

UPDATE REPORT

27 March 2017

Name of PLC: New Hoong Fatt Holdings Bhd (NHF)	Target Price:	RM 5.00
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 284.1m
	Current Price :	RM 3.78
	Market / Sector:	Consumer Products
	Stock Code:	7060
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@bcta.com.my		

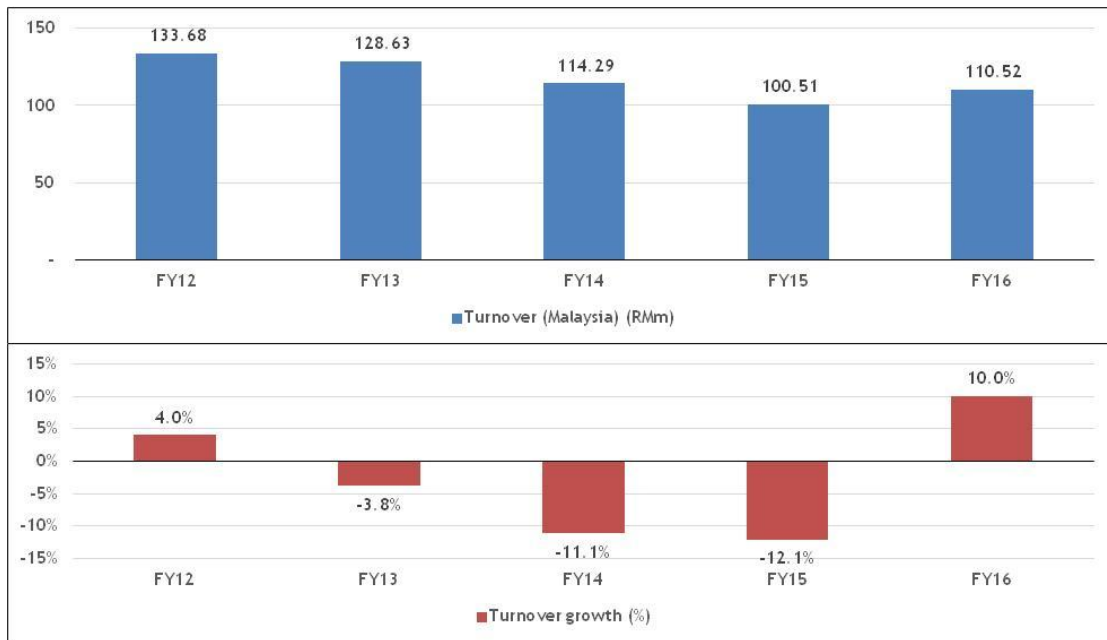
Key Stock Statistics	2015	2016	2017F	2018F	P&L Analysis (RM mil)	2015	2016	2017F	2018F
EPS (sen)	25.6	39.9	39.1	44.8	Revenue	207.23	231.89	257.48	284.27
EPS ex-EI (sen)	22.5	30.6	39.1	44.8	EBITDA	50.31	58.41	66.87	74.13
P/E (x)	14.8	9.5	9.7	8.4	Depreciation	(25.34)	(27.57)	(29.94)	(32.04)
P/E ex-EI (x)	16.8	12.4	9.7	8.4	Net interest expense	(0.75)	(1.04)	(1.11)	(0.99)
Dividend/Share (sen)	11.0	14.0	14.0	14.0	EI	2.35	7.01	-	-
NTA/Share (RM)	4.39	4.96	5.21	5.52	PBT	26.57	36.81	35.83	41.10
Book Value/Share (RM)	4.39	4.96	5.21	5.52	Tax	(7.32)	(6.82)	(6.45)	(7.40)
Issued Capital (mil shares)	75.2	75.2	75.2	75.2	Net Profit	19.25	29.99	29.38	33.70
52-weeks Share Price Range (RM)			2.60 - 3.90		EBITDA Margin (%)	24.3	25.2	26.0	26.1
					PBT Margin (%)	12.8	15.9	13.9	14.5
					Net Margin (%)	9.3	12.9	11.4	11.9
Per Share Data	2015	2016	2017F	2018F					
Year-end 31 Dec									
Book Value (RM)	4.39	4.96	5.21	5.52					
Operating Cash Flow (sen)	57.4	53.8	68.6	76.0					
EPS (sen)	25.6	39.9	39.1	44.8					
Dividend (sen)	11.0	14.0	14.0	14.0					
Payout Ratio (%)	42.9	35.1	35.8	31.2					
P/E (x)	14.8	9.5	9.7	8.4					
P/Cash Flow (x)	6.6	7.0	5.5	5.0					
P/Book Value (x)	0.9	0.8	0.7	0.7					
Dividend Yield (%)	2.9	3.7	3.7	3.7					
ROE (%)	5.2	6.5	7.7	8.4					
Net Gearing (%)	1.5	3.0	n.c.	n.c.					

