

White Horse Berhad Riding Low

We initiate coverage on WTHORSE with a MARKET PERFORM call and TP of RM1.90 based on FY18E PBV of 0.56x (-1.0SD@5 years). While WTHORSE has the largest tiles manufacturing capacity locally, we are cautious over prospects due to the weak property market potentially suppressing tiles demand along with rising energy and labor costs. Projecting FY17-18E CNP of RM14m-17m. Should be able to maintain DPS at 10.0 sen for FY17-18, implying attractive yield of 5.2%.

Malaysia's largest tiles manufacturer. WTHORSE which has manufacturing operations in Malaysia and Vietnam operates a combined capacity of 40m m² (Malaysia at 28.0m m² and Vietnam at 12.95m m²). Their Malaysian capacity accounts for c.30% of local tiles manufacturing capacity, making them the largest Malaysian tiles manufacturer. In total, they have 5 mega tile showrooms known as 'Ceramic World' located nationwide, 11 marketing offices in Malaysia and another 9 sales offices catering to the international market. We note that bulk of their sales are from Malaysia at 72% while Vietnam contributes 18% and other countries at 10% (FY16 breakdown). WTHORSE prides itself on its variety of tiles ranging from low to high-end enabling them to cater to different needs.

RND efforts eclipsed by rising costs. WTHORSE constantly upgrade and maintain their machineries in order to be at par with the market. Since FY14, CAPEX/annum for WTHORSE had ranged from RM25m to RM50m while maintenance expenses are at c.RM10-15m/annum. Moving forward, we expect total energy (electricity and natural gas) required per m² of tiles produced to be driven down by c.8-10% as they have recently upgraded facilities to allow materials to be preheated before being inserted into the firing kiln. However, the recent hike in natural gas prices by GASMSIA of over 21.2% beginning FY18 could offset the cost savings. On a net basis, we estimate a 4% increase in total energy costs/m² of tiles produced. In addition, we remain cautious over an anticipated increase in labor costs in FY18 which could impact bottom line by RM0.8m for every 10% hike from current minimum wage of RM1000. As we expect no heavy expansionary plans for capacity moving forward, **we expect CAPEX of c.RM25m/annum for FY17-18E.**

Dividends intact. WTHORSE has consistently dished out 10.0 sen dividend/annum for the past 10 years, implying DPR of 33-60% over FY07-FY16 (10 years). Moving forward, WTHORSE intends to maintain their 10.0 sen dividend/annum which we believe is sustainable for FY17-18 based on our FCF projections of RM28-22m in FY17-18E while maintaining healthy net gearing of 0.10x.

Weak earnings from a subdued property market. We project FY17-18E earnings of RM14.2-17.0m based on utilization rates of: (i) 75-76% for Malaysia operations and (ii) 38-40% for Vietnam operations. We expect YoY decrease of 62% in FY17E CNP due to the weaker demand for tiles stemming from slower property market leading to a weaker top-line and subsequently margin compressions.

MARKET PERFORM with TP of RM1.90 based on FY18E PBV of 0.56x (5 years -1.0SD). We value WTHORSE using PBV instead of PER which we believe is more reflective given that WTHORSE earnings have been volatile since FY16 due to the slowdown in the property market which is its main contributory factor. We believe our 0.56x PBV valuation at -1.0SD is fair as we remain cautious with (1) the property market which would suppress demand for tiles and (2) rising energy costs i.e. electricity, natural gas and labor costs which accounts for c.40% of operating costs. Rerating catalyst would be the uptick in residential property market. However, we opine that property market will remain subdued unless positive monetary policies or property-related administrative measures are introduced.

MARKET PERFORM

Price: RM1.93
Target Price: RM1.90

Expected Capital Gain: -RM0.03 -1.6%
Expected Divd. Yield: RM0.10 +5.2%
Expected Total Return: RM0.07 +3.6%

KLCI Index 1,771.76

Stock Information

Bloomberg Ticker	WHIT MK Equity
Bursa Code	5009
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	228.9
Market Cap (RM m)	441.8
Par value per share (RM)	1.00
52-week range (H)	2.07
52-week range (L)	1.92
Free Float	72%
Beta	0.5
3-mth avg daily vol:	10,892

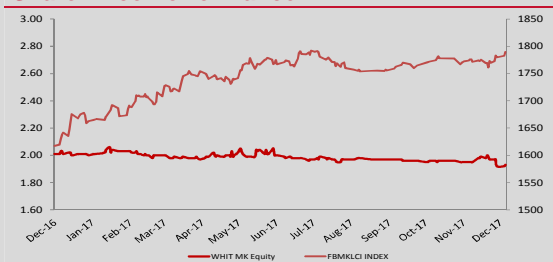
Major Shareholders

Yuan Shun Liao	12.3%
Lembaga Tabung Haji	9.8%
Swee Teng Teo	5.9%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	696	659	674
EBIT	43	42	35
PBT	36	35	29
Net Profit	27	14	17
Core PATAMI	37	14	17
Consensus	n.a.	n.a.	n.a.
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	16.4	6.2	7.4
Core EPS growth (%)	-42%	-62%	19%
NDPS (sen)	10.0	10.0	10.0
NTA per share (RM)	3.36	3.37	3.37
Price to NTA (x)	0.58	0.58	0.58
PER (x)	12.0	31.5	26.4
Debt-to-Equity ratio (x)	0.12	0.10	0.09
Return on Asset (%)	3.1%	1.2%	1.5%
Return on Equity (%)	4.9%	1.8%	2.2%
Net Div. Yield (%)	5.1%	5.1%	5.1%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.0%	-2.0%	-4.0%
Relative (%)	-4.0%	-2.5%	-13.4%

