

12 April 2019

White Horse Berhad Mounting Pressures, What's Next?

Our sensitivity analysis indicates that lowering ASPs has higher sensitivity than scaling down production. For WTHORSE to return to the black in FY19, assuming other operating costs are maintained, it requires at least 76% utilisation rate. This can potentially be achieved by: (i) exploring other export markets, (ii) diversifying into other businesses, and (iii) rationalising cost. No changes in FY19-20E earnings. Maintain MP and TP of RM1.15.

Recap on 4Q18. YoY, FY18 registered CNL of RM23.7m from a CNP position of RM5.4m, as revenue declined (-5%) weighed by lower sales from both its Malaysia and Vietnam operations. This is owing to weaker tiles demand dragged by slower construction activities in the residential space, exacerbated by stiff pricing competition that led to margin erosions. QoQ, 4Q18 CNL of RM21.7m widened vis-à-vis CNL of RM1.1m in 3Q18 mainly due to higher operating expenses attributed to the price hike in natural gas deteriorating its profitability. They are not alone as direct peers like KIMHIN are making losses as well.

Lowering ASPs has higher sensitivity than scaling down production. WTHORSE's markets are mainly concentrated in Malaysia and Vietnam with core operations, including manufacturing and distribution activities. Based on its FY16 sales, Malaysia makes up 72%, Vietnam at 18%, and other regions at 10%. For its Malaysian operations, we reckon the poor performance FY18 sales revenue was due to weaker property market and the highly competitive market. We estimate a current capacity utilisation rate to be at 70% compared to the highs of 84% back in 2014. Our sensitivity analysis indicates that, with every decline in capacity utilisation by 4ppt to 66%, FY19E CNL will widen by 68% (or approximately RM15.5m in value). On the other hand, assuming current utilisation rate being kept constant, should WTHORSE opts for clearance of stocks by discounting ASP by 4% (from RM25/m² to RM24/m²), its FY19E CNL would expand significantly by 128% (or approximately RM20.9m in value). This implies lowering ASPs have higher sensitivity than scaling down production. Given product prices are already at lows owing to excess supply and intense competitions in the market, we believe the company is unable to afford further cut in product prices as it will adversely impact the group margins. It may be better-off for them finding new markets to penetrate in order to keep production levels up. However, if the group does not find new avenues to clear inventories, we believe the group may have no choice but to continue with current production levels while lowering ASPs to clear inventories, which will be very detrimental to earnings but exerting less strain on its cash-flow.

Exploring other export markets; cost rationalization. We opine that for WTHORSE to break even or to return to black in FY19, assuming other operating costs are maintained, it will need to achieve at least 76% utilisation rate (from current estimated utilisation rate of 70%). This potentially can be achieved by exploring other export markets globally or diversifying into other businesses. Besides, rationalizing its operating cost to achieve efficiency could help the group in mitigating its thinning margins.

Earnings estimate. No change to our earnings estimates.

Maintain MARKET PERFORM on WTHORSE with an unchanged Target Price of RM1.15 based on 0.40x Fwd. PBV pegged to FY19E BV/share of RM2.87. Our valuation is below the current trough level of 0.5x, which we believe is justified due to the followings; (i) earnings risks loom amidst a tough market environment given that WTHORSE had registered the fourth quarterly losses since 4Q17, (ii) the subdued property market suppressing demand for tiles, and (iii) potentially more write-downs in inventories from slow moving goods.

Risks to our call include sharp rises/ declines in ASPs and production volumes.