n.c. - net cash

1. Earnings Outlook

- We recently met with management for an update.
- After registered declining turnover growth since FY13, we believe that NHF's Malaysia operation has turned around with a sustained growth going forward. Its domestic operation is involved in the trading of automotive replacement parts for replacement equipment market (REM) in Malaysia. It distributes close to 3,000 own manufactured auto parts as well as third-parties auto parts sourced locally and overseas. It has an extensive distribution channel of more than 1,000 active wholesalers, retailers and workshops throughout Malaysia.

Historical Turnover Trend (Malaysia)

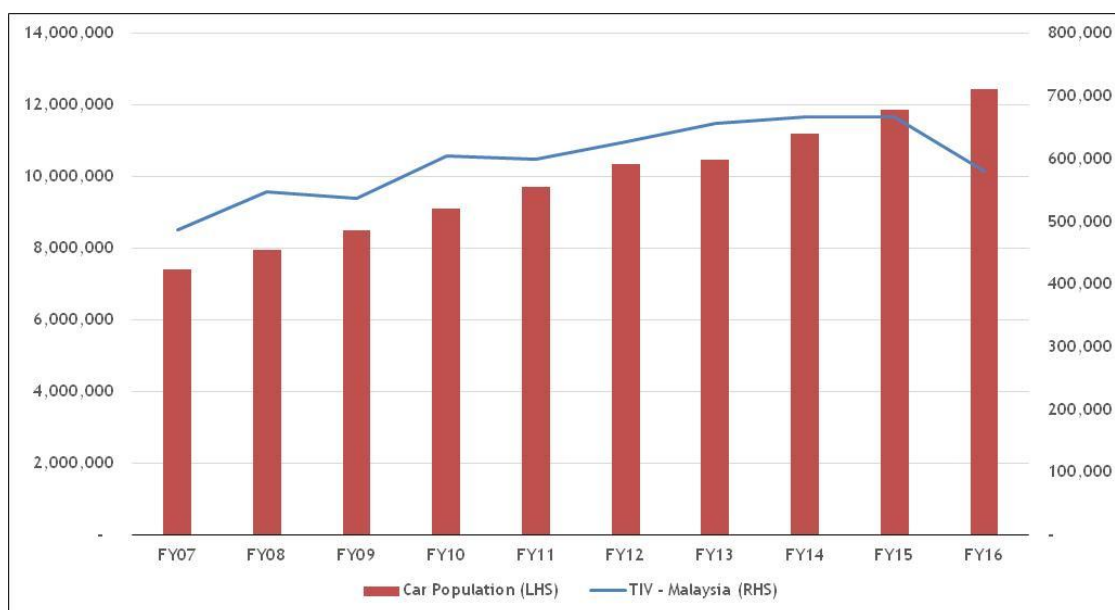


The local sales had been affected by the phasing-out of Proton’s makes in total industry vehicle (TIV) sales and local car population due to sustained decline in Proton’s market share. In FY15, NHF’s sales performance was further compounded by the introduction of GST, which had dampened consumer sentiment and spending. Based on our estimate, the decline in the sale of third-parties parts contributed to the overall decline in local sales, while the sale of own manufactured parts had remained steady, albeit with flattish growth over the last few years.