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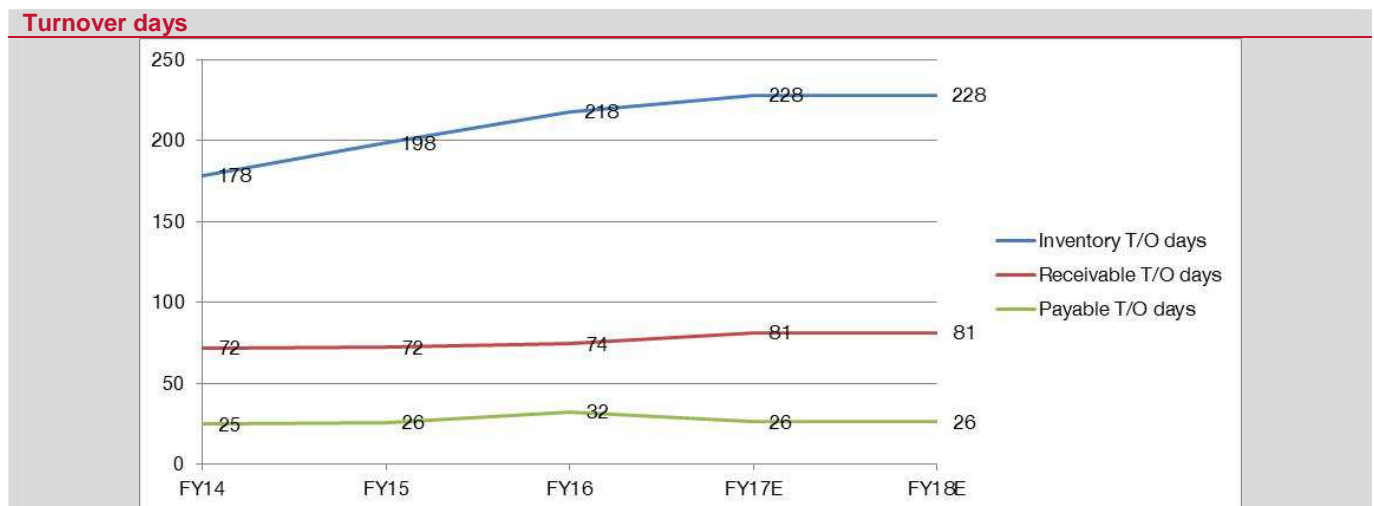
INVESTMENT MERIT

Malaysia's largest tiles manufacturer. WTHORSE operates 3 tiles manufacturing plants in South East Asia, with 2 located in Pasir Gudang, Johor, Malaysia and 1 in Vietnam. The total manufacturing capacity for the 3 plants combined is c.40m sqm/annum (split between Malaysia at 28.0m m² and Vietnam at 12.95m m²) as WTHORSE has 20 production lines (Malaysia - 15, Vietnam - 5). Their Malaysian capacity accounts for c.30% of total industry capacity locally, making them the largest tile maker in the country compared to other manufacturers such as MML, Guocera, KIMHIN, Seacera, and Niro which we believe have capacity ranging between 2.0m-24.0m m².

Well-equipped show rooms coupled with extensive marketing network. WTHORSE has 5 mega tile showrooms known as 'Ceramic World' where each showroom spans 12,000sf-48,000sf in size located in Selayang, Johor Bahru, Butterworth, Alor Setar and Klang. These showrooms allow clients to see the display of hundreds of mock-up units simulating living rooms, kitchens and bathrooms using their tiling range. We believe these showrooms are essential and bode well with WTHORSE's brand strength especially within the retail and renovation markets. Showrooms aside, WTHORSE has 11 other marketing offices in place throughout Malaysia and another 9 sales offices to cater for the international market. We note that their distribution network is supported by nearly 1,000 dealers throughout Malaysia with real-time inventory monitoring system – allowing for prompt delivery of products. Internationally, they cover Vietnam, Singapore, Philippines, Thailand, Indonesia, China, India, Pakistan, Vietnam and Cambodia. **However, bulk of its sales is from Malaysia at 72% while Vietnam contributed 18% and the rest at 10% (based on FY16 sales).**

A wide variety of tiles for all market segments. WTHORSE provides a variety of products with different sizes and designs for clients' selection. They manufacture 3 main types of tiles namely Glazed tile, Homogenous tiles and Multi Effect tile. Glazed tiles are lower grade tiles while homogenous tiles are mid-tier. The multi-effect tiles being the highest quality tiles mimic natural stones such as granite, marble and travertine and is priced at a premium given that WTHORSE is among the few players in Malaysia capable of manufacturing them. We believe that with its wide range of offering, WTHORSE is able to cater to different market segment needs and requirements ranging from the lower end market to premium market, unlike peers that are only able to cater for single market segment. Margins-wise, multi effect tiles have the highest margins followed by homogenous tiles and then glazed tiles. In terms of tile sizing, WTHORSE can produce tiles as small as 0.2m x 0.2m up to sizes of 0.6m x 1.8m. We note that as technology advances, larger tiles can be manufactured as WTHORSE upgrades their machinery. As for tiles with polished edges which are more labour intensive, WTHORSE engages Chinese OEM partners. That said, OEM sales accounts only for a small fraction of group's total sales at <5%.

Turnover days analysis. Since FY14-FY16, WTHORSE has relatively stable payable and receivable days (refer chart below) indicating that they have good capital control over their suppliers and clients/dealers. However, we note that inventory turnover days have started to increase from 178 days in FY14 to 218 days in FY16 which we strongly believe is due to the subdued residential property market which had subsequently slowed down their sales and hence longer days to clear their inventory i.e. higher inventory turnover days. Moving forward, we had assumed inventory, receivable and payable days for FY17-18E as per the graph below. We conservatively expect their inventory turnover days to increase slightly to 228 days in FY17-18E in line with the subdued residential property market while expecting them to maintain their stable receivable and payable days.

