

Company Result

26 July 2017

SCH Group Berhad

HOLD

Looking beyond FY17

Maintained

Share Price	RM0.21
Target Price	RM0.20

Result

Company Description

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

- **Results below expectation.** SCH Group Berhad (SCH) recorded 3QFY17 net profit of RM0.7m, flattish yoy but sevenfold surge qoq. Cumulatively, the Group achieved RM1.2m net profit in its 9MFY17, tumbling 40.0% yoy, which also accounted for 30% of our full year net profit estimates. The disappointment was mainly due to lower-than-expected machinery sales and weaker margins.

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)	86.57
52-week price Range	RM0.16 – 0.28
Beta (against KLCI)	0.89
3-m Average Daily Volume	1.35m
3-m Average Daily Value [^]	RM0.33m

Comment

Share Performance

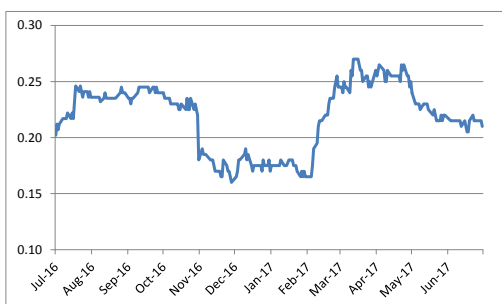
	1m	3m	12m
Absolute (%)	-4.5	-2.3	2.4
Relative (%)	-3.7	-17.4	-3.5

- **Uninspiring 9M.** The flattish yoy results for 3QFY17 was attributable to slump in GP margin (-16.2ppts) coupled with higher tax expenses amid higher revenue achieved (+52.5%). We believe its sale of an asphalt mixing plant to a customer in the northern region weighed on the Group's GP margin with significantly higher cost of sales incurred for this quarter. Meanwhile, the lackluster 9M results were also aggravated by forex loss incurred on the back of strengthening of USD against MYR, and higher financing costs following the drawdown of term loan during 1H. Excluding its recent new business venture of selling asphalt mixing plant for RM5.7m during this quarter, we have witnessed the overall 9M sales decline especially for its key existing business segments, i.e. sales of quarry M&E (-20.3% yoy), and quarry industrial products and spare parts for M&E (-8.7% yoy). On qoq basis, the strong surge in 3Q net profit was widely expected with low base in previous quarter.
- **Anticipating better FY18.** We reckon that the worst might be over for SCH as its main product, quarry M&E recorded a sales improvement in this quarter, up 69.2% yoy and 10.0% qoq. Moving forward, the Group expects to deliver better FY18 earnings as compared to FY17, underpinned by sizeable orders 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 gradual recovery in property market. Also, the Group pins its hopes on new business venture, the sales of asphalt mixing plant, to further strengthen its current business.

Major Shareholders

	%
Tianjing Holdings Sdn Bhd	16.54
Chee Siang Khoo	6.60
Mong Ling Lau	5.79
Sin Chin Wong	4.95
Citibank New York	2.91

Historical Chart



Source: Bloomberg

Earnings Outlook/Revision

Lee Chung Cheng

03-87361118, ext. 758

clee@jfafpex.com.my

- **We slash our FY17 and FY18 earnings estimates by respective 60% to RM1.6m and RM2.8m after inputting lower sales and profit margins.**
- We have yet to factor in the earnings contribution (expected to be booked in FY18) from its recently signed MOU on the Group's vertical expansion into downstream quarry industry via the distribution and sale of the deposits from the flood

mitigation ponds in Klang Valley as awaiting the execution of definitive agreements.

Valuation & Recommendation

- Maintain HOLD with a lower target price of RM0.20 (from RM0.23) following our earnings cut. Our revised target price is now pegged at 37x FY18 fully-diluted EPS of 0.54 sen.** We reckon that current share price is fully valued at this junction. Any positive earnings surprise shall prompt our call upgrade as its earnings catching up with valuations.

Figure 1: Quarterly Figures

Year to 31 Aug (RMm)	3QFY17	2QFY17	3QFY16	qoq %	yoy %	9MFY17	9MFY16	yoy %
Revenue	15.1	8.3	9.9	81.9	52.5	31.8	29.2	8.9
Gross Profit	3.5	3.2	3.9	9.4	-10.3	10	11.6	-13.8
PBT	1	0.1	0.9	900.0	11.1	1.7	2.9	-41.4
Net Profit	0.7	0.1	0.7	600.0	0.0	1.2	2	-40.0
Gross margin (%) / ppt	23.2	38.6	39.4	-15.4	-16.2	31.4	39.7	-8.3
PBT margin (%) / ppt	6.6	1.2	9.1	5.4	-2.5	5.3	9.9	-4.6

Figure 2: Financial Summary

FYE 31 Aug	FY2014 (RMm)	FY2015 (RMm)	FY2016 (RMm)	FY2017F (RMm)	FY2018F (RMm)
Revenue	65.4	59.6	37.1	41.8	45.2
Gross Profit	24.6	22.8	14.3	13.4	17.5
PBT	10.3	9.2	2.3	2.3	3.8
Taxation	-3.2	-2.7	-0.8	-0.7	-1.1
PAT	7.2	6.5	1.6	1.6	2.8
Reported Net Profit	7.2	6.5	1.6	1.6	2.8
Core Net Profit	9.2	6.5	1.6	1.6	2.8
GP margin	37.6%	38.3%	38.5%	32.1%	38.7%
PBT margin	15.7%	15.4%	6.2%	5.5%	8.5%
Effective tax rate	-31.1%	-29.3%	-34.8%	-29.0%	-28.0%
Revenue growth	6.7%	-8.9%	-37.8%	12.6%	8.1%
Gross profit growth	15.5%	-7.3%	-37.3%	-6.3%	30.6%
PBT growth	-1.9%	-10.7%	-75.0%	-0.1%	67.1%
Net profit growth	-6.5%	-9.7%	-75.4%	2.0%	69.4%
Core earnings growth	19.5%	-29.3%	-75.4%	2.0%	69.4%
EPS (sen)	1.7	1.6	0.4	0.4	0.7
FD EPS (sen)	1.3	1.1	0.4	0.4	0.5
P/E (x)	12.0	13.3	54.1	53.0	31.3
FD P/E (x)	16.7	18.3	59.4	58.5	38.7
DPS (sen)	1.00	1.50	0.35	0.75	1.00
Dividend payout	57.3%	95.1%	90.2%	189.4%	149.1%
Dividend Yield	4.8%	7.1%	1.7%	3.6%	4.8%
Net gearing / (cash)	-7.6%	-11.2%	-4.2%	-15.1%	-32.1%
ROE	11.6%	10.1%	2.6%	1.9%	2.8%
ROA	8.2%	8.3%	2.1%	1.6%	2.4%
BV/share (sen)	0.2	0.2	0.2	0.2	0.2
P/B (x)	1.4	1.3	1.4	1.2	1.0

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)
Nazhatul Shaza (ext 755)
Nursuhaiza (ext 752)

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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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