.

3. Valuation and Recommendation

- Its core PCB manufacturing is expected to experience a steadily increasing profit trend underpinned by order flow, better product mix, cost and quality control. Meanwhile, its water and wastewater divisions should see a turn-around in profit contribution. This is attributed to higher progress billings of existing projects.
- On an annualised basis, 1HFY16's reported earnings is below our forecast. This is due mainly to pretax loss recorded in its water and wastewater division and non-operating segments, as well as impact from the fluctuation of forex. However, we expect earnings contribution to pick up in the subsequent quarters due to higher progress billings. Hence, we are maintaining our earnings forecast for FY16 and FY17.

- We like the stock for its cheap valuation and rich assets. The stock is currently trading at a P/NTA of only 0.43x over its NTA of RM1.93 as at 2QFY16. We have arrived at a target price of RM1.60 after ascribing a 20% discount to its NTA. It has a strong balance sheet with a net cash position of RM100.4m as at 2QFY16, translating into RM0.38/share.
- The stock is currently trading at a P/E of 9.8x and 8.2x based on our EPS forecast of 8.5 sen and 10.1 sen for FY16 and FY17. Excluding net cash of RM0.38/share, its P/E is reduced to 5.3x.

Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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