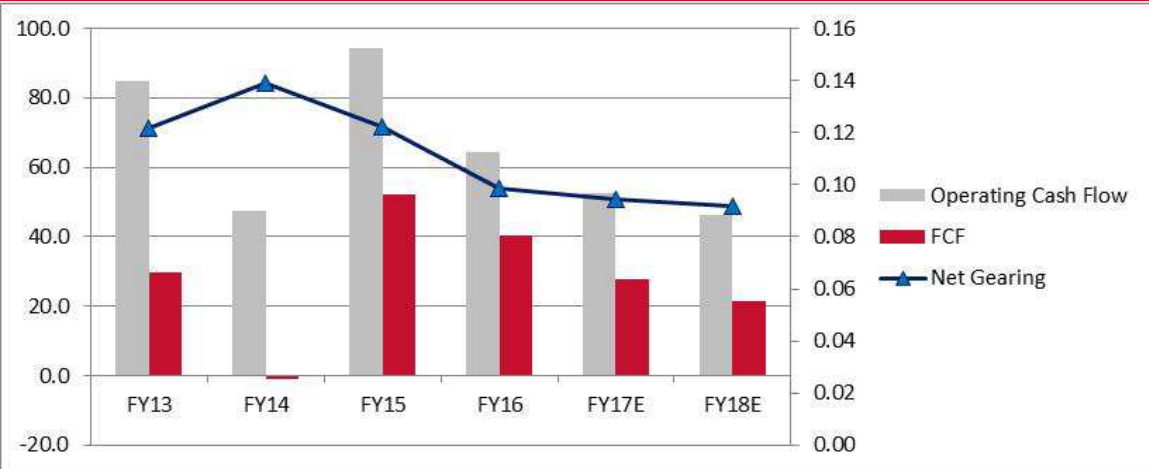


Source: Company, Kenanga Research

Decent balance sheet and stable cash flow leading to consistent dividends. WTHORSE has been maintaining their net gearing at 0.10-0.13x levels since FY13, with current net gearing at 0.12x (as of 3Q17) which we deem relatively healthy. Also, we note that operating cash flow has been robust ranging from RM47-85m/annum while free cash flow (FCF) is also relatively decent at >RM20m since FY13 (with exception to FY14) as shown in the graph below. We note that FCF in FY14 turned negative due to (i) higher working cap requirements from the increase in sales revenue and (ii) acquisition of new land and construction of new warehouse in Johor as they move out from their rented unit. Moving forward, we are estimating FCF of RM28m-21m in FY17-18E and we believe WTHORSE would be able to maintain their balance sheet strength (net gearing maintained at 0.10x level for FY17-18E) and continue to maintain 10.0 sen dividend/annum (under 2 tranches in December and June) similar to what they have done for the past 10 years. CAPEX-wise, CAPEX per annum for WTHORSE ranges from

RM25m to RM50m since FY14 while maintenance opex expenses are at c.RM10-15m/annum. We note that maintenance opex are for smaller machinery items/spare parts which typically worth >RM1m in value and are expensed out in the Income Statement. Given no heavy expansionary plans for capacity moving forward, we expect CAPEX to be in the range of c.RM25m/annum for FY17-18E.

Cash flow analysis



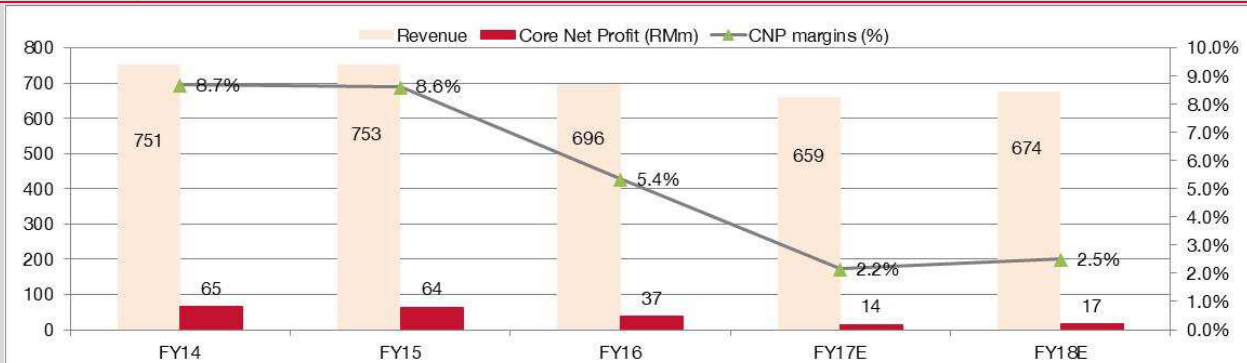
Source: Company, Kenanga Research

FINANCIAL ANALYSIS

FY17-18E earnings forecast. We project FY17-18E earnings of RM14.2-17.0m implying a YoY growth of -62-19%. We note that we are expecting a large YoY decrease in FY17E CNP due to the weaker demand for tiles stemming from slower property market leading to margin compression. For FY18, the earnings growth of 19% stemmed from slightly better utilisation of capacity for Malaysia and Vietnam compared to FY17. Our earnings estimates are based on utilization rates of (i) 75%-76% for Malaysia operations and (ii) 38%-40% for Vietnam operations.

Subdued CNP margins in near future. In FY16, CNP margins declined to 5.4% (-3.3ppt YoY) due to the lower sales revenue from the subdued property market where WTHORSE generates a large proportion of their domestic sales. As we foresee the property market to remain subdued (refer to *Industry Outlook for more*), we expect WTHORSE to continue registering similarly weak CNP margins for FY17-18E at 2.2%-2.5% on the back of lower revenue. Note that we have derived our FY17-18E margins assumptions of 2.2%-2.5% closely based on WTHORSE's latest 9M17 CNP margins which was at a meagre 1.5%. We expect FY17E CNP margins to recover slightly to end the year at 2.2%, stemming from stronger revenue in 4Q17 due to seasonality as 4Q has typically been the strongest quarter since FY13.

Group NP analysis



Source: Company, Kenanga Research

Dividend intact. While there is no formal dividend policy in place, we note that WTHORSE has consistently dished out 10.0 sen dividend/annum for the past 10 years, which implies a dividend pay-out ratio of 33-60% over FY07-FY16 (10 years). We note that WTHORSE intends to continue maintaining the 10.0 sen dividend/annum policy despite our FY17-18E earnings projections indicating a high payout ratio of 161%-135%. However, we believe the 10.0 sen/annum dividend pay-out (total RM22.9m in dividend/annum) is sustainable based on our FCF projections of RM28m-RM22m in FY17-18E while maintaining healthy net gearing of 0.10x for FY17-18E.

