

Nam Lee Pressed Metal Industries

Strong revenue growth eroded by margin compression



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SINGAPORE | INDUSTRIALS | 1H18 RESULTS

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- 1H18 revenue and PATMI met 56% and 46% respectively, of our full year estimate
- Aluminium industrial product continues to drive revenue, but PATMI eroded by foreign exchange, derivatives and higher tax rate
- Maintain Buy; unchanged target price of \$0.56

Results at a glance

| (SGD mn) | 1H18 | 1H17 | YoY | Comments |
|----------------|-------------|-------------|--------------|---|
| Revenue | 85.8 | 67.2 | 27.6% | Higher revenue from the aluminium segment |
| Gross profit | 15.5 | 12.7 | 22.0% | Stable gross margin of 18.1% from 18.9% |
| PBT | 7.4 | 7.1 | 4.9% | Lower margin of 8.6% compared to 10.5% a year ago |
| PATMI | 5.5 | 5.4 | 2.2% | Higher effective tax rate of 25.2% for 1H18 compared to 23.7% for 1H17 |

Source: Company, PSR

The Positives

+ **YoY revenue growth momentum continues into 2Q18, resulting in strong revenue growth for 1H18.** Revenue growth in 1Q18 and 2Q18 were 27.8% YoY and 27.4% YoY respectively. We believe this is attributable to the Group's industrial product of aluminium frames for container refrigeration units. This was guided in previous results commentaries by management.

+ **Clean balance sheet with cash hoard.** Net cash (cash less total borrowings) of \$41.1mn represents 46% of market capitalisation. We continue using the current-asset value (current assets less total liabilities) of 37.7 cents/share to demonstrate the limited downside risk.

The Negatives

- **1H18 PBT margin negatively impacted by foreign exchange and derivatives.** There was a net foreign exchange loss and net fair value adjustment loss in derivative recorded in 1H18. This was in contrast to a net foreign exchange gain and net fair value adjustment gain in derivative in 1H17. As a result, other operating costs was 86.4% higher YoY, while other income was 85.7% lower YoY.

- **Higher effective tax rate for 1H18.** This was due to timing difference for qualified expenses for tax purpose.

Outlook

The outlook is stable. The key aluminium product continues to drive growth, but the tone of the management commentary is less upbeat compared to the most recent two quarters. We believe this is due to uncertainties in global developments over trade tariffs. Nonetheless, the company expects to remain profitable this year. We are not so certain for revenue growth and expect it to moderate in 2H18. We currently assume 8.5% YoY revenue growth for 2H18. Catalyst for the stock would be contract wins for the building products business, following the ramp-up in infrastructure projects and collective sales activity.

Maintain Buy; unchanged target price of \$0.56

Following the strong 1H18 revenue growth and weaker than expected PATMI, we adjust our FY18e revenue assumption higher by 8.1% from previous, and PATMI assumption lower by -6.9% from previous.

Our target price represents an implied 11.9 times FY18e forward P/E multiple and 0.97 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 strong balance sheet and high-yield of 6.8% (based on 2.5 cents dividend over the last close of \$0.37).

Buy (Maintain)

| | |
|---------------------|--------------|
| LAST CLOSE PRICE | SGD 0.370 |
| FORECAST DIV | SGD 0.025 |
| TARGET PRICE | SGD 0.560 |
| TOTAL RETURN | 58.1% |

COMPANY DATA

| | |
|-------------------------------|------------|
| BLOOMBERG CODE: | NLPM SP |
| O/S SHARES (MN): | 243 |
| MARKET CAP (USD mn / SGD mn): | 68 / 90 |
| 52 - WK HI/LO (SGD): | 0.4 / 0.35 |
| 3M Average Daily T/O (mn): | 0.05 |

