

4Q FYE DEC 2016 RESULTS REPORT

28 February 2017

Name of PLC: New Hoong Fatt Holdings Bhd (NHF)		Target Price:	RM 4.00
Business Summary : Manufacturing and trading of automotive replacement parts			
Major Shareholders :			
	Kam Foong Keng		34.1%
	Wong Ah Moy @ Wong Yoke Len		14.3%
	Yeoman Capital Management Pte Ltd		7.2%
PLC Website : www.newhoongfatt.com.my		Recommendation:	BUY
		Market Capitalisation:	RM 263.1m
		Current Price :	RM 3.50
		Market / Sector:	Consumer Products
		Stock Code:	7060
Analyst : Lim Boon Ngee			
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Key Stock Statistics	2014	2015	2016	2017F
EPS (sen)	15.9	25.6	39.9	39.0
P/E (x)	22.0	13.7	8.8	9.0
Dividend/Share (sen)	10.0	11.0	14.0	14.0
NTA/Share (RM)	4.19	4.39	4.96	5.21
Book Value/Share (RM)	4.19	4.39	4.96	5.21
Issued Capital (mil shares)	75.2	75.2	75.2	75.2
52-weeks Share Price Range (RM)			2.60 - 3.53	

Per Share Data	2014	2015	2016	2017F
Year-end 31 Dec				
Book Value (RM)	4.19	4.39	4.96	5.21
Operating Cash Flow (sen)	55.3	57.4	53.8	69.9
EPS (sen)	15.9	25.6	39.9	39.0
Dividend (sen)	10.0	11.0	14.0	14.0
Payout Ratio (%)	62.8	42.9	35.1	35.9
PER (x)	22.0	13.7	8.8	9.0
P/Cash Flow (x)	6.3	6.1	6.5	5.0
P/Book Value (x)	0.8	0.8	0.7	0.7
Dividend Yield (%)	2.9	3.1	4.0	4.0
ROE (%)	3.8	6.0	6.3	7.7
Net Gearing (%)	1.9	1.5	3.0	n.c.
n.c. - net cash				

P&L Analysis (RM mil)	2014	2015	2016	2017F
Revenue	200.60	207.23	231.89	254.17
EBITDA	43.97	52.66	57.59	67.48
Depreciation	(25.05)	(25.34)	(27.57)	(29.78)
Net interest expense	(1.03)	(0.75)	(1.04)	(1.07)
EI	-	-	7.83	-
Pre-tax Profit	17.90	26.57	36.81	36.64
Tax	(5.93)	(7.32)	(6.82)	(7.33)
Net Profit	11.97	19.25	29.99	29.31
EBITDA Margin (%)	21.9	25.4	24.8	26.6
Pre-tax Margin (%)	8.9	12.8	15.9	14.4
Net-Margin (%)	6.0	9.3	12.9	11.5

1. 4QFY16 Results Highlight

	4Q FY16	4Q FY15	Chg
	RMm	RMm	%
Revenue	62.81	54.20	15.9
Operating Profit	9.48	5.40	75.7
Finance cost	(0.29)	(0.24)	24.7
EI	3.91	-	n.m.
Pre-tax Profit	13.10	5.16	153.8
Net Profit	9.49	5.24	81.2
Operating Margin (%)	15.1	10.0	
Pre-tax Margin (%)	20.9	9.5	
Net-Margin (%)	15.1	9.7	

- NHF reported a strong 4Q performance overall. In 4QFY16, turnover grew by 15.9% to a record RM62.81m.
- Operating profit surged by 75.7% to RM9.48m in 4QFY16 underpinned by higher revenue, improved productivity and higher gross margin.
- Aided by a net forex gain of RM3.91m in 4QFY16, PBT more than doubled to RM13.10m. However, due to the timing difference in deferred tax adjustment arising from PPE, net profit grew disproportionately lower to RM9.49m.