MARKET PERFORM ↔

Price: RM1.16
Target Price: RM1.15 ↔

Expected Capital Gain: -RM0.01 -0.9%
Expected Divd. Yield: RM0.00 0.0%
Expected Total Return: -RM0.01 -0.9%

KLCI Index 1,624.23

Stock Information

Bloomberg Ticker	WHIT MK Equity
Bursa Code	5009
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	228.3
Market Cap (RM m)	264.8
Par value per share (RM)	1.00
52-week range (H)	1.90
52-week range (L)	1.02
Free Float	68%
Beta	0.5
3-mth avg daily vol:	15,402

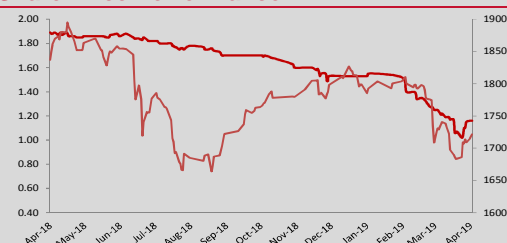
Major Shareholders

Liao Yuan Shun	12.3%
Lembaga Tabung Haji	9.9%
Urus Harta Jamaah Sdn Bhd	9.8%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	610.5	604.4	640.9
EBIT	-25.2	-6.7	7.0
PBT	-28.4	-12.3	1.9
Net Profit	-27.2	-9.2	1.4
Core PATAMI	-23.7	-9.2	1.4
Consensus	N.A.	-9.7	0.1
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	-10.4	-4.0	0.6
Core EPS growth (%)	-1131%	-258%	645%
NDPS (sen)	0.0	0.0	0.0
NTA per share (RM)	3.00	2.87	2.88
Price to NTA (x)	0.39	0.40	0.40
PER (x)	N.M.	N.M.	186.4
Debt-to-Equity ratio (x)	0.27	0.25	0.24
Return on Asset (%)	-2.3%	-0.9%	0.1%
Return on Equity (%)	-0.6%	-1.4%	0.2%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-7.2%	-24.2%	-38.6%
Relative (%)	-4.8%	-20.9%	-27.0%

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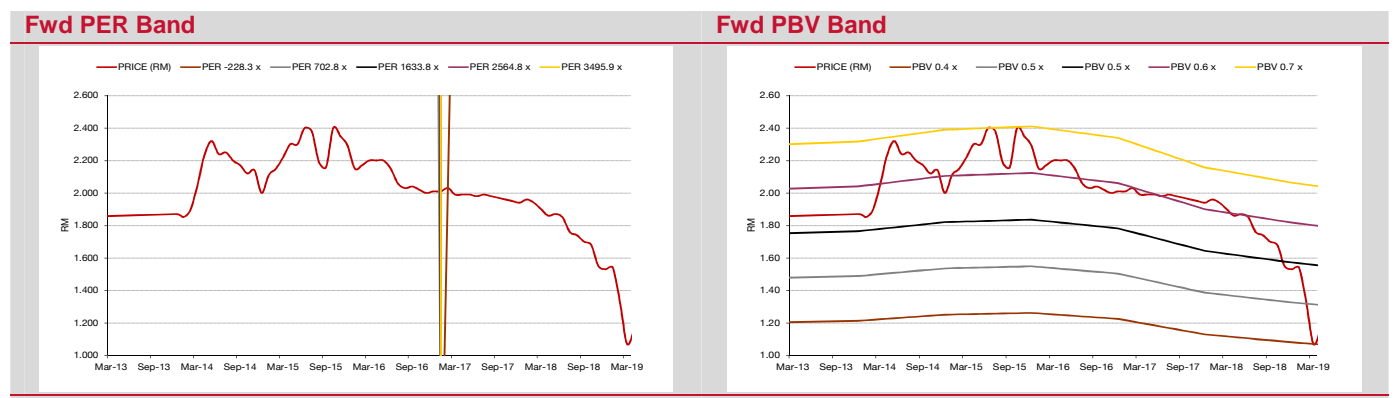
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Other Salient Points:

Nevertheless, we note that local tiles manufacturers are mostly making losses indicating a wide industry trend. KIMHIN, a direct competitor to WTHORSE with smaller market cap of RM166.6m is also in a net loss position with FY18 CNL of RM25.7m but maintain net cash position of RM30.8m. This was on weaker sales, especially from the Australian market which was initially expected to remain resilient and perform well than other weaker sales segment from Malaysia, China and Vietnam.

