

**Company Update**

**5 February 2018**

**SCH Group Berhad**

**HOLD**

*Diversifying into event equipment supply business*

*Maintained*

<b>Share Price</b>	<b>RM0.235</b>
<b>Target Price</b>	<b>RM0.22</b>

**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)	96.88
52-week price Range	RM0.17 – 0.28
Beta (against KLCI)	1.13
3-m Average Daily Volume	1.87m
3-m Average Daily Value^	RM0.39m

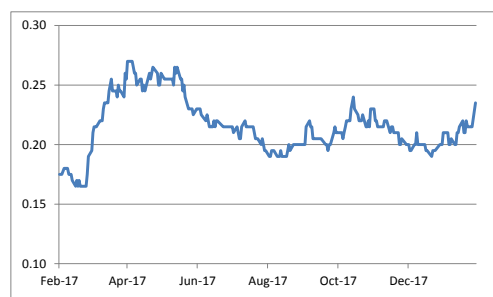
**Share Performance**

	1m	3m	12m
Absolute (%)	11.9	20.5	30.6
Relative (%)	8.8	-4.9	17.6

**Major Shareholders**

	%
Thianjing Holdings Sdn Bhd	16.54
Chee Siang Khoo	6.60
Mong Ling Lau	5.79
Estimated Free Float	40.71

**Historical Chart**



Source: Bloomberg

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**What's New**

- SCH proposed to acquire the entire equity interest in TK Tent & Air-Conditioning Rental Sdn Bhd (TK Tent)** from the vendor, Hextar Holdings Sdn Bhd (Vendor) for RM50m.
- TK Tent is principally involved in the provision of event-related equipment rental** for and trading of the following equipment:-

(a) temperature control systems, which includes portable air conditioner, chillers, air handling unit, fabric ducting and ventilation systems;

(b) energy products/equipment, which includes generator sets, cables, switch board, diesel pump and skid tank; and

(c) other event equipment such as tents, furniture, stage, platform, portable toilets and decoration.

TK Tent's event equipment is mainly used by various trade fairs/shows, exhibitions, office buildings, conventions and national level events held in Malaysia and Asia.

**Comment**

- Venturing into new business segment.** SCH claimed that the new business venture helps to mitigate its dependency on current business which is more cyclical. We are surprised with this new business diversification as we thought that any future asset acquisition could be related or complement to its existing quarry equipment business or mining industry which renders some forms of synergies. We are uncertain how successful of this proposed diversification. Nevertheless, the risk of new business venture will be mitigated by the profit guarantee undertaken by the Vendor for the next 3 years. According to the industry consultant, Protégé Associates Sdn Bhd, the outlook for the event equipment supply market is positive during the forecast period from 2018 to 2021 which is expected to be fuelled by the growth in the business events industry in Malaysia. The forecast compound annual growth rate for the business events industry from 2016 to 2020 is 39.5%.
- Profit guarantee.** The Vendor guarantees that TK Tent shall achieve an aggregate PAT of at least RM15.5m for FYE June 2018 to FYE June 2020 (targeted PAT of RM4m for FY18, RM5m for FY19 and RM6.5m for FY20). In return, SCH will offer up to 60m new shares to the Vendor to be issued under the earlier proposed private placement. The Vendor shall be liable to pay any shortfall to the guaranteed sum within 14 days after account closing for FY20. To recap, TK Tent achieved PAT of RM3.9m, RM6.5m and RM1.0m for its FY15, FY16 and FY17 results respectively.

- **Gearing is expected to increase.** The purchase consideration of RM50m will be funded by bank borrowings (70%) and proposed placement which was announced earlier and/or internal funds (30%). Thus, the Group's gearing ratio is expected to increase to 0.6x after the proposed private placement and this proposed acquisition from existing 0.3x as of FY17.
- **Earnings accretive.** Meanwhile, the new business acquisition is deemed as earnings accretive as the Group's fully-diluted EPS for FY19 is also expected to increase by 45.3% to 1.38 sen from 0.95 sen (assuming RM5m PAT contributed by TK Tent, yearly interest on borrowings of RM1.6m for the acquisition and RM0.7M interest savings from the proposed private placement with enlarged share base of 712.3m shares). The proposed private placement and this proposed acquisition are not inter-conditional with each other. In the event, the proposed private placement is not implemented prior to the completion of the proposed acquisition, the Group shall seek for other sources of funding to fund the balance of purchase consideration.

#### Earnings Outlook/Revision

- **No change to our earnings forecasts pending shareholders' approval on the corporate exercise. The proposed acquisition is anticipated to be completed by 2QCY18 and SCH is expected to consolidate the earnings of TK Tent in 4QFY18.**

#### Valuation & Recommendation

- **Maintain HOLD with a higher target price of RM0.22 (RM0.20 previously) after roll over our valuation to FY19F with a target PE of 23x and FD EPS of 0.95 sen.** The better valuation is to reflect the potential earnings upgrade of the Group after taking consideration the full year contribution of the event equipment rental business. Still, we retain our neutral stance on the stock as we believe that current share price has factored in this positive newsflow with its current pricey valuation.

**Figure 1: Financial Summary**

<b>FYE 31 Aug</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018F</b>	<b>FY2019F</b>
	<b>(RMm)</b>	<b>(RMm)</b>	<b>(RMm)</b>	<b>(RMm)</b>	<b>(RMm)</b>	<b>(RMm)</b>
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	7.1	7.9
Taxation	-3.2	-2.7	-0.8	-1.0	-2.4	-2.7
PAT	7.2	6.5	1.6	1.8	4.7	5.2
Reported Net Profit	7.2	6.5	1.6	1.8	4.7	5.2
Core Net Profit	9.2	6.5	1.6	1.8	4.1	5.2
GP margin	37.6%	38.3%	38.5%	30.5%	37.2%	38.4%
PBT margin	15.7%	15.4%	6.2%	6.3%	13.0%	14.5%
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%	152.5%	11.2%
Net profit growth	-6.5%	-9.7%	-75.4%	12.5%	159.3%	11.2%
Core earnings growth	19.5%	-29.3%	-75.4%	12.5%	125.9%	27.6%
EPS (sen)	1.7	1.6	0.4	0.4	1.1	1.3
FD EPS (sen)	1.3	1.2	0.4	0.4	0.9	1.0
P/E (x)	13.5	14.9	60.5	53.8	20.8	18.7
FD P/E (x)	18.4	20.2	63.0	58.0	27.0	24.7
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%	6.4%	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%	8.3%	8.0%
ROA	8.2%	8.3%	2.1%	2.2%	4.9%	4.8%
BV/share (sen)	0.2	0.2	0.2	0.2	0.1	0.2
P/B (x)	1.6	1.5	1.5	1.5	1.7	1.5

Source: Company, JF Apex

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**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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