

Choo Chiang Holdings Ltd

4 May 2021

Non-Rated

BBG	CCHL SP
Market cap	S\$49.9m
Price (3 May 2021)	S\$0.24
52-week range	S\$0.18 – S\$0.24
Target Price	Non-rated
Shares Outstanding	207.9m
Free Float	30%
Major Shareholder	Thomas Lim 63% Rocky Lim 7%
P/BV (12/20)	1.0x
Net Debt to EBITDA (12/20)	Zero debt

Source: Company data, Bloomberg, SAC Capital

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Rides on strong home sales and copper price

CCH distributes low voltage electrical products and accessories that are used for indoor installations in residential and commercial properties. It stocks > 40,000 line items under house brands and third-party brands. The customers are mainly renovation contractors.

Mobility restrictions in 2Q last year dented 1H revenue by 33% and net profit by 67%. But sales bounced back in 2H20, with the decline narrowed to -2.5% yoy and -13% for revenue and net profit respectively. Pent-up demand post lockdown will continue to drive the recovery in sales and net profit.

In the near term, there are two positive trends working in its favour: 1) surge in home sales; and 2) higher copper prices.

Total units sold for HDB resale flats and private homes rose 54.3% yoy in 1Q21 to 15,681 units (FY20: +6.5%). Completion of a sale transaction typically takes 4 to 6 months, after which home renovation works would commence, pointing to orders buildup for CCH from 2H21.

The sharp increase in copper prices would also lift sales and margins. Copper price has risen 22% YTD to US\$4.5/pound, the level last seen in Feb 2011. Copper products (e.g. cables) typically account for ~20% of sales, but likely reach 25% at current price. CCH has ample inventory and we believe this could raise gross margin by 3.0 ppt to ~32%.

Near term headwind is the border controls that limit the number of foreign workers in the construction sector, and renovation workers that commute daily from Malaysia.

Balance sheet is strong with net cash and investment properties making up 56% of net assets. It generates strong FY20 ROIC at 8.2% (FY19: 15.1%) with zero debt.

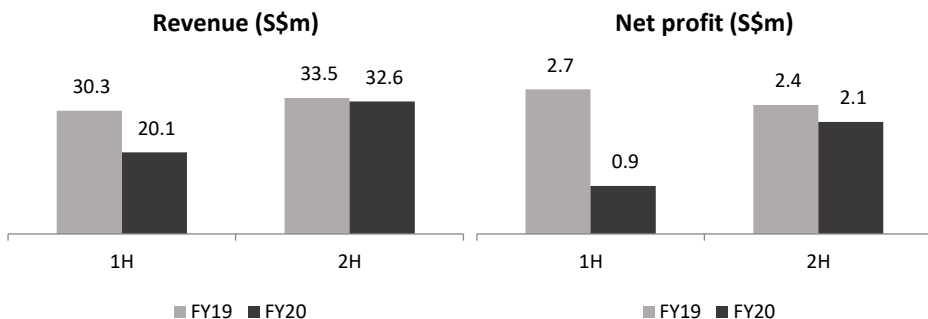
YE 31 Dec (S\$m)	FY16A	FY17A	FY18A	FY19A	FY20A
Revenue	63.9	62.3	64.1	63.8	52.7
EBIT	6.4	5.8	5.8	6.3	3.8
Net profit	5.4	4.9	4.9	5.1	3.0
EPS (S cents)	2.6	2.4	2.3	2.4	1.4
DPS (S cents)	0.9	0.9	0.9	1.2	0.9
Net cash / (debt)	5.7	9.9	13.4	15.4	13.5
Valuation					
EBIT margin (%)	10.0	9.3	9.1	9.8	7.1
ROIC (%)	16.2	13.7	15.9	15.1	8.2
EV/EBITDA (x)	6.1	6.0	5.3	4.5	6.9
P/E (x)	9.3	10.1	10.3	9.9	16.9
Dividend yield (%)	3.8	3.8	3.8	5.0	3.8

Investment Summary

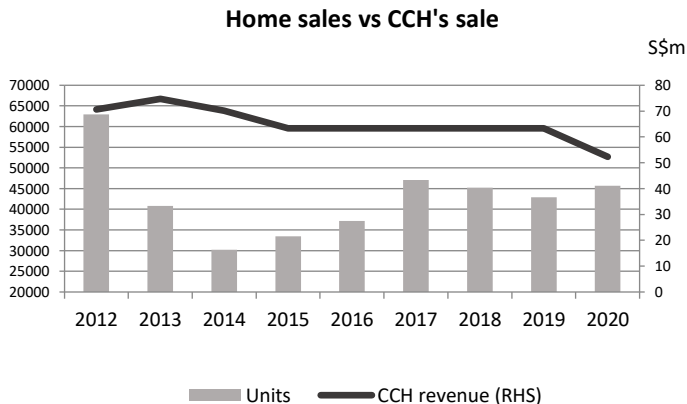
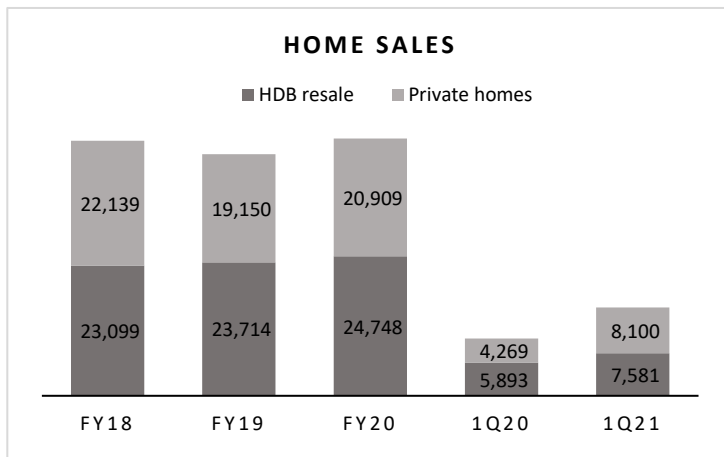
CCH distributes low-voltage electrical products and accessories that are used for indoor installations in residential and commercial properties. It stocks > 40,000 line items under house brands CCM and CRM, and 30 third-party brands.

