

1Q FYE DEC 2017 RESULTS REPORT

24 May 2017

Name of PLC: GUH Holdings Bhd (GUH)	Target Price:	RM 1.60
Business Summary : Manufacturing of printed circuit board, property development, oil palm plantation and construction of water and wastewater treatment plants		
Major Shareholders :		
Tan Sri Dato' Seri H'ng Bok San & family		19.50%
HPBS SG For Gold Connection Assets Limited		17.19%
as at 31-Mar-17		
PLC Website : www.guh.com.my	Recommendation:	BUY
	Market Capitalisation:	RM 226.5m
	Current Price :	RM 1.01
	Market / Sector:	Industrial
	Stock Code:	3247
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Key Stock Statistics	2015	2016	2017F	2018F
EPS (sen)	4.8	7.2	9.1	9.9
P/E (x)	21.0	14.1	11.1	10.2
Net Dividend/Share (sen)	5.0	3.5	5.0	5.0
NTA/Share (RM)	1.95	1.98	2.02	2.07
Book Value/Share (RM)	1.96	1.99	2.03	2.08
Issued Capital (mil shares)	263.9	263.8	263.8	263.8
52-weeks Share Price Range (RM)			0.78 - 1.05	

Per Share Data	2015	2016	2017F	2018F
Year-end 31 Dec				
Book Value (RM)	1.96	1.99	2.03	2.08
Operating Cash Flow (sen)	2.3	(7.7)	1.2	26.3
EPS (sen)	4.8	7.2	9.1	9.9
Net Dividend/Share (sen)	5.0	3.5	5.0	5.0
Payout Ratio (%)	132.9	48.9	54.7	50.6
P/E (x)	21.0	14.1	11.1	10.2
P/Cash Flow (x)	43.3	(13.2)	86.2	3.8
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	5.0	3.5	5.0	5.0
ROE (%)	2.5	3.6	4.5	4.8
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2015	2016	2017F	2018F
Revenue	285.37	315.12	348.25	362.16
EBITDA	28.72	34.08	42.01	43.46
Depreciation	(14.21)	(14.15)	(13.63)	(12.90)
Net interest income	4.67	3.08	2.52	2.84
Associate	2.22	0.20	-	-
EI	(2.74)	-	-	-
Pre-tax Profit	18.67	23.22	30.89	33.39
Tax	(8.75)	(4.34)	(6.80)	(7.35)
Net Profit	9.93	18.88	24.09	26.05
EBITDA Margin (%)	10.1	10.8	12.1	12.0
Pre-tax Margin (%)	6.5	7.4	8.9	9.2
Net-Margin (%)	3.5	6.0	6.9	7.2

1. 1QFY17 Results Highlight

	1Q FY17 RMm	1Q FY16 RMm	Chg %
Revenue	82.15	73.41	11.9
Operating Profit	2.93	2.77	5.6
Finance	(0.04)	-	n.m.
Associate	(0.00)	(0.01)	n.m.
Pre-tax Profit	2.88	2.77	4.2
Net Profit	2.42	2.67	(9.3)
Operating Margin (%)	3.6	3.8	
Pre-tax Margin (%)	3.5	3.8	
Net-Margin (%)	2.9	3.6	

- In 1QFY17, turnover grew by 11.9% to RM82.15m driven mainly by its water & wastewater division.
- PBT grew at a slower growth rate of 4.2% to RM2.88m in 1QFY17 due to disappointing performance of PCB manufacturing division which was mitigated by stronger performance of property and utilities divisions.
- Net profit came in lower at RM2.42m in 1QFY17 due to higher tax.
- Seasonally, GUH usually records the lowest turnover in 1Q due to festivities. Both its PCB manufacturing operations in Penang and China traditionally records lowest turnover in 1Q.

- In terms of segmental performance, turnover of PCB manufacturing division was flat at RM62.86m in 1QFY17. GUH managed to sustain its turnover performance yoy due to successful implementation of productivity and capability enhancement, product re-alignment and increased confidence by MNC customers. However, PBT at PCB manufacturing division decreased by 32.9% to RM2.25m in 1QFY17. This was mainly attributed to seasonal factors as well as poorer performance of GUH Suzhou which was faced with increased production cost pertaining to labour shortage and stringent environment regulations imposed by Chinese government.
- In 1QFY17, its property division posted a strong turnover growth of 35.9% to RM4.79m, albeit from a small base. This was attributed to an increase in residential property units sold for its property development project in Taman Bukit Kepayang, Seremban. Consequently, this division also reported a PBT of RM1.05m (1QFY17) from RM0.02m (1QFY16).
- Its utilities division is mainly involved in the construction of water and wastewater related projects. Due to higher progress billings of existing projects, its turnover grew substantially from RM4.26m (1QFY16) to RM11.86m (1QFY17). Consequently, it turned in a small PBT in 1QFY17 as compared with a pretax loss of RM0.90m in 1QFY16.
- The smaller divisions such as electrical and oil palm divisions combined reported a PBT of RM0.36m in 1QFY17 as compared with RM23m in 1QFY16.
- Its non-operating segments recorded a pretax loss of RM0.80m in 1QFY17 from a small PBT of RM0.07m in 1QFY16. Its 1QFY17 included a net forex loss of RM0.5m and fair value loss on contingent consideration of RM0.18m.

