

26 August 2019

White Horse Berhad 1H19 Below Expectation

1H19 CNL of RM18.4m missed both our and consensus' CNL estimates of RM9.2m and RM9.7m, respectively, largely due to weaker-than-expected revenue and CNP margin. No dividend was announced as expected. Downgrade to UP with a lower TP of RM1.00 (from RM1.15) based on the unchanged 0.40x Fwd. PBV pegged to lower FY20E BV/share of RM2.49 (from RM2.87).

Below expectations. Excluding one-off unrealised forex gain (RM0.2m), loss of disposal of PPE (RM0.4m) and write-down of inventory (RM0.04m), 1H19 CNL of RM18.4m missed both our and consensus' CNL estimates of RM9.2m and RM9.7m, respectively. This was mainly due to lower-than-expected tiles demand in both Malaysia and Vietnam, coupled with weaker-than-expected ASPs and higher-than-expected production and operating cost. No dividend was announced as expected.

Results highlight. YoY, 1H19 CNL widened drastically to RM18.4m, compared to RM0.9 in 1H18, mainly due to: (i) lower revenue contribution by 12% caused by poor tiles demand from both local and oversea market (Malaysia and Vietnam's sales dropped by 12% and 24%, respectively), (ii) lower GP margin to 11% (from 17% in 1H18) and huge drop in EBIT margin from 2% in 1H18 to losses (-7%) in 1H19 largely due to higher production and operation costs. QoQ, 2Q19 recorded higher CNL of RM9.6m (+10%) due largely to margins deteriorating significantly (-13%) but partly offset by slight improvement in revenue to RM128.2m (+1%).

Outlook. WTHORSE's business operation remains challenging due to stiff market competition, high production and operation costs, fluctuation in foreign currencies and pricing strategy. Moving forward, we remain cautious over the company's outlook as the business operation heavily relies on construction, property development and renovation industries, where the industries are currently undergoing slower growth and challenging business environment.

Earnings estimate. Post results, we widen our FY19E and FY20E CNL estimates to RM35.3-35.9m (from CNL of RM9.2m and CNP of RM1.4m, respectively) in view of weaker sales generated from both local and oversea markets due to stiff competition, challenges and slow market pace in both construction and property development industries, as well as higher production costs.

Downgrade to UNDERPERFORM with a lower Target Price of RM1.00 (from MARKET PERFORM; TP: RM1.15) based on the unchanged 0.40x Fwd. PBV pegged to lower FY20E BV/share of RM2.49 (from RM2.87). Our valuation is below the current trough level of 0.5x, which we believe is justified due to the followings; (i) the company has recorded losses for five consecutive quarters since 2Q18, (ii) slower pace in construction and property development, and (iii) widening losses from rising production costs.

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

UNDERPERFORM ↓

Price: RM1.15
Target Price: RM1.00 ↓

Expected Capital Gain: -RM0.15 -13.0%
Expected Divd. Yield: RM0.00 0.0%
Expected Total Return: -RM0.15 -13.0%

KLCI Index 1,609.33

Stock Information

Bloomberg Ticker	WHIT MK Equity
Bursa Code	5009
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	228.2
Market Cap (RM m)	262.5
Par value per share (RM)	1.00
52-week range (H)	1.76
52-week range (L)	1.02
Free Float	72%
Beta	0.4
3-mth avg daily vol:	6,406

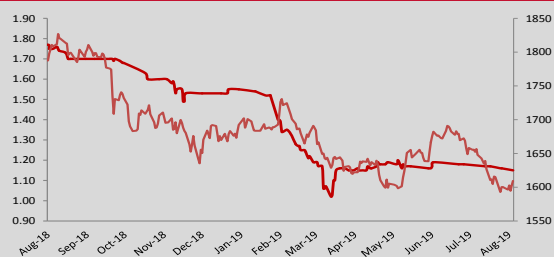
Major Shareholders

Liao Yuan Shun	12.3%
Urusharta Jamaah Sdn Bhd	9.8%
Teo Swee Teng	5.9%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	610.5	531.5	535.5
EBIT	-25.2	-41.8	-42.3
PBT	-28.4	-47.3	-47.9
Net Profit	-18.6	-35.5	-35.9
Core PATAMI	-23.7	-35.5	-35.9
Consensus	N.A.	-9.7	0.1
Earnings Revision	N.A.	-285%	N.M.
Core EPS (sen)	-10.4	-15.5	-15.7
Core EPS growth (%)	-1131%	50%	1%
NDPS (sen)	0.0	0.0	0.0
NTA per share (RM)	3.00	2.76	2.49
Price to NTA (x)	0.38	0.42	0.46
PER (x)	N.M.	N.M.	N.M.
Debt-to-Equity ratio (x)	0.15	0.16	0.27
Return on Asset (%)	-2.3%	-3.7%	-4.0%
Return on Equity (%)	-0.6%	-5.6%	-6.3%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-2.5%	-2.5%	-34.3%
Relative (%)	0.3%	-3.0%	-23.2%

