

Nam Lee Pressed Metal Industries

Strong start to the year, deep-value yield-play



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SINGAPORE | INDUSTRIALS | 1Q18 RESULTS

- 1Q18 revenue and PATMI both met 33% of our full year estimate
- Strong start driven by aluminium industrial product
- Keeping our full year estimate intact, due to historically volatile quarters
- Maintain Buy; unchanged target price of \$0.56

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Revenue	50.5	39.5	27.8%	Increase in aluminium segment
Gross profit	8.1	5.9	38.3%	Higher gross margin of 16.1% from 14.9% due to higher margin aluminium segment
PBT	5.3	3.9	34.9%	In line with above
PATMI	4.0	3.2	26.3%	Higher tax rate of 24% in 1Q18, compared to 18% in 1Q17

Source: Company, PSR

The Positives

- Higher revenue driven by aluminium segment.** We believe this is attributable to the Group's industrial product of aluminium frames for container refrigeration units. We had highlighted in our [previous report](#) (29 November 2017) that the demand outlook for the industrial product has improved.
- Clean balance sheet with cash hoard.** Net cash (cash less total borrowings) of \$29.0mn represents 31% of market capitalisation. We continue using the current-asset value (current assets less total liabilities) of 38.9 cents/share to demonstrate the limited downside risk.

The Negatives

- QoQ higher trade receivables, contributed to lower cash on balance sheet.** Trade receivables increased QoQ by \$18.0mn to \$55.7mn. This was the largest working capital contributing factor to the \$11.8mn QoQ lower cash balance of \$31.8mn. However, the increase in trade receivables was due to higher sales during the quarter.

Outlook

The outlook is stable to positive. The tone of the management commentary is noticeably upbeat compared to a year ago. Management expects the recovery in the US economy to bring positive impact on the aluminium industrial product business. This refers to the aluminium frames for container refrigeration units. We had highlighted this at the end of FY17, and the 1Q18 results have reflected the positive demand.

However, weakness in the building products segment is expected to persist.

Maintain Buy; unchanged target price of \$0.56

Our target price represents an implied 11.1 times FY18e forward P/E multiple and 0.96 times FY18e forward P/B multiple. We currently forecast 2.5 cents dividends for FY18e (higher than FY17 2.0 cents) and maintain our view of Nam Lee as a yield-play. We like the stock for its positive business outlook, strong balance sheet and high-yield of 6.6% (based on 2.5 cents dividend over the last close price of \$0.38).

12 February 2018

Buy (Maintain)

LAST CLOSE PRICE	SGD 0.380
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.560
TOTAL RETURN	53.9%

COMPANY DATA

BLOOMBERG CODE:	NLPM SP
O/S SHARES (MN):	243
MARKET CAP (USD mn / SGD mn):	69 / 92
52 - WK HI/LO (SGD):	0.4 / 0.34
3M Average Daily T/O (mn):	0.4

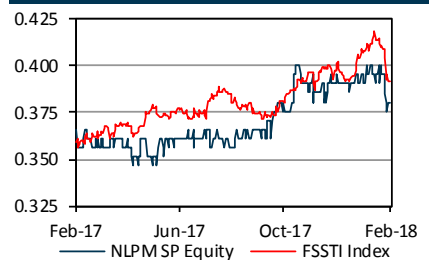
MAJOR SHAREHOLDERS (%)

KIN SEN YONG	19.9%
POON MIEWYONG	19.5%
KOON CHIN YONG	19.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(14)	11	7.9
STIRETURN	(4.0)	(10)	13.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	129	142	154	159
Gross profit (SGD mn)	28.0	27.8	31.4	31.5
PATMI (SGD mn)	9.1	10.2	12.2	11.8
EPS (cents)	3.79	4.24	5.05	4.89
P/E (x)	10.9	9.3	7.5	7.8
BVPS (cents)	53.2	55.0	58.4	60.7
P/B (x)	0.8	0.7	0.7	0.6
DPS (cents)	2.0	2.0	2.5	2.5
Div. Yield (%)	4.9	5.1	6.6	6.6

Source: Company Data, PSR est.

VALUATION METHOD

DCF (Cost of Equity: 9.4%; Terminal g: 15%)

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Financials

Income Statement

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	164.0	129.4	141.9	154.4	159.0
Cost of sales	(126.8)	(101.4)	(114.1)	(122.9)	(127.5)
Gross profit	37.3	28.0	27.8	31.4	31.5
SG&A	(16.4)	(12.8)	(12.7)	(14.3)	(14.5)
Other operating costs	(5.2)	(2.3)	(5.5)	(3.7)	(5.0)
EBIT	15.6	12.9	9.6	13.4	12.0
Net Finance (Expense)/Inc	0.2	0.2	0.4	0.4	0.4
Other income	0.2	0.4	2.5	0.8	1.8
Profit Before Tax	16.0	13.5	12.5	14.6	14.2
Taxation	(3.1)	(4.2)	(2.4)	(2.4)	(2.4)
Profit After Tax	12.9	9.3	10.1	12.1	11.7
- Non-controlling interest	(0.07)	0.21	(0.12)	(0.10)	(0.10)
PATMI	12.9	9.1	10.2	12.2	11.8

Per share data (cents)

Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	5.36	3.79	4.24	5.05	4.89
DPS, ordinary	1.0	1.0	1.0	1.0	1.0
DPS, special	1.5	1.0	1.0	1.5	1.5
BVPS	51.4	53.2	55.0	58.4	60.7

