

Nam Lee Pressed Metal Industries

Attractive yield with downside capped by cash hoard



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SINGAPORE | INDUSTRIALS | 9M18 RESULTS

8 August 2018

- 9M18 revenue and PATMI met 69% and 73% respectively, of our full year estimate
- Maintain Buy; new target price of \$0.51 (previously \$0.56) due to trade war concerns and slower recovery in construction sector

Results at a glance

(SGD mn)	9M18	9M17	YoY	Comments
Revenue	114.6	95.2	20.4%	Higher revenue from the aluminium segment
Gross profit	20.0	19.4	3.1%	Lower gross margin of 17.5% from 20.4% due to change in product mix with lower margin
PBT	11.1	11.0	1.0%	Lower PBT margin of 9.7% from 11.5%
PATMI	8.30	8.14	2.0%	Lower net margin of 7.2% from 8.5%

Source: Company, PSR

The Positives

+ **YoY revenue growth momentum continues into 3Q18.** We believe this is from the Group's industrial product of aluminium frames for container refrigeration units. This was guided in a prior results commentary by management.

Also, it was mentioned in the 2Q 2018 earnings presentation by United Technologies (NYSE: UTX), that a customer had purchased 1,000 container refrigeration units to "accommodate the growth of perishable and other refrigerated trade". This suggests to us that demand for refrigerated containers remains relatively resilient, even with escalating trade tariffs. (United Technologies' refrigeration business unit is Nam Lee's core customer.)

+ **Clean balance sheet with cash hoard.** Net cash (cash less total borrowings) of \$45.2mn represents 51% of market capitalisation. Net cash had increased by \$4.4mn YTD mainly from collection of trade receivables. We continue using the current-asset value (current assets less total liabilities) of 36.8 cents/share to demonstrate the limited downside risk.

The Negatives

- **YoY margin erosion due to change in product mix and different types of projects.** Margin erosion mainly started at the gross profit level cascaded down to PATMI. However, operating costs (distribution, administrative and other operating costs) by percentage of revenue actually declined YoY from 11.3% to 9.8%. This alleviated the impact to margins. The view the margin compression as temporary, due to lumpy nature of revenue from projects.

Outlook

The outlook is stable. The key aluminium product continues to drive growth, but the tone of the management commentary is downbeat. Uncertainties surround the extent to how tariffs would impact global trade, but the core product should remain relatively resilient.

We had previously stated that a catalyst for the stock would be contract wins for the building products business, following the ramp-up in infrastructure projects and collective sales activity. Our view on the catalyst source remains unchanged, but the recent property cooling measures by the government would likely back-load the positive impact.

Maintain Buy; new target price of \$0.51 (previously \$0.56)

Our lower target price reflects the uncertainty on global trade and our anticipated delay to the construction recovery. Our target price represents an implied 10.5 times FY18e forward P/E multiple and 0.88 times FY18e forward P/B multiple. We currently forecast 2.5 cents dividends for FY18e (higher than historical 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 \$0.365). Even a negative surprise of 2.0 cents dividend for FY18e would offer a decent 5.5% yield. We think that downside risk to the stock price is limited, on account of the strength of the balance sheet.

Buy (Maintained)

LAST CLOSE PRICE	SGD 0.365
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.510
TOTAL RETURN	46.6%

COMPANY DATA

BLOOMBERG CODE:	NLPM SP
O/S SHARES (MN):	243
MARKET CAP (USD mn / SGD mn):	65 / 89
52 - WK HI/LO (SGD):	0.4 / 0.36
3M Average Daily T/O (mn):	0.02

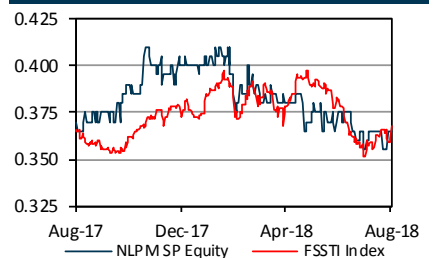
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.0	(14)	5.1
STIRETURN	3.4	(6.5)	19

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	129	142	165	157
PBT (SGD mn)	13.5	12.5	15.2	15.0
PATMI (SGD mn)	9.1	10.2	11.8	11.8
EPS (cents)	3.79	4.24	4.87	4.88
P/E (x)	10.6	9.4	7.5	7.5
BVPS (cents)	53.2	55.0	58.2	60.5
P/B (x)	0.8	0.7	0.6	0.6
DPS (cents)	2.0	2.0	2.5	2.5
Div. Yield (%)	5.0	5.0	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	165.3	157.3
Cost of sales	(126.8)	(101.4)	(114.1)	(136.0)	(126.0)
Gross profit	37.3	28.0	27.8	29.4	31.3
SG&A	(16.4)	(12.8)	(12.7)	(14.3)	(13.9)
Other operating costs	(5.2)	(2.3)	(5.5)	(2.5)	(4.2)
EBIT	15.6	12.9	9.6	12.6	13.2
Net Finance (Expense)/Inc	0.2	0.2	0.4	0.4	0.4
Other income	0.2	0.4	2.5	2.2	1.4
Profit Before Tax	16.0	13.5	12.5	15.2	15.0
Taxation	(3.1)	(4.2)	(2.4)	(3.5)	(3.3)
Profit After Tax	12.9	9.3	10.1	11.7	11.7
- Non-controlling interest	(0.07)	0.21	(0.12)	(0.10)	(0.10)
PATMI	12.9	9.1	10.2	11.8	11.8