- Its manufacturing division (mainly in the manufacturing of automotive body metal and plastic parts) recorded a 21.1% growth in turnover to RM30.32m in 4QFY16, driven by higher demand in overseas markets. Consequently, EBIT margin more than doubled to RM13.43m due to improved profitability and net forex gain. Reflecting the benefits of better economies of scale and improved productivity, gross margin improved to 32.4% in 4QFY16 from 27.5% (4QFY15) and average of 28.2% (9MFY16).
- Its trading division (mainly for sales to local, Indonesian and China markets) also recorded an 11.4% growth in turnover to RM32.49m in 4QFY16 due to higher demand in both local and overseas markets. It recorded a small EBIT of RM0.17m (4QFY16) as compared with operating loss of RM0.92m (4QFY15).
- Although performance on quarterly basis can be volatile due to the timing of shipment and pent-up demand, all its geographical markets showed strong performance in 4QFY16. Its local sales sustained growth momentum with an 8.5% turnover growth to RM28.42m in 4QFY16. Sales to both ASEAN and non-ASEAN markets also grew by 30.3% and 19.8% to RM10.43m and RM23.96m respectively.

FY16 Results Highlight

	FY16	FY15	Chg
	RMm	RMm	%
Revenue	231.89	207.23	11.9
Operating Profit	30.19	27.46	9.9
Finance cost	(1.22)	(0.89)	36.0
EI	7.83	-	n.m.
Pre-tax Profit	36.81	26.57	38.5
Net Profit	29.99	19.25	55.8
Operating Margin (%)	13.0	13.3	
Pre-tax Margin (%)	15.9	12.8	
Net-Margin (%)	12.9	9.3	

- FY16 was a good year for NHF as group turnover turned around with an 11.9% growth after experiencing lower-to-negative growth since FY13. Its local sales, a key market which accounted for 47.7% of group turnover, were finally back on the growth path again after recording negative growth in low teens over FY13-15. Its turnover in FY16 grew by 10.0% to RM110.52m.
- Turnover at both ASEAN and non-ASEAN markets also increased by 18.9% and 11.7% to RM36.35m and RM85.03m each in FY16. NHF's initiative to grow its export markets with a focused emphasis on the Indonesian market is showing continuing progress. In FY16, total export markets, which amounted to RM121.37m, accounted for 52.3% of group turnover.
- Underpinned by higher sales and manufacturing revenue, gross margin improved to 29.3% (FY16) from 28.4% (FY15). Operating profit grew by 9.9% to RM30.19m in FY16.
- Non-operating items namely net forex gain (RM6.93m) and revaluation of investment properties (RM0.90m) came in at RM7.83m in FY16. As such, PBT and net profit improved at higher rates of 38.5% and 55.8% to RM36.81m and RM29.99m respectively.

2. Earnings Outlook

- NHF is involved in the manufacturing of metal and plastic automotive body parts, such as door, hood, fender, trunk lid, bumper, grille and lamps for the replacement market. NHF's niche position in auto body replacement market provides a steady and relatively less volatile earnings stream. In addition, NHF's products are also exported to over 50 countries in the ASEAN, Middle East, Pakistan, Central and South America, Europe, Taiwan, China, India, Africa and Russia. Export sales accounted for 52% of group revenue in FY16.
- Due to its exposure both replacement and export markets, the demand drivers stemmed mainly from the growing pool of vehicles on the road, accident rates and maintenance requirements, which provide a steady demand for its products. NHF has re-strategized to drive new products especially in the areas of

