

1Q FYE DEC 2015 RESULTS REPORT

6 May 2015

Name of PLC: New Hoong Fatt Holdings Bhd (NHF)	Target Price: RM 3.20
Business Summary : Manufacturing and trading of automotive replacement parts	
Major Shareholders : Kam Foong Keng 34.1% Wong Ah Moy @ Wong Yoke Len 14.3% as at 22 April 2014	
PLC Website : www.newhoongfatt.com.my	Recommendation: BUY
	Market Capitalisation: RM 182.6m
	Current Price : RM 2.43
	Market / Sector: Consumer Products
	Stock Code: 7060
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Key Stock Statistics	2012	2013	2014	2015F
EPS (sen)	30.3	26.8	15.9	26.9
EPS excl EI (sen)	37.3	31.1	15.9	26.9
P/E excl EI (x)	6.5	7.8	15.3	9.0
Dividend/Share (sen)	13.0	12.0	10.0	10.0
NTA/Share (RM)	3.97	4.16	4.19	4.36
Book Value/Share (RM)	4.03	4.17	4.19	4.36
Issued Capital (mil shares)	75.2	75.2	75.2	75.2
52-weeks Share Price Range (RM)				2.26 - 2.92

Per Share Data	2012	2013	2014	2015F
Year-end 31 Dec				
Book Value (RM)	4.03	4.17	4.19	4.36
Operating Cash Flow (sen)	49.2	86.1	54.9	38.6
Earnings excl EI (sen)	37.3	31.1	15.9	26.9
Dividend (sen)	13.0	12.0	10.0	10.0
Payout Ratio (%)	42.9	44.8	62.8	37.1
PER (x)	6.5	7.8	15.3	9.0
P/Cash Flow (x)	4.9	2.8	4.4	6.3
P/Book Value (x)	0.6	0.6	0.6	0.6
Dividend Yield (%)	5.3	4.9	4.1	4.1
ROE (%)	9.5	7.6	3.8	6.3
Net Gearing (%)	n.c.	3.3	1.9	1.3

n.c. - net cash

P&L Analysis (RM mil)	2012	2013	2014	2015F
Revenue	217.47	210.60	200.60	219.26
EBITDA	52.62	53.56	44.03	52.43
Depreciation	(19.33)	(21.67)	(25.05)	(26.37)
Net interest expense	(0.33)	(1.29)	(1.08)	(0.75)
EI	(5.30)	(3.24)	-	-
Pre-tax Profit	27.67	27.36	17.90	25.30
Effective Tax Rate (%)	(17.7)	(26.3)	(33.1)	(20.0)
Net Profit	22.76	20.15	11.97	20.24
Net Profit excl EI	28.06	23.39	11.97	20.24
EBITDA Margin (%)	24.2	25.4	21.9	23.9
Pre-tax Margin (%)	12.7	13.0	8.9	11.5
Net-Margin (%)	10.5	9.6	6.0	9.2

Share Price Chart

1. 1QFY15 Results Highlight

	1Q FY15 RMm	1Q FY14 RMm	Chg %
Revenue	48.20	45.95	4.9
Operating Profit	5.53	3.91	41.4
Finance cost	(0.22)	(0.42)	(46.9)
Pre-tax Profit	5.31	3.49	51.9
Net Profit	4.37	2.48	76.1
Operating Margin (%)	11.5	8.5	
Pre-tax Margin (%)	11.0	7.6	
Net-Margin (%)	9.1	5.4	

- NHF reported a much improved 1QFY15 performance. Turnover grew by 4.9% to RM48.2m due mainly to better export sales.
- In fact, 1QFY15 marked the first recovery after slowing topline revenue trend since 3QFY13.

- Both PBT and net profit jumped by 51.9% and 76.1% to RM5.31m and RM4.37m respectively due to improved profitability.
- The revenue recovery was mainly driven by ASEAN and non-ASEAN markets. While export to ASEAN market improved by 24.7% to RM8.70m in 1QFY15, its non-ASEAN markets showed a better 35.6% growth to RM15.07m. This was attributed to normalisation of demand following the depreciation of currencies in those export markets in the previous years and improving sales momentum of Indonesia and Thailand markets.
- However, its local sales remained weak, recording a 12.3% decline in turnover to RM24.42m in 1QFY15. This was attributed to slower spending by customers and uncertain buying pattern in view of the implementation of GST in Apr-2015.
- Reflecting a much improved gross margin of 27.0% (1QFY15) as compared with 25.8% (1QFY14), PBT of its manufacturing division improved by 53.5% to RM6.60m. Meanwhile, the poorer sales of local trading division led to an enlarging pretax loss to RM0.90m (1QFY15) from RM0.14m (1QFY14).

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 43% of group revenue in FY14.
- NHF's niche segment in the replacement market provides a steady demand for its products. The growing pool of passenger cars on the road is the main turnover growth drivers for the replacement market in the local market. Historically, NHF has maintained a resilient earnings performance due mainly to its diversified market base and steady demand from replacement markets.
- To mitigate the loss of local sales, 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 service and repair market segment, previously under-served by the group. Currently, it is adversely affected by slowing consumer spending and uncertain buying pattern by its customers in view of the implementation of GST. NHF is also affected by the slow stock replenishment by its customers in view of the uncertainty brought on by GST implementation. However, over the longer-term, NHF is favourably positioned to benefit from GST implementation given its economies of scale and strong network as compared with the smaller traders and distributors who will be facing added competitive price competition.
- The recovery of exports markets is sustainable, driven by the under-served Indonesian market, which is underpinned by increasing acceptance of alternative replacement parts, expansion of distribution network and customers base, rising middle-income population and growing TIV sales. Meanwhile, its export to non-ASEAN markets will be driven by the pent-up demand.
- Going forward, the positive dynamics of growing car populations, steady demand of replacement market and NHF's strong position in replacement market remain unchanged. Stronger growth prospect will be driven by its more aggressive push into export markets especially the Indonesia market. In this context, it has set up own sales office and warehouse for a more direct penetration into this market instead of its past strategy of relying on appointed importers.
- 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

- 1QFY15 net profit, on an annualised basis, is below our earnings forecast for FY15. However, it actually recovered strongly from 1QFY14 after posting negative profit growth since early FY13. We are maintaining our earnings forecast as we expect this earnings recovery to be sustainable going forward.

- We are still maintaining our BUY recommendation on the stock. We believe most of the negative earnings surprise is already priced in its share price against its rich assets.
- Longer-term, we still like NHF for its niche position in replacement market, resilient current earnings base, the long-term growth prospects from the more aggressive expansion into export markets and attractive valuations.
- Its current share price of RM2.43 is at a steep discount to its book value of RM4.25/share. Its reduced dividend payout of 10.0 sen in FY14 (from 12.0 sen in FY13) translates into a net yield of 4.1%.

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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