NHF has been embarking on increasing wider range of trading parts and more aggressive expansion of new products to cater to wider model varieties and non-national makes through its continuous investment in product development. It has moved more aggressively into service and maintenance market (wear and tear) segment, previously under-served by the group.

Although competition remains intense in the local market amidst the slow recovering consumer sentiment, NHF is better positioned as compared with other competitors, which are mostly importers and distributors with no manufacturing presence in Malaysia. The introduction of GST and depreciating of ringgit enhance the pricing’s competitiveness and flexibility of NHF’s products against imported products.

Car Population and TIV Sales



Given its exposure to replacement market, the dismal performance of TIV sales has no material impact on its sales performance. The demand drivers are mainly the growing pool of vehicles on the road, accident rate and maintenance requirement, which provide a steady demand for its products.

- NHF’s own manufactured metal and plastic automotive parts are also exported to over 60 countries in Asia, central and south America, Europe and Africa. In FY16, export sales accounted for 52% (RM121.37m) of group turnover. Sales to ASEAN and non-ASEAN markets amounted to RM36.35m and RM85.03m respectively in FY16.

Export Turnover Breakdown

RMm	FY12	FY13	FY14	FY15	FY16
ASEAN	26.62	27.76	26.86	30.58	36.35
Non-ASEAN	57.17	54.21	59.45	76.15	85.03
Export sales	83.79	81.97	86.31	106.72	121.37
% growth					
ASEAN	57.6%	4.3%	-3.3%	13.8%	18.9%
Non-ASEAN	18.5%	-5.2%	9.7%	28.1%	11.7%
Export sales	28.6%	-2.2%	5.3%	23.7%	13.7%

- Thailand is NHF’s key export market, accounting to a substantial portion of export sale to ASEAN market due to the country’s long-established position as automotive production hub.

While the sale to domestic market provide a steady and recurring base, given the maturing car population, total population of around 32m people and high car ownership, its growth prospects will be limited. A faster growth rate will be underpinned by ASEAN market with a population base of 600m people.

TIV Sales in Key ASEAN Markets

Units	FY11	FY12	FY13	FY14	FY15	FY16	5-year CAGR
Indonesia	894,164	1,116,212	1,229,901	1,208,019	1,013,291	1,061,735	3%
Thailand	794,081	1,436,335	1,330,672	881,832	799,632	768,788	-1%
Malaysia	600,123	627,753	655,793	666,465	666,677	580,124	-1%
Philippines	141,616	156,654	181,738	234,747	288,609	359,572	20%
Vietnam	109,660	80,453	98,649	133,588	209,267	270,820	20%
Singapore	39,570	37,247	34,111	47,443	78,609	110,455	23%
Brunei	14,555	18,634	18,642	18,114	14,406	13,248	-2%
ASEAN	2,593,769	3,473,288	3,549,506	3,190,208	3,070,491	3,164,742	4%

Source: ASEAN Automotive Federation

- ASEAN market offers a more promising growth prospects considering the TIV sales of >3m units per annum as compared with Malaysia’s average sales of 600,000 units.

Although its key market is still Thailand, its growth will be driven by a more aggressive push into Indonesia’s replacement market. Its current car population of >10m vehicles is as big as Malaysia’s market, boosted by fast-growing TIV sales of 1m new cars every year.

Market acceptance of alternative replacement parts and the rising middle-income class are the key drivers to the demand of replacement parts. NHF will continue to work on the expansion of distribution network, product coverage and pricing to increase its penetration into the Indonesian market.

- For non-ASEAN markets, its key markets are the Middle-East, South Africa and South America.

