

**UPDATE REPORT**

24 May 2019

<b>Name of PLC:</b> Fiamma Holdings Berhad (Fiamma)		<b>PLC Website:</b> <a href="http://www.fiamma.com.my">www.fiamma.com.my</a>	
<b>Business Summary:</b> Involved in the distribution of home appliances, sanitary ware products and medical devices and healthcare products, property development and property investment.			
<b>Top Three Shareholders as at 31 March 2019:</b>			
Lim Choo Hong		29.3%	
Ngo Wee Bin		16.7%	
Casa Holdings Limited		14.9%	
<b>Market / Sector:</b>	Fledgling / Trading/Services	<b>Stock Code:</b>	6939
		<b>Bloomberg Ticker:</b>	FHB MK
<b>Market Capitalisation:</b>	RM 254.41m	<b>Recommendation:</b>	HOLD
<b>Target Price:</b>	RM 0.47	<b>Expected Capital Gain:</b>	(1.05%)
<b>Current Price:</b>	RM 0.475	<b>Expected Div Yield:</b>	3.73%
		<b>Expected Total Return:</b>	2.68%
<b>Analyst:</b> Bryan Chan/ Teo Joo Tse   Tel: +603 2163 3200; Email: <a href="mailto:chanb@bcta.com.my">chanb@bcta.com.my</a> / <a href="mailto:jootse@bcta.com.my">jootse@bcta.com.my</a>			

Key Stock Statistics	2017	2018	2019F	2020F
EPS (sen)	4.2	6.2	6.2	5.9
P/E (x)	11.3	7.7	7.7	8.0
EPS ex-EI (sen)	5.4	6.5	6.2	5.9
P/E ex-EI (x)	8.9	7.3	7.7	8.0
Net Dividend/Share (sen)	1.7	2.1	1.9	1.8
NTA/Share (RM)	0.84	0.88	0.93	0.97
Book Value/Share (RM)	0.84	0.88	0.93	0.97
Issued Capital (mil shares)	530.0	530.0	530.0	530.0
52-weeks Share Price Range (RM)				0.45-0.57
Estimated free float				24.3%
Average volume (shares)				419.49k

Per Share Data	2017	2018	2019F	2020F
Year-end 30 Sept				
Book Value/Share (RM)	0.84	0.88	0.93	0.97
Operating CF/Share (sen)	(0.0)	7.5	7.1	10.9
EPS (sen)	4.2	6.2	6.2	5.9
Net Dividend/Share (sen)	1.7	2.1	1.9	1.8
P/E (x)	11.3	7.7	7.7	8.0
P/Cash Flow (x)	(87.8)	0.1	0.1	0.0
P/Book Value (x)	0.61	0.54	0.52	0.50
Dividend Yield (%)	3.5	4.5	3.8	3.7
Payout Ratio (%)	39.4	34.8	30.0	30.0
ROE (%)	5.1	7.1	6.8	6.2
Net Gearing (%)	22.8	16.7	11.7	2.9

P&L Analysis (RM mil)	2017	2018	2019F	2020F
Revenue	315.6	339.1	363.9	344.2
EBITDA	41.9	56.5	57.3	54.5
Depreciation & amort	(5.2)	(4.6)	(5.3)	(5.4)
Net interest income	(2.9)	(4.7)	(4.9)	(3.9)
EI *	6.2	1.9	-	-
Pre-tax Profit	33.9	47.2	47.1	45.2
Net Profit	22.5	32.6	32.6	31.3
EBITDA Margin (%)	13.3	16.7	15.7	15.8
Pre-tax Margin (%)	10.7	13.9	12.9	13.1
Net-Margin (%)	7.1	9.6	9.0	9.1

**1. Investment Highlights/Summary**

- We have recently met up with management, and came away with a more cautious outlook on the Company. General market sentiment is expected to be weak, and both segments lack fresh growth catalysts in the near term.
- 1HFY19 revenue increased 7.6% y-o-y to RM159.8m driven mainly by the property development segment. Core profits registered 11.1% y-o-y growth on the back of lower operating expenses and higher other operating income. However, we deemed the results as below expectation as we expect y-o-y weaker 2H earnings in the absence of the previous front-loading activities pre-SST, as well as lower margin from the newly adopted MFRS.
- Macro outlook remains moderate, with the Company potentially facing weaker market demand. We are revising our earnings forecast for FY19-20E lower by 18.3%-18.9% to RM32.6m-RM31.3m due to the adoption of MFRS and tighter margin from trading & services segment, coupled with no major launches from the property development segment.
- The stock's average PE has compressed from historical PE band of 12.0x to currently 8.3x. Consequently, we have revised our TP from RM0.53 to RM0.47. At current levels, share price is comfortably supported by price-to-book of 0.50x and a decent dividend yield of 3.7%. Maintain HOLD. (refer overleaf for more details)

