

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

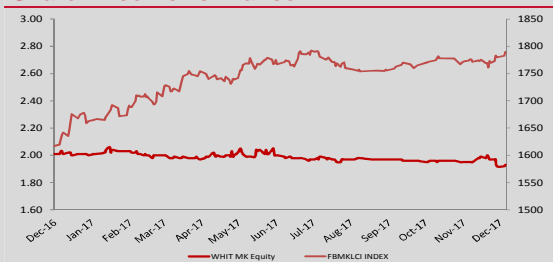
Major Shareholders

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%

Lum Joe Shen

lumis@kenanga.com.my

+603-2172 2640

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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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.



Chan Ken Yew
Head of Research