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Trade Wise: New Hoong Fatt sets sights on Asean market

By Liew Jia Teng / The Edge Malaysia | August 24, 2016 : 4:00 PM MYT

AUTO parts maker New Hoong Fatt Holdings Bhd's (NHF) impressive earnings performance in the first half ended June 30, 2016 (1HFY2016) may have sent its share price to a historical high of RM3.35 last Tuesday, but managing director Chin Jit Sin is not resting on his laurels.

According to him, NHF aims to grow its revenue by 50% over the next five years and at the same time, maintain its profit margin at 9% to 10%. The growth momentum is expected to be supported by the rising potential of the Asean replacement equipment market.

"Malaysia has a population of 30 million people, but Asean has over 600 million. The whole Asean automotive industry is expanding rapidly and we see exciting markets developing in the region," Chin tells The Edge.

He says Thailand is producing more than two million vehicles a year with a total industry volume (TIV) of close to one million, while Indonesia is the new leader in the industry. These two markets will give NHF more room for growth in the future.

"Indonesia, Thailand and Malaysia will remain as the Big Three countries in Asean, while the likes of Vietnam and the Philippines also have bullish prospects in the longer run," says Chin.

NHF reported a net profit of RM19.2 million and revenue of RM207.2 million in the financial year ended Dec 31, 2015 (FY2015). A back-of-the-envelope calculation shows that if Chin's targets are met, the company should be able to achieve a net profit of RM30 million on revenue of RM300 million in five years' time.

Malaysia contributed 49% to the group's revenue in FY2015, while the rest of Asean accounted for 15%. The rest of the world made up the remaining 36%.

In the next three to five years, Chin expects revenue contribution from the rest of Asean to double to 30%, with Malaysia and the rest of the world contributing 30% and 40% respectively, based on the estimated expanded volume.

While Chin acknowledges that the global economic slowdown has impacted overall spending power, he points out that NHF's sales performance has not been badly affected because the demand for automotive body parts has remained stable.

"Our sales are not directly linked to new cars, but rather, to cars already on the road," he explains.
Chin goes on to say that NHF is very excited about the growth potential in other Asean countries, considering that the growth rate in Malaysia is slowing.

“The number of vehicles in Malaysia, Thailand and Indonesia are quite close, which is about 10 million. But if you look at the population, Malaysia has 30 million people, Thailand has less than 70 million and Indonesia has 250 million,” he says.

“Indonesia is already selling more than one million vehicles every year. If it continues to do that in the next five years, it is going to have an additional five million vehicles. In comparison, Malaysia’s TIV is about 600,000 vehicles every year, which means we will only have an additional three million vehicles five years down the road.”

Chin, 54, was appointed executive director in 1998 and redesignated managing director in 2007. His wife, Kam Foong Keng, is executive chairman and a major shareholder of NHF. Currently, NHF is 34.1%-owned by Kam while her mother, Wong Yoke Len, has a 14.3% stake.

Yeoman Capital Management Pte Ltd owns a 6.7% stake in NHF. It is worth noting that the Singaporean investment fund has been constantly accumulating NHF shares after it emerged as a substantial shareholder in September 2014.

Klang-based NHF is mainly involved in the manufacture of metal and plastic automotive body parts, such as doors, hoods, fenders, trunk lids, bumpers and lamps, for the replacement market.
The company has trading branches in Segambut, Kuala Lumpur, and Kota Kinabalu, Sabah, to cater for its extensive distribution channel of more than 1,000 wholesalers and retailers nationwide. Its products are exported to over 60 countries in Asean, the Middle East, Europe, Taiwan, China, India, Africa and Russia.

In 2011, NHF expanded its business abroad, incorporating subsidiaries in Jakarta, Indonesia, and Shanghai, China.

In 1HFY2016, NHF saw its net profit jump 47% to RM14.08 million, up from RM9.52 million a year ago. The group’s revenue also grew 14.7% to RM114.6 million from RM99.85 million. The better results were attributed to higher demand in the local and overseas markets, as well as the favourable impact of the foreign exchange rate.

Following the release of its 1HFY2016 earnings report on July 29, NHF’s shares hit an all-time high of RM3.35 last Tuesday before closing at RM3.20. Year to date, the counter has risen 39 sen, or 14%, to settle at RM3.19 last Thursday, giving it a market capitalisation of RM239.7 million. The stock is currently trading at a trailing 12-month price-earnings ratio (TTM PER) of 10 times and price-to-book value ratio of 0.7 times, based on its net assets per share of RM4.55.

Commenting on the stock’s valuation, Chin opines that the PER of 10 times is “respectable” at the moment, but he is hoping to see NHF valued at 20 times. Its peers — Solid Automotive Bhd and APM Automotive Holdings Bhd — are trading at a TTM PER of 38 times and 13 times respectively.

“It (the stock’s valuation) also depends on market sentiment, so we have to show people our vision, our path and, more importantly, our financial results,” he says.

In a report dated May 26, NetResearch Asia analyst Lim Boon Ngee maintains a "buy" on NHF with a target price of RM3.60. "We still like the positive dynamics of growing car populations, steady demand in the replacement market, its resilient earnings base as well as the long-term growth prospects from the more aggressive expansion into export markets," he says.

The research firm expects NHF to offer a decent net dividend yield of 4%, based on a dividend per share of 11 sen in FY2016 and FY2017. It is also projecting a net profit of RM29.7 million on revenue of RM254.6 million in FY2017.

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