2. 2QFY19 Results Highlight

	2QFY19	2QFY18	Chg
	RMm	RMm	%
Revenue	79.6	74.4	7.0
Operating Profit	11.0	10.0	9.8
Finance	(1.9)	(1.7)	12.7
Exceptional items	0.3	0.2	59.7
Pre-tax Profit	9.0	8.3	9.2
Net Profit	6.0	5.6	8.0
Core Profit	6.3	5.8	9.9
Operating Margin (%)	13.8	13.4	
Pre-tax Margin (%)	11.3	11.1	
Net-Margin (%)	7.5	7.5	
Core-Margin (%)	7.9	7.7	

- In 2QFY19, Fiamma’s revenue improved by 7.0% y-o-y to RM79.6m, mainly driven by higher contribution from the property development segment. The segment’s contribution increased by 1.2pt y-o-y to 14.6%. Its revenue edged up by 13.7% y-o-y to RM11.6m, compensating slower growth in both the trading and services (+3.3%) and investment properties (+2.6%).
- Overall group PBT increased 9.2% y-o-y as margins for property development improved from 9.2% to 11.8% due to higher recognition from East Parc. Core net profit registered wider improvement of 9.9% y-o-y to RM6.3m, mainly from higher inventory write-off adjustment in 2Q19 resulting from the adoption of much stringent Malaysian Financial Reporting Standards (MFRS).

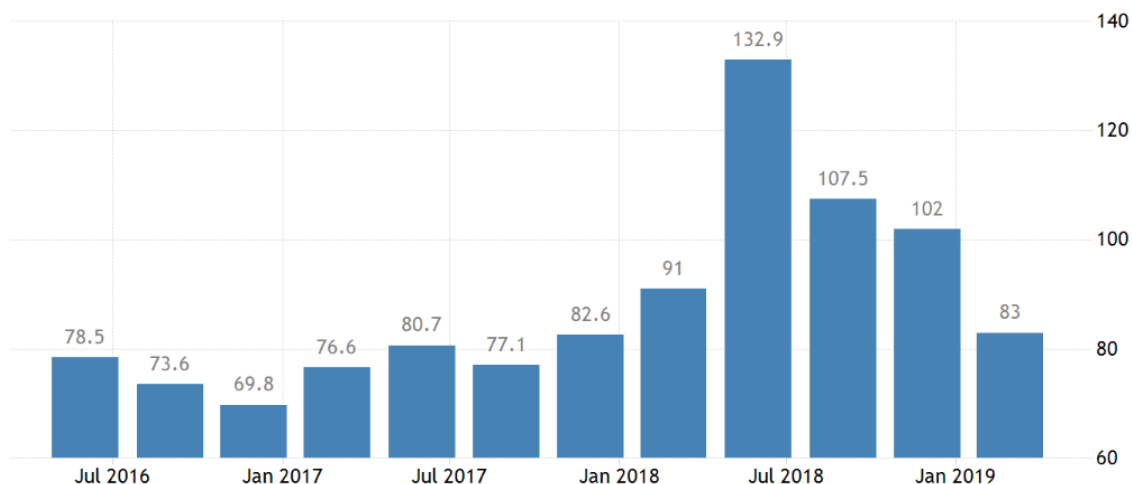
	1HFY19	1HFY18	Chg
	RMm	RMm	%
Revenue	159.8	148.4	7.6
Operating Profit	24.0	21.1	13.6
Finance	(3.8)	(3.4)	10.8
Exceptional items	0.9	0.8	14.2
Pre-tax Profit	20.1	17.6	14.2
Net Profit	13.4	12.1	10.9
Core Profit	14.3	12.9	11.1
Operating Margin (%)	15.0	14.2	
Pre-tax Margin (%)	12.6	11.9	
Net-Margin (%)	8.4	8.2	
Core-Margin (%)	9.0	8.7	

- In the 1HFY19, revenue increased 7.6% y-o-y to RM159.8m driven mainly by property development segment. The segment revenue surged 52.3% y-o-y, compensating the flat growth in trading & services (+1.7%) and investment properties (+0.2%).
- PBT improved 14.2% y-o-y despite lower gross profit margin by 1.6ppt to 30.8%. This was mainly due to lower operating expenses and depreciation charges and higher other operating income. Core profits registered lower growth of 11.1% due to a higher effective tax rate of 25.1% as compared to 23.4% in 1HFY18.
- 1HFY19 revenue made up 39.9% of our full year estimates, which was marginally below the average of 45%. Core profits in the period of RM14.3m made up 35.8% of our full year estimate of RM39.9m. Although 1H earnings typically range between 29% and 39%, we deemed the results below expectation. 2H earnings are expected to come in lower y-o-y in the absence of the previous front-loading activities pre-SST, as well as lower margin from the newly adopted MFRS.

