

Nam Lee Pressed Metal Industries

Still a yield play

SINGAPORE | INDUSTRIALS | RESULTS

- 1Q \$39.53mn revenue met 30% of our full year FY17 forecast of S\$133.6mn
- 1Q \$5.88mn gross revenue met 20% of our full year FY17 forecast of S\$29.4mn
- 1Q \$3.19mn PATMI met 32% of our full year FY17 forecast of S\$10.1mn

In our last update report on the takeaways from the FY16 Annual General Meeting (AGM), we had outlined the capital budgeting and capital structure decisions for Nam Lee Pressed Metal Industries (Nam Lee), as well as revenue recognition outlook for FY17. The most significant change we made in our last report was to our valuation method, where we changed from a blended dividend discount model (DDM) to a discounted free cash flow to equity (FCFE) model.

Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Revenue	39.53	39.09	↑ 1.1	
Gross profit	5.88	8.96	↓ (34.3)	Lower gross margin of 14.9% from 22.9% due to change in product mix with lower margin
EBIT	1.60	3.83	↓ (58.3)	Effect of the lower gross profit, despite 16.5% yoy lower OpEx
PATMI	3.19	3.41	↓ (6.5)	EBIT boosted by other income from a foreign exchange gain in 1Q17, compared to a loss in 1Q16; offset by 19% higher tax; higher tax rate of 18.0% from 15.0%

Source: Company, Phillip Securities Research (Singapore)

Negative surprise from the lower gross profit margin, but PATMI higher than expected

Revenue was in line with our forecast of \$40.3mn. Gross profit margin of 14.9% came below our expectations of high-teens to low-twenties. We believe that a significant portion of 1Q FY17 revenue is attributable to the public infrastructure façade project that we reported on in our last update report; and this project is the cause of the lower than expected gross profit margin. PATMI exceeded our forecast of \$3.08mn by 3.4%.

Keeping our full year forecast intact

As we have stated in our initiation report, one of the investment risk for Nam Lee is its lumpy revenue recognition. This is due to a significant contribution from project-based demand for Nam Lee's products. Without an order book, there is no visibility on revenue recognition. Timing issues in revenue recognition results in volatile quarter-on-quarter results. Hence, we do not make any changes to our full year forecast for FY17F.

Clean balance sheet with cash hoard

The cash hoard represents a net cash position (cash less total borrowings) of \$0.130/share. Nam Lee carries little debt on its balance sheet, with debt-to-equity ratio of 2.7%. In fact, Nam Lee reports a net interest income instead of a net interest expense. Thus we view Nam Lee's interest burden as being insensitive to changes in interest rates. The current-asset value (current assets minus total liabilities) of \$0.371/share should be a floor to the downside.

Maintain "Buy" rating with unchanged DCF-derived target price of \$0.52

Our target price gives an implied forward P/E multiple of 12.4x over FY17F earnings, versus the implied next-twelve-months P/E multiple of 14.4x (Source: Bloomberg) for the benchmark Straits Times Index (STI). 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.

14 February 2016

Buy (Maintained)

LAST CLOSE PRICE	SGD 0.365
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.520
TOTAL RETURN	47.9%

COMPANY DATA

O/S SHARES (MN) :	241
MARKET CAP (USD mn / SGD mn) :	62 / 88
52 - WK HI/LO (SGD) :	0.42 / 0.27
3M Average Daily T/O (mn) :	0.08

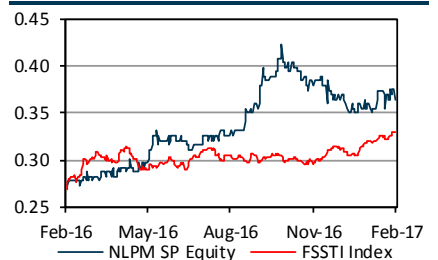
MAJOR SHAREHOLDERS (%)

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	4.2	(2.4)	37.7
STIRETURN	3.1	11.1	27.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY 15	FY 16	FY 17F	FY 18F
Revenue (SGD mn)	164.0	129.4	133.6	137.9
Gross profit (SGD mn)	37.3	28.0	29.4	31.1
PATMI (SGD mn)	12.9	9.1	10.1	11.2
EPS (cents)	5.36	3.79	4.20	4.65
BVPS (cents)	51.4	53.2	55.8	58.5
P/B (x)	0.57	0.77	0.65	0.62
DPS (cents)	2.5	2.0	2.0	2.5
Div. Yield (%)	8.6	4.9	5.5	6.8

Source: Company Data, PSR est.

