BCT Asia *advisory*

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UPDATE REPORT ***14 August 2018***

Name of PLC: *Latitude Tree Holdings Berhad (LTHB)*		***PLC Website:*** *www.lattree.com*	
Business Summary : *Manufacturing of wooden furniture products and components*			
Top Three Shareholders: *Lin family*		*36.8%*	
Yek Siew Liong		*15.0%*	
Samarang Ucits - Samarang Asian Prosperity		*7.8%*	
Market / Sector:	*Consumer*	***Stock Code:*** ***Bloomberg Ticker:***	*7006* *LAT:MK*
Market Capitalisation:	*RM 364.5m*	***Recommendation:***	*BUY*
Target Price:	*RM 5.80*	***Expected Capital Gain:***	*54.7%*
Current Price:	*RM 3.75*	***Expected Div Yield:***	*3.2%*
		Expected Total Return:	***57.9%***
Analyst: Lim Boon Ngee | *Tel: +603 2163 3200; Email: bnlim@bcta.com.my*			

Key Stock Statistics	**2016**	**2017**	**2018F**	**2019F**
EPS (sen)	74.8	71.0	20.4	58.3
P/E (x)	5.0	5.3	18.4	6.4
EPS ex-EI (sen)	74.8	71.0	36.9	58.3
P/E ex-EI (x)	5.0	5.3	10.2	6.4
Net Dividend/Share (sen)	12.0	12.0	12.0	12.0
NTA/Share (RM)	4.99	5.77	5.85	6.31
Book Value/Share (RM)	4.99	5.77	5.85	6.31
Issued Capital (mil shares)	97.2	97.2	97.2	97.2
52-weeks Share Price Range (RM)				3.20 - 5.30
Estimated free float				19%
Average volume (shares)				5,530

Per Share Data	**2016**	**2017**	**2018F**	**2019F**
Year-end 30 Jun				
Book Value/Share (RM)	4.99	5.77	5.85	6.31
Operating CF/Share (sen)	87.2	41.1	82.6	37.5
EPS (sen)	74.8	71.0	20.4	58.3
Net Dividend/Share (sen)	12.0	12.0	12.0	12.0
P/E (x)	5.0	5.3	18.4	6.4
P/Cash Flow (x)	4.3	9.1	4.5	10.0
P/Book Value (x)	0.8	0.7	0.6	0.6
Dividend Yield (%)	3.2	3.2	3.2	3.2
Payout Ratio (%)	16.0	16.9	58.9	20.6
ROE (%)	16.3	13.2	6.3	9.6
Net Gearing (%)	(29.8)	(26.7)	(34.0)	(27.4)

P&L Analysis (RM mil)	**2016**	**2017**	**2018F**	**2019F**
Revenue	770.60	786.02	761.10	803.36
EBITDA	115.23	109.36	65.64	93.01
Depreciation & amort	(21.17)	(20.11)	(21.09)	(23.22)
Net interest income	(1.85)	(0.91)	(0.86)	(0.68)
EI *	-	-	(16.03)	-
Pre-tax Profit	92.21	88.35	27.66	69.11
Net Profit	72.73	69.07	19.79	56.67
EBITDA Margin (%)	15.0	13.9	8.6	11.6
Pre-tax Margin (%)	12.0	11.2	3.6	8.6
Net-Margin (%)	9.4	8.8	2.6	7.1

** Fire incident*

1. Investment Highlights/Summary

- Production run-rate for both furniture-making operations in Malaysia and Vietnam has returned to 90% utilisation rate.

- The contribution from non-furniture division namely panel board lamination, furniture components and upstream activities is expected to increase to 10% of group revenue in FY19.

- Thanks to higher sales volume and stable wet sawn rubber price, LTHB is expected to experience operational improvement in 4QFY18. However, the profit performance will be dragged by an impairment loss of a fire incident and the lower US$ vs RM.

- We are maintaining our BUY recommendation for its unique value proposition in terms of a sizeable integrated operation and cheap valuations. The stock is also currently trading below its book value of RM5.66 as at 3QFY18. It has a strong balance sheet position with net cash of RM1.31/share. Based on our EPS forecast (ex-EI) of 36.9 sen and 58.3 sen for FY18 and FY19, the stock is currently trading at a P/E of 10.2x and 6.4x for FY18 and FY19.

2. Corporate Development

- We attended a briefing by MFM recently.

- Its **furniture making operation in Kapar** is currently operating at 90% utilisation rate based on the monthly capacity of US$2.0-2.2m. The current production run-rate is at optimum level. Its strategy is to optimise its production output to cater for small quantity high value products. It is targeting e-commerce customers by providing one-stop warehousing facility and shipment service to end-consumers in addition to the provision of design and production.

- Outlook on its **Vietnam** operation is improving with buyers returning to LTHB after previously losing sales orders to Chinese manufacturers operating in Vietnam. Despite its premium pricing, LTHB has regained sales volumes supported by its products quality, service reliability and design capability. Its utilisation rate has returned to 90% level on a total capacity of US$15-16m/month.

- The price of **wet sawn rubberwood** has stabilised and hovered around RM1,100/mt level as compared with the peak of RM1,300-1,400/mt back in 4QFY17. However, the price of plywood has remained at high level due to the shortage of supply. The rising labour cost will be an issue, but it can be managed through higher productivity, price revision and more automation. The minimum wage is subject to annual revision in January each year for its Vietnam subsidiaries. For Malaysia operations, it is pending an announcement of revision in minimum wages from Ministry of Human Resources.

