

3Q FYE DEC 2017 RESULTS REPORT

22 November 2017

Name of PLC: <i>GUH Holdings Bhd (GUH)</i>	Target Price:	<i>RM 1.60</i>
Business Summary : <i>Manufacturing of printed circuit board, property development, oil palm plantation and construction of water and wastewater treatment plants</i>		
Major Shareholders : <i>Tan Sri Dato' Seri H'ng Bok San & family</i> 19.50% <i>HPBS SG For Gold Connection Assets Limited</i> 17.19% <i>as at 31-Mar-17</i>		
PLC Website : www.guh.com.my	Recommendation:	<i>BUY</i>
	Market Capitalisation:	<i>RM 216.8m</i>
	Current Price :	<i>RM 0.79</i>
	Market / Sector:	<i>Industrial</i>
	Stock Code:	<i>3247</i>
Analyst : <i>Lim Boon Ngee</i> Tel : +603 2163 3200; Email : bnlim@bcta.com.my		

Key Stock Statistics	2015	2016	2017F	2018F
EPS (sen)	4.8	7.2	4.0	7.4
P/E (x)	16.5	11.0	19.8	10.7
Net Dividend/Share (sen)	5.0	3.5	8.3	5.0
NTA/Share (RM)	1.95	1.98	1.86	1.88
Book Value/Share (RM)	1.96	1.99	1.87	1.89
Issued Capital (mil shares)	263.9	263.8	274.4	274.4
52-weeks Share Price Range (RM)		0.755 - 1.01		

Per Share Data	2015	2016	2017F	2018F
Year-end 31 Dec				
Book Value (RM)	1.96	1.99	1.87	1.89
Operating Cash Flow (sen)	2.3	(7.7)	4.9	10.7
EPS (sen)	4.8	7.2	4.0	7.4
Net Dividend/Share (sen)	5.0	3.5	8.3	5.0
Payout Ratio (%)	132.9	48.9	207.7	68.0
P/E (x)	16.5	11.0	19.8	10.7
P/Cash Flow (x)	33.9	(10.3)	16.3	7.3
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	6.3	4.4	10.5	6.3
ROE (%)	2.5	3.6	2.1	3.9
Net Gearing (%)	(27.8)	(18.8)	(14.3)	(16.0)

P&L Analysis (RM mil)	2015	2016	2017F	2018F
Revenue	285.37	315.12	352.15	389.59
EBITDA	28.72	34.08	25.04	36.82
Depreciation	(14.21)	(14.15)	(13.63)	(13.83)
Net interest income	4.67	3.08	2.65	2.89
Associate	2.22	0.20	-	-
EI	(2.74)	-	-	-
Pre-tax Profit	18.67	23.22	14.06	25.88
Tax	(8.75)	(4.34)	(3.09)	(5.69)
Net Profit	9.93	18.88	10.97	20.18
EBITDA Margin (%)	10.1	10.8	7.1	9.5
Pre-tax Margin (%)	6.5	7.4	4.0	6.6
Net-Margin (%)	3.5	6.0	3.1	5.2

1. 3QFY17 Results Highlight

	3Q FY17	3Q FY16	Chg
	RMm	RMm	%
Revenue	93.40	78.25	19.4
Operating Profit	3.11	5.67	(45.1)
Finance	(0.15)	(0.21)	(28.0)
Associate	0.10	(0.06)	n.m.
Pre-tax Profit	3.06	5.39	(43.3)
Net Profit	2.46	4.22	(41.6)
Operating Margin (%)	3.3	7.2	
Pre-tax Margin (%)	3.3	6.9	
Net-Margin (%)	2.6	5.4	

- GUH delivered higher group turnover in 3QFY17, rising 19.4% to RM93.40m driven by stronger PCB and property divisions.
- However, PBT and net profit declined by 42-43% to RM3.06m and RM2.46m due to poor profitability experienced by its PCB division and continued losses incurred in the utilities division.

