

Nam Lee Pressed Metal Industries

Stable yield play



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SINGAPORE | INDUSTRIALS | 9M17 RESULTS

- 9M17 revenue met 71.3% of our full year forecast
- 9M17 PATMI met 80.6% of our full year forecast
- Revised our FY17e and FY18e revenue and cost assumptions
- Maintain Buy; lower target price of \$0.51 (previously \$0.52)

Results at a glance

(SGD mn)	9M17	9M16	YoY	Comments
Revenue	95.2	97.6	-2.5%	Lower revenue from the aluminium segment in 2Q17
Gross profit	19.4	22.0	-11.4%	Lower gross margin of 20.4% from 22.5% due to change in product mix with lower margin
PBT	11.0	10.6	3.5%	Higher PBT margin of 11.5% from 10.9%
PATMI	8.14	7.96	2.2%	Higher net margin of 8.5% from 8.2%

Source: Company, PSR

The positives

- YoY higher PBT and PBT margins are a reflection of cost controls in the underlying business.** Gross profit does not accurately reflect net raw material costs, as commodity swaps are used to hedge the cost of raw material. The underlying business is viewed at the PBT line, as that is after the effect of the commodity swap. Despite the lower revenue, PBT is higher mainly from the effect of foreign exchange gains and net gain in derivative.
- 9M17 PATMI is ahead of our full year forecast.** Consequently, we revise our FY17e and FY18e revenue and cost assumptions. Our FY17e/FY18e revenue is now -5.4%/-5.5% from previous, and PATMI is now +6.4%/-8.3% from previous.
- Clean balance sheet with cash hoard.** Net cash (cash less total borrowings) of \$42.5 million represents 48% of market capitalisation. We continue using the current-asset value (current assets less total liabilities) of 37.0 cents/share to demonstrate the limited downside risk.

The negatives

- YoY lower revenue from lower demand for aluminium building products.** This is due to the slowdown in the local property market.

Outlook

The outlook is stable. Mature business and we expect to meet our full year forecast. We view Nam Lee as a yield-play. With the ample cash on the balance sheet, we believe in Nam Lee's ability to maintain FY16's dividend of 2.0 cents in FY17. Positive surprise will be from higher than expected dividends being proposed.

Maintain Buy; lower target price of \$0.51 (previously \$0.52)

Our target price represents an implied 11.5x FY17e forward P/E multiple, compared to the Straits Times Index twelve-month forward P/E multiple of 14.8x. The last close price of \$0.365 offers an attractive estimated dividend yield of 5.5%, which does not take into consideration the cash hoard that continues to be retained on the balance sheet.

15 August 2017

Buy (Maintain)

LAST CLOSE PRICE	SGD 0.365
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.510
TOTAL RETURN	45.2%

COMPANY DATA

BLOOMBERG CODE:	NLPM SP
O/S SHARES (MN):	241
MARKET CAP (USD mn / SGD mn):	65 / 88
52 - WK HI/LO (SGD):	0.42 / 0.33
3M Average Daily T/O (mn):	0.04

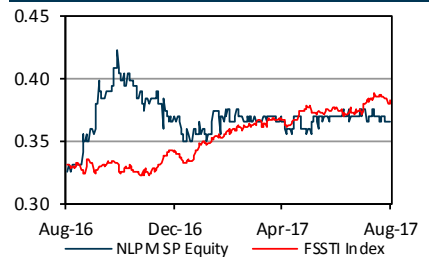
MAJOR SHAREHOLDERS (%)

NAM LEE HOLDINGS PTE LTD	58.4%
KIN SEN YONG	0.5%
HO TONG KHOO	0.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.7)	14	15.1
STIRETURN	2.8	15	18.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	164	129	126	130
Gross profit (SGD mn)	37.3	28.0	26.6	29.4
PATMI (SGD mn)	12.9	9.1	10.8	10.3
EPS (cents)	5.36	3.79	4.46	4.26
P/E (x)	5.4	10.9	8.2	8.6
BVPS (cents)	514	53.2	56.0	58.2
P/B (x)	0.6	0.8	0.7	0.6
DPS (cents)	2.5	2.0	2.0	2.0
Div. Yield (%)	8.6	4.9	5.5	5.5

Source: Company Data, PSR est.

VALUATION METHOD

DCF (Cost of Equity: 7.8%; Terminal g: 15%)

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Financials

Income Statement

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	141.5	164.0	129.4	126.4	130.4
Cost of sales	(118.8)	(126.8)	(101.4)	(99.7)	(100.9)
Gross profit	22.6	37.3	28.0	26.6	29.4
SG&A	(13.4)	(16.4)	(12.8)	(12.9)	(14.4)
Other operating costs	(2.3)	(5.2)	(2.3)	(1.7)	(1.7)
EBIT	7.0	15.6	12.9	12.0	13.4
Net Finance (Expense)/Inc	0.3	0.2	0.2	0.4	0.3
Other income	1.3	0.2	0.4	2.1	0.7
Profit Before Tax	8.5	16.0	13.5	14.5	14.4
Taxation	(1.4)	(3.1)	(4.2)	(3.9)	(4.2)
Profit After Tax	7.2	12.9	9.3	10.6	10.2
- Non-controlling interest	0.10	(0.07)	0.21	(0.15)	(0.10)
PATMI	7.0	12.9	9.1	10.8	10.3

Per share data (cents)

Y/E Sep	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	2.92	5.36	3.79	4.46	4.26
DPS, ordinary	1.0	1.0	1.0	1.0	1.0
DPS, special	0.5	1.5	1.0	1.0	1.0
BVPS	49.6	51.4	53.2	56.0	58.2