Income Statement						Financial Data & Ratios					
FY Dec (RMm)	2016A	2017A	2018A	2019E	2020E	FY Dec (RMm)	2016A	2017A	2018A	2019E	2020E
Revenue	696	643	611	604	641	Growth					
EBITDA	83	51	-61	33	47	Revenue	-8%	-8%	-5%	-1%	6%
Depreciation	-40	-42	-36	-40	-40	EBITDA	-15%	-38%	-220%	183%	41%
EBIT	43	14	-25	-7	7	EBIT	-20%	-68%	-286%	-375%	97%
Interest Expense	-7	-7	-7	-6	-5	Pre-tax Income	-25%	-81%	-518%	-232%	645%
PBT	36	7	-28	-12	2	Net Income	-20%	-92%	-1283%	-296%	645%
Taxation	-9	-1	1	3	0	Core Net Income	-42%	-94%	-1131%	-258%	645%
Minority Interest	0	0	0	0	0	Profitability %					
Net Profit	27	2	-27	-9	1	EBITDA Margin	13%	10%	7%	6%	7%
Core Net Profit	37	2	-24	-9	1	EBIT Margin	8%	4%	0%	-1%	1%
						PBT Margin	7%	3%	-1%	-2%	0%
						Net Margin	5%	2%	-1%	-2%	0%
						Effective Tax	-19%	-36%	-30%	-25%	-25%
						ROE	5%	2%	-1%	-1%	0%
						ROA	3%	0%	-2%	-1%	0%
						DuPont Analysis					
						Net margin (%)	5%	2%	-1%	-2%	0%
						Assets Turnover (x)	0.58	0.58	0.59	0.62	0.66
						Leverage Factor (x)	1.57	1.47	1.50	1.49	1.48
						ROE (%)	5%	2%	-1%	-1%	0%
						Leverage					
						Debt/Asset (x)	0.20	0.17	0.18	0.17	0.16
						Debt/Equity (x)	0.32	0.25	0.27	0.25	0.24
						Net Debt/(Cash)	93.96	108.58	105.53	95.01	101.70
						Net Debt/Equity (x)	0.12	0.15	0.15	0.14	0.15
						Valuations					
						Core EPS (sen)	16.4	1.0	-10.4	-4.0	0.6
						NDPS (sen)	10.0	7.0	0.0	0.0	0.0
						NTA/sh (RM)	3.36	3.26	3.00	2.87	2.88
						Core PER (x)	7.1	115.5	N.M.	N.M.	186.4
						Net Div. Yield (%)	8.6%	6.0%	0.0%	0.0%	0.0%
						P/NTA (x)	0.35	0.36	0.39	0.40	0.40

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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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)		
BUILDING MATERIALS UNDER COVERAGE																		
ANN JOO RESOURCES BHD	1.80	969.7	Y	12/2019	-1.8%	0.9%	-31.2%	6.7%	7.5	11.0	10.3	0.7	0.7	6.5%	6.7%	1.25	UP	
LAFARGE MALAYSIA BHD	2.46	2,090.3	Y	12/2019	20.5%	7.4%	-132.0%	-118.1%	N.A.	N.A.	N.A.	0.8	0.9	-10.0%	0.0%	1.85	UP	
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.57	18,375.9	Y	12/2019	-4.8%	0.9%	30.6%	6.2%	27.7	21.3	20.0	5.3	4.5	22.9%	0.3%	4.50	MP	
UNITED U-LI CORPORATION BHD	0.625	136.1	Y	12/2019	-21.6%	-9.6%	-41.4%	147.1%	36.8	28.4	19.5	0.7	0.7	0.6%	0.0%	0.450	MP	
WHITE HORSE BERHAD	1.16	264.8	Y	12/2019	-1.0%	6.0%	-258.2%	644.7%	N.A.	N.A.	186.4	0.4	0.4	-1.4%	0.0%	1.15	MP	
Simple Average					-1.7%	1.1%	-86.4%	137.3%	24.0	20.2	59.1	1.6	1.4	3.7%	1.4%			

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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Published and printed by:

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