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PEER COMPARISONS (KIMHIN)

- Peers selection.** We select KIMHIN and SEACERA to be WTHORSE peers as (i) they have similar business operations – manufacturing of tiles and (ii) they will be affected by the same industry dynamics. While there are other tiling players in the Malaysian space, i.e. MML, Guocera, Niro and etc., we note that those players are not listed. Market capitalization wise, WTHORSE, KIMHIN and SEACERA have similar market capitalizations of <RM500m. We note that there is no coverage on SEACERA and consensus figures are only available for KIMHIN.
- Margins.** Historically, over the past 5 years, WTHORSE had been registering more stable CNP margins of 5-9% compared to peers' range of 1-8% which are more volatile. However, moving forward, we are anticipating WTHORSE to experience compression on CNP margins to 2.2-2.5% for FY17-18E while KIMHIN is also expected to experience margins squeeze to 2.0-2.5% due to reduced sales from the slowdown of property market.
- Earnings growth.** In line with our expected YoY earnings growth for WTHORSE of -62%/19% for FY17E/FY18E, KIMHIN's earnings growth is also expected to take a dip by 74% in FY17E before recovering by 26% YoY for FY18E. The weak growth stems from lower property launches and hence less demand for tiles in FY17E/FY18.
- Net gearing.** Net gearing levels for peers remain relatively healthy with KIMHIN at **net cash position** of 0.07x and SEACERA at net gearing of 0.09x. While WTHORSE's net gearing of 0.10x is the highest amongst them, we are comfortable as (i) it is only marginally higher than peers, and (ii) WTHORSE is the largest tiles player in Malaysia and they continually strive towards innovation through higher RND and CAPEX allocations.
- Dividends.** For FY17-18E, WTHORSE's yield of 5.2% is higher compared to KIMHIN's 3.0%. We note that WTHORSE is expected to dish out DPR of 161% compared to KIMHIN's DPR of 89%.

Overall, WTHORSE's core strength against its peers lies with their (i) largest manufacturing capacity which would benefit the most in terms of absolute earnings should the residential property market recovers, and (ii) higher dividend yields supported by relatively healthy balance sheet.

Company Name	Last Price (27/12/17)	Market Cap (RM m)	Core Net Profit			CNP Growth (YoY)		PER		
			Actual	1 yrFwd	2 yrFwd	1 YrFwd	2 yrFwd	Actual	1 yrFwd	2 yrFwd
WTHORSE	1.93	441.8	37.5	14.2	17.0	-62%	19%	11.8	31.0	26.0
SEACERA	0.895	315.3	6.1	n.a.	n.a.	n.a.	n.a.	51.7	n.a.	n.a.
KIMHIN	1.43	200.5	29.9	7.9	10.0	-74%	26%	6.7	25.4	20.1

Source: Bloomberg, Kenanga Research

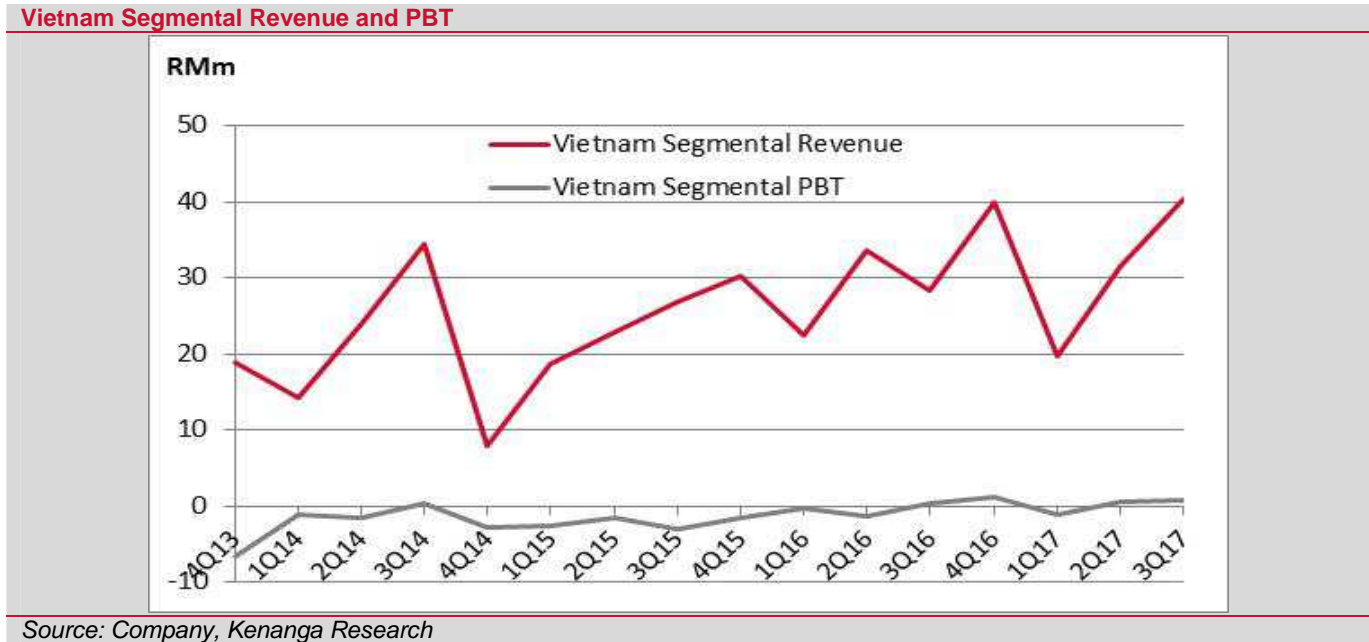
Company Name	Historical	1 yrFwd	1 yrFwd	1 yrFwd	CNP Margins			ROE	Net Gearing
	BV/Share	DPS	DPR	Yield	Actual	1 yrFwd	2 yrFwd		
WTHORSE	3.39	0.10	161%	5%	5.4%	2.2%	2.5%	1.8%	0.10
SEACERA	1.93	n.a.	n.a.	n.a.	8.8%	n.a.	n.a.	n.a.	0.09
KIMHIN	3.69	0.05	89%	3%	7.4%	2.0%	2.5%	1.5%	(0.07)