VALUATION METHOD

DCF (Cost of Equity: 7.9%; Terminal g: 15%)

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Financials

Income Statement

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Revenue	141.5	164.0	129.4	133.6	137.9
Cost of sales	(118.8)	(126.8)	(101.4)	(104.2)	(106.8)
Gross profit	22.6	37.3	28.0	29.4	31.1
SG&A	(13.4)	(16.4)	(12.8)	(13.6)	(14.2)
Other operating costs	(2.3)	(5.2)	(2.3)	(2.9)	(2.7)
EBIT	7.0	15.6	12.9	12.8	14.2
Net Finance (Expense)/Inc	0.27	0.18	0.24	0.30	0.31
Other income	1.26	0.18	0.40	0.30	0.34
Profit Before Tax	8.5	16.0	13.5	13.4	14.9
Taxation	(1.4)	(3.1)	(4.2)	(3.2)	(3.5)
Profit After Tax	7.2	12.9	9.3	10.2	11.3
- Non-controlling interest	0.10	(0.07)	0.21	0.10	0.10
PATMI	7.0	12.9	9.1	10.1	11.2

Per share data (cents)

Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	2.92	5.36	3.79	4.20	4.65
DPS, ordinary	1.0	1.0	1.0	1.0	1.0
DPS, special	0.5	1.5	1.0	1.0	1.5
BVPS	49.6	51.4	53.2	55.8	58.5

Cash Flow

Y/E Sep, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CFO					
Profit before tax	8.5	16.0	13.5	13.4	14.9
Adjustments	3.0	2.9	2.3	5.0	5.9
WC changes	13.9	(5.5)	10.3	2.8	(1.5)
Cash generated from ops	25.4	13.4	26.1	21.2	19.3
Others	(1.1)	(1.6)	(3.7)	(3.1)	(3.4)
Cashflow from ops	24.3	11.7	22.4	18.1	15.9
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	(4.8)	3.7
Effects of exchange rate	0.24	1.10	(0.61)	-	-
Ending cash	35.5	38.4	46.0	41.2	44.9

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	FY17F	FY18F
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	-	0.1	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	28.1	29.0
Accounts Receivables	33.2	39.4	29.9	26.7	27.6
Cash	35.5	38.4	46.0	41.2	44.9
Others	2.7	3.2	3.9	2.9	2.9
Total current assets	103.9	121.5	111.1	98.8	104.4
Total Assets	139.6	161.1	154.0	153.4	159.2
LIABILITIES					
Short term loans	0.4	1.5	1.3	1.1	1.0
Accounts Payables	5.9	11.5	7.6	6.7	6.9
Others	10.9	18.7	11.2	7.5	7.7
Total current liabilities	17.3	31.7	20.1	15.2	15.6
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	18.7	18.0
EQUITY					
Non-controlling interests	0.85	0.87	1.01	1.11	1.21
Shareholder Equity	119.8	123.9	128.4	133.6	140.0

Valuation Ratios

Y/E Sep	FY14	FY15	FY16	FY17F	FY18F
P/E (x)	9.43	5.43	10.88	8.70	7.85
P/B (x)	0.56	0.57	0.77	0.65	0.62
Dividend yield (%)	5.4	8.6	4.9	5.5	6.8

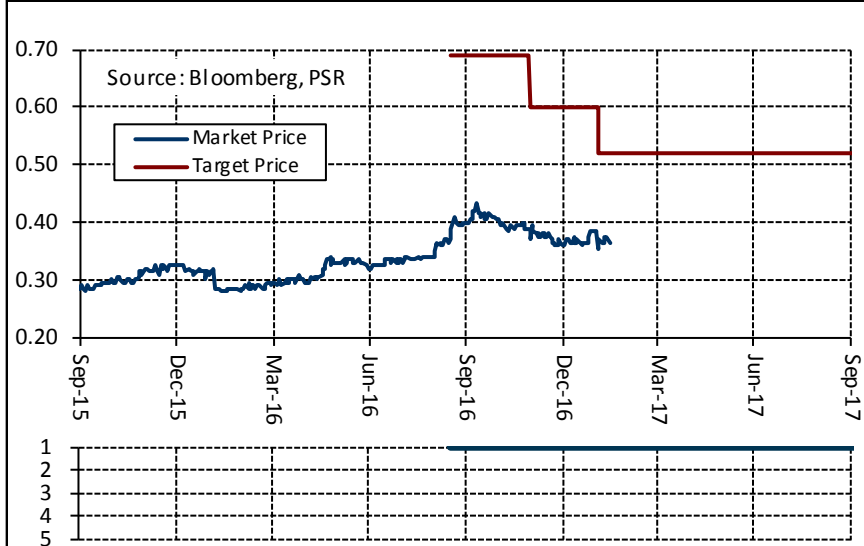
Growth & Margins

Growth					
Revenue	-17.2%	16.0%	-21.1%	3.2%	3.2%
Gross profit	-12.4%	64.7%	-25.0%	5.0%	5.9%
EBIT	-21.6%	123%	-17.5%	-0.5%	10.9%
PATMI	-20.8%	83.6%	-29.4%	10.8%	10.8%
Margins					
Gross profit margin	16.0%	22.7%	21.6%	22.0%	22.5%
EBIT margin	5.0%	9.5%	10.0%	9.6%	10.3%
NPAT margin	5.1%	7.8%	7.2%	7.7%	8.2%
PATMI margin	5.0%	7.9%	7.1%	7.6%	8.1%

Key Ratios

ROE	6.0%	10.6%	7.2%	7.7%	8.2%
ROA	5.0%	8.6%	5.8%	6.6%	7.2%
Dividend payout, total	51.3%	46.6%	52.8%	47.7%	53.8%
Net Debt or (Net Cash)	(34.7)	(33.0)	(42.2)	(38.7)	(43.5)
Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History



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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