**3. Corporate Development & Earnings Outlook**

- Besides the results announcement, we have recently met up with the management and came away with a more cautious outlook on the Company. The general market sentiment is expected to be weak as Malaysia consumer confidence has been declining (refer to table below), amidst the ongoing trade war between the US and China, and concerns of slowing global economy. Near term, both segments of the Company lack fresh growth catalysts.

Malaysia Consumer Confidence



Source: Tradingeconomic.com, Malaysian Institute of Economic Research

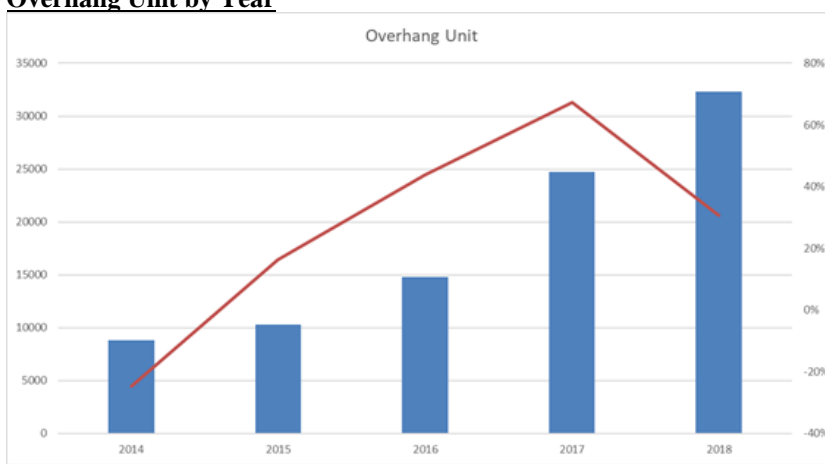
- Fiamma is a leading white goods home appliance, bathroom accessories and home fittings brand owner in Malaysia, representing in-house brands for mid- and high-end markets. The group’s key competitive edge is built on: (1) an experienced product team, (2) an extensive and established distribution network, (3) a diversified product range, and (4) economies of scale. These strong competitive advantages raise the entry requirements for its competitors and new entrants. On the other hand, the company also owns a property development arm with a series of small-scale boutique residential projects mainly in Johor and Kuala Lumpur.
- For the trading and services segment, revenue growth will remain steady at low-to-mid single digit on the back of organic growth as well as the continuous efforts on improving product mix. Nevertheless, we believe the favourable segmental profit margin registered in the past few quarters (15%-18%) may not be sustainable, potentially eroded by the weakening in Ringgit from an average of RM4.03 in FYE18 to an average of RM4.15 in FYE19. Near term, we expect segmental margin to hover around 14.5% for FYE19-20 as compared to the higher margin of 15.4% enjoyed in FYE18.
- Contribution from property development may decline as the Company holds back launches and focus on cashflows. Overall, the property market remains lackluster. The chart below on Residential Transactions may indicate that the worst could be over (2016-2017 where y-o-y transaction volume dropped drastically), and a mild recovery was witnessed in 2018. However, the issue of property overhang remains, rising to account for one-third of the annual completed volume in 2018. Fiamma’s property development division comprises more than 100 acres of land and potential GDV worth close to 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. The Company has no plan to roll out any new high-rise project for the next 1-2 years, focusing more on selling its existing projects and inventory. Nonetheless, they may consider launching smaller phases of landed projects in response to market demand. Near term earnings will largely be driven by the East Parc project, as well as its niche landed properties in Batu Pahat. Property earnings are expected to peak in FY19 upon the completion of East Parc by end of this year while its inventory level should rise further from the current level of RM119m.