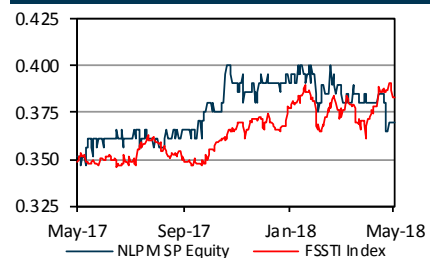
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|-----------|-------|-------|------|
| COMPANY | (3.9) | (6.3) | 5.1 |
| STIRETURN | 7.1 | 17 | 13.4 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Sep | FY 16 | FY 17 | FY 18e | FY 19e |
|------------------|-------|-------|--------|--------|
| Revenue (SGD mn) | 129 | 142 | 167 | 159 |
| PBT (SGD mn) | 13.5 | 12.5 | 14.3 | 14.9 |
| PATMI (SGD mn) | 9.1 | 10.2 | 11.4 | 11.9 |
| EPS (cents) | 3.79 | 4.24 | 4.69 | 4.91 |
| P/E (x) | 10.9 | 9.3 | 7.9 | 7.5 |
| BVPS (cents) | 53.2 | 55.0 | 58.0 | 60.4 |
| P/B (x) | 0.8 | 0.7 | 0.6 | 0.6 |
| DPS (cents) | 2.0 | 2.0 | 2.5 | 2.5 |
| Div. Yield (%) | 4.9 | 5.1 | 6.8 | 6.8 |

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 | 166.9 | 158.8 |
| Cost of sales | (126.8) | (101.4) | (114.1) | (135.8) | (127.3) |
| Gross profit | 37.3 | 28.0 | 27.8 | 31.1 | 31.4 |
| SG&A | (16.4) | (12.8) | (12.7) | (13.7) | (13.6) |
| Other operating costs | (5.2) | (2.3) | (5.5) | (4.0) | (5.0) |
| EBIT | 15.6 | 12.9 | 9.6 | 13.4 | 12.8 |
| Net Finance (Expense)/Inc | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 |
| Other income | 0.2 | 0.4 | 2.5 | 0.6 | 1.7 |
| Profit Before Tax | 16.0 | 13.5 | 12.5 | 14.3 | 14.9 |
| Taxation | (3.1) | (4.2) | (2.4) | (3.1) | (3.1) |
| Profit After Tax | 12.9 | 9.3 | 10.1 | 11.3 | 11.8 |
| - Non-controlling interest | (0.07) | 0.21 | (0.12) | (0.10) | (0.10) |
| PATMI | 12.9 | 9.1 | 10.2 | 11.4 | 11.9 |

Per share data (cents)

| Y/E Sep | FY15 | FY16 | FY17 | FY18e | FY19e |
|---------------|------|------|------|-------|-------|
| EPS, reported | 5.36 | 3.79 | 4.24 | 4.69 | 4.91 |
| 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 | 58.0 | 60.4 |

Cash Flow

| Y/E Sep, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|----------------------------------|---------------|--------------|--------------|--------------|--------------|
| CFO | | | | | |
| Profit before tax | 16.0 | 13.5 | 12.5 | 14.3 | 14.9 |
| Adjustments | 2.9 | 2.3 | 7.1 | 3.9 | 4.0 |
| WC changes | (5.5) | 10.3 | (9.3) | (8.9) | 2.8 |
| Cash generated from ops | 13.4 | 26.1 | 10.3 | 9.3 | 21.6 |
| Others | (1.6) | (3.7) | (2.9) | (2.9) | (2.9) |
| Cashflow from ops | 11.7 | 22.4 | 7.4 | 6.4 | 18.7 |
| 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) | (7.4) | 5.1 |
| Effects of exchange rate | 1.10 | (0.61) | (0.04) | - | - |
| Ending cash | 38.4 | 46.0 | 43.6 | 36.2 | 41.3 |

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 | 39.6 | 37.4 |
| Accounts Receivables | 39.4 | 29.9 | 37.7 | 41.5 | 40.8 |
| Cash | 38.4 | 46.0 | 43.6 | 36.2 | 41.3 |
| Others | 3.2 | 3.9 | 4.6 | 5.2 | 5.0 |
| Total current assets | 121 | 111 | 119 | 122 | 125 |
| Total Assets | 161 | 154 | 162 | 170 | 174 |
| LIABILITIES | | | | | |
| Short term loans | 1.5 | 1.3 | 1.2 | 1.2 | 0.4 |
| Accounts Payables | 11.5 | 7.6 | 7.3 | 9.2 | 8.4 |
| Others | 18.7 | 11.2 | 16.8 | 16.9 | 17.3 |
| Total current liabilities | 31.7 | 20.1 | 25.3 | 27.3 | 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 | 29.2 | 27.7 |
| EQUITY | | | | | |
| Non-controlling interests | 0.9 | 1.0 | 0.9 | 0.8 | 0.7 |
| Shareholder Equity | 124 | 128 | 133 | 140 | 145 |

