

Company Result

23 October 2017

SCH Group Berhad

Sales rebound for quarry M&E

HOLD

Maintained

Share Price	RM0.23
Target Price	RM0.20

Company Description

SCH Group Berhad, through its subsidiary, imports, distribute and supplies industrial spare parts for quarry equipment.

Stock Data

Bursa / Bloomberg code	0161 / SCHG MK
Board / Sector	ACE / Industrial
Syariah Compliant status	Yes
Issued shares (m)	412.24
Par Value (RM)	0.10
Market cap. (RMm)	94.81
52-week price Range	RM0.16 – 0.28
Beta (against KLCI)	1.13
3-m Average Daily Volume	0.95m
3-m Average Daily Value^	RM0.21m

Share Performance

	1m	3m	12m
Absolute (%)	12.2	15.0	-4.2
Relative (%)	14.2	8.1	-8.1

Major Shareholders

	%
Thianjing Holdings Sdn Bhd	16.54
Chee Siang Khoo	6.60
Mong Ling Lau	5.79

Historical Chart



Source: Bloomberg

Lee Chung Cheng

03-87361118, ext. 758

cclee@jfapex.com.my

Result

- **Results above expectation.** SCH Group Berhad (SCH) posted 4QFY17 net profit of RM0.6m, back into the black yoy but declined 14.3% qoq. For the full year of FY17, the Group achieved RM1.8m in net profit, increasing 12.5% yoy. The result exceeds our full year net profit estimate by 13% mainly attributable to better-than-expected PBT margin in relation to lower administrative and selling expenses.

Comment

- **Better yoy but weaker qoq.** The higher yoy results in 4QFY17 were underpinned by higher sales, mainly its quarry M&E and relatively low base in 4QFY16, which recorded net loss, as affected by higher cost of sales, administrative and marketing expenses. Meanwhile, the lower qoq results were dragged by softening revenue, as sales of asphalt mixing plant of RM5.7m was booked in 3QFY17, albeit higher sales for both of its core products, i.e. quarry M&E and quarry industrial products and spare parts, coupled with higher effective tax rate during this quarter (45.5% vs 30.0% in 3QFY17).
- **Higher FY17.** Overall, SCH managed to chalk up better full year results thanks to strong sales rebound by its quarry M&E during this quarter amid lower GP margin, -8.0ppts for its product sales and further aided by lower administrative and selling expenses.
- **Brighter outlook.** We witnessed the sign of earnings recovery as its main product, quarry M&E recorded a sales surge in this quarter, soaring four folds yoy and doubled qoq. Moving forward, we envisage the Group to deliver better FY18 earnings as more quarrying activities operations will be required to meet the demand for quarry based materials for use in major property development, construction and infrastructure projects. With the stabilisation of USD/MYR, we anticipate the quarry operators to re-embark on their capex. SCH could benefit from the take-off of several mega infrastructure projects such as MRT2, LRT3, Pan Borneo Highway, SUKE and upgrading road works from Klang Container Terminal – North Port as well as property projects particularly affordable housing segment with projects such as PR1MA and PPA1M. Also, the Group pins its hopes on new business venture, the sales of asphalt mixing plant, to further strengthen its current business.
- **Scrap of plans to venture into downstream quarry segment.** In a separate announcement, the Group has decided not to proceed with its MOUs in relation to the collaboration on the excavation works, and subsequent distribution and sale of quarry sand and other related deposits from flood mitigation ponds, namely the Bohol

Retention Pond, Wahyu Retention Ponds and Permaisuri Retention Pond in KL. Whilst we reckon that the Group may lose its opportunity to further diversify its income stream and any vertical expansion, there is no earnings impact to the Group as we have yet to impute any contributions from the deal.