Cash Flow

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	8.5	16.0	13.5	14.5	14.4
Adjustments	3.0	2.9	2.3	4.9	5.9
WC changes	13.9	(5.5)	10.3	5.3	(1.4)
Cash generated from ops	25.4	13.4	26.1	24.6	19.0
Others	(1.1)	(1.6)	(3.7)	(3.6)	(4.1)
Cashflow from ops	24.3	11.7	22.4	21.0	14.9
CFI					
CAPEX, net	(9.0)	(10.4)	(6.8)	(17.0)	(6.5)
Others	0.8	0.2	0.2	0.2	0.2
Cashflow from investments	(8.2)	(10.2)	(6.6)	(16.8)	(6.3)
CFF					
Share issuance, net	-	-	0.01	-	-
Loans, net of repayments	(0.6)	3.9	(1.6)	(1.3)	(1.1)
Dividends	(3.6)	(3.6)	(6.0)	(4.8)	(4.8)
Others	-	-	-	-	-
Cashflow from financing	(4.2)	0.2	(7.6)	(6.1)	(5.9)
Net change in cash	12.0	1.8	8.2	(2.0)	2.7
Effects of exchange rate	0.24	1.10	(0.61)	-	-
Ending cash	35.5	38.4	46.0	44.0	46.7

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	29.4	33.4	36.7	48.4	48.6
Investments	6.1	6.2	6.1	6.1	6.1
Others	0.2	0.0	0.1	0.1	0.1
Total non-current assets	35.7	39.6	42.9	54.6	54.8
Inventories	32.5	40.4	31.2	26.5	27.4
Accounts Receivables	33.2	39.4	29.9	25.3	26.1
Cash	35.5	38.4	46.0	44.0	46.7
Others	2.7	3.2	3.9	2.7	2.8
Total current assets	104	121	111	99	103
Total Assets	140	161	154	153	158
LIABILITIES					
Short term loans	0.4	1.5	1.3	1.1	1.0
Accounts Payables	5.9	11.5	7.6	6.3	6.5
Others	10.9	18.7	11.2	7.2	7.4
Total current liabilities	17.3	31.7	20.1	14.6	14.9
Long term loans	0.4	3.9	2.5	1.4	0.4
Others	1.3	0.7	2.0	2.0	2.0
Total non-current liabilities	1.7	4.6	4.5	3.4	2.4
Total Liabilities	19.0	36.3	24.6	18.0	17.3
EQUITY					
Non-controlling interests	0.8	0.9	1.0	0.9	0.8
Shareholder Equity	120	124	128	134	140

Valuation Ratios

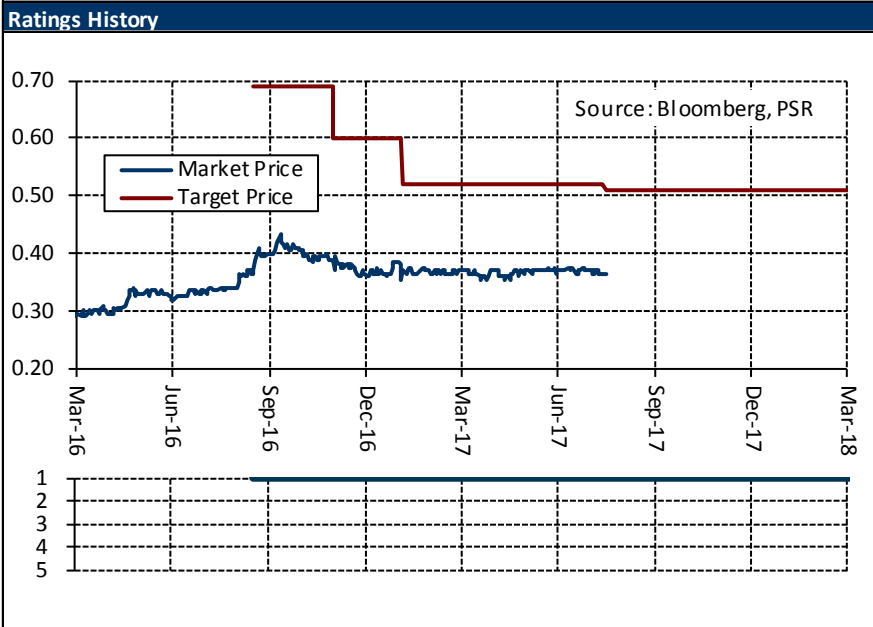
Y/E Sep	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	9.43	5.43	10.88	8.18	8.56
P/B (x)	0.56	0.57	0.77	0.65	0.63
Dividend yield (%)	5.4	8.6	4.9	5.5	5.5

Growth & Margins

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	-17.2%	16.0%	-21.1%	-2.3%	3.2%
Gross profit	-12.4%	64.7%	-25.0%	-4.8%	10.6%
EBIT	-21.6%	123%	-17.5%	-7.1%	12.1%
PATMI	-20.8%	83.6%	-29.4%	17.9%	-4.5%
Margins					
Gross profit margin	16.0%	22.7%	21.6%	21.1%	22.6%
EBIT margin	5.0%	9.5%	10.0%	9.5%	10.3%
NPAT margin	5.1%	7.8%	7.2%	8.4%	7.8%
PATMI margin	5.0%	7.9%	7.1%	8.5%	7.9%

Key Ratios

	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROE	6.0%	10.6%	7.2%	8.2%	7.5%
ROA	5.0%	8.6%	5.8%	7.0%	6.6%
Dividend payout, total	51.3%	46.6%	52.8%	44.8%	46.9%
Net Debt or (Net Cash)	(34.7)	(33.0)	(42.2)	(41.5)	(45.3)
Net Gearing					



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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