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.
- For its **PCB manufacturing division**, the growth momentum at GUH Penang can be sustainable, as its capacity expansion and capability enhancement programme (completed in end-FY14) has managed to secure the confidence and subsequently, more orders from MNC customers. The 10.6% turnover growth registered by PCB manufacturing division in FY16 was mainly contributed by GUH Penang. In FY17, GUH Penang will further invest in manufacturing capability and strategic semi-automation investment in some key processes. This will help to reduce the reliance on workers and the impact of rising labour costs.

The shift towards better margin car audio, automotive electronics and home appliance, and continuous operational improvement will sustain profit margin.

GUH Suzhou will face rising production costs, labour shortage and more stringent China government's environment regulations. GUH Suzhou strives to stay competitive by undertaking various cost reduction strategies in manufacturing operations, supplier and logistics management. In addition, GUH Suzhou's performance will remain steady as it derives more than 75% of its revenue from Japanese-based MNC customers. Going forward, GUH Suzhou will continue developing products for customers in niche market and careful selection of more profitable PCB applications in home appliances and fan motor market.

- For its **property development division**, Taman Bukit Kepayang, Seremban is its key property development project. It currently still has a landbank of 130 acres in Seremban, which can sustain its property development division for the next 5 years. GUH is taking a cautious stance on new launches as the property sector is currently still affected by weak consumer spending and tighter lending by banks. It has recently embarked on developing high-end landed guarded residential development.

For the newly acquired Sungai Bakat land, it is planning a light industrial park with a gross development value (GDV) of RM150m on an enlarged land size of 17.3 acres. The project is targeted to be launched in 2017. The land is strategically located near the Batu Kawan Industrial Park, which has attracted an

increasing number of MNCs setting up factories. This project, featuring 58 units of 3-storeys semi-detached light industry factories, is targeting small and medium enterprises (SMEs).

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.

It has another piece of land in Simpang Ampat, Penang measuring 46 acres. It is currently planning the overall master development plan for an integrated development with lifestyle shops, housing projects and commercial hub.

- GUH completed the acquisition of two companies on 30-Mar-16 for its venture into the **operation of international school**.
 - Acquisition of a 25% stake in Straits International Education Group Sdn Bhd (SIEG) for RM11.0m cash. The payment of the first RM5.0m was paid upon completion of the acquisition. The remaining RM6.0m will only be paid upon the receipt of development order and execution of joint venture with an education firm within 2 years from 21-Mar-16.

SIEG is in the business of operating a private international school located in Bayan Lepas, Penang (though 100%-owned SG Straits International Education Sdn Bhd).
 - Acquisition of a 100% stake in Milan Diamond Sdn Bhd (MDSB) for RM2 cash and the settlement of liabilities amounting to RM6.77m, of which RM3.5m has been settled in FY16.

MDSB has entered into a land acquisition agreement to acquire 3 acres of land at Rawang, Selangor for the construction of international school buildings once the relevant authority approval have been obtained. The land will be leased to SIEG on long term basis.

By tapping into the growing demand of the private education sector, the acquisition allows GUH to develop another stream of long-term associate earnings. Meanwhile, the rental income at MDSB level will improve its recurring property earnings longer-term.

- Its **Utilities division** is principally involved in the construction of water and wastewater treatment projects undertaken by wholly-owned Teknoserv. It currently has 5 on-going projects namely Jinjang sewage pipe network and wastewater treatment plant (WWTP), Sawah Raja Phase 2 water treatment plant (WTP), Kerian WTP, Bukit Kepayang sewerage treatment plant (STP), Sungai Bakap STP and Simpang Ampat STP. In FY16, while the Kerian WTP was awarded in Jan-16, the other 3 STPs were relatively new projects, secured only in 2HFY16.

Underpinned by higher progress billings given the advanced stage of projects' completion, its utilities division is expected to be profitable again after suffering pretax loss over the last two years.

3. Valuation and Recommendation

- Due to seasonal factor, annualized net profit is below our earnings forecast for FY17. 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 in FY17. This is attributed to higher progress billings of existing projects.
- We are maintaining our Buy recommendation on the stock for its attractive valuation and rich assets. Its share price of RM1.01 is at an unwarranted discount of 50% to its book value of RM2.00 as at 1QFY17.
- We have retained our target price of RM1.60 after ascribing a 20% discount to its book value. It has a net cash position of around RM86.08m (RM0.33/share). The stock is currently trading at a P/E of 11.1x for FY17. Excluding cash, its P/E ex-cash is reduced to 7.5x.

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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