

**Company Result**

**28 July 2016**

**SCH Group Berhad**

**HOLD**

*Project awards yet to translate into orders*

*Maintained*

<b>Share Price</b>	<b>RM0.215</b>
<b>Target Price</b>	<b>RM0.20</b>

**Result**

**Company Description**

SCH Group Berhad, through its subsidiary, imports, distribute and supplies industrial spare parts for quarry equipment.

- **Below expectation.** SCH Group Berhad (SCH) registered 3QFY16 net profit of RM0.7m, soaring six-fold qoq but down 66.7% yoy. The 9MFY16 results with net earnings of RM2.0m, -72.2% yoy, were below our estimates, accounting for 37% of FY16 forecasts. This was due to continuous weak sales as few project awards for MRT 2 and Pan Borneo Highways in 1H16 have yet to translate into strong orders for quarry M&E.

**Stock Data**

Bursa / Bloomberg code	0161 / SCHG MK
Board / Sector	ACE / Industrial
Syariah Compliant status	Yes
Issued shares (m)	412.13
Par Value (RM)	0.10
Market cap. (RMm)	88.63
52-week price Range	RM0.17 – 0.28
Beta (against KLCI)	0.76
3-m Average Daily Volume	0.24m
3-m Average Daily Value^	RM0.05m

**Comment**

**Share Performance**

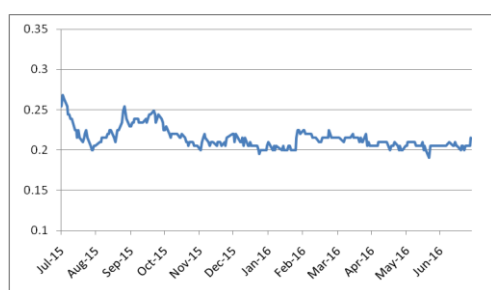
	1m	3m	12m
Absolute (%)	4.9	4.9	-17.3
Relative (%)	3.0	5.6	-15.5

- **Better qoq results aided by low base effect.** As expected, the Group achieved higher qoq results mainly due to low base effect. 2QFY16 was a weaker quarter with shorter operation days of quarry production as affected by long festive holidays in December and February.
- **Weaker yoy earnings persist.** On yoy basis, SCH continued to chalk up lower yoy net profit for 3QFY16 no thanks to lackluster sales (-45.3% yoy) coupled with proportionately higher administrative expenses (PBT margin down by 6.9ppt). The sluggishness in sales were mainly dragged down by quarry M&E, which tumbled 84% yoy. Likewise, the Group's 9MFY16 revenue (-41.6% yoy) and net earnings (-72.2% yoy) were also weighed down by across-the-board lower customer orders for quarry M&E (-70%), quarry industrial products and spare parts (-31%) as well as manufacturing of grill (-28%).
- **Minimal contribution from Cambodia.** The Group has received some small orders from clients since operation commenced in 2QCY16. Sales mainly came from the supply of quarry industrial products and servicing of quarry machinery. However, we do not foresee any major contribution from the overseas operation in the near term.
- **Expecting sizeable M&E orders following roll out of mega projects.** We reckon that the worst is over for the Group with improving operating environment, i.e. diminishing impact of GST and rebound of MYR against major currencies since early this year. With the awards of MRT2 and Pan Borneo Highway to contractors in 1HCY16, the quarry operators would ultimately ramp up their capex and opex to cope with the rising demand of building material and hence benefiting SCH.

**Major Shareholders**

	%
Mong Ling Lau	16.71
Sin Chin Wong	12.11
Yoon Hin Yee	11.70

**Historical Chart**



Source: Bloomberg

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**Earnings Outlook/Revision**

- **We slash our net earnings forecast for FY16F from RM5.4m to RM3.1m by reducing our sales orders for M&E and its PBT margin. However, we maintain our FY17 estimates.**

## Valuation & Recommendation

- **Maintain HOLD with an unchanged target price of RM0.20.** Our fair value for SCH is pegged at 13x FY2017F PE. This is equivalent to peak PER of small cap stocks in view of prevailing construction boom which is expected to benefit the quarry sector.
- **Waiting for catalyst.** Although the Group posted unexciting earnings for this financial year, we reckon that the stock renders minimal downside risk to the investors while waiting for take-off of several infrastructure and construction projects to translate into meaningful orders.

**Figure 1: Quarterly Figures**

Year to 31 Aug (RMm)	3QFY16	2QFY16	3QFY15	qoq %	yoy %	9MFY16	9MFY15	yoy %
Revenue	9.9	7.6	18.1	30.3	-45.3	29.2	50	-41.6
Gross Profit	3.9	3.2	6.4	21.9	-39.1	11.6	19.5	-40.5
PBT	0.9	0.3	2.9	200.0	-69.0	2.9	9.6	-69.8
Net Profit	0.7	0.1	2.1	600.0	-66.7	2.0	7.2	-72.2
Gross margin (%) / ppt	39.4	42.1	35.4	-2.7	4.0	39.7	39.0	0.7
PBT margin (%) / ppt	9.1	3.9	16.0	5.1	-6.9	9.9	19.2	-9.3

Source: Company, JF Apex

**Figure 2: Financial Summary**

FYE 31 Aug	FY2014 (RMm)	FY2015 (RMm)	FY2016F (RMm)	FY2017F (RMm)
Revenue	65.4	59.6	43.3	58.1
Gross Profit	24.6	22.8	16.0	22.4
PBT	10.3	9.2	4.3	9.0
Taxation	-3.2	-2.7	-1.3	-2.6
PAT	7.2	6.5	3.1	6.4
Reported Net Profit	7.2	6.5	3.1	6.4
Core Net Profit	9.2	6.5	3.1	6.4
GP margin	37.6%	38.3%	37.0%	38.6%
PBT margin	15.7%	15.4%	10.0%	15.5%
Effective tax rate	-31.1%	-29.3%	-29.5%	-29.0%
Revenue growth	6.7%	-8.9%	-27.3%	34.0%
Gross profit growth	15.5%	-7.3%	-29.7%	39.9%
PBT growth	-1.9%	-10.7%	-52.9%	107.7%
Net profit growth	-6.5%	-9.7%	-53.0%	109.2%
Core earnings growth	19.5%	-29.3%	-53.0%	109.2%
EPS (sen)	1.75	1.58	0.74	1.55
P/E (x)	12.3	13.6	29.0	13.9
DPS (sen)	1.0	1.5	1.0	1.0
Dividend payout	57.3%	95.1%	134.9%	64.5%
Dividend Yield	4.7%	7.0%	4.7%	4.7%
Net gearing / (cash)	-7.6%	-11.2%	-8.5%	-15.1%
ROE	11.6%	10.1%	4.1%	7.5%
ROA	8.2%	8.3%	3.4%	6.3%
BV/share (sen)	0.2	0.2	0.2	0.2
P/B (x)	1.4	1.4	1.2	1.2

Source: Company, JF Apex

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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