

20 November 2023

Industrials | Misc. Manufacturer

## Chin Well (CWH MK)

**Sell** (from Neutral)

### Longer Road For Recovery; D/G To SELL

Target Price (Return): MYR1.10 (-20.9%)  
Price (Market Cap): MYR1.39 (USD85.1m)  
ESG score: 2.7 (out of 4)  
Avg Daily Turnover (MYR/USD) 0.03m/0.01m

• **Downgrade to SELL from Neutral, new MYR1.10 TP from MYR1.45, 21% downside.** We are pre-emptively cutting our forecast ahead of the results release on 29 November, as we turn more cautious on Chin Well's near-term outlook due to the prolonged weak market environment and intensified competition following China's economic reopening. Given the prevailing soft sentiment, we foresee sluggish sales recovery and believe the current valuation (+2SD) has yet to fully reflect the weaknesses and challenges.

• **FY23 earnings recap.** CWH's FY23 revenue and net profit fell 30.6% and 61.1%, because of 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. Geographically, FY23 sales in Malaysia (-19.3%), Vietnam (-38.4%), Europe (-47.5%), and the US (-2.8%) all declined.

• **Challenging outlook.** Given the ongoing geopolitical conflicts and a subdued global economic sentiment, we foresee CWH's product ASP continue to remain low due to soft demand. The majority of its customers are delaying orders amidst ongoing inventory adjustments caused by the soft economic situation. Consequently, the production unit's capacity utilisation rate remains below 30%. The intensifying competition following China's economic reopening and a higher operating cost environment could further compress its margins.

• **To stay competitive,** CWH is focusing on upgrading and automating its inventory and warehousing systems. This should result in cost efficiencies and higher productivity, potentially contributing to margin improvement over the longer term. This is also to strategically position itself in anticipation of gradual sales recovery in CY24 – driven by the depletion of customers' on-hand inventory and resumption of local construction projects. Although management believes sales volume may have bottomed out, the extent and speed of recovery remain uncertain.

• **Forecast and ratings.** We cut FY24-26F earnings by 28.8%, 17.4% and 1.4% – accounting for the prolonged demand weakness and loss of economies of scale. Correspondingly, our TP is lowered to MYR1.10 – based on an unchanged 8x CY24F P/E (in-line with its mean). Our TP includes a higher 6% ESG discount, based on the revised ESG score of 2.7 (from 2.8 previously) due to another year of not disclosing scope 1, 2, and 3 emissions in FY23. Current +2SD above mean valuation is lofty – especially in view of its persistently weak earnings and uncertain demand outlook that poses the risk of sales recovery expectations not materialising.

• **Key upside risks** include higher-than-expected sales volumes, better-than-expected margins, and reduced competition intensity.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	658	456	471	519	583
Recurring net profit (MYRm)	97	38	35	49	62
Recurring net profit growth (%)	290.6	(60.6)	(8.4)	40.1	27.0
Recurring P/E (x)	4.13	10.46	11.41	8.15	6.41
P/B (x)	0.6	0.6	0.6	0.5	0.5
P/CF (x)	3.44	3.00	10.16	12.88	10.75
Dividend Yield (%)	9.6	4.0	3.5	4.9	6.2
EV/EBITDA (x)	2.31	4.69	4.77	3.50	2.82
Return on average equity (%)	15.4	5.9	5.1	6.8	8.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

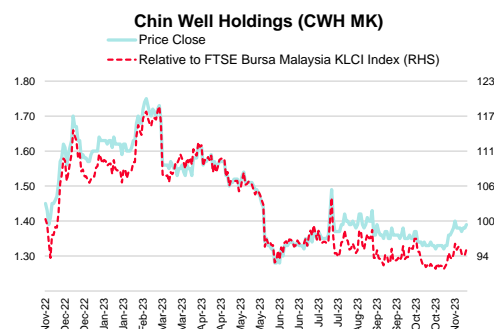
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.1)	4.5	(2.1)	(8.0)	(2.8)
Relative	(10.8)	3.4	(3.0)	(10.6)	(3.6)
52-wk Price low/high (MYR)				1.28 – 1.75	



Source: Bloomberg

#### Overall ESG Score: 2.7 (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 the 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 that concluded with a settlement that was approved by shareholders in Jan 2022.