TIV Sales and Production in Thailand

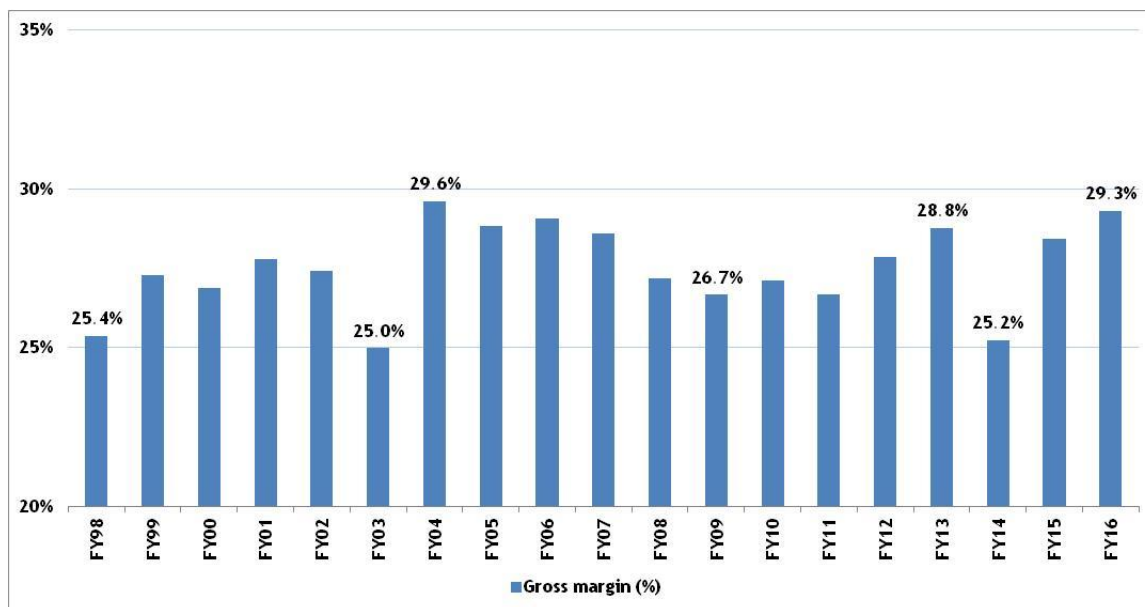
Units	FY11	FY12	FY13	FY14	FY15	FY16
Production	1,457,795	2,453,717	2,457,057	1,880,007	1,913,002	1,944,417
TIV sales	794,081	1,436,335	1,330,672	881,832	799,632	768,788

Source: ASEAN Automotive Federation

NHF’s export to non-ASEAN markets is an indirect beneficiary of Thailand being an automotive production hub within the ASEAN region. Despite the lower TIV sales in the recent years, vehicle production for re-export to global market has been consistently above 1m units p.a. Riding on the success of Thailand’s export of vehicle overseas, NHF’s export to non-ASEAN market recorded a compounded growth rate of 12% from FY11 to FY16. This performance is even more commendable considering a tumultuous FY13 when its key export markets such as the Middle-East, South America and Africa were faced with steep currencies’ depreciation and economic turmoil.

- Historically, NHF enjoyed a stable gross margin ranging from 25-30% backed by its positioning in replacement market and competitive position in the market. Since FY14, its margin improvement is driven by higher productivity, cost and waste reduction programme. Although cold roll coil cost have risen in the recent months, we believe that NHF will be able to sustain its gross margin at 28-30% due to higher productivity/manufacturing output and additional coil inventories purchased.

Historical Gross Margin Trend



- In the long run, the currencies fluctuation and weaker ringgit against US\$ will not have significant impact on the profitability of NHF due to natural hedging. While 70-75% of purchases in the form of raw materials and imported parts is quoted in US\$, its export sales which are also quoted in US\$ will offset any significant impact from the currencies fluctuation.

