

30 August 2023

Industrials | Misc. Manufacturer

Chin Well (CWH MK)

Neutral (Maintained)

Soft End To The Year

Target Price (Return): MYR1.45 (1.4%)
Price (Market Cap): MYR1.43 (USD88.0m)
ESG score: 2.8 (out of 4)
Avg Daily Turnover (MYR/USD) 0.05m/0.01m

- **Stay NEUTRAL and MYR1.45 TP, 1% upside.** Chin Well's FY23 (Jun) results disappointed on weaker-than-expected topline and margin compression from the loss of economies of scale and higher input costs. We cut our forecasts accordingly to reflect the softer numbers and persistently weak demand outlook. That said, current at-mean valuation is fair considering its unexciting prospects, while its 5% yield – backed by a robust balance sheet (net cash of MYR133m or MYR0.46/share as of FY23) – provides a cushion against downside risks.
- **FY23 results were slightly below expectations.** CWH's net profit of MYR37.6m (-61.1% YoY) met only 90.8% and 91.1% of ours and consensus' estimates. The negative deviation is attributed to weaker-than-expected sales and EBITDA margin. Note that we stripped off the unrealised FX gain of MYR1.7m to arrive at the core profit. FY23 sales in Malaysia (-19.3%), Vietnam (-38.4%), Europe (-47.5%), and the US (-2.8%) all declined.
- **Results review.** YoY, CWH's FY23 revenue fell 30.6% to MYR456.5m, dragged down by fasteners (-29.9% YoY) and wire products (-32.7% YoY) segments. The weakness was attributed to softening of sales volumes and ASPs for its products, amid global macroeconomic headwinds. FY23 EBITDA margin contracted 7.7ppts to 12.9% on losses of economies of scale and higher input costs. QoQ, 4QFY23 revenue rose 6%, given the gradual sales recovery from European markets, as well as the uptick in seasonality. Correspondingly, core earnings rose to MYR3.1m (3QFY23: loss-making).
- **Outlook.** We learnt ASP for CWH's products remains soft following the weak market demand, while the reopening of China borders has intensified competition. The majority of its customers were pushing out orders due to ongoing inventory adjustments. Nonetheless, the company is focusing on upgrading and automating its inventory and warehousing systems to achieve cost efficiency gains and enhance productivity. This is to strategically position itself in anticipation of sales recovery in CY24 – driven by the depletion of customers' on-hand inventory and resumption of local construction projects. Essentially, management believes that the volume may have bottomed out, but the extent of recovery will largely depend on global demand amid the challenging outlook.
- **Forecasts and ratings.** We cut FY24-25F earnings by 9% and 2% – accounting for the prolonged demand weakness and loss of economies of scale. Our TP is maintained at MYR1.45 – based on an unchanged 8x P/E (in-line with its mean) – while we roll forward the valuation base year to CY24. Our TP includes a 4% ESG discount, as its 2.8 ESG score is below the country median. Key risks: Raw material price fluctuations, labour shortages, and FX rate volatilities.

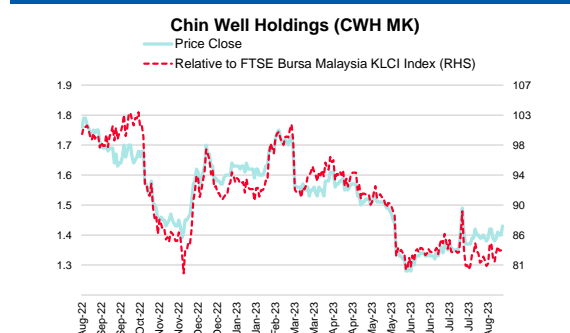
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.6)	4.4	6.7	(15.4)	(18.8)
Relative	(7.2)	4.8	3.9	(14.7)	(15.0)
52-wk Price low/high (MYR)				1.28 – 1.79	



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: GOOD

Chin Well has taken active steps to manage its environmental risks. It has established policies and procedures to manage disposal of scheduled waste in a responsible manner.

S: GOOD

Chin Well ensures a high level of safety and health is maintained, and policies and procedures are put in place in line with labour practice guidelines. It has a good mixture of races among its local employees, and ensures all employees, regardless of race, are treated equally.

