1Q FYE DEC 2018 RESULTS REPORT ***23 May 2018***

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 19.4%; HPBS SG For Gold Connection Assets Limited 17.2%*		
PLC Website : *www.guh.com.my*	***Recommendation:***	*BUY*
	Market Capitalisation:	*RM 155.0m*
	Current Price :	*RM 0.565*
	Market / Sector:	*Industrial*
	Stock Code:	*3247*

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Key Stock Statistics	**2016**	**2017**	**2018F**	**2019F**
EPS (sen)	7.2	(0.6)	4.1	5.6
P/E (x)	7.9	(88.9)	13.6	10.0
Net Dividend/Share (sen)	3.5	8.3	5.0	5.0
NTA/Share (RM)	1.98	1.89	1.88	1.88
Book Value/Share (RM)	1.99	1.89	1.88	1.88
Issued Capital (mil shares)	263.8	274.4	274.4	274.4
52-weeks Share Price Range (RM)				0.50 - 1.01

Per Share Data	**2016**	**2017**	**2018F**	**2019F**
Year-end 31 Dec				
Book Value (RM)	1.99	1.89	1.88	1.88
Operating Cash Flow (sen)	(7.7)	(3.4)	11.8	8.0
EPS (sen)	7.2	(0.6)	4.1	5.6
Net Dividend/Share (sen)	3.5	8.3	5.0	5.0
Payout Ratio (%)	48.9	n.m.	120.7	88.9
P/E (x)	7.9	(88.9)	13.6	10.0
P/Cash Flow (x)	(7.4)	(16.8)	4.8	7.1
P/Book Value (x)	0.3	0.3	0.3	0.3
Dividend Yield (%)	6.2	14.7	8.8	8.8
ROE (%)	3.6	(0.3)	2.2	3.0
Net Gearing (%)	(18.8)	(10.0)	(12.5)	(12.9)

P&L Analysis (RM mil)	**2016**	**2017**	**2018F**	**2019F**
Revenue	315.12	356.06	368.84	370.42
EBITDA	34.08	17.55	26.45	30.67
Depreciation	(14.15)	(13.94)	(15.14)	(14.35)
Net interest income	3.08	2.13	2.76	2.96
Associate	0.20	(0.13)	0.50	0.50
Pre-tax Profit	23.22	5.61	14.57	19.78
Tax	(4.34)	(7.36)	(3.20)	(4.35)
Net Profit	18.88	(1.74)	11.36	15.43
EBITDA Margin (%)	10.8	4.9	7.2	8.3
Pre-tax Margin (%)	7.4	1.6	3.9	5.3
Net-Margin (%)	6.0	(0.5)	3.1	4.2

1. 1QFY18 Results Highlight

	1Q FY18 RMm	**1Q FY17 RMm**	**Chg %**
Revenue	83.70	82.15	1.9
Operating Profit	(1.31)	2.75	n.m.
Finance	(0.28)	(0.04)	n.m.
Associate	0.12	(0.00)	n.m.
Pre-tax Profit	(1.47)	2.71	n.m.
Net Profit	(1.46)	2.22	n.m.
Operating Margin (%)	(1.6)	3.4	
Pre-tax Margin (%)	(1.8)	3.3	
Net-Margin (%)	(1.7)	2.7	

- 1QFY18 turnover came in flat at RM83.70m as growth in PCB division was offset by lower turnover from other divisions.

- However, the group slumped into pretax and net loss of RM1.47m and RM1.46m respectively, attributed to weaker US$ in the period which translated into lower turnover in ringgit terms, as well as into rising cost of raw materials and production overheads for the PCB division.

- Seasonally, GUH's PCB manufacturing operations in both Penang and China usually report lowest turnover in 1Q due to festivities in the period.

- Turnover of the PCB division rose by 4.3% to RM65.53m in 1QFY18, underpinned by demand growth. Performance was commendable considering the weaker US$ against ringgit in the quarter, which reduced the export value of PCBs in ringgit terms. As an indication, ringgit averaged around RM4.40-4.50 in 1QFY17 as compared with RM3.90-4.00 in 1QFY18. Based on our estimate, PCB division's turnover should have posted growth in 1QFY18 in US$ terms.

- In addition to the currency impact, PCB division recorded a pretax loss of RM0.17m in 1QFY18 as compared with PBT of RM2.25m in 1QFY17, with the erosion in profits impacted by rising raw material costs, mainly for copper clad laminates (CCL) as well as higher production overheads.