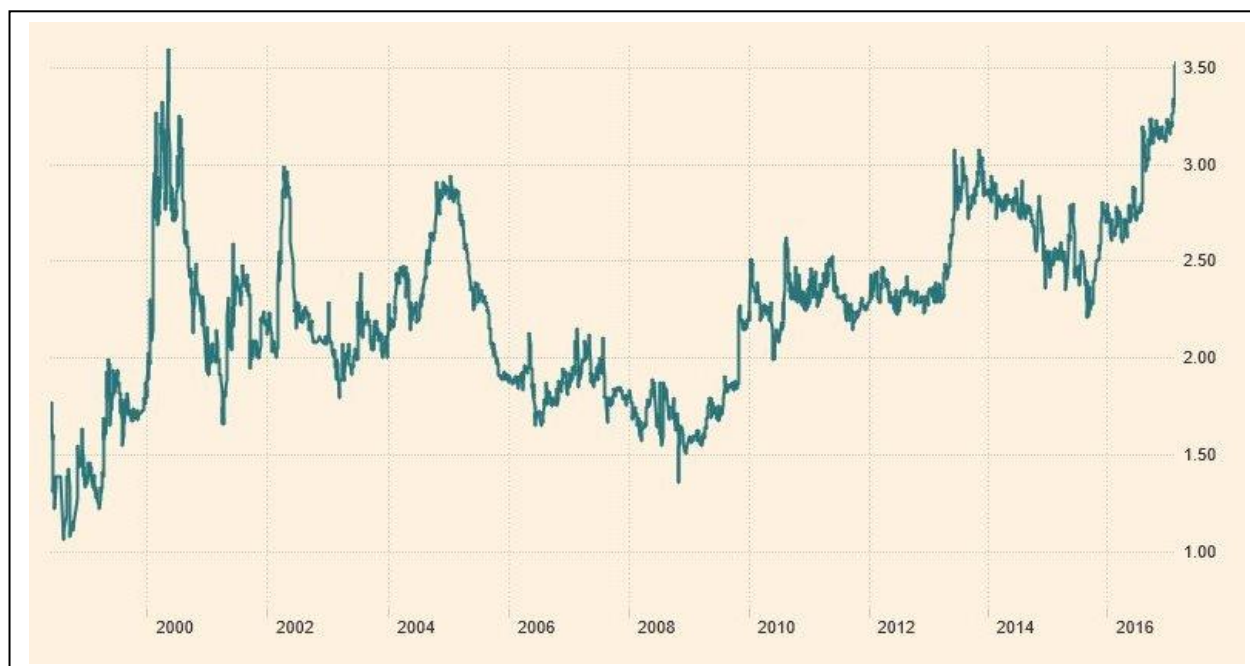
non-national models as well as other trading products. It has moved more aggressively into the service and maintenance market (wear and tear) segment, previously under-served by the group.

- Given the maturing local sales and high ownership of vehicles, the growth prospects will be not exciting with the current pool of vehicles on the road underpinning demand for replacement body parts.
- Stronger growth prospect will be driven by its more aggressive push into export markets especially the Indonesia market. In CY16, ASEAN as a whole recorded a 3.1% increase in TIV sales to 3.16m units. TIV sales in Indonesia market totalled 1.06m units in CY16, followed by Thailand's 768,788 units. In comparison, TIV sales in Malaysia market were 580,124 units in CY16.
- NHF will continue to invest heavily in tooling, mould and die to expand its new product pipelines for local and overseas markets to broaden its product pipeline and its competitive position in the marketplace.

3. Valuation and Recommendation

- We are maintaining our earnings forecast and BUY recommendation on the stock. We still like the positive dynamics of growing car populations, steady demand of replacement market, resilient earnings base as well as the long-term growth prospects from the more aggressive expansion into export markets.
- The stock is currently trading at a discount of 30% to its book value of RM4.96/share. By ascribing a 20% discount to its book value, the stock should be worth at least RM4.00. Based on our EPS forecast of 39.0 sen for FY17, the stock is currently trading at a P/E of 9.0x.
- It has proposed a final and special dividend of 8 sen and 3 sen in 4QFY16. Its total dividend would amount to 14 sen for FY16 as compared with 11 sen for FY15. This translates into a net dividend yield of 4% based on the current share price of RM3.50.

Share Price Chart



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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