G: MODERATE

Chin Well has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Directors are skilled and from diverse backgrounds. Women are also represented, at more than 30% of the board. However, we note the recent material litigation case which concluded with a settlement that was approved by shareholders in Jan 2022.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	658	456	534	548	560
Recurring net profit (MYRm)	97	38	49	59	63
Recurring net profit growth (%)	290.1	(60.6)	28.7	20.7	6.4
Recurring P/E (x)	4.26	10.76	8.36	6.92	6.51
P/B (x)	0.6	0.6	0.6	0.5	0.5
P/CF (x)	2.19	3.09	na	6.33	5.92
Dividend Yield (%)	9.4	3.9	4.8	5.8	6.1
EV/EBITDA (x)	2.40	4.75	5.07	3.89	3.40
Return on average equity (%)	15.4	5.9	7.1	8.1	8.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.34	0.13	0.17	0.21	0.22
Industrials	DPS	0.13	0.06	0.07	0.08	0.09
Chin Well	BVPS	2.32	2.38	2.48	2.60	2.73
CWH MK / 5,007	Return on average equity (%)	15.4	5.9	7.1	8.1	8.2
Neutral						
Valuation basis	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
8x P/E on FY24F EPS	Recurring P/E (x)	4.26	10.76	8.36	6.92	6.51
	P/B (x)	0.6	0.6	0.6	0.5	0.5
	FCF Yield (%)	44.5	30.7	(21.3)	12.1	12.0
	Dividend Yield (%)	9.4	3.9	4.8	5.8	6.1
Key drivers	EV/EBITDA (x)	2.40	4.75	5.07	3.89	3.40
i. Beneficiary of anti-dumping duties; and	EV/EBIT (x)	2.67	6.16	6.21	4.64	4.08
ii. Positive trend of high-margin DIY segment to enhance bottom line.						
Key risks	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
i. Labour shortage; and	Total turnover	658	456	534	548	560
ii. Fluctuation of raw material prices.	Gross profit	240	70	86	93	99
	EBITDA	135	59	75	91	96
	Depreciation and amortisation	(13)	(13)	(14)	(15)	(16)
	Operating profit	121	45	62	76	80
	Net interest	1	5	3	2	3
	Pre-tax profit	121	52	65	78	83
	Taxation	(25)	(13)	(16)	(19)	(21)
	Reported net profit	96	39	49	59	63
	Recurring net profit	97	38	49	59	63
Company Profile	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Chin Well is one of the world's largest suppliers of carbon steel fasteners. It has production facilities in Malaysia and Vietnam that manufactures a wide range of fasteners used in power and land infrastructure sectors.	Change in working capital	(9)	99	(132)	(7)	(6)
	Cash flow from operations	188	133	(72)	65	69
	Capex	(5)	(7)	(15)	(15)	(20)
	Cash flow from investing activities	23	(56)	(15)	(15)	(20)
	Dividends paid	(21)	(37)	(20)	(24)	(25)
	Cash flow from financing activities	(74)	(69)	(10)	(14)	(12)
	Cash at beginning of period	86	127	138	41	77
	Net change in cash	137	7	(98)	36	37
	Ending balance cash	223	135	41	77	114
Shareholders (%)	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Benua Handal Sdn Bhd	Total cash and equivalents	127	138	41	77	114
Samarang Asset Management SA	Tangible fixed assets	209	205	206	206	210
Andbanc Investments SIF/Luxembourg	Total assets	797	761	760	804	852
	Short-term debt	38	5	8	12	17
	Total long-term debt	0	0	3	7	12
	Total liabilities	130	79	48	57	67
	Total equity	667	682	712	747	785
	Total liabilities & equity	797	761	760	804	852
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	33.8	(30.6)	17.1	2.6	2.1
	Recurrent EPS growth (%)	294.6	(60.4)	28.7	20.7	6.4
	Gross margin (%)	36.4	15.4	16.1	17.0	17.6
	Operating EBITDA margin (%)	20.5	12.9	14.1	16.6	17.1
	Net profit margin (%)	14.6	8.6	9.2	10.8	11.2
	Dividend payout ratio (%)	40.0	40.0	40.0	40.0	40.0
	Capex/sales (%)	0.8	1.5	2.8	2.7	3.6
	Interest cover (x)	139	102	355	240	159

