2Q FYE DEC 2017 RESULTS REPORT ***28 July 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	*13.8%*	
	Yeoman Capital Management Pte Ltd	*7.6%*	
PLC Website : *www.newhoongfatt.com.my*		***Recommendation:***	*BUY*
		Market Capitalisation:	*RM 326.2m*
		Current Price :	*RM 4.34*
		Market / Sector:	*Consumer Products*
		Stock Code:	*7060*

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Key Stock Statistics	**2015**	**2016**	**2017F**	**2018F**
EPS (sen)	25.6	39.9	39.1	44.8
EPS ex-EI (sen)	22.5	30.6	39.1	44.8
P/E (x)	16.9	10.9	11.1	9.7
P/E ex-EI (x)	19.3	14.2	11.1	9.7
Dividend/Share (sen)	11.0	14.0	14.0	14.0
NTA/Share (RM)	4.39	4.95	5.21	5.51
Book Value/Share (RM)	4.39	4.95	5.21	5.51
Issued Capital (mil shares)	75.2	75.2	75.2	75.2
52-weeks Share Price Range (RM)				2.80 - 4.91

Per Share Data	**2015**	**2016**	**2017F**	**2018F**
Year-end 31 Dec				
Book Value (RM)	4.39	4.95	5.21	5.51
Operating Cash Flow (sen)	57.4	53.8	69.1	75.3
EPS (sen)	25.6	39.9	39.1	44.8
Dividend (sen)	11.0	14.0	14.0	14.0
P/E (x)	16.9	10.9	11.1	9.7
P/Cash Flow (x)	7.6	8.1	6.3	5.8
P/Book Value (x)	1.0	0.9	0.8	0.8
Dividend Yield (%)	2.5	3.2	3.2	3.2
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	5.8	2.8

P&L Analysis (RM mil)	**2015**	**2016**	**2017F**	**2018F**
Revenue	207.23	231.89	257.48	284.27
EBITDA	56.21	64.66	67.36	73.86
Depreciation	(25.34)	(27.58)	(30.32)	(31.56)
Net interest expense	(0.75)	(1.04)	(1.20)	(1.20)
EI	2.35	7.01	-	-
PBT	26.57	36.81	35.83	41.10
Tax	(7.32)	(6.82)	(6.45)	(7.40)
Net Profit	19.25	29.99	29.38	33.70
EBITDA Margin (%)	27.1	27.9	26.2	26.0
PBT Margin (%)	12.8	15.9	13.9	14.5
Net Margin (%)	9.3	12.9	11.4	11.9

1. 2QFY17 Results Highlight

	2Q FY17 RMm	**2Q FY16 RMm**	**Chg %**
Revenue	61.66	59.96	2.8
Operating Profit	3.35	10.22	(67.2)
Finance cost	(0.42)	(0.30)	41.2
Pre-tax Profit	2.93	9.92	(70.4)
Net Profit	2.53	8.61	(70.6)
Operating Margin (%)	5.4	17.0	
Pre-tax Margin (%)	4.8	16.5	
Net Margin (%)	4.1	14.4	

- Turnover in 2QFY17 was marginally higher at RM61.66m. However, both PBT and net profit declined by 70% to RM2.93m and RM2.53m respectively.

- The steep decline in profitability was due to a swing to forex losses and higher manufacturing costs.

- Turnover contribution from both local and ASEAN markets were flat at RM29.11m and RM10.14m in 2QFY17 respectively. Sales to non-ASEAN markets grew by 7.8% in 2QFY17 to RM22.41m.

- In terms of business segmental, turnover of its manufacturing division (mainly in the manufacturing of automotive body metal and plastic parts) came in flat at RM28.37m in 2QFY17. EBIT was halved at RM4.60m due to forex losses, higher manufacturing and raw material costs.

- Its trading division (mainly for sales to local, Indonesian and China markets) expanded its turnover by 5.6% to RM33.29m in 2QFY17. However, it reported an operating loss of RM1.12m due to forex losses.

- The main factors to the decline in profits were forex losses and higher manufacturing costs. In 2QFY17, NHF incurred an unrealised forex loss of RM2.73m whereas it had the benefits of an unrealised forex gain of RM2.08m in previous 2QFY16. This would have translated into a swing of RM4.81m against the reported PBT of RM2.93m (2QFY17) as compared with RM9.92m in PBT in 2QFY16.

- Due to the rising price of imported cold-roll steel coil, gross margin also declined to 25.0% (2QFY17) from 28.3% (2QFY16) and 29.3% (FY16).

FY16 Results Highlight

	1H FY17 RMm	1H FY16 RMm	Chg %
Revenue	124.13	114.60	8.3
Operating Profit	12.26	16.47	(25.5)
Finance cost	(0.72)	(0.58)	25.6
EI			
Pre-tax Profit	11.54	15.89	(27.4)
Net Profit	9.90	14.09	(29.7)
Operating Margin (%)	9.9	14.4	
Pre-tax Margin (%)	9.3	13.9	
Net Margin (%)	8.0	12.3	

- In 1HFY17, while turnover improved by 8.3% to RM124.13m, PBT declined by 27.4% to RM11.54m. This was attributed mainly to forex losses and higher cost of manufacturing, especially in 2QFY17.