Source: Bloomberg, Kenanga Research

COMPANY OUTLOOK

Innovations through RND. WTHORSE constantly upgrade and maintain their machineries in order to be updated with the market. Since FY14, CAPEX/annum for WTHORSE ranges from RM25m to RM50m while maintenance expenses are at c.RM10-15m/annum. Moving forward, **we expect total energy required per m² of tiles produced to be driven down by c.8-10% as they have upgraded facilities to allow materials to be preheated before being inserted into the firing kiln. However, we note that the recent hike in natural gas prices by GASMSIA by over 21.2% beginning FY18 would offset this cost savings. On a net basis, we are estimating a 4% increase in total energy costs/m² of tiles produced.** In addition, WTHORSE also conduct research and development on materials to engineer their products so that they require less energy to produce. Given no heavy expansionary plans for capacity moving forward, we expect CAPEX to be in the range of c.RM25m/annum for FY17-18.

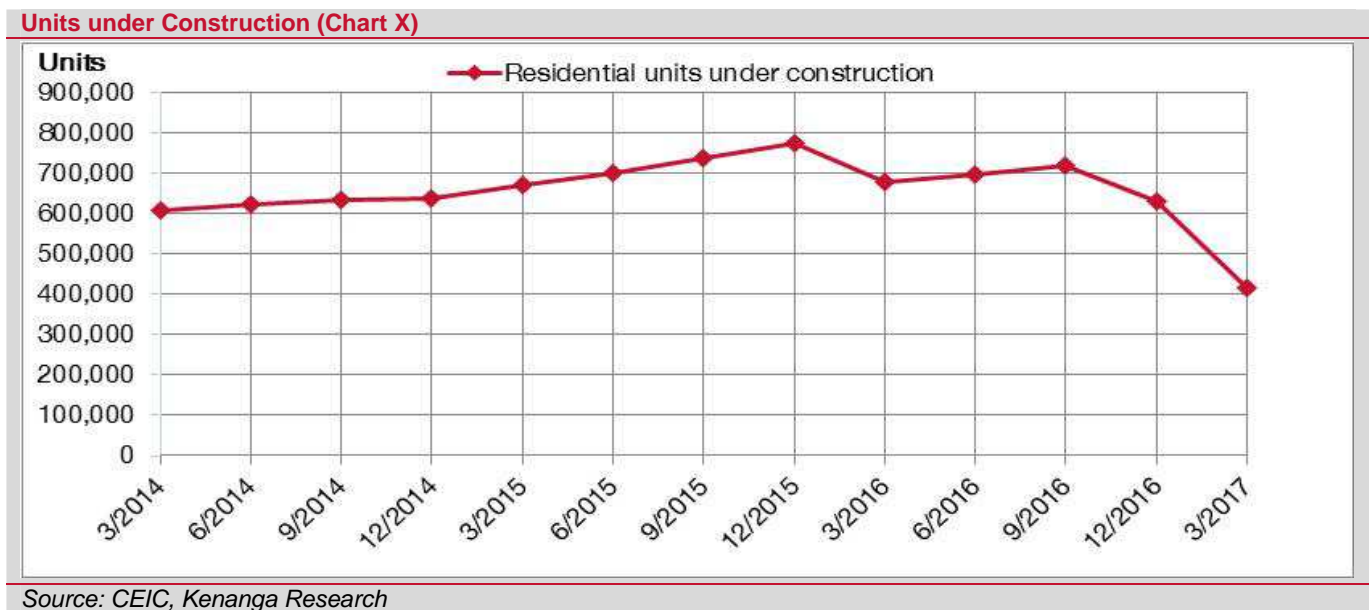
Vietnamese operations seeing some light. Since its acquisition in 2013, WTHORSE's Vietnam operations which houses 12.95m m² of tiling capacity have been incurring losses before tax due to production of mid to high-end tiles which were not too appealing to the Vietnamese market leading to (i) low utilisation and sales and (ii) clearance of stocks at a discounted price. However, in FY16, WTHORSE managed to turn its Vietnam operations back into the black albeit with minimal PBT of RM0.1m on the back of stronger sales. Moving forward, we are turning positive on its Vietnam operation and believe that it will unlikely to make further losses given that they have been catering towards the lower end market. That said, we do not expect Vietnam operations to contribute substantially towards the group bottom-line in the near future. However, we remain long-term positive on their Vietnam operations from WTHORSE's constant effort to drive cost down and note that Vietnam top-line is showing growth with its latest quarter (3Q17) registering a record high revenue of RM40m which is a positive sign indicating higher utilisation and sales.