Cash Flow

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	16.0	13.5	12.5	14.6	14.2
Adjustments	2.9	2.3	7.1	3.9	3.9
WC changes	(5.5)	10.3	(9.3)	(4.2)	(2.0)
Cash generated from ops	13.4	26.1	10.3	14.2	16.1
Others	(1.6)	(3.7)	(2.9)	(2.3)	(2.2)
Cashflow from ops	11.7	22.4	7.4	12.0	13.9
CFI					
CAPEX, net	(10.4)	(6.8)	(3.9)	(8.0)	(6.5)
Others	0.2	0.2	0.2	0.2	0.2
Cashflow from investments	(10.2)	(6.6)	(3.8)	(7.8)	(6.3)
CFF					
Share issuance, net	-	0.0	0.19	-	-
Loans, net of repayments	3.9	(1.6)	(1.4)	(1.2)	(1.2)
Dividends	(3.6)	(6.0)	(4.8)	(4.8)	(6.1)
Others	-	-	-	-	-
Cashflow from financing	0.2	(7.6)	(6.0)	(6.0)	(7.3)
Net change in cash	1.8	8.2	(2.4)	(1.9)	0.3
Effects of exchange rate	1.10	(0.61)	(0.04)	-	-
Ending cash	38.4	46.0	43.6	41.7	42.0

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	33.4	36.7	36.5	40.3	42.5
Others	6.2	6.2	6.8	6.8	6.8
Total non-current assets	39.6	42.9	43.4	47.2	49.3
Inventories	40.4	31.2	33.2	36.7	37.5
Accounts Receivables	39.4	29.9	37.7	38.3	40.9
Cash	38.4	46.0	43.6	41.7	42.0
Others	3.2	3.9	4.6	4.8	5.0
Total current assets	121	111	119	122	125
Total Assets	161	154	162	169	175
LIABILITIES					
Short term loans	1.5	1.3	1.2	1.2	0.4
Accounts Payables	11.5	7.6	7.3	8.5	8.5
Others	18.7	11.2	16.8	15.8	17.4
Total current liabilities	31.7	20.1	25.3	25.5	26.2
Long term loans	3.9	2.5	1.7	0.4	0.0
Others	0.7	2.0	1.5	1.5	1.5
Total non-current liabilities	4.6	4.5	3.2	1.9	1.5
Total Liabilities	36.3	24.6	28.4	27.5	27.7
EQUITY					
Non-controlling interests	0.9	1.0	0.9	0.8	0.7
Shareholder Equity	124	128	133	140	146

Valuation Ratios

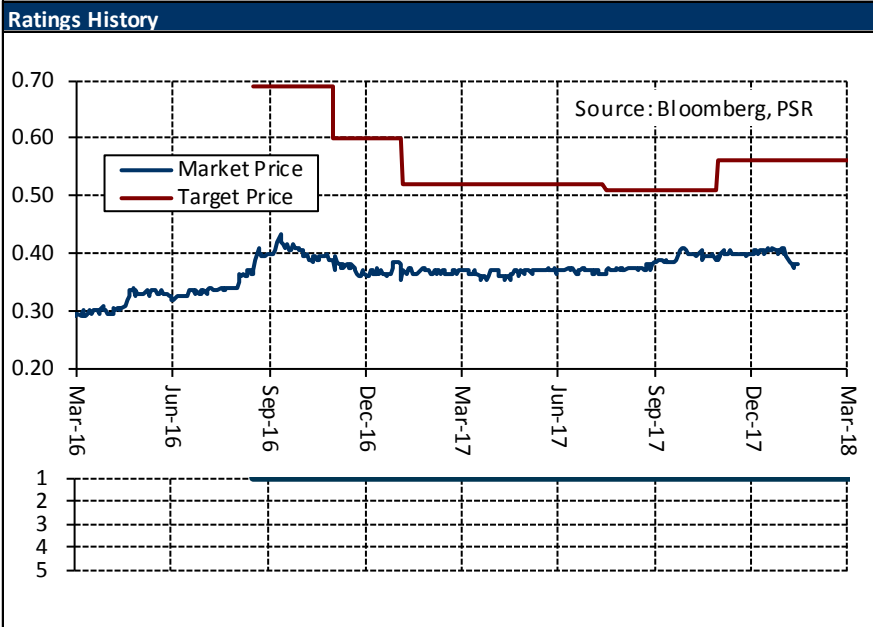
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	5.43	10.88	9.25	7.53	7.77
P/B (x)	0.57	0.77	0.71	0.65	0.63
Dividend yield (%)	8.6	4.9	5.1	6.6	6.6

Growth & Margins

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	16.0%	-21.1%	9.7%	8.8%	3.0%
Gross profit	64.7%	-25.0%	-0.6%	13.1%	0.2%
EBIT	123%	-17.5%	-25.7%	40.3%	-10.6%
PATMI	83.6%	-29.4%	12.1%	19.3%	-3.0%
Margins					
Gross profit margin	22.7%	21.6%	19.6%	20.4%	19.8%
EBIT margin	9.5%	10.0%	6.7%	8.7%	7.6%
NPAT margin	7.8%	7.2%	7.1%	7.8%	7.4%
PATMI margin	7.9%	7.1%	7.2%	7.9%	7.4%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
ROE	10.6%	7.2%	7.8%	8.9%	8.3%
ROA	8.6%	5.8%	6.5%	7.4%	6.9%
Dividend payout, total	46.6%	52.8%	47.2%	49.6%	51.1%
Net Debt or (Net Cash)	(33.0)	(42.2)	(40.8)	(40.1)	(41.6)
Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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