**The Y-o-Y Changes of Malaysia Residential Transactions**

	50,000 & below	50,001-100,000	100,001-150,000	150,001-200,000	200,001-250,000	250,001-300,000	300,001-400,000	400,001-500,000	500,001-1,000,000	1,000,000 & above	Total
1Q14	-33.5%	-11.1%	-14.8%	-8.5%	-3.7%	-3.4%	13.6%	42.2%	35.4%	22.4%	-0.7%
2Q14	-33.1%	-5.6%	-6.2%	5.0%	0.1%	6.3%	21.1%	33.8%	33.2%	25.2%	5.3%
3Q14	-21.4%	-10.0%	-4.7%	-5.1%	6.6%	5.8%	15.6%	28.7%	29.5%	22.8%	4.3%
4Q14	-37.8%	-17.8%	-11.7%	-10.4%	3.3%	-0.9%	8.3%	20.2%	0.7%	-1.7%	-6.7%
1Q15	107.7%	22.9%	5.5%	-4.0%	-22.2%	-19.3%	1.8%	-50.6%	-3.5%	0.0%	1.2%
2Q15	78.1%	10.8%	3.6%	-8.1%	-19.7%	-18.6%	-4.1%	-51.5%	-11.0%	-15.8%	-6.4%
3Q15	40.6%	17.2%	3.3%	-7.5%	-22.5%	-20.8%	-4.7%	-50.3%	-22.0%	-27.4%	-9.4%
4Q15	45.1%	15.8%	9.6%	-4.5%	-20.4%	-22.5%	-0.8%	-41.9%	0.6%	-6.3%	-3.1%
1Q16	-47.7%	-13.5%	-12.3%	-16.7%	-9.6%	-6.0%	-4.9%	5.4%	-13.1%	-24.4%	-16.6%
2Q16	-25.9%	-11.9%	-12.6%	-21.5%	-14.5%	-13.5%	-11.8%	9.7%	0.0%	-11.3%	-12.5%
3Q16	1.8%	-29.5%	-22.7%	-19.4%	-16.2%	-14.0%	-8.6%	13.7%	-8.7%	-17.8%	-14.0%
4Q16	-19.5%	-22.9%	-16.0%	-15.8%	-9.2%	-10.9%	-5.3%	13.7%	-10.2%	-15.1%	-12.7%
1Q17	-9.3%	-18.5%	-4.7%	-3.0%	-1.1%	-2.6%	-2.5%	-12.9%	9.1%	2.4%	-5.5%
2Q17	-12.3%	-21.7%	-6.6%	-4.0%	-7.3%	-3.4%	-3.2%	-10.1%	-1.8%	-3.6%	-8.4%
3Q17	-43.5%	-5.8%	4.2%	4.1%	0.2%	0.9%	0.6%	-10.7%	14.6%	16.1%	-4.2%
4Q17	-15.8%	-3.1%	0.6%	4.7%	0.4%	3.3%	5.7%	-9.0%	20.1%	13.3%	1.6%
1Q18	2.6%	-3.3%	-1.7%	2.0%	2.4%	6.2%	11.4%	14.5%	4.1%	4.4%	3.6%
2Q18	22.6%	-15.7%	-5.1%	-10.1%	-4.1%	0.2%	-3.5%	-9.9%	-11.7%	-5.7%	-5.1%
3Q18	0.3%	-5.4%	-0.9%	9.6%	10.6%	18.8%	11.6%	13.8%	0.3%	-2.5%	5.1%
4Q18	21.8%	-9.1%	-6.7%	4.9%	10.1%	10.2%	1.5%	6.7%	-6.6%	5.7%	2.0%

Source: NAPIC

**Overhang Unit by Year**



Source: NAPIC

**Incoming Supply by Year**



Source: NAPIC

- Macro outlook remains moderate, with the Company potentially facing weaker market demand. Hence, we are revising down our earnings forecast for FY19-20E by 18.3%-18.9% to RM32.6m-RM31.3m from RM39.9m-RM38.6m due to the adoption of MFRS from 2Q19 onwards, and tighter margin from its trading & services segment. Impact of MFRS will largely be felt at the interest expense level, where some borrowings have to be expensed out instead of being capitalised. In 2Q19, finance costs increased 12.7% y-o-y and 3.6% q-o-q.