- The contribution from non-furniture division namely panel board lamination, furniture components and upstream activities is expected to increase to 10% of group revenue in FY19. The manufacturing of **paper lamination board** is expected to increase to an average RM3m/mth in FY19 from RM1.5-2.0m/mth in FY18 and RM15m in full year FY17.

- For its **upstream operation**, the construction of an additional saw milling plant in Terengganu was completed in Aug-17. With the expanded capacity and availability of raw rubber logs, the contribution is expected to increase in FY19. The key strategic initiative is to expand its upstream operation to ensure the secure of sawn rubberwood at competitive pricing.

- Currently, the US market accounts for 92% of group's furniture exports. It plans to widen its export markets to China, Australia, India and West Asia.

- It has budgeted RM50m in **capex** for FY19. This includes warehouse (RM20m) and upgrading of machineries and automation. There is no plan for capacity expansion for its furniture-making operations in both Malaysia and Vietnam, as both are currently operating at the optimum 90% utilisation rate. The strategy is to employ more automated and advanced machinery to reduce the reliance on labour.

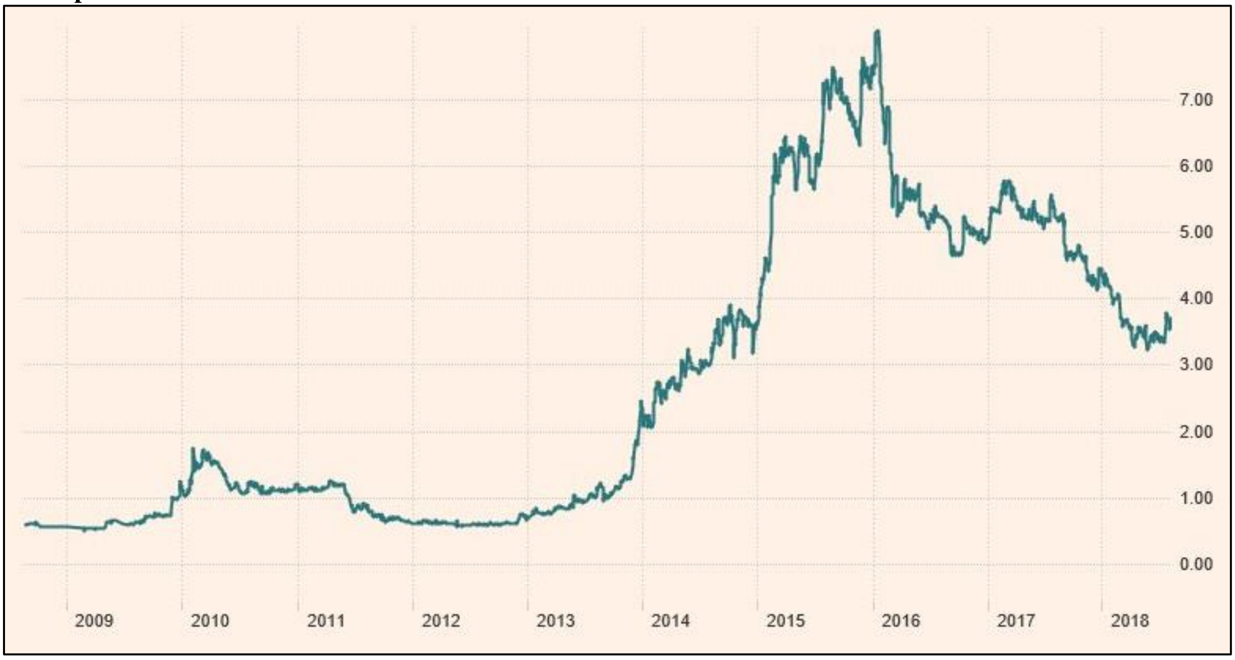
- LTHB plans to increase the sales of **ODM products** from the current 25% contribution to group turnover. A new dedicated high-end production line (Line F) and a design centre were set-up in Vietnam in FY17. The target is to secure boutique furniture customers and e-commerce customers which commands better pricing but at a smaller order size. It can offer a faster turn-around time with its stronger design and R&D capability by reducing lead time to produce prototype to customers.

- Thanks to higher sales volume and stable wet sawn rubber price, LTHB is expected to experience operational improvement in 4QFY18. However, the profit performance will be dragged by an impairment loss of a fire incident, which occurred on 5-Apr-18 and the lower US$ vs RM. The total loss for the damaged factory building, plant and machinery and inventories would amount to US$4.11m (RM16.03m), which will be incurred in 4QFY18.

3. Valuation and Recommendation

- We are maintaining our BUY recommendation for its unique value proposition in terms of a sizeable integrated operation and cheap valuations. The stock is also currently trading below its book value of RM5.66 as at 3QFY18. It has a strong balance sheet position with net cash of RM1.31/share. Based on our EPS forecast (ex-EI) of 36.9 sen and 58.3 sen for FY18 and FY19, the stock is currently trading at a P/E of 10.2x and 6.4x for FY18 and FY19.

Share price chart of LTHB



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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