

4Q FYE SEPT 2018 RESULTS REPORT

29 November 2018

Name of PLC: Fiamma Holdings Berhad (Fiamma)		PLC Website: www.fiamma.com.my	
Business Summary: Involved in the distribution of home appliances, sanitary ware products and medical devices and healthcare products, property development and property investment.			
Top Three Shareholders as at 2 April 2018:			
Lim Choo Hong		29.1%	
Ngo Wee Bin		16.6%	
Casa Holdings Limited		14.8%	
Market / Sector:	Fledgling / Trading/Services	Stock Code:	6939
		Bloomberg Ticker:	FHB MK
Market Capitalisation:	RM 270.31m	Recommendation:	HOLD
Target Price:	RM 0.53	Expected Capital Gain:	3.9%
Current Price:	RM 0.51	Expected Div Yield:	4.4%
		Expected Total Return:	8.3%
Analyst: Bryan Chan Tel: +603 2163 3200; Email: chanb@bcta.com.my			

Key Stock Statistics	2016	2017	2018	2019F
EPS (sen)	4.4	4.2	6.2	7.5
P/E (x)	11.6	12.0	8.2	7.0
EPS ex-EI (sen)	3.9	5.4	6.4	7.5
P/E ex-EI (x)	13.2	9.4	8.0	6.8
Net Dividend/Share (sen)	1.5	1.7	2.3	2.3
NTA/Share (RM)	0.81	0.84	0.88	0.94
Book Value/Share (RM)	0.81	0.84	0.88	0.94
Issued Capital (mil shares)	521.1	530.0	530.0	530.0
52-weeks Share Price Range (RM)			0.43-0.57	
Estimated free float				20.8%
Average volume (shares)				4,180

Per Share Data	2016	2017	2018	2019F
Year-end 30 Sept				
Book Value/Share (RM)	0.81	0.84	0.88	0.94
Operating CF/Share (sen)	(1.3)	(0.0)	7.5	1.1
EPS (sen)	4.4	4.2	6.2	7.5
Net Dividend/Share (sen)	1.5	1.7	2.3	2.3
P/E (x)	11.6	12.0	8.2	6.8
P/Cash Flow (x)	(0.4)	(93.3)	6.8	0.5
P/Book Value (x)	0.70	0.61	0.58	0.54
Dividend Yield (%)	2.6	3.3	4.4	4.4
Payout Ratio (%)	33.4	39.6	70.0	30.0
ROE (%)	5.8	5.1	7.0	8.3
Net Gearing (%)	18.7	22.8	16.7	28.3

P&L Analysis (RM mil)	2016	2017	2018	2019F
Revenue	283.8	315.6	339.1	401.0
EBITDA	41.3	41.9	58.7	66.8
Depreciation & amort	(4.4)	(5.2)	(4.6)	(5.4)
Net interest income	(2.8)	(2.9)	(4.7)	(4.4)
EI *	1.6	6.2	1.6	-
Pre-tax Profit	34.1	33.9	47.2	57.0
Net Profit	23.2	22.5	32.6	39.9
EBITDA Margin (%)	14.6	13.3	17.3	16.5
Pre-tax Margin (%)	12.0	10.7	13.9	14.1
Net-Margin (%)	8.2	7.1	9.6	9.9

1. **4QFY18 Results Highlight**

	4Q FY18	4Q FY17	Chg
	RMm	RMm	%
Revenue	106.9	90.0	18.8
Operating Profit	19.8	12.5	58.8
Finance cost	(2.0)	(1.3)	47.5
Pre-tax Profit	17.8	11.1	60.2
Net Profit after Minority	12.2	8.1	50.6
Core Profit	12.8	9.7	32.3
Operating Margin (%)	18.5	13.9	
Pre-tax Margin (%)	16.7	12.4	
Net Margin (%)	11.5	9.0	
Core Net Margin (%)	12.0	10.8	

- In 4QFY18, Fiamma's revenue improved 18.8% y-o-y to RM106.9m, boosted by both property development (+50.7%) and the trading and services (+12.6%) segments. Overall group PBT surged 60.2% y-o-y as margins for both property development and trading & services segments improved from 11.4% and 17.2% to 17.8% and 17.7%, respectively. Core net profit registered narrower improvement of 32.3% y-o-y to RM12.8m due to normalized one-off adjustment.
- On q-o-q basis, the latest quarter's revenue improved 29.0% and core profit increased further by 57.4% due to lower percentage cost of sales to revenue (-2.6 ppt), higher operating income (+12.8%) and higher one-off adjustment.

12MFY18 Results Highlight

	12MFY18	12MFY17	Chg
	RMm	RMm	%
Revenue	339.1	315.6	7.4
Operating Profit	54.1	38.5	40.5
Finance	(6.9)	(4.7)	
Exceptional items	1.6	5.6	
Pre-tax Profit	47.2	33.9	39.3
Net Profit	32.6	22.5	44.8
Core Profit	34.2	28.1	21.6
Operating Margin (%)	16.0	12.2	
Pre-tax Margin (%)	13.9	10.7	
Net-Margin (%)	9.6	7.1	
Core-Margin (%)	10.1	8.9	