Valuation Ratios

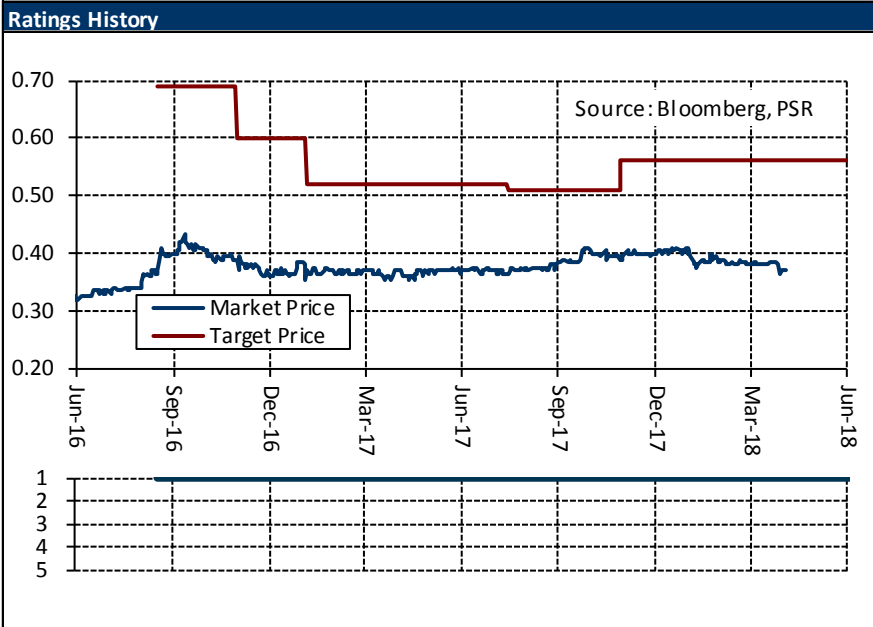
| Y/E Sep | FY15 | FY16 | FY17 | FY18e | FY19e |
|--------------------|------|-------|------|-------|-------|
| P/E (x) | 5.43 | 10.88 | 9.25 | 7.88 | 7.54 |
| P/B (x) | 0.57 | 0.77 | 0.71 | 0.64 | 0.61 |
| Dividend yield (%) | 8.6 | 4.9 | 5.1 | 6.8 | 6.8 |

Growth & Margins

| | FY15 | FY16 | FY17 | FY18e | FY19e |
|---------------------|-------|--------|--------|-------|-------|
| Growth | | | | | |
| Revenue | 16.0% | -21.1% | 9.7% | 17.6% | -4.9% |
| Gross profit | 64.7% | -25.0% | -0.6% | 11.8% | 1.1% |
| EBIT | 123% | -17.5% | -25.7% | 39.5% | -4.1% |
| PATMI | 83.6% | -29.4% | 12.1% | 11.0% | 4.6% |
| Margins | | | | | |
| Gross profit margin | 22.7% | 21.6% | 19.6% | 18.6% | 19.8% |
| EBIT margin | 9.5% | 10.0% | 6.7% | 8.0% | 8.1% |
| NPAT margin | 7.8% | 7.2% | 7.1% | 6.7% | 7.4% |
| PATMI margin | 7.9% | 7.1% | 7.2% | 6.8% | 7.5% |

Key Ratios

| | FY15 | FY16 | FY17 | FY18e | FY19e |
|------------------------|----------|----------|----------|----------|----------|
| ROE | 10.6% | 7.2% | 7.8% | 8.3% | 8.3% |
| ROA | 8.6% | 5.8% | 6.5% | 6.8% | 6.9% |
| Dividend payout, total | 46.6% | 52.8% | 47.2% | 53.3% | 50.9% |
| Net Debt or (Net Cash) | (33.0) | (42.2) | (40.8) | (34.5) | (40.8) |
| 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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