INDUSTRY OUTLOOK

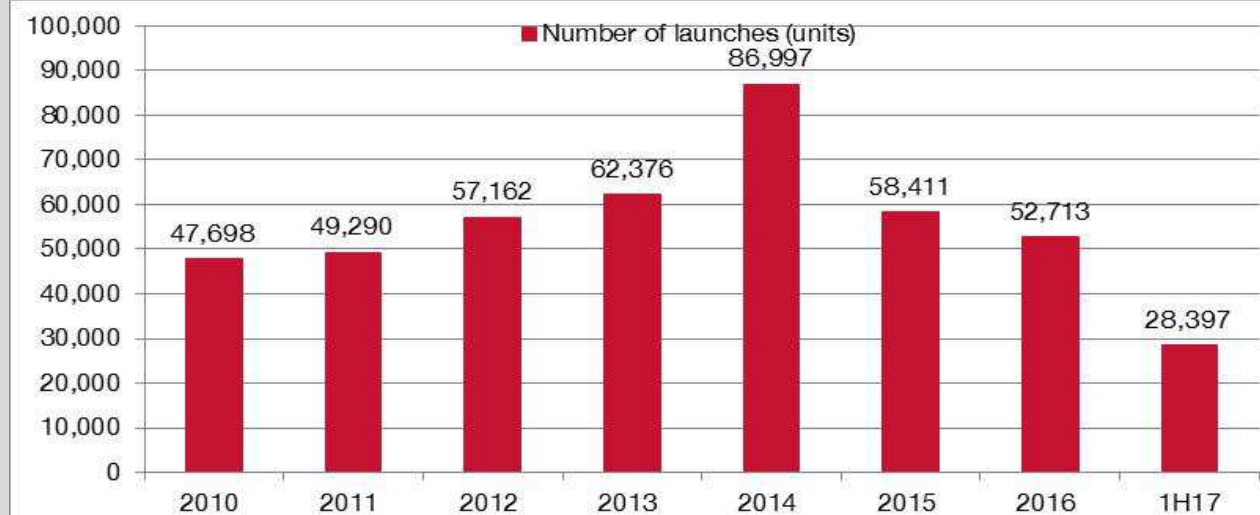
Subdued demand from slackened property market. Domestically, WTHORSE's tiles demands are driven largely by **new projects** and also from the replacement/renovation market. We believe that a huge proportion of WTHORSE's tiles demand are driven by new property projects (c.70%) instead of the renovation/replacement space as the renovation market is more fragmented and competitive as users have a higher tendency to opt for higher quality natural stones i.e. marbles/granite/travertine which are typically imported by local dealers/distributors.

As observed from Malaysian residential 'units under construction' data which we deem as a demand indicator of the current tiles market (chart X), we can understand the dip in sales revenue WTHORSE is currently experiencing due to slower construction in the residential space. Moving forward, we believe the demand for tiles would likely remain subdued from the weaker launches for new property projects which has slowed down since the peak of 2014 (refer graph Y) especially from the Johor and KL region. Also, we believe the softening of the property market activities has led to stagnant pricing of ceramic tiles due to excess supply.



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Number of Residential property Launches (Chart Y)



Source: NAPIC, Kenanga Research

RISKS

Higher natural gas charges. Recently, GASMSIA announced that they would increase natural gas charges in FY18 by over 23% (from RM26.46MMBtu to RM32.52MMBtu). Given that natural gas makes up c.16% of COG, we are negative on the hike in natural gas which would have an impact towards bottom-line. Based on our sensitivity analysis, a further 10% increase in natural gas cost from existing RM32.52/MMBtu (new rate in FY18) would cause a 35% decrease to our FY18E CNP projection of RM17.0m. That said, we believe a further hike in natural gas for FY18E is unlikely.

Hike in minimum wage. Currently, minimum wages in Malaysia are at RM1,000 with the last raise in July 2016. For WTHORSE, labour costs makes up c.15% of COGS where they have c.2,000 number of workers at their manufacturing plants (Malaysia and Vietnam). We understand the next review of minimum wage would be in FY18 (and likely to be implemented in July FY18) as announced by the Human Resource Minister Datuk Seri Dr Richard Riot Jaem. While the indicative value of hike has not been announced, our sensitivity analysis indicates that for every 10% hike in minimum labour, there will be a negative c.RM0.8m impact towards bottom-line indicating c.5% of FY18E CNP of RM17m. For now, we remain cautious over the rate hike and would review our earnings estimates when the official announcement is made. We note that 'Minimum Wages Order' must be reviewed at least once in every two years.

FOREX – USD risks. As of 9M17, WTHORSE has USD36m worth of USD-denominated loans equivalent to RM153m. Their USD denominated loans make up a large portion of loans accounting for c.78% of total loans of the group. Hence, any strengthening/weakening of USD would indirectly cause the group to register unrealized loss/gains, respectively. That said, we note that **we typically exclude unrealized FX loss/gains from our Core Net Profit (CNP)** calculations. For FY17-18E, we project an average USD/MYR rate of 4.30/4.10 in line with our in-house estimates. For its Vietnam operations, we note that the functional currency there is in VND (Vietnamese Dong). Upon consolidation of group accounts, the Vietnamese operations would have to be converted to be represented in MYR. Hence, a stronger VND against the MYR would mean higher contributions of Vietnamese profits towards WTHORSE's consolidated group accounts. However, given the low CNP contributions from Vietnam, we note that 10% appreciation/depreciation of the VND against MYR (our current VNDMYR estimate for FY17-18E is 0.19) would result in minimal fluctuations of >1% towards FY17-18E bottom-line.

Increasing competitive landscape. WTHORSE operates in a stiff competitive environment with other local manufacturers and building material importers. In order to remain competitive and relevant, WTHORSE continues to focus on research and development for further advance product innovation and cost reduction. We note that in the FY16, WTHORSE had introduced 60% more new product models than the previous year.

VALUATION & RECOMMENDATION

MARKET PERFORM with TP of RM1.90. We value WTHORSE at RM1.90 based on FY18E PBV of 0.56x (5 years -1.0SD) with a MARKET PERFORM rating. We opt to value WTHORSE using PBV instead of PER which we believe is more reflective given that WTHORSE earnings have been volatile since FY16 due to the slowdown in property market which had negatively impacted their earnings. We believe our 0.56x PBV valuation at -1.0SD is fair as we remain cautious with (i) the property market potentially suppressing demand for tiles as WTHORSE is the largest tiles manufacturer in Malaysia and (ii) rising energy cost i.e. electricity, natural gas and labour costs which is a substantial portion of operating costs at c.40%.

On the flip side, given WTHORSE's strong balance sheet and robust cash flow, we opine that they would still be able to maintain their 10.0 sen dividend per share for FY17-18, implying attractive yield of 5.2%.

We believe rerating catalyst for WTHORSE would be the uptick in residential property market. However, we are in the view that property market to remain subdued unless positive monetary policies or property-related administrative measures are introduced.