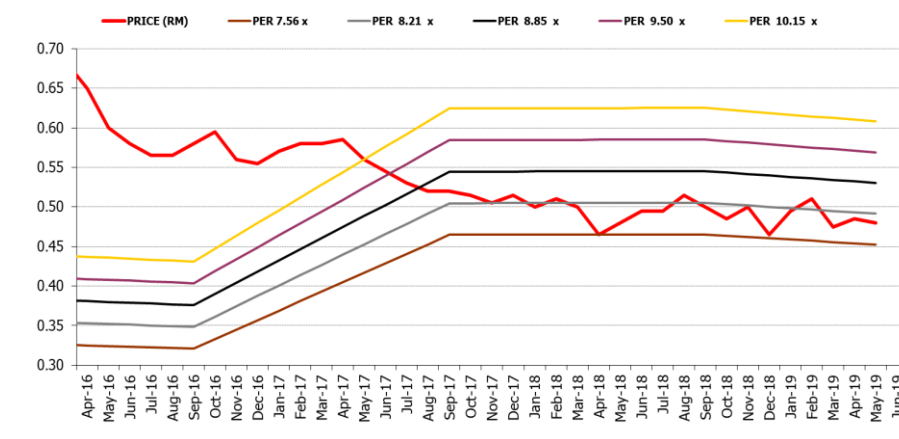
**4. Valuation and Recommendation**

- The stock’s average PE has compressed from historical PE band of 12.0x to currently 8.3x. With a lack of positive catalysts, we may not see expansion in PE valuations near term. Nevertheless, we believe downside may be limited as the share price has corrected 9.3% from the peak, trading on a price-to-book of 0.50x and a decent dividend yield of 3.7%. The Company has been consistently paying more than 30% of its earnings to shareholders for the past 3 years and thus far has accumulated 30m treasury shares as of 21 May 2019, representing 5.7% of the total outstanding shares.
- We have cut our TP from RM0.53 to RM0.47 and maintained our HOLD call. Our TP implies a FY19-20 PER target of 7.6x-8.0x which is derived by (i) pegging a 30% lower PER of 6x (vs 8x PER previously) to FY20 trading and services net profit, (ii) unchanged 80% discount to the updated RNAV of property segment and (iii) DCF valuation on investment properties over a WACC of 8.3%.

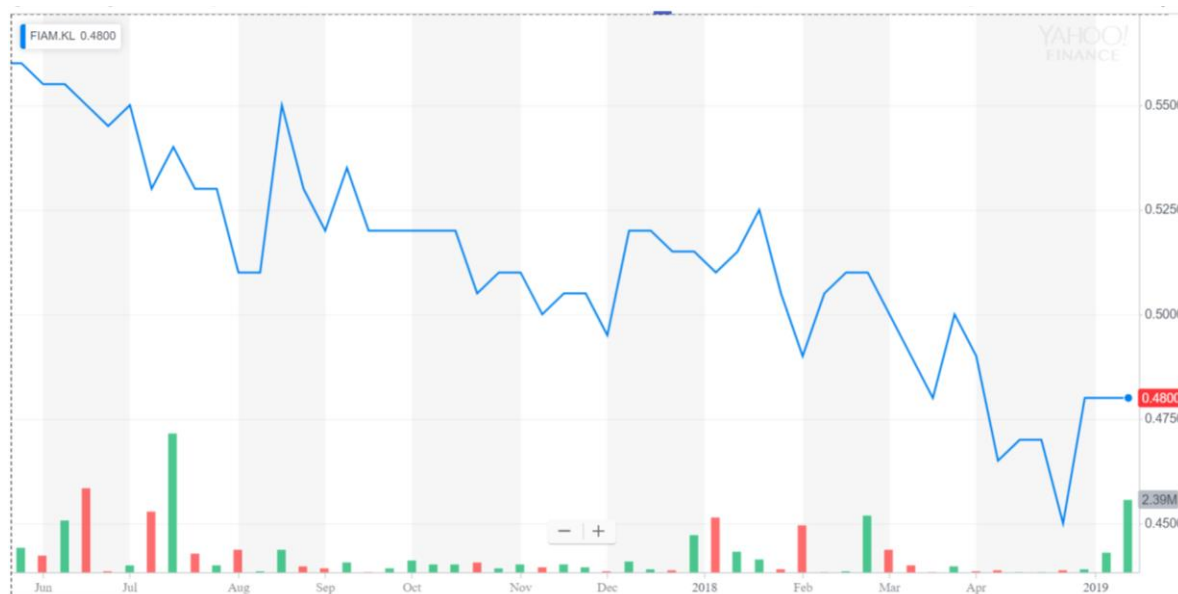
**Sum-of-Parts Valuation**

Segment	RNAV		Earnings	Discount	Implied P/E	Value
Property Investment	n.a.	2.7	2.6	n.a.	15	39.7
Property Development	406.0	5.6	5.5	80%	15	81.2
Trading & Services	n.a.	24.0	23.2	n.a.	6	130.2
Total SOP						251.1
Shares Outstanding (m shares)						530.0
SOP per share						0.47
Current Price						0.48
Upside						-1.1%
Dividend Yield (%)						3.7%
Total Return						2.7%

**The Company’s PER Band**



**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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