This report can be viewed on  
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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Malaysia	Recurring EPS	0.34	0.13	0.12	0.17	0.22
Industrials	DPS	0.13	0.06	0.05	0.07	0.09
<b>Chin Well</b>	BVPS	2.32	2.38	2.45	2.55	2.68
CWH MK / 5,007	Return on average equity (%)	15.4	5.9	5.1	6.8	8.3
Sell						
	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	4.13	10.46	11.41	8.15	6.41
8x P/E on CY24F EPS	P/B (x)	0.6	0.6	0.6	0.5	0.5
	FCF Yield (%)	27.9	31.6	6.1	4.0	4.3
<b>Key drivers</b>	Dividend Yield (%)	9.6	4.0	3.5	4.9	6.2
i. Beneficiary of anti-dumping duties; and	EV/EBITDA (x)	2.31	4.69	4.77	3.50	2.82
ii. Positive trend of high-margin DIY segment to enhance bottomline.	EV/EBIT (x)	2.57	6.08	6.38	4.38	3.40
	<b>Income statement (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
<b>Key risks</b>	Total turnover	658	456	471	519	583
i. Higher-than-expected sales volumes; and	Gross profit	240	70	71	84	101
ii. Better-than-expected margins.	EBITDA	135	59	55	74	92
	Depreciation and amortisation	(13)	(13)	(14)	(15)	(16)
<b>Company Profile</b>	Operating profit	121	45	41	59	76
Chin Well is one of the world's largest suppliers of carbon steel fasteners. It has production facilities in Malaysia and Vietnam that manufacture a wide range of fasteners used in power and land infrastructure sectors.	Net interest	1	5	5	6	6
	Pre-tax profit	121	52	46	65	82
	Taxation	(25)	(13)	(11)	(16)	(20)
	Reported net profit	96	39	35	49	62
	Recurring net profit	97	38	35	49	62
<b>Shareholders (%)</b>	<b>Cash flow (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Benua Handal Sdn Bhd 57.1	Change in working capital	(9)	99	(4)	(27)	(35)
Samarang Asset Management SA 10.0	Cash flow from operations	116	133	39	31	37
Andbanc Investments SIF/Luxembourg 9.9	Capex	(5)	(7)	(15)	(15)	(20)
	Cash flow from investing activities	(1)	(95)	(15)	(15)	(20)
	Dividends paid	(21)	(37)	(14)	(20)	(25)
	Cash flow from financing activities	(73)	(69)	(3)	(6)	(9)
	Cash at beginning of period	86	127	130	152	162
	Net change in cash	42	(31)	22	10	8
	Ending balance cash	127	96	152	162	170
	<b>Balance sheet (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Total cash and equivalents	127	130	152	162	170
	Tangible fixed assets	209	205	206	206	210
	Total assets	797	761	779	822	876
	Short-term debt	38	5	8	12	17
	Total long-term debt	0	0	3	7	12
	Total liabilities	130	79	76	89	107
	Total equity	667	682	703	732	770
	Total liabilities & equity	797	761	779	822	876
	<b>Key metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Revenue growth (%)	33.8	(30.6)	3.2	10.3	12.2
	Recurrent EPS growth (%)	295.1	(60.5)	(8.4)	40.1	27.0
	Gross margin (%)	36.4	15.4	15.1	16.2	17.3
	Operating EBITDA margin (%)	20.5	12.9	11.6	14.2	15.8
	Net profit margin (%)	14.6	8.6	7.4	9.4	10.7
	Dividend payout ratio (%)	40.0	40.0	40.0	40.0	40.0
	Capex/sales (%)	0.8	1.5	3.2	2.9	3.4
	Interest cover (x)	139	102	235	185	151

Source: Company data, RHB

Emissions And ESG

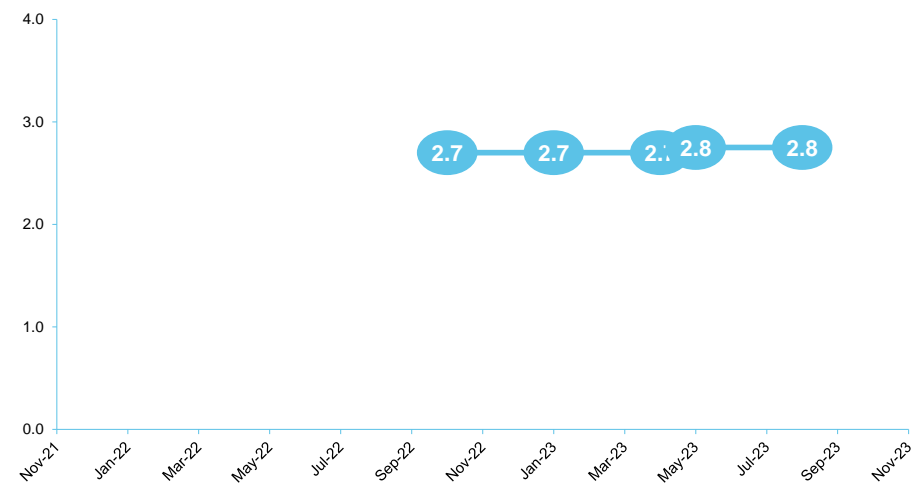
Trend analysis	Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Not available	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- The group has taken its initial sustainability step, engaging consultants to assess the operational emissions of the production plant as a baseline for future improvements, with the assessment expected to be completed in the next financial year.
- It is actively reducing energy consumption through various measures, including solar power adoption.
- It made efforts to manage water usage efficiently, especially in plating processes, with the focus on monitoring and reducing wastage.

ESG Rating History



Source: RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-30	Neutral	1.45	1.36
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

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<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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