

Company Result

29 January 2018

SCH Group Berhad

HOLD

A Solid Start

Maintained

Share Price	RM0.215
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)	88.63
52-week price Range	RM0.17 – 0.28
Beta (against KLCI)	1.08
3-m Average Daily Volume	1.65m
3-m Average Daily Value^	RM0.34m

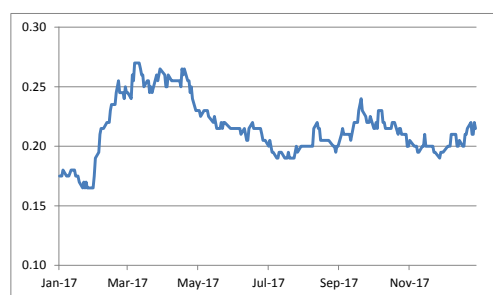
Share Performance

	1m	3m	12m
Absolute (%)	10.3	10.3	22.9
Relative (%)	6.9	-10.0	11.8

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

Lee Chung Cheng

03-87361118, ext. 758

cclee@jfafex.com.my

Result

- **Results above expectation.** SCH Group Berhad (SCH) reported 1QFY18 headline net profit of RM1.7m, soaring 325.0% qoq and 183.3% yoy. Excluding the one-off items such as gain from disposal of properties of RM0.4m and insurance claim of RM0.2m for damages suffered during burglary, the Group recorded RM1.1m of core net profit in this quarter, which still surged strongly by 83.3% qoq and 175.0% yoy, accounting for 39% of our full year net profit estimates. The positive deviation was mainly attributable to better-than-expected PBT margin pursuant to lower administrative, distribution and selling expenses.

Comment

- **Stronger yoy and qoq.** The better yoy results in 1QFY18 were underpinned by higher revenue (+39.3%), mainly its quarry M&E (+900%) with sales of Junjin Crawler Drills and lower administrative, distribution and selling expenses in relation to savings from factory rental and staff costs which resulted in spike in adjusted PBT margin of +7.4ppts (excluding impact of the abovementioned one-off items). Similarly, the better qoq results were due to lower administrative, distribution and selling expenses amid decline in revenue (-5.6%) on the back of lower supply of quarry industrial products (-27.0%).
- **On a recovery track.** We witnessed signs of earnings recovery as its main business segment, quarry M&E's performance has improved over the past few quarters. 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 used in major property development, construction and infrastructure projects. With the appreciation of MYR, we anticipate quarry operators to re-embark on their capex with relatively lower import costs. 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.
- **Proposed private placement.** Earlier, SCH announced that it will embark on a private placement exercise to raise funds of about RM19m for future acquisitions of new businesses (RM12m), working capital requirements (RM4.7m) and repayment of bank borrowings (RM2m). The Group plans to undertake an issuance of up to 103m new shares with an initial issue price fixed at RM0.185/share and not more than 10% discount to the VWA market price for other tranches of placement shares. We reckon that the

corporate exercise could dilute its EPS substantially in view of the new placement shares represent 25% of its existing issued shares even after accounting for yearly interest savings of RM0.09m (interest rate of 4.5%). Having said that, we opine that SCH could acquire some businesses which will render immediate earnings to the Group or corporate guarantees given by the vendors to mitigate the impact of earnings dilution from the private placement exercise.

Earnings Outlook/Revision

- **We lift our core net earnings forecasts for FY18F by 46.4% to RM4.1m and FY19F by 52.9% to RM5.2m after imputing higher PBT margins.**

Valuation & Recommendation

- **Maintain HOLD with an unchanged target price of RM0.20 due to its steep valuation.** Our target price is pegged at 23.5x 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)	1QFY18	4QFY17	1QFY17	qoq %	yoy %
Revenue	11.7	12.4	8.4	-5.6	39.3
Gross Profit	4.1	3.5	3.3	17.1	24.2
PBT	2.3	1.1	0.6	109.1	283.3
Reported Net Profit	1.7	0.6	0.4	183.3	325.0
Core Net Profit	1.1	0.6	0.4	83.3	175.0
Gross margin (%) / ppt	35.0	28.2	39.3	6.8	-4.2
PBT margin (%) / ppt	19.7	8.9	7.1	10.8	12.5

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	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	1.1	0.4	0.4	0.8	0.9
P/E (x)	12.3	13.6	55.4	49.2	19.0	17.1
FD P/E (x)	17.1	18.8	60.8	55.7	25.3	23.0
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	4.7%	7.0%	1.6%	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)	1.4	1.4	1.4	1.4	1.6	1.4

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:

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 Hashim (ext 752)
Siau Li Shen (ext 753)

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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