

Nam Lee Pressed Metal Industries

Dividend level maintained, yield intact

SINGAPORE | INDUSTRIALS | FY17 RESULTS

- Revenue exceed our estimate by 12%; PATMI was lower than our estimate by 4.8%
- 1.0/1.0 cent final/special dividend, 47% payout (FY16: 1.0/1.0 cent, 53% payout)
- Maintain Buy; higher target price of \$0.56 (previously \$0.51)

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Revenue	141.9	129.4	9.7%	Higher revenue from the aluminium segment.
Gross profit	27.8	28.0	-0.6%	Change in product mix with lower profit margin
PBT	12.5	13.5	-7.9%	\$3.2mn or 43% YoY higher other operating costs, mainly attributable to the provision for a one-off replacement cost for a past building product project
PATMI	10.2	9.1	12.1%	FY17 lower effective tax rate of 18.9%, compared to 31.0% in FY16.

Source: Company, PSR

The positives

- YoY higher PATMI, but due to different tax rates.** Effective tax rate in FY16 was higher due to the provisions made for transfer pricing adjustments for subsidiaries in Malaysia.
- Clean balance sheet with cash hoard.** Net cash (cash less total borrowings) of \$40.8mn represents 42% of market capitalisation. We continue using the current-asset value (current assets less total liabilities) of 37.4 cents/share to demonstrate the limited downside risk.
- 2.0 cents total dividends met expectations.** In our [previous report](#), we opined that Nam Lee has the ability to maintain FY16's 2.0 cents dividend in FY17, due to the ample cash on the balance sheet. While Nam Lee's dividend policy is to pay about a third of earnings, actual payout ratio historically fluctuates about 50%. This explains the lower payout ratio for FY17, despite the higher earnings.

The negatives

- Significant increase in "other creditors and accruals" liability.** The liability increased from \$9.07mn at end-FY16 to \$14.04mn at end-FY17. This was due to provision of a one-off replacement cost for a past building project. This provision was recognised in other operating costs.
- Dilution by 750,000 new shares issued in 4Q.** This was due to exercise of employee share options. Number of shares increased by 0.31% from 241,294,082 to 242,044,082.

Outlook

The outlook is stable to positive. The tone of management commentary is now more upbeat compared to previous quarters, mentioning that the recovery in the US economy could have a positive impact on the aluminium industrial product business. This refers to the aluminium frames for container refrigeration units. We note that in the recent 3Q 2017 earnings presentation by United Technologies (NYSE: UTX), commercial sales for Transport Refrigeration was "up high single digit". This was an improvement over 2Q ("up low single digit") and 1Q ("down high single digit").

Domestically, Nam Lee could potentially benefit from the pipeline of infrastructure projects and spate of collective-sales. Any revenue recognition though, would probably only be at least two years from now, coinciding with the tail-end of the projects.

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

Our target price represents an implied 11.1x FY18e forward P/E multiple and 0.96x FY18e forward P/B multiple. The 2.0 cents dividend offers an attractive yield of 5.1% based on the last close price of \$0.395. We currently forecast 2.5 cents dividends for FY18e and maintain our view of Nam Lee as a yield-play.

29 November 2017

Buy (Maintain)

LAST CLOSE PRICE	SGD 0.395
FORECAST DIV	SGD 0.025
TARGET PRICE	SGD 0.560
TOTAL RETURN	48.1%

COMPANY DATA

BLOOMBERG CODE:	NLPM SP
O/S SHARES (MN):	242
MARKET CAP (USD mn / SGD mn):	71/ 96
52 - WK HI/LO (SGD):	0.42 / 0.35
3M Average Daily T/O (mn):	0.13

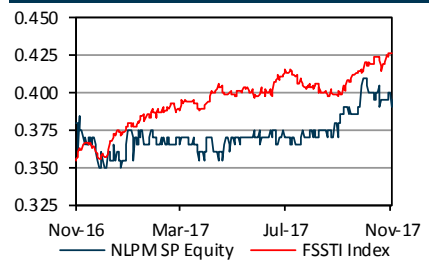
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(4.9)	4.0	5.6
STIRETURN	16	5.6	24.2

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	7.8	8.1
BVPS (cents)	53.2	55.0	58.4	60.7
P/B (x)	0.8	0.7	0.7	0.7
DPS (cents)	2.0	2.0	2.5	2.5
Div. Yield (%)	4.9	5.1	6.3	6.3

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

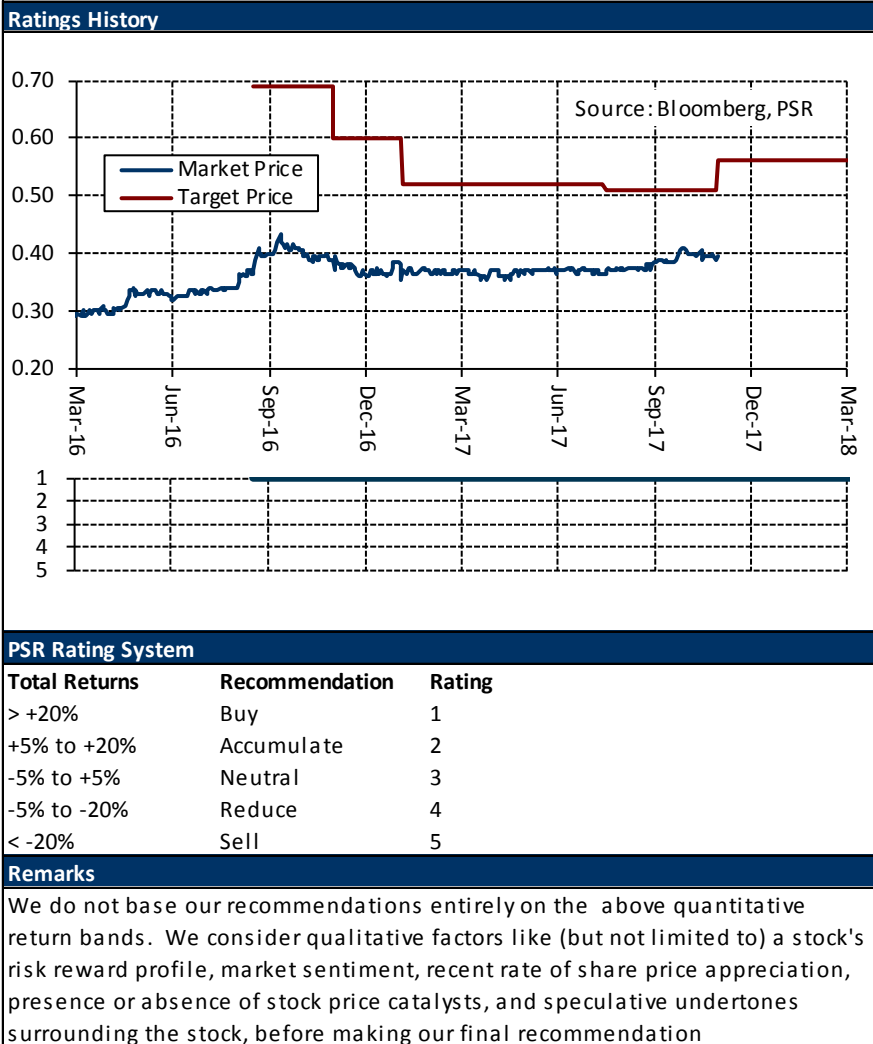
Y/E Sep	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	5.43	10.88	9.25	7.83	8.07
P/B (x)	0.57	0.77	0.71	0.68	0.65
Dividend yield (%)	8.6	4.9	5.1	6.3	6.3

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



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