Earnings Outlook/Revision

- **No change to our net earnings forecasts for FY18F: RM2.8m (+55.1% yoy) and FY19F: RM34.0m (+21.7% yoy).**

Valuation & Recommendation

- **Maintain HOLD with an unchanged target price of RM0.20 due to its steep valuation.** Our target price is pegged at 37x FY18F FD PE. We believe that current share price has factored in the better earnings outlook to a certain extent. However, any significant positive earnings surprise could prompt our earnings upgrade and hence lifting our valuation.

Figure 1: Quarterly Figures

Year to 31 Aug (RMm)	4QFY17	3QFY17	4QFY16	qoq %	yoy %	FY17	FY16	yoy %
Revenue	12.4	15.1	7.9	-17.9	57.0	44.2	37.1	19.1
Gross Profit	3.5	3.5	2.7	0.0	29.6	13.5	14.3	-5.6
PBT	1.1	1	-0.6	10.0	n.a.	2.8	2.3	21.7
Net Profit	0.6	0.7	-0.4	-14.3	n.a.	1.8	1.6	12.5
Gross margin (%) / ppt	28.2	23.2	34.2	5.0	-6.0	30.5	38.5	-8.0
PBT margin (%) / ppt	8.9	6.6	-7.6	2.2	n.a.	6.3	6.2	0.1

Source: Company, JF Apex

Figure 2: Financial Summary

FYE 31 Aug	FY2014	FY2015	FY2016	FY2017	FY2018F	FY2019F
	(RMm)	(RMm)	(RMm)	(RMm)	(RMm)	(RMm)
Revenue	65.4	59.6	37.1	44.2	49.8	54.2
Gross Profit	24.6	22.8	14.3	13.5	18.5	20.8
PBT	10.3	9.2	2.3	2.8	4.2	5.2
Taxation	-3.2	-2.7	-0.8	-1.0	-1.4	-1.8
PAT	7.2	6.5	1.6	1.8	2.8	3.4
Reported Net Profit	7.2	6.5	1.6	1.8	2.8	3.4
Core Net Profit	9.2	6.5	1.6	1.8	2.8	3.4
GP margin	37.6%	38.3%	38.5%	30.5%	37.2%	38.4%
PBT margin	15.7%	15.4%	6.2%	6.3%	8.5%	9.5%
Effective tax rate	-31.1%	-29.3%	-34.8%	-35.7%	-34.0%	-34.0%
Revenue growth	6.7%	-8.9%	-37.8%	19.1%	12.6%	8.9%
Gross profit growth	15.5%	-7.3%	-37.3%	-5.6%	37.1%	12.5%
PBT growth	-1.9%	-10.7%	-75.0%	21.7%	51.1%	21.7%
Net profit growth	-6.5%	-9.7%	-75.4%	12.5%	55.1%	21.7%
Core earnings growth	19.5%	-29.3%	-75.4%	12.5%	55.1%	21.7%
EPS (sen)	1.7	1.6	0.4	0.4	0.7	0.8
FD EPS (sen)	1.3	1.1	0.4	0.4	0.5	0.6
P/E (x)	13.2	14.6	59.3	52.7	34.0	27.9
FD P/E (x)	18.3	20.1	65.0	59.6	42.1	35.7
DPS (sen)	1.00	1.50	0.35	0.00	0.00	0.0
Dividend payout	57.3%	95.1%	90.2%	0.0%	0.0%	0.0%
Dividend Yield	4.3%	6.5%	1.5%	0.0%	0.0%	0.0%
Net gearing / (cash)	-7.6%	-11.2%	-4.2%	9.3%	1.8%	1.2%
ROE	11.6%	10.1%	2.6%	2.8%	5.0%	5.2%
ROA	8.2%	8.3%	2.1%	2.2%	3.0%	3.2%
BV/share (sen)	0.2	0.2	0.2	0.2	0.1	0.2
P/B (x)	1.5	1.5	1.5	1.5	1.7	1.5

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Lim Teck Seng
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Low Zy Jing (ext 754)
Nursuhaiza (ext 752)
Siau Li Shen (ext 753)

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STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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