- Turnover and PBT of its Utilities division was flat at RM11.38m and RM0.04m in 1QFY18 respectively, affected by the seasonal festivities in the quarter.

- 1QFY18 turnover contribution from Property division was not significant, at RM4.00m. This was undermined by the current weak market sentiment in the property sector. The division reported a pretax loss of RM0.70m, compounded by liquidated ascertained damages claim of RM1m and higher administrative expenses.

- The smaller divisions such as electrical and oil palm divisions combined reported a PBT of RM0.06m in 1QFY18 as compared with RM0.19m in 1QFY17.

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 growing topline turnover is the result of a strategic revamp of GUH Penang to shift focus towards the double and multi-layered PCBs as well as products' diversification into automotive and home appliances. Operationally, the production of multi-layered PCBs at both GUH Penang and GUH Suzhou are at optimum levels due to growth in demand from MNC customers. GUH Penang has completed its capacity expansion of multi-layered PCBs by around 20% to 60,000 m^2/month. It is currently undergoing qualification and acceptance stage by its customers. Considering the encouraging response, we expect the added capacity to be filled up towards end-FY18.

- Outlook on profitability remains challenging in FY18 due to the weaker US$ and the rising prices of copper clad laminates (CCL), which is the major raw material used for producing PCBs. The price of CCL has been rising since 2016 because of higher demand for copper foil in making batteries for electric vehicles. The resulting higher prices and supply shortage of CCL has compressed margins of PCB manufacturers. To mitigate the margin erosion, GUH has been negotiating with customers for a price increase. In the near-term, we believe GUH lacks the flexibility in raising prices with its customers as a result of existing contractual agreements. However, given the sudden spike in CCL and the ringgit in FY17, which is an industry-wide issue, there could be room for GUH to re-negotiate for price increases. Nonetheless, we expect a time lag in such price revisions with its MNC customers.

- Over the longer-term, GUH will be able to regain some of its loss margin through negotiation of new supply contracts, which is usually less than 12 months. The currency impact will also be mitigated by some form of natural hedging, as the purchase of CCL is also denominated in US$.

- The long-term growth prospects for PCB division are driven by continued product diversification and market expansion. GUH has been pursuing the strategy to de-emphasize focus on the more competitive and cyclical audio and video products, and to target more on home appliances and the automotive sector. In addition, GUH Penang has taken steps to market PCBs in Thailand and Indonesia.

- Due to the challenging conditions within the property market, there will not be any new development launches near term. Instead GUH is currently working on selling the inventories of semi-D and terrace houses of its Taman Bukit Kepayang project. Taman Bukit Kepayang in Seremban still has a current available landbank of 120 acres as at end-FY17.

It also has recently soft 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 and planned for an integrated development with lifestyle shops, housing projects and a commercial hub.

The launch timing for these projects will depend on near term improvements within the broad property market.

- 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. These projects have an unbilled sale of RM80m as at end-FY17.

  We expect FY18 performance to be better due to the absence of goodwill impairment, which came to RM3.35m in FY17 and the expected completion of Jinjang WWTP and Sawah Raja WTP in FY18. It is also pursuing new projects amounting to about RM600m. However, contribution from Utilities in FY19 should come in lower as there only remains the Kerian WTP as its sizeable project. The three STPs constructed by wholly-owned Teknoserv Engineering Sdn Bhd are considered as part of the infrastructure facilities for its property developments.

- The construction of an international school at Rawang, undertaken by a wholly-owned Milan Diamond Sdn Bhd (MDSB) is expected to complete in FY18. The total cost of construction is estimated at RM30m. The land and buildings 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. <u>Valuation and Recommendation</u>

- FY18 will be challenging due to reduced profit margin that has sustained from the previous FY17. As such, we have reduced our earnings forecast by 40% for FY18 to factor in the lower profitability of the PCB division. We have introduced our earnings forecast for FY19, which have imputed some margin recovery through price increases.

- Despite the disappointing results performance, we believe the decline in share price does not reflect the rich assets within GUH. The share price of RM0.57 is currently trading at a steep discount of 70% to its book value of RM1.90/share. In addition, it has a net cash position of around RM0.17/share as at end-1QFY18. We have retained our target price of RM1.60 after ascribing a 20% discount to its book value.

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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