APPENDIX

White Horse Berhad was founded in 1997 and is based in Johor Bahru. The company is listed on Bursa Malaysia and made its debut in the Kuala Lumpur Stock Exchange on October 1999. The group is an investment holding company, and also engaged in provision of management services. White Horse Berhad operates in three segments: Malaysia, Vietnam and Others. The company, through its subsidiaries, manufactures and distributes ceramic and homogenous tiles such as ceramic floor tiles, ceramic wall tiles, interchangeable floor and wall tiles and also multipipe series tiles. The group's subsidiaries include White Horse Ceramic Industries Sdn. Bhd., White Horse Marketing Sdn. Bhd., White Horse Ceramic Industries (Vietnam) Co., Ltd., White Horse Ceramic (S) Pte. Ltd. and White Horse Ceramic (Phil.) Inc.

Summary on White Horse Berhad. In 1992, three parties from Taiwan, Malaysia and Singapore joined forces to create a new company that would set the standard for the region's ceramic tile manufacturing industry. This union saw the emergence of the White Horse Ceramic Industries Sdn Bhd, which is recognised as one of the leading ceramic tile manufacturers in the Asia-Pacific region with over 50 years of accumulated experience.

Malaysia segment

Engaged in manufacturing and distribution of ceramic homogenous tiles in Malaysia.

Vietnam segment

Engaged in manufacturing and distribution of ceramic homogenous tiles in Vietnam.

Other segment

Engaged in the distribution of ceramic homogenous tiles in Indonesia, Philippines, Singapore and Thailand.



Source: Company, Kenanga Research

Board of Directors' Profile		
Name	Position	Background
Liao Yuan Shun	Executive Chairman	<ul style="list-style-type: none"> Ventured into the ceramic tiles industry upon finishing his secondary education in Taiwan Was appointed to the Board as Executive Chairman of White Horse Berhad on 6 August 1999 Has more than 35 years of experience in Ceramic Tiles Industry Sits on the board of several private limited companies in Malaysia Chairman of the Remuneration Committee
Teo Swee Teng	Deputy Managing Director	<ul style="list-style-type: none"> Started a business in marketing and distributing of ceramic tiles upon completing secondary education in 1983 Was appointed to the Board on 6 August 1999 Sits on the board of several private limited companies in Malaysia
Cheng Soon Mong	Deputy Managing Director	<ul style="list-style-type: none"> Has over 40 years of experience in the ceramic tiles business Was appointed to the Board on 6 August 1999 Has been an Executive Director of White Horse Ceramic Industries SdnBhd since its incorporation in 1991 Sits on the board of several private limited companies in Malaysia
Liao Jung Chu	Non-Independent Non-Executive Director	<ul style="list-style-type: none"> Has completed senior high education in veterinarian studies Ventured into the ceramic tiles industry in 1972 Was appointed to the Board on 6 August 1999 Member of the Nomination Committee and the Audit Committee of the company
Teo Kim Lap	Non Independent Non-Executive Director	<ul style="list-style-type: none"> Was appointed to the Board on 6 August 1999 Ventured into the ceramic tiles business upon completion of his secondary education Presently sits on the board of several private limited companies
Liao Shen Hua	Non Independent Non-Executive Director	<ul style="list-style-type: none"> Has a diploma in Electrical Engineering from Ta Hua College of Technology, Taiwan Was introduced to the ceramic tiles industry soon after graduation in 1987 Currently responsible for the overall manufacturing operation of White Horse Ceramic Industries SdnBhd as the Executive Director Was appointed as the Executive Director in 1991
Teo Kim Tay	Non Independent Non-Executive Director	<ul style="list-style-type: none"> Was appointed to the Board on 6 August 1999 Ventured into the ceramic tiles industry upon completion of secondary education Presently sits on the board of several private limited companies
Law Piang Woon	Non-Executive Director	<ul style="list-style-type: none"> Holds a degree in Commerce (Accountancy) from Nanyang University, Singapore Member of the Malaysia Institute of Accountant Holds various qualifications including Certified Public Accountant (Australia), Chartered Accountant of the Institute of Singapore Chartered Accountants, Fellows of the Chartered Tax Institute of Malaysia and Association of Chartered Certified Accountants Chairman of both the Audit Committee and Nomination Committee, as well as a member of the Remuneration Committee
Chew Pei Fang	Independent Non-Executive Director	<ul style="list-style-type: none"> Was appointed on Board on 20 June 2001. Graduated with a Bachelor of Social Science (Economics Honours) in 1985 Has worked in several companies with vast experience in the field of administration Member of the Audit Committee, Nomination Committee and Remuneration Committee
Rosita Yeo Swat Geok	Non-Executive Director	<ul style="list-style-type: none"> Was appointed on Board on 19 April 2013 Graduated with a Bachelor of Law LBB (Honours) in 1978 and has been actively practicing law since then Has been managing her own law firm Messrs. Yeo & Co Advocates & Solicitors from June 1989 to June 2016 Has been practising as a consultant at a law firm, Messrs. Chua & Partners since 1 July 2016