Per share data (cents)

Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	5.36	3.79	4.24	4.87	4.88
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	58.2	60.5

Cash Flow

Y/E Sep, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	16.0	13.5	12.5	15.2	15.0
Adjustments	2.9	2.3	7.1	3.4	3.9
WC changes	(5.5)	10.3	(9.3)	(8.3)	2.7
Cash generated from ops	13.4	26.1	10.3	10.3	21.7
Others	(1.6)	(3.7)	(2.9)	(3.3)	(3.1)
Cashflow from ops	11.7	22.4	7.4	7.0	18.6
CFI					
CAPEX, net	(10.4)	(6.8)	(3.9)	(10.0)	(6.5)
Others	0.2	0.2	0.2	0.2	0.2
Cashflow from investments	(10.2)	(6.6)	(3.8)	(9.8)	(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)	(8.8)	5.0
Effects of exchange rate	1.10	(0.61)	(0.04)	-	-
Ending cash	38.4	46.0	43.6	34.8	39.7

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	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	33.4	36.7	36.5	42.8	44.9
Others	6.2	6.2	6.8	6.8	6.8
Total non-current assets	39.6	42.9	43.4	49.6	51.8
Inventories	40.4	31.2	33.2	39.3	37.1
Accounts Receivables	39.4	29.9	37.7	41.1	40.4
Cash	38.4	46.0	43.6	34.8	39.7
Others	3.2	3.9	4.6	5.2	5.0
Total current assets	121	111	119	120	122
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	9.1	8.4
Others	18.7	11.2	16.8	16.7	17.2
Total current liabilities	31.7	20.1	25.3	27.1	26.0
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	29.0	27.5
EQUITY					
Non-controlling interests	0.9	1.0	0.9	0.8	0.7
Shareholder Equity	124	128	133	140	146

Valuation Ratios

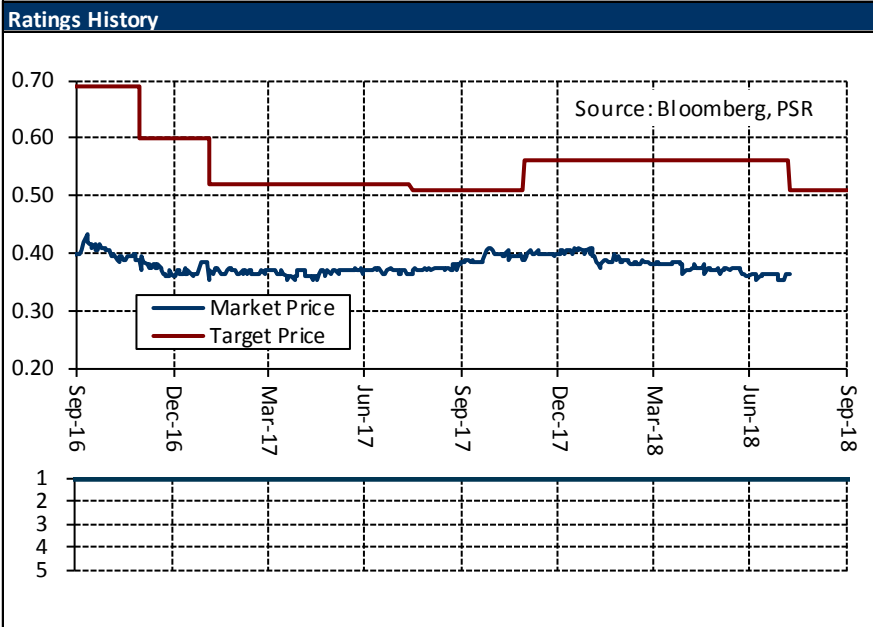
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	5.41	10.57	9.43	7.50	7.49
P/B (x)	0.56	0.75	0.73	0.63	0.60
Dividend yield (%)	8.6	5.0	5.0	6.8	6.8

Growth & Margins

	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	16.0%	-21.1%	9.7%	16.5%	-4.9%
Gross profit	64.7%	-25.0%	-0.6%	5.7%	6.6%
EBIT	123%	-17.5%	-25.7%	31.9%	4.8%
PATMI	83.6%	-29.4%	12.1%	15.1%	0.2%
Margins					
Gross profit margin	22.7%	21.6%	19.6%	17.8%	19.9%
EBIT margin	9.5%	10.0%	6.7%	7.6%	8.4%
NPAT margin	7.8%	7.2%	7.1%	7.1%	7.4%
PATMI margin	7.9%	7.1%	7.2%	7.1%	7.5%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
ROE	10.6%	7.2%	7.8%	8.6%	8.3%
ROA	8.6%	5.8%	6.5%	7.1%	6.9%
Dividend payout, total	46.6%	52.8%	47.2%	51.4%	51.3%
Net Debt or (Net Cash)	(33.0)	(42.2)	(40.8)	(33.1)	(39.3)
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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