- In terms of segmental performance, topline turnover performance of PCB division was impressive with another record delivery in 3QFY17. Turnover in the PCB division grew 15.3% to RM77.46m in 3QFY17. However, its PBT declined by 45% to RM4.08m due to the rising cost of raw materials and production overheads as well as forex loss amounting to RM1.2m as a result of the weaker US\$ in the period.
- Turnover in the utilities division was 17.7% higher at RM6.96m in 3QFY17, but still below its breakeven level. Topline performance would have been stronger if not for the slower construction progress in its higher margin water projects. Consequently, the utilities division reported a pretax loss of RM1.20m in 3QFY17.
- Turnover in its property division doubled to RM6.61m in 3QFY17 resulting from higher sales at its Taman Bukit Kepayang development. It reported a PBT of RM0.53m (3QFY17) from a pretax loss of RM0.11m (3QFY16).
- The smaller divisions such as electrical and oil palm divisions combined reported a PBT of RM0.18m in 3QFY17 as compared with RM0.08m in 3QFY16.
- Its non-operating segments recorded a reduced pretax loss of RM0.52m in 3QFY17 from RM1.18m in 3QFY16 due to forex gain and positive contribution from associate.

9M FY17 Results Highlight

	9M FY17	9M FY16	Chg
	RMm	RMm	%
Revenue	266.16	234.49	13.5
Operating Profit	8.13	15.54	(47.7)
Finance	(0.29)	(0.43)	(30.8)
Associate	(0.07)	(0.20)	(63.0)
Pre-tax Profit	7.76	14.91	(48.0)
Net Profit	3.10	11.90	(74.0)
Operating Margin (%)	8.7	19.9	
Pre-tax Margin (%)	8.3	19.1	
Net-Margin (%)	3.3	15.2	

- 9MFY17 turnover grew by 13.5% to RM266.16m due to higher contribution from its PCB and utilities divisions.
- The 48% decline in PBT in 9MFY17 was mainly attributed to the disappointing margins in its PCD division which faced higher raw material costs, higher production overheads and operating costs as well as forex losses.

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.
- The performance of its **PCB division** has continued to disappoint on the cost front. Against the backdrop of increased copper foil prices and shortage of copper foil, it continues to grapple with rising prices of raw materials, mainly copper clad laminates (CCL). Its PBT margin (PCB division) declined to 4.0% for 9MFY17 as compared with 8-11% over FY15-16. We believe the cost pressure is transitory and, as a sub-contractor, GUH would be able to gradually pass on higher prices to its MNC customers.
- However, the sustained topline turnover growth was encouraging, underpinned by strong demand for PCBs and GUH's favourable product mix and competitive position despite the cost pressure. At GUH Penang, the production of double-sided PCB (DSB) and multi-layered PCB (MLB) is at its optimum level. It plans to expand the CNC drilling capacity and to add more copper plating and MLB lines in FY17-18.

- In its **property development division**, Taman Bukit Kepayang, Seremban remains its key property development project. It still has a current available landbank of 130 acres in Seremban, which can sustain its property development division for the next 5 years. GUH has launched 50 units of semi-D for its Taman Bukit Kepayang residential project. It has also recently launched Nafiri@Val d'Or, a three-storey semi-detached light industrial factory in Sungai Bakap with a total estimated GDV of RM150m. The land is strategically located near the Batu Kawan Industrial Park, which has attracted an increasing number of MNCs setting up factories. This project is targeting small and medium enterprises (SMEs).

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 a commercial hub.

- Its **Utilities division** currently has 6 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.

We expect FY18 to be better as construction progress gathers pace. Jinjang WWTP and Sawah Raja WTP will be in advanced stage of project implementation, with both projects expected to be completed in FY18.

- The construction of an international school at Rawang, undertaken by a wholly-owned Milan Diamond Sdn Bhd (MDSB) is in the progress. The total cost of construction is estimated at RM30m. The building will then be leased to GUH's 25%-owned Straits International Education Group Sdn Bhd (SIEG) on a long-term basis. SIEG currently operates a private international school located in Bayan Lepas, Penang.

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.

3. Valuation and Recommendation

- 9MFY17, on an annualized basis, is below our earnings forecast for FY17 due to disappointing profit margins at its PCB division and slower progress billings in its utilities division. However, we still anticipate some margin recovery and higher construction progress to take place in FY18.
- We have reduced our earnings forecast by 23-50% for FY17 and FY18. However, we are maintaining our Buy recommendation on the stock for its rich assets. Following the release of the poorer earnings since 1QFY17, its share price has retraced from its year-high of RM1.01 to its current range of RM0.75-0.80. We believe the sluggish share price performance has more than sufficiently factored in the disappointing results.
- GUH's share price is trading at an unwarranted discount of 58% to its book value of RM1.90 as at 3QFY17. We have retained our target price of RM1.60 after ascribing a 20% discount to its book value. As at end-3QFY17, it has a net cash position of around RM51.59m (RM0.19/share). The stock is currently trading at a P/E of 19.8x and 10.7x for FY17 and FY18 respectively.

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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