

Trading idea: Prospect remains buoyant

July 3, 2015

HHGROUP (RM0.715/Vol:6.2m)

DAILY CHART: POTENTIAL BULLISH CONTINUATION SYMMETRICAL TRIANGLE BREAKOUT



Source: HLeBroking

- Business profile.** Heng Huat Resources Group (HHGROUP), which was listed on the ACE market of Bursa Malaysia on 25 July 2014, is engaged in the manufacturing and trading of biomass material and value-added products focusing on oil palm EFB fibre, coconut fibre and value-added products. The Group is also a manufacturer and distributor of its own brands of mattresses and related products.
- Prospect remains buoyant.** According to IMR report by Protégé Associates, the biomass material market for coconut fibre and oil palm EFB in Malaysia is estimated to grow at a CAGR of 14.3% from 2013 to 2018 to reach RM180.4m in 2018. Hence, management expects growth to be driven by (1) rising demand in China; (2) population growth and greater affluence spurring demand for end-products; and (3) growing applications of natural fibre.
- Expansion plan.** According to *The Star* on 25 June 2015, the Group is investing RM35m to expand its operations in Gua Musang, Kelantan to process oil palm empty fruit bunch fibre. The new plant would enable the group to meet rising demand from China and also export to new markets in Australia, South Korea and Japan. The new plant in Gua Musang would increase its total oil palm EFB fibre production lines from 20 lines to 27 lines and annual production capacity rising from 100,500 tonnes to more than 135,000 tonnes. The new manufacturing facility is targeted to be operational in the 2nd quarter of 2016.
- Beneficiary of stronger Rmb and USD.** 58% of the Group's revenue is derived from export market. With Rmb and USD appreciation against Ringgit, share price near-term sentiment is positive.
- Seasonality.** HHGroup typically experiences higher sales of mattresses and related products prior to major festive season such as Hari Raya in tandem with the expected increase in household spending for such items during such periods.
- Bonus Issue.** On 29 April 2015, it proposed a bonus issue on the basis of 1 bonus shares for every 2 existing ordinary shares held. Ex-date is on 10 July 2015. We are positive on the proposed announcement as it could create some excitement for share price performance in the near term.

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Risk Profile

Low Risk	Moderate Risk	High Risk
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Technicals (Daily)

Daily RSI	Gaining momentum
Daily Slow stochastic	Gaining momentum
Daily MACD	Gaining momentum
52-w High/Low	0.765/0.37
Book value/share	RM0.33
P/BV (x)	2.16
6-month Beta (x)	1.18
Avg daily volume (shares)	3M (2.6m); 6M (2.0m)
Price performance: 1-d/1-wk	+3.86% / +3.19%
S1/S2 (RM)	0.70/0.685
R1/R2 (RM)	0.765/0.785
Long term objective (RM)	0.89
Recommendation	Buy
Stop loss (RM)	0.67
HLIB Target price (RM)	Not-rated
Bloomberg Target price (RM)	Not-rated

Source: HLIB, Bloomberg

Earnings summary

FYE Dec (RM)	Pro Forma 2011	Audited 2012	Audited 2013	2014A
Sales (m)	31.7	62.9	73.7	91.7
Net Profit (m)	13.7	12.6	9.9	12.8
Shares (m)	205.8	205.8	205.8	205.8
EPS (sen)	6.7	6.1	4.8	6.2
PE (x)	10.7	11.7	14.9	11.5

Source: Company

- **Uptrend continues after taking a breather.** After we had two technical buy calls on HHGroup sometimes in Feb and April 2015, the uptrend may continue following recent retracement. We note that share price formed a Symmetrical Triangle pattern during the retracement period. In our view, share price could go higher as we opine that the Symmetrical Triangle pattern is