Source: Company data, RHB

Results at a Glance

Figure 1: Earnings review

FYE Jun (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	196.9	90.2	95.6	6.0	(51.4)	657.8	456.5	(30.6)	Lower sales due to global demand slowdown.
Gross Profit	46.5	8.5	5.1	(39.9)	(89.0)	155.3	70.3	(54.7)	
<i>GP margin (%)</i>	23.6	9.5	5.4			23.6	15.4		
Adjusted EBITDA	38.9	2.0	4.0	98.4	(89.6)	135.5	58.7	(56.7)	Margin fell due to loss of economies of scale and higher input costs.
<i>Adjusted EBITDA margin (%)</i>	19.7	2.2	4.2			20.6	12.9		
Depreciation	(3.3)	(3.3)	(3.7)	12.8	10.9	(13.4)	(13.4)	0.1	
Adjusted EBIT	35.5	(1.2)	0.3	N.m.	(99.1)	122.1	45.2	(62.9)	
<i>EBIT margin (%)</i>	18.0	(1.4)	0.3			18.6	9.9		
Interest Income	0.5	1.4	4.0	184.2	730.8	1.7	5.7	226.6	
Interest Expense	(0.2)	(0.1)	(0.1)	70.4	(59.8)	(0.9)	(0.4)	(49.1)	FX gain/loss and gain/loss on disposal.
El/Others	(0.7)	0.1	2.0	3,894.0	(393.7)	(0.7)	1.8	(358.1)	
Reported PBT	35.1	0.2	6.2	3,942.2	(82.3)	122.2	52.3	(57.2)	
Tax	(7.5)	(0.2)	(1.2)	515.1	(84.3)	(26.2)	(12.9)	(50.9)	
<i>Effective tax rate (%)</i>	21.4	124.7	19.0			21.5	24.7		
Minority Interest	0.0	0.0	0.0	72.2	(0.0)	0.0	0.1	125.0	
Net Profit	27.6	(0.0)	5.1	N.m.	(81.6)	96.0	39.5	(58.9)	Below expectation.
Core Profit	28.3	(0.1)	3.1	N.m.	(89.1)	96.7	37.6	(61.1)	
<i>Core net margin (%)</i>	14.4	(0.1)	3.2			14.7	8.2		

Source: Company, RHB

Recommendation Chart

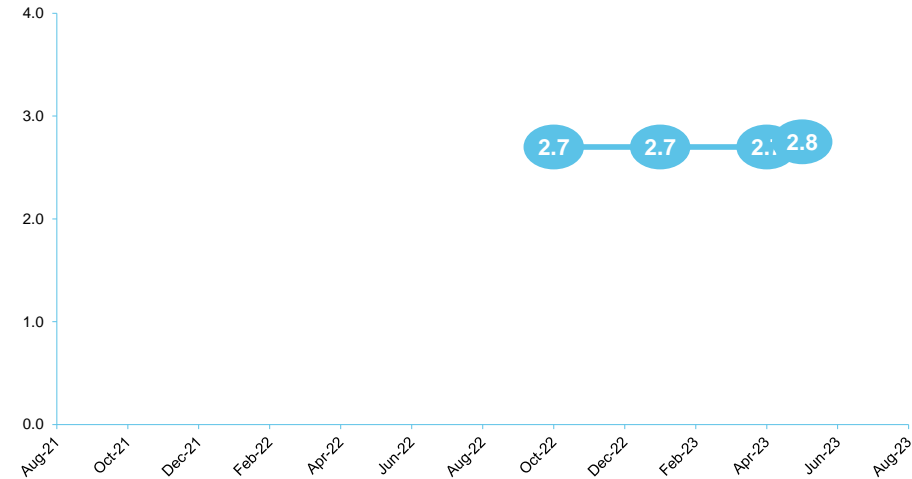


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-20	Neutral	1.45	1.42
2023-05-29	Neutral	1.45	1.34
2023-03-01	Neutral	1.56	1.56
2022-11-30	Neutral	1.56	1.47
2022-10-11	Neutral	1.47	1.66
2018-10-11	Not Rated	2.50	1.75

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
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