The customers are mainly renovation contractors. The customer base is fragmented and about half are cash sales. Only about 15% of revenue is derived from project orders. Margins for project orders are lower due to competitive bidding and credit costs, made worse by construction delays due to manpower crunch.

Mobility restrictions in 2Q last year hit 1H revenue by 33% and net profit by 67%. Sales had bounced back in 2H20, with revenue just 2.5% lower yoy and net profit down 13% yoy.

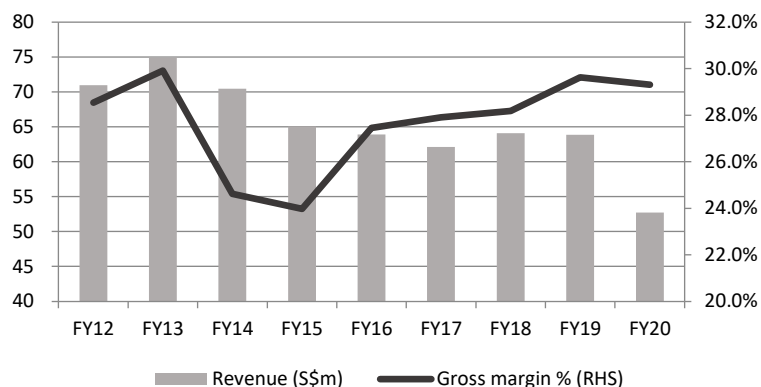


An impetus to earnings growth is the strong home sales. Total units sold for HDB resale flats and private homes were 54.3% yoy higher in 1Q21 to 15,681 units (FY20: +6.5%). Completion of a sale transaction typically takes 4 to 6 months, after which home renovation works would commence. CCH's sales would lag home sales by 9 to 12 months. We estimate revenue could reach S\$70m in FY21E and FY22E.



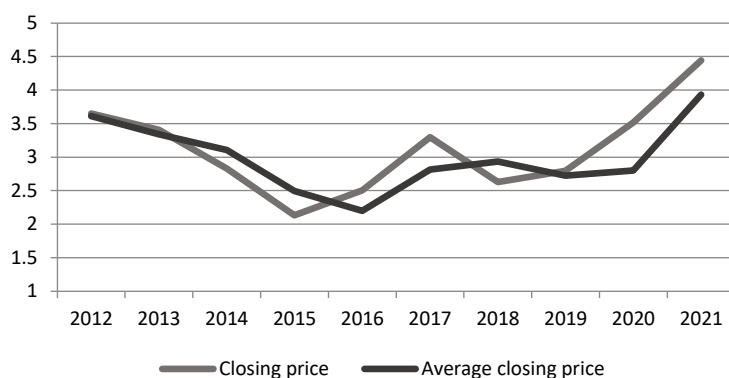
Investment Summary

CCH outsource the production of some line items under house brands CCM and CRM. Margins for the house brands are 20-25% higher than 3rd party brands. Through raising the share of house-branded products over the years, gross margin has improved from 27.5% in FY16 to 29.3% in FY20.



Copper-based products (such as cables) account for ~20% of sales, but the surge in copper prices (YTD: +22%) is likely to lift this to 25%. We believe this could add 3.0ppt to gross margin to about 32%. Copper price has risen to US\$4.5/pound, the level last seen in Feb 2011. CCH does not take position in copper futures.

Copper price (US\$/pound)



The balance sheet has net cash of S\$13.5m and investment properties worth S\$13.2m. These account for 56% of net assets. ROE was 6.2% in FY20 (10.8% in FY19 pre-COVID), despite the cash on hand and low-yielding investment properties. ROIC is strong at 8.2% for FY20 (FY19: 15.1%) with zero debt. It offers 3.8% dividend yield.

Nearest listed comparable company is Tai Sin Electric Ltd, which manufactures cables and distributes electrical and control products in Asia.

	YE	Mkt cap (S\$m)	Revenue (S\$m)	Net profit (S\$m)	Gross margin	EBIT margin	ROE	ROIC	P/E (x)	P/B (x)	EV/EBIT DA (x)
Choo Chiang	Dec 20	49.9	52.7	3.0	29.3%	7.1%	6.2%	8.2%	16.9	1.0	6.8
Tai Sin Electric	Jun 20	158.8	276.4	8.4	16.0%	4.4%	4.6%	5.8%	19.0	0.9	9.2

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