

UPDATE REPORT

18 April 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 295.3m
	Current Price :	RM 3.93
	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	67.46	75.30
P/E (x)	15.3	9.8	10.1	8.8	Depreciation	(25.34)	(27.57)	(30.52)	(33.21)
P/E ex-EI (x)	17.5	12.9	10.1	8.8	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)			2.62 - 4.06		EBITDA Margin (%)	24.3	25.2	26.2	26.5
					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	69.4	77.5					
EPS (sen)	25.6	39.9	39.1	44.8					
Dividend (sen)	11.0	14.0	14.0	14.0					
P/E (x)	15.3	9.8	10.1	8.8					
P/Cash Flow (x)	6.9	7.3	5.7	5.1					
P/Book Value (x)	0.9	0.8	0.8	0.7					
Dividend Yield (%)	2.8	3.6	3.6	3.6					
Payout Ratio (%)	42.9	35.1	35.8	31.2					
ROE (%)	5.2	6.5	7.7	8.4					
Net Gearing (%)	1.5	3.0	3.6	n.c.					
n.c. - net cash									

1. Earnings Outlook

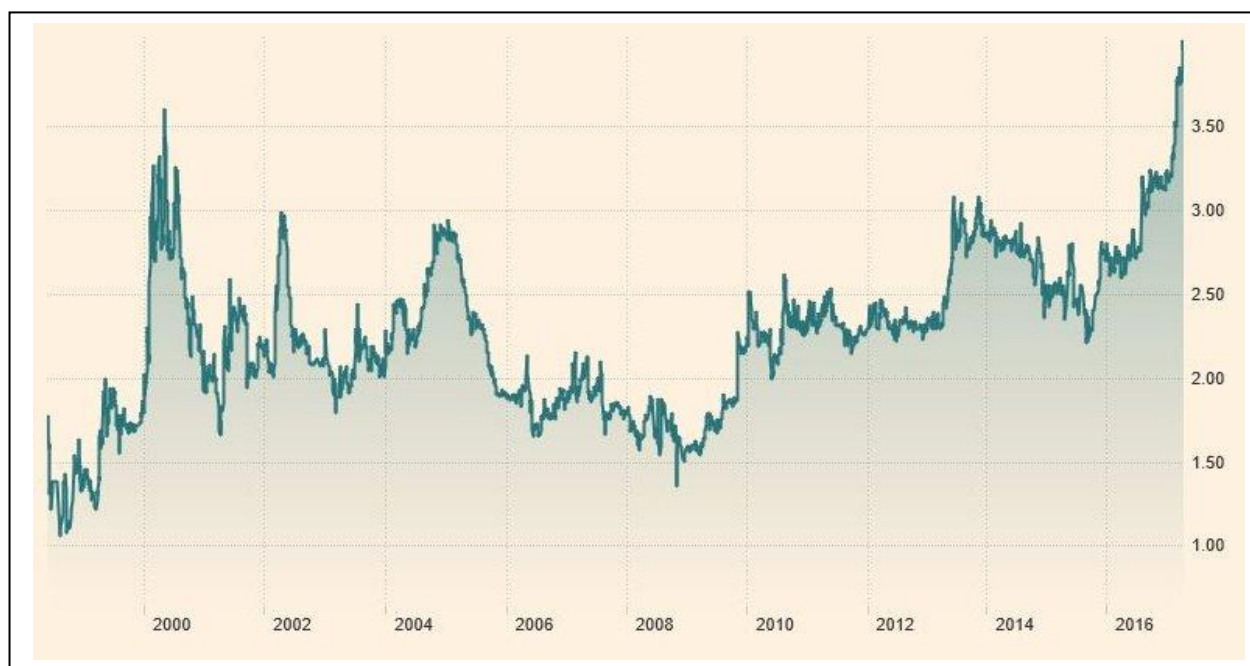
- NHF has announced that its indirect wholly-owned PT. Auto Global Parts Indonesia (PT AGPI) has entered into sales and purchase agreement to acquire a piece of land in Indonesia measuring 24,575 sqm (6.1 acres) for RM17.97m cash.
- The land is strategically located at Cikarang Industrial City with a “dry port” supporting movement of goods by rail transport to the nearest sea port. Cikarang Industrial City, located within 35km distance east of Jakarta, is one of the largest and nearest industrial estate to Jakarta.

- PT AGPI was incorporated in Indonesia on 20-Jun-16 to undertake manufacturing and distribution activities in Indonesia. Sales to the Indonesian market have picked up strongly, which necessitates the need for a manufacturing presence in the longer term. As such, the land acquisition is intended for the setting up of a manufacturing plant in Indonesia for better cost competitiveness and shorter lead time in products' delivery to customers. Given the strategic location of the land, it serves as a springboard for distribution of products to customers located outside of Jakarta.
- However, a more concrete plan will only materialise towards 2HFY18 with another 18-24 months required for the construction of a manufacturing plant.
- Given its minimal net gearing of only 0.03x and strong operating cash flows, NHF should not have problem in funding the acquisition cost of RM17.97m.

2. Valuation and Recommendation

- We are maintaining our earnings forecast and BUY recommendation on the stock. We 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 21% to its book value of RM4.96/share as at end-FY16. Based on our EPS forecast of 39.1 sen for FY17, the stock is currently trading at a P/E of 10.1x against market P/E of 16x. The stock also provides a yield of 3.6% 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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