- In 12MFY18, revenue increased 7.4% y-o-y to RM339.1m driven mainly by property development which improved 26.8% y-o-y. Meanwhile, trading & services and investment properties segments rose marginally by 4.8% and 3.8%, respectively. Operating profit improved 40.5% y-o-y due to lower percentage cost of sales to revenue of 3.3ppt to 83.9%. This was largely attributed to margin improvement from both property development and trading & services segments. Core profits improved at a narrower growth of 21.6% due to lower one-off adjustment from allowance for impairment loss for trade receivables and stocks written off.
- 12MFY18 core profits of RM34.2m came in slightly above our expectations, making up 106.9% of our full year estimate of RM32.0m. The variance of earnings is partly due to higher-than-expected revenue from property development segment and higher-than-expected margin from trading & services segment. In 12MFY18, trading & services margin improved y-o-y to 15.4% as compared to our estimates margin of 15.0%.
- The Company proposed a final single tier dividend of 2.25 sen, which is higher than last year’s DPS of 1.75sen and translates into an attractive dividend yield of 4.4%. This dividend is subjected to the approval of shareholders during the next AGM that usually happens in February next year.

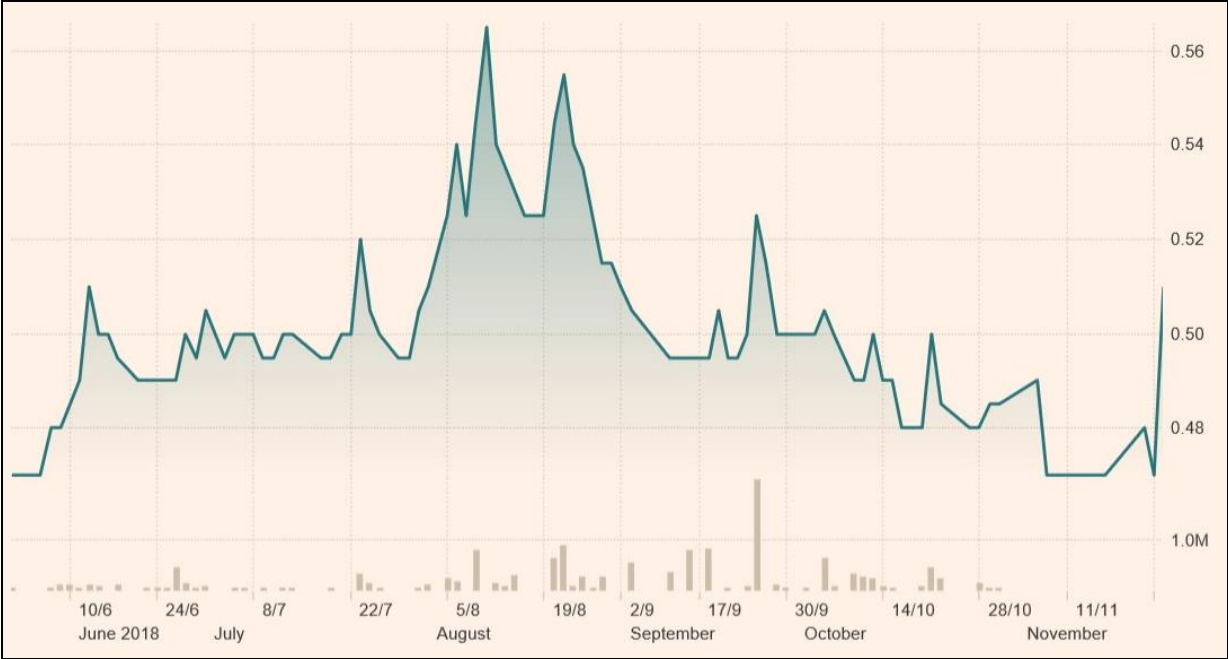
2. Earnings Outlook

- Fiamma is a leading white goods home appliance, bathroom accessories and home fittings brand owner in Malaysia, representing in-house brands for mid- and high-end markets. The group’s key competitive edge is built on: (1) an experienced product team, (2) an extensive and established distribution network, (3) a diversified product range, and (4) economies of scale. These strong competitive advantages raise the entry requirements for its competitors and new entrants. Trading and services’ topline is expected to grow at low single digit, tracking the private consumption growth together with company’s continuous effort of marketing and launching new products. We also expect margins to stabilize at 15%-level on the back of management’s continuous effort on improving product mix.
- Its property development division comprises more than 100 acres of land and potential GDV worth more than RM2.0b. More than 90% of its landbank is located in Johor while the remaining are pockets of landbank sitting on prime areas in the Klang Valley. Albeit that the market remains weak and Fiamma has not been aggressive with its launches, we expect property development earnings to pick up in FY19 coming from a low base. We estimate revenue recognition of RM106m for FY19E from this segment. East Parc is expected to achieve 50% take up rate by FY19 and the construction is slated for completion in FY19. Meanwhile, we are still expecting potential en-bloc sales of unsold units from Vida Heights, Johor.
- We maintain our earnings forecast for now, pending meeting with management. Growth prospect remains intact underpinned by the organic growth from trading and services and a more impactful contribution from the property development segment.

3. **Valuation and Recommendation**

- Maintain HOLD and TP of RM0.53. Our TP implies a FY19 PER target of 6.8x and is derived by (i) pegging a 8x PER to FY19 trading and services net profit, (ii) 80% discount to the RNAV of property segment and (iii) DCF valuation on investment properties over a WACC of 8.3%.

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)

This report has been prepared by BCT Asia Advisory Sdn Bhd pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

BCT Asia Advisory Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. BCT Asia Advisory Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.