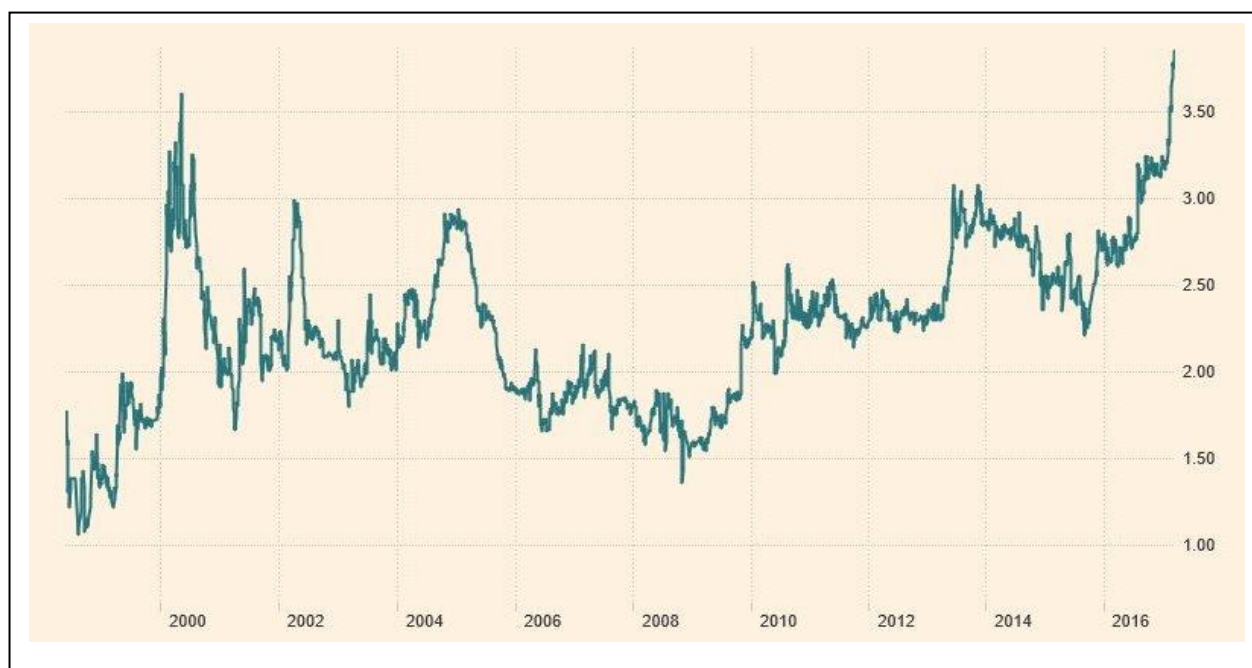
However, the swing in the direction of ringgit will have a short-term impact on profitability due to forex gain/loss. In FY16, NHF benefited from a net forex gain of RM7.01m.

- As NHF expanded its new product pipelines, capex had remained high in FY15 (RM34.59m) & FY16 (RM38.06m), and will stay at RM35m in FY17. New investment in production development (tooling, mould and die) will take up around RM20-25m. The remaining RM10m will be allocated for machine upgrades for the implementation of lead production system, semi-automation and robotics for materials handling to increase production efficiency and to reduce reject and wastages.
- Despite the need to maintain high capex to expand its new products pipelines, EBITDA stood at RM58.41m in FY16. This is projected to increase to RM66.87m in FY17. The strong cash flow generation should be sufficient to finance the projected capex of RM35m and dividend payment of RM10.52m. In fact, NHF might close FY17 with a small net cash after being in net debt position since FY13.
- In FY16, the company has declared a total dividend of 14.0 sen/share (inclusive of a special dividend of 3.0 sen/share). We think that NHF should be able to maintain the current dividend in FY17.

2. 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 an unwarranted discount of 24% to its book value of RM4.96/share as at end-FY16. Considering the sustained growth trend of its businesses across various geographical markets, we have become more optimistic on the growth prospects of the company. As such, by removing the discount attached to the net worth of the company, we have upgraded our fair value to RM5.00 (from the previous RM4.00).
- Based on our EPS forecast of 39.1 sen for FY17, the stock is currently trading at a P/E of 9.1x against market P/E of 16x. The stock also provides a yield of 3.7% based on a total dividend of 14 sen for FY16.

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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