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Results Highlights								
FYE Dec (RM'm)	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
Turnover	128.2	126.9	1%	145.4	-12%	255.1	291.2	-12%
EBITDA	-7.8	6.1	-228%	6.6	-218%	-1.7	20.8	-108%
Depreciation	-8.3	-8.3	0%	-8.2	1%	-16.7	-16.1	4%
EBIT	-16.1	-2.2	626%	-1.6	911%	-18.3	4.7	n.m.
Interest inc/(exp)	-1.5	-1.8	-17%	-1.6	-8%	-3.2	-3.1	5%
Associates/JV	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Exceptional items	3.1	-2.8	-210%	-1.0	-405%	0.3	-1.0	-127%
Forex gain/(loss)	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Pretax profit	-14.5	-6.8	114%	-4.2	247%	-21.3	0.6	n.m.
Taxation	1.8	0.8	118%	0.5	260%	2.7	-0.5	n.m.
Deferred tax	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Profit after tax	-12.7	-5.9	113%	-3.7	245%	-18.6	0.1	-13896%
Minority interest	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
PATAMI	-12.7	-5.9	113%	-3.7	245%	-18.6	0.1	n.m.
Core PATAMI	-9.6	-8.7	10%	-4.7	105%	-18.4	-0.9	2027%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	-13%	-2%		-1%		-7%	2%	
Pretax margin	-11%	-5%		-3%		-8%	0%	
NP margin	-11%	-5%		-3%		-8%	0%	
CNP margin	-7%	-7%		-3%		-7%	0%	
EPS (sen)	-5.6	-2.6		-1.6		-8.2	0.1	
Core EPS(sen)	-4.2	-3.8		-2.1		-8.0	-0.4	
BV/share (RM)	3.0	3.1		3.2		3.0	3.2	
Net gearing (x)	0.2	0.2		0.1		0.2	0.1	
Effective tax	13%	12%		12%		12%	79%	

Source: Company, Kenanga Research

Segmental								
Segmental Breakdown	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
Segmental Revenue								
Malaysia	91.7	92.8	-1%	100.4	-9%	184.4	210.5	-12%
Vietnam	24.7	20.3	22%	27.9	-11%	45.0	46.7	-4%
Others	11.8	13.8	-14%	17.1	-31%	25.7	34.0	-24%
Total	128.2	126.9	1%	145.4	-12%	255.1	291.2	-12%
Segmental PBT								
Malaysia	-7.3	-3.1	-136%	-1.6	350%	-10.3	6.3	-265%
Vietnam	-4.7	-3.3	-46%	-2.4	99%	-8.0	-6.0	-34%
Others	-0.3	-0.3	-14%	0.5	-149%	-0.6	1.3	n.m.
Elims	-2.2	-0.1	-1468%	-0.7	213%	-2.4	-1.0	-148%
Total	-14.5	-6.8	-114%	-4.2	247%	-21.3	0.6	n.m.
PBT margins								
Malaysia	-8%	-3%		-2%		-6%	3%	
Vietnam	-19%	-16%		-9%		-18%	-13%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				Cap (RM'm)	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.		
BUILDING MATERIALS UNDER COVERAGE																		
ANN JOO RESOURCES BHD	1.30	673.9	Y	12/2019	-19.4%	12.5%	-91.1%	26.5%	5.5	61.0	48.1	0.5	0.6	0.9%	0.0%	1.15	UP	
PRESS METAL ALUMINIUM HOLDINGS BHD	4.86	19,621.7	Y	12/2019	-1.5%	10.4%	-16.5%	61.5%	28.8	34.6	21.4	5.9	5.3	15.4%	0.9%	5.50	OP	
UNITED U-LI CORP BHD	0.500	108.9	Y	12/2019	-21.6%	-9.6%	-41.4%	147.1%	5.6	8.3	4.5	0.4	0.4	0.6%	0.6%	0.480	UP	
WHITE HORSE BHD	1.15	262.5	Y	12/2019	-12.9%	0.8%	-66.8%	-98.8%	N.A.	N.A.	N.A.	0.4	0.4	-5.6%	0.0%	1.00	UP	
Simple Average					-13.9%	3.5%	-54.0%	34.1%	13.3	34.6	24.7	1.8	1.7	2.9%	0.4%			

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%

**** The Expected Total Return might contain rounding discrepancy.**

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

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