Source: Company; Kenanga Research

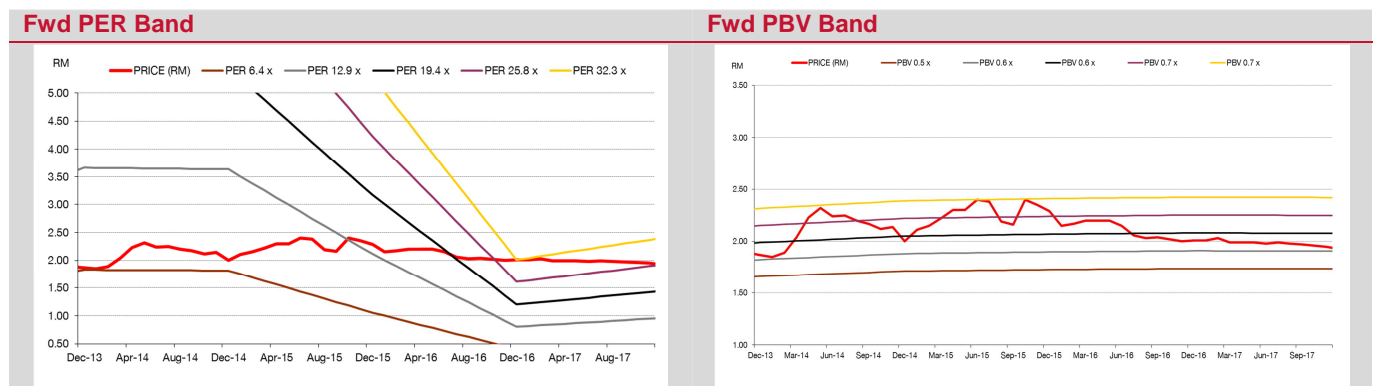
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Income Statement						Financial Data & Ratios					
FY Dec (RMm)	2014A	2015A	2016A	2017E	2018E	FY Dec (RMm)	2014A	2015A	2016A	2017E	2018E
Revenue	751	753	696	659	674	Growth					
EBITDA	126	98	83	72	75	Revenue	16%	0%	-8%	-5%	2%
Depreciation	-36	-44	-40	-40	-40	EBITDA	10%	-22%	-15%	-13%	4%
EBIT	90	54	43	42	35	EBIT	11%	-40%	-20%	-2%	-17%
Interest Expense	-13	-6	-7	-7	-6	Pre-tax Income	2%	-38%	-25%	-2%	-18%
Investing	0	0	0	0	0	Net Income	17%	-42%	-20%	-48%	19%
Associate/JCE	0	0	0	0	0	Core Net Income	26%	-1%	-42%	-62%	19%
Exceptionals/FV	6	30	10	0	0	Profitability %					
PBT	77	48	36	35	29	EBITDA Margin	18%	17%	13%	10%	10%
Taxation	-18	-13	-9	-8	-7	EBIT Margin	13%	11%	8%	4%	4%
Minority Interest	0	0	0	0	0	PBT Margin	11%	10%	7%	3%	4%
Net Profit	59	34	27	14	17	Net Margin	9%	9%	5%	2%	3%
Core Net Profit	65	64	37	14	17	Effective Tax	-22%	-17%	-19%	-36%	-30%
						ROE	9%	9%	5%	2%	2%
						ROA	5%	5%	3%	1%	1%
						DuPont Analysis					
						Net margin (%)	9%	9%	5%	2%	3%
						Assets Turnover (x)	0.63	0.59	0.58	0.57	0.58
						Leverage Factor (x)	1.62	1.67	1.57	1.51	1.50
						ROE (%)	9%	9%	5%	2%	2%
						Leverage					
						Debt/Asset (x)	0.18	0.20	0.20	0.17	0.16
						Debt/Equity (x)	0.29	0.33	0.32	0.25	0.25
						Net Debt/(Cash)	89.76	105.90	93.96	76.21	73.08
						Net Debt/Equity (x)	0.12	0.14	0.12	0.10	0.09
						Valuations					
						Core EPS (sen)	28.3	28.1	16.4	6.2	7.4
						NDPS (sen)	10.0	10.0	10.0	10.0	10.0
						NTA/sh (RM)	3.22	3.33	3.36	3.37	3.37
						Core PER (x)	6.8	6.9	11.8	31.0	26.0
						Net Div. Yield (%)	5.2%	5.2%	5.2%	5.2%	5.2%
						PNTA (x)	0.60	0.58	0.58	0.57	0.57

Balance Sheet					
FY Dec (RMm)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	471	482	463	448	433
Intangibles	1	1	1	1	1
Other FA	53	68	17	17	17
Inventories	367	410	415	393	403
Receivables	180	167	161	183	188
Other CA	1	1	1	1	1
Cash	124	144	150	120	118
Total Assets	1197	1273	1209	1163	1160
Payables	213	241	181	180	182
ST Borrowings	211	249	230	182	177
Other ST Liability	7	5	0	0	0
LT Borrowings	2	1	14	14	14
Other LT Liability	25	16	15	15	15
Minority Int.					
Net Assets	738	762	768	773	771
Share Capital	240	240	240	247	247
Reserves	-2	10	13	6	6
RE	500	512	515	519	518
Total Equity	738	762	768	773	771

Cashflow Statement					
FY Dec (RMm)	2014A	2015A	2016A	2017E	2018E
Operating CF	47	94	64	53	46
Investing CF	-58	-42	-23	-25	-25
Financing CF	8	-32	-37	-58	-23
Change In Cash	-3	20	5	-30	-1
Free CF	-1	52	40	28	21

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (27/12/17)	Mkt Cap	Core PER (x)			Est. Net Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			FY17 NP Growth	FY18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16A	FY17F	FY18F	(%)	(%)	(x)	FY16A	FY17F	FY18F	(%)	(%)	(RM)	
ANN JOO RESOURCES BHD	3.86	1,990	12.5	9.1	9.0	5.5%	15.6%	1.8	154.1	219.0	228.0	42%	4%	4.70	OUTPERFORM
LAFARGE MALAYSIA BHD	6.14	5,217	61.7	-32.9	88.3	0.0%	2.8%	1.7	86.6	-158.6	59.1	-283%	-137%	4.10	UNDERPERFORM
PRESS METAL BERHAD	5.24	19,743	44.4	31.0	19.8	1.2%	12.0%	9.0	430.0	618.0	964.0	44%	56%	5.00	MARKET PERFORM
UNITED U-LI CORPORATION BERHAD	3.63	527	17.0	17.5	11.4	1.7%	11.8%	4.4	31.1	30.2	46.3	-3%	53%	4.45	MARKET PERFORM
WHITE HORSE BERHAD	1.93	442	11.8	31.0	26.0	5.2%	4.9%	0.6	37.5	14.2	17.0	-62%	19%	1.90	MARKET PERFORM

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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