

Edge Weekly

New Hoong Fatt set to benefit from Geely-Proton deal

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COMPANY

NHF's five-year financial summary

FINANCIAL YEAR ENDED DEC 31	FY2016	FY2015	FY2014	FY2013	FY2012
Revenue (RM million)	231.8	207.2	200.6	210.6	217.4
Profit before tax (RM million)	36.8	26.5	17.9	27.3	27.6
Net profit (RM million)	29.9	19.2	11.9	20.1	22.7
Earnings per share (sen)	39.9	25.61	15.93	26.81	30.29
Dividend per share (sen)	14	11	10	12	13
Net assets per share (RM)	4.95	4.39	4.19	4.17	4.03
Total borrowings (RM million)	35.2	28.6	19.4	36.1	27.9

AUTOMOTIVE replacement parts manufacturer New Hoong Fatt Holdings Bhd (NHF) sees exciting times ahead. It believes DRB-Hicom Bhd's much-anticipated collaboration with China's Zhejiang Geely Holding Group Co Ltd through Proton Holdings Bhd will benefit companies like itself from an increase in activity.

Managing director Chin Jit Sin says the Chinese carmaker's ambitious plan to produce 500,000 Proton cars for Southeast Asia by 2020 is a big positive for "everyone in the industry".

"It can be very positive because of the way it (Geely) wants to do it. That's the only thing we know at the moment. Based on that, we could say it (Geely-Proton deal) is a good thing for us," he tells The Edge in an interview.

Chin, however, recognises that the positive impact on the bottom line of NHF, if any, can only be seen in a few years' time as the collaboration will take time to bring about results.

"Geely reportedly said it intends to bring in some new models [to revitalise Proton], but we don't know how fast it is going to sell them. If it wants to fast-track its plan, it could just sell the cars in CKD (completely knocked down) [form]," he says, adding that it is still early days in Proton's partnership with Geely.

Conglomerate DRB-Hicom and Geely had on June 23 inked a definitive shareholders' agreement for the latter to come in as a substantial shareholder in Proton with a 49.9% stake for RM460 million.

Of the total consideration, Geely will provide a cash injection of RM170 million for Proton. The balance will be in the form of a transfer of Geely's sport utility vehicle platform for its best-selling Boyue model to the ailing national carmaker.

Other details yet to be ironed out include Proton's role as the manufacturing hub for Geely's right-hand-drive models to be sold in Malaysia and other Asean countries. Proton may also manufacture Volvo vehicles at its Tanjung Malim plant in Perak if there is excess capacity.

The 55-year-old Chin was appointed NHF executive director in 1998 and redesignated as the group's managing director in 2007. His wife, Kam Foong Keng, is executive chairman and a major shareholder. Currently, NHF is 34.09%-owned by Kam, while her mother, Wong Yoke Len, has 13.84% equity interest.

Yeoman Capital Management Pte Ltd owns a 7.02% stake in NHF. It is worth noting that the Singaporean investment fund has been continuously accumulating NHF shares after it emerged as a substantial shareholder in September 2014. The buying stopped in November last year.

Klang-based NHF supplies a wide range of automotive replacement parts to both the original equipment market and the replacement market. It manufactures metal and plastic automotive body parts such as doors, hoods, fenders, trunk lids, bumpers and lamps for the replacement market.

Chin notes that if Geely were to start producing new cars in Malaysia, local automotive replacement parts makers like NHF are set to benefit.

Kam concurs, adding that if Geely were to use Proton's Tanjung Malim plant to build more cars, companies such as NHF would have a bigger task to perform in the future.

"If everything goes well, Geely will come into the picture. Definitely, the market is going to be bigger. And we are not talking about just Malaysia, but the whole of Asean. Overall, it is a positive for our group," she says.

Kam also points out that NHF, which has a bigger exposure to the replacement market, has to constantly monitor Geely's move before planning its own.

"After they (Geely) make a car, the car goes on the road. We make the automotive parts and so, we have to follow the volume size and then develop the accessories. Every year, we spend almost RM20 million on developing new items for new cars — that's how we move," she says.

Indeed, the husband-and-wife team is not complacent.

At the signing of the agreement between DRB-Hicom and Geely on June 23, DRB-Hicom group managing director Datuk Seri Syed Faisal Albar was quoted as saying that there is a window for local Proton vendors to produce parts for vehicles made by Volvo, which is a subsidiary of Geely. "Local vendors can be on Geely's global shared purchasing system ... they stand a chance to produce components for Volvo."

NHF is not the only company looking forward to this partnership. MCE Holdings Bhd, a Proton vendor, also recently highlighted that the collaboration between DRB-Hicom and Geely may be positive for the company going forward.

MCE had on June 23 secured six-year contracts worth RM60 million to supply various electronic and mechatronic components and parts for a new Perodua model.

Meanwhile, Chin is unfazed by Bursa Malaysia-listed China Automobile Parts Holdings Ltd, a Fujian-based car chassis component manufacturer, having a potential advantage over Malaysian automotive replacement parts makers due to its Chinese background.

“Yes, China Automobile is listed here on Bursa. But then again, what do they do and who do they sell to? Most automotive parts are very specific; they usually have to be custom-made.

“Tyres and batteries are mostly generic made. You can buy and install any brand [of tyres and batteries] as long as the size is right. But when it comes to automotive parts and engines, who can really do it?” he asks, pointing out that local automotive replacement parts manufacturers still have a big role to play in the coming years.

NHF 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 50 countries in Asean, the Middle East, Europe, Africa, Central America and South America.

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

Despite a challenging operating environment, NHF finished its financial year ended Dec 31, 2016 (FY2016), with all-time high results in terms of revenue and profit, underpinned by higher demand from both local and overseas markets.

The group’s net profit jumped 55.4% year on year to RM29.9 million in FY2016. This was largely in line with the higher revenue achieved, increased production efficiencies as well as favourable impact from the foreign exchange rate.

Revenue grew 11.9% y-o-y to RM231.9 million, mainly due to a wider product range and expansion of distribution coverage, which in turn drove sales up in domestic and overseas markets.

In a March 16 report, InsiderAsia is of the view that NHF can maintain double-digit growth rates over the next few years as the group’s management is ambitious and sanguine that it can grow the business, targeting 70% contribution from overseas markets by end-2020.

“Its products are also more attractive locally after competitors raised the prices of imported automotive replacement parts and as the rising cost of living forced car owners to down-trade. NHF’s replacement parts are priced substantially lower than original parts,” the research firm says.

It is worth noting that NHF has been paying dividends every year since its listing in 1998. It declared a dividend of 14 sen per share for FY2016.

<http://www.theedgemarkets.com/article/new-hoong-fatt-set-benefit-geelyproton-deal>