

23 November 2018

## White Horse Berhad 9M18 Missed Expectations

WTHORSE's 9M18 Core Net Loss (CNL) of RM1.8m missed both consensus' and our FY18E CNP RM3.2m and RM6.7m, respectively. No dividend was announced as expected. Downgrade to UNDERPERFORM with lower TP of RM1.50 (from RM1.75) given a lower Fwd. PBV valuation of 0.50x (from 0.56x) based on FY19E BV/share of RM3.02 (from FY18E BV/share of RM3.21).

**9M18 missed expectations.** Excluding one-off unrealised forex loss (RM3.3m), Property Plant and Equipment (PPE) write-down (RM0.09m) and loss on disposal of PPE (RM0.09m), 9M18 CNL of RM1.8m missed both consensus' and our FY18E CNP RM3.2m and RM6.7m, respectively. The negative deviation stemmed from lower-than-expected tiles demand in Malaysia and Vietnam and weaker-than-expected ASPs leading to margins erosion. No dividend was announced as expected.

**Results highlight.** YoY, 9M18 registered CNL of RM1.8m from a CNP position of RM17.2m owing to weaker performance from both of its Malaysia and Vietnam operations due to weak market demand coupled with stiff pricing competition. QoQ, 3Q18 registered CNL of RM1.1m (after reversal of unrealised forex loss of RM4.3m) vis-à-vis CNP of RM3.6m in 2Q18. We believe that the poor performance was mainly dragged by weaker-than-expected volume production and ASPs arising from the intense competition that led to margins erosion.

**Outlook.** Management noted that business operations remain challenging in view of market competitiveness and high production and operating cost. We are cautious over WTHORSE's outlook due to the slowing down of property and construction jobs in the market affecting its sales volume, coupled with rising cost pressure.

**Earnings revision.** We cut our FY18/19E earnings estimates by 162%/187% to CNL of RM4.1m/RM8.2m after accounting for weaker plant utilization and weaker ASPs for both Malaysia and Vietnam markets in view of the slower industry demand leading to stiffer competition.

**Downgrade to UNDERPERFORM with lower TP of RM1.50** (from RM1.75) given a lower Fwd. PBV valuation of 0.50x (from 0.56x) based on updated historical trough levels while we also roll forward our valuation base to FY19E BV/share of RM3.02 (from FY18E BV/share of RM3.21). We believe our UNDERPERFORM call is justified given (i) this is the 3rd quarterly loss WTHORSE has registered since 4Q17 (ii) the subdued property market suppressing demand for tiles, (iii) potential write-down in inventories from slow moving goods, and (iv) rising energy (natural gas) and labour costs, which make up substantial portion of operating costs at c.40%.

**Risks to our call** include sharp rises/falls in ASPs and production volume.

## UNDERPERFORM ↓

Price: **RM1.60**  
Target Price: **RM1.50** ↓

Expected Capital Gain: **-RM0.100 -6.3%**  
Expected Divd. Yield: **RM0.000 0.0%**  
Expected Total Return: **-RM0.100 -6.3%**

KLCI Index 1,810.87

### Stock Information

Bloomberg Ticker	WHIT MK Equity
Bursa Code	5009
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	228.6
Market Cap (RM m)	365.7
Par value per share (RM)	1.00
52-week range (H)	2.00
52-week range (L)	1.55
Free Float	72%
Beta	0.5
3-mth avg daily vol:	9,715

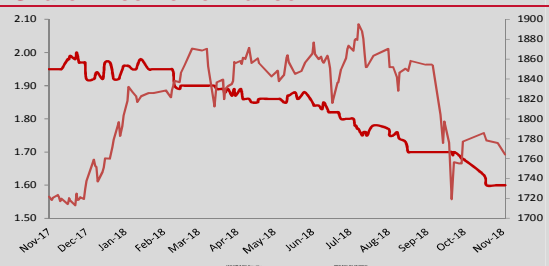
### Major Shareholders

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

### Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	642.8	611.2	607.8
EBIT	13.6	-0.3	-5.5
PBT	6.8	-5.9	-11.0
<b>Net Profit</b>	<b>-0.8</b>	<b>-4.1</b>	<b>-8.2</b>
<b>Core PATAMI</b>	<b>-0.8</b>	<b>-4.1</b>	<b>-8.2</b>
Consensus	N.A.	3.2	8.8
Earnings Revision	N.A.	-162%	-187%
Core EPS (sen)	-0.4	-1.8	-3.6
Core EPS growth (%)	n.m.	-19.5%	-50.0%
NDPS (sen)	7.0	0.0	0.0
NTA per share (RM)	3.26	3.16	3.02
Price to NTA (x)	0.49	0.51	0.53
PER (x)	159.3	-88.6	-44.5
Debt-to-Equity ratio (x)	0.15	0.12	0.15
Return on Asset (%)	-0.1%	-0.4%	-0.8%
Return on Equity (%)	1.9%	-0.6%	-1.2%
Net Div. Yield (%)	4.0%	0.0%	0.0%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-4.3%	-4.3%	-10.2%
Relative (%)	-5.1%	-0.7%	89.8%