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, lamps and others for the replacement market. It also distributes both genuine and alternative automotive replacement parts, accessories and service items sourced from local and overseas suppliers. In addition, 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. Export sales accounted for 52% of group revenue in FY16.

- NHF's niche position in auto body replacement market provides a steady and relatively less volatile earnings stream. Due to its exposure to both replacement and export markets, the demand drivers come mainly from the growing pool of vehicles on the road, accident rates and maintenance requirements.

  The local market provides a steady and recurring base but with limited growth prospects, given the maturing car population, total population of around 32m people and high car ownership. The broader ASEAN market with a population base of 600m people, TIV sales of >3m units per annum and comparatively lower vehicle ownership will be the key growth drivers.

- The impact of forex gains/losses is beyond the control of management. In full year FY16, NHF benefited from a net forex gain of RM7.01m. However, forex loss amounted to RM3.63m for 1HFY17, which was the key factor to declining profits.

- We understand steel coil has risen by around 20+% since FY16 but its prices have since retraced slightly downwards. Steel coil and plastic resin account for approximately 50% of cost of production. On a full year basis, we believe that NHF will be able to sustain its gross margin at 28% due to higher productivity/manufacturing output and gradual increase in selling prices. To strengthen its cost competitiveness through cost efficiency, NHF has carried out various continuous improvement and cost efficiency programs such as Lean Production Systems and Kaizen in the factory.

- For its local market, 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. In addition, it has moved more aggressively into service and maintenance market (wear and tear) segment, previously under-served by the group. The recent new product segments added to its distribution network are truck parts and air-conditioning parts.

- Within its ASEAN market, Thailand will remain as its key export market but its growth will be driven by a more aggressive push into Indonesian'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.

  NHF announced in Apr-17 that its indirect wholly-owned PT. Auto Global Parts Indonesia (PT AGPI) had 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 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. However, a more concrete plan will only materialise towards 2HFY18 with another 18-24 months required for the construction of a manufacturing plant.

- Export sales accounted for 52% of group revenue in FY16. The company has set a 5-year target of achieving 70% of group turnover being derived from overseas markets by 2021.

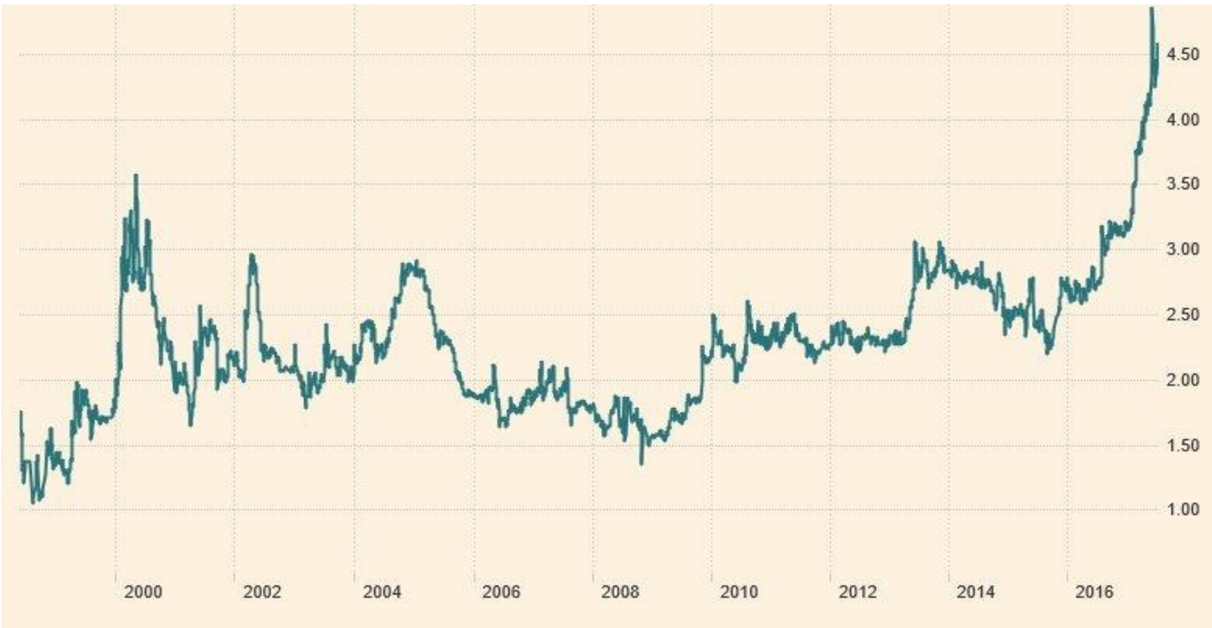
- The widening of product offerings is one of the key strategic initiatives. NHF will continue to invest heavily in tooling, mould and die to expand its new product pipelines. As NHF expands its new product pipelines, capex will remain at RM35m in FY17. New investment in production development (tooling, 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. In addition, it will also incur an additional RM18m for the purchase of land in Indonesia for RM17.97m cash.

3. Valuation and Recommendation

- On an annualized basis, 1HFY17's net profit is below our forecast due mainly to forex losses. 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.

- Although its share price has had a good run-up, the stock is still trading at a discount to its book value of RM5.09/share as at end-2QFY17. Based on our EPS forecast of 39.1 sen for FY17, the stock is currently trading at a P/E of 11.1x. The stock also provides a yield of 3.2% 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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