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<b>Results Highlights</b>								
<b>YE Dec (RM m)</b>	<b>3Q18</b>	<b>2Q18</b>	<b>QoQ</b>	<b>2Q17</b>	<b>YoY</b>	<b>9M18</b>	<b>9M17</b>	<b>YoY</b>
Revenue	168.5	145.4	16%	159.3	6%	459.7	473.7	-3%
<b>EBITDA</b>	<b>3.7</b>	<b>4.8</b>	<b>-23%</b>	<b>26.3</b>	<b>-86%</b>	<b>21.9</b>	<b>61.4</b>	<b>-64%</b>
Depreciation	-7.4	-7.4	0%	-10.1	27%	-22.0	-30.3	27%
<b>EBIT</b>	<b>-3.7</b>	<b>-2.6</b>	<b>-44%</b>	<b>16.2</b>	<b>-123%</b>	<b>0.0</b>	<b>31.1</b>	<b>-100%</b>
Finance expense	-2.0	-1.6	-25%	-1.8	-8%	-5.0	-5.2	3%
<b>PBT</b>	<b>-5.7</b>	<b>-4.2</b>	<b>-37%</b>	<b>14.3</b>	<b>-140%</b>	<b>-5.1</b>	<b>25.9</b>	<b>-120%</b>
Tax	0.1	0.5	-74%	-3.3	104%	-0.4	-5.6	93%
<b>PAT</b>	<b>-5.6</b>	<b>-3.7</b>	<b>-52%</b>	<b>11.0</b>	<b>-151%</b>	<b>-5.4</b>	<b>20.4</b>	<b>-127%</b>
One off items	4.5	7.3	-38%	0.0	N.M.	3.7	-3.1	218%
<b>CNP</b>	<b>-1.1</b>	<b>3.6</b>	<b>-131%</b>	<b>11.0</b>	<b>-110%</b>	<b>-1.8</b>	<b>17.2</b>	<b>-110%</b>
<b>MARGINS</b>								
EBITDA	2%	3%		16%		5%	13%	
OP	-2%	-2%		10%		0%	7%	
PBT	-3%	-3%		9%		-1%	5%	
PAT	-3%	-3%		7%		-1%	4%	
CNP	-1%	2%		7%		0%	4%	
ETR	-2%	-12%		-23%		7%	-22%	

Source: Company, Kenanga Research

<b>Segmental</b>								
<b>Segmental Breakdown</b>	<b>2Q18</b>	<b>1Q18</b>	<b>QoQ</b>	<b>2Q17</b>	<b>YoY</b>	<b>1H18</b>	<b>1H17</b>	<b>YoY</b>
<b>Segmental Revenue</b>								
Malaysia	120	100	20%	113	6%	330.9	339.8	-3%
Vietnam	31	28	13%	31	0%	78.2	91.7	-15%
Others	17	17	-3%	14	15%	50.6	42.3	20%
<b>Total</b>	<b>168</b>	<b>145</b>	<b>16%</b>	<b>159</b>	<b>6%</b>	<b>459.7</b>	<b>473.7</b>	<b>-3%</b>
<b>Segmental PBT</b>								
Malaysia	-2	-2	-53%	15	-117%	3.8	27.2	-86%
Vietnam	-3	-2	-33%	1	-594%	-9.1	0.1	-6395%
Others	0	1	-174%	0	-36%	0.9	0.0	2145%
Elims.	0	-1	143%	-1	148%	-0.7	-1.5	56%
<b>Total</b>	<b>-6</b>	<b>-4</b>	<b>-37%</b>	<b>14</b>	<b>-140%</b>	<b>-5.1</b>	<b>25.9</b>	<b>-120%</b>
<b>PBT margins</b>								
Malaysia	-2%	-2%		13%		1%	8%	
Vietnam	-10%	-9%		2%		-12%	0%	

Source: Company, Kenanga Research

23 November 2018

## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<b>BUILDING MATERIALS UNDER COVERAGE</b>																	
ANN JOO RESOURCES BHD	1.48	795.8	Y	12/2018	-4.6%	4.2%	-24.4%	1.9%	3.7	5.1	5.0	0.6	0.6	12.6%	9.7%	2.35	OP
LAFARGE MALAYSIA BHD	2.00	1,699.4	Y	12/2018	-19.2%	7.3%	-67.2%	-132.7%	N.A.	N.A.	N.A.	0.6	0.7	-12.4%	0.0%	1.85	UP
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.90	19,354.1	Y	12/2018	5.7%	3.7%	5.6%	52.4%	32.3	28.8	18.9	8.0	6.9	25.9%	1.4%	4.80	MP
UNITED U-LI CORPORATION BHD	0.645	140.5	Y	12/2018	8.7%	8.8%	-62.7%	145.3%	7.2	10.8	5.9	0.5	0.5	2.6%	0.8%	0.675	UP
WHITE HORSE BERHAD	1.60	365.7	Y	12/2018	-4.9%	-0.6%	-19.5%	-50.0%	N.A.	N.A.	N.A.	0.5	0.5	-0.6%	0.0%	1.50	UP
<b>Simple Average</b>					<b>-2.9%</b>	<b>4.7%</b>	<b>-33.7%</b>	<b>3.4%</b>	<b>14.4</b>	<b>14.9</b>	<b>9.9</b>	<b>2.1</b>	<b>1.8</b>	<b>5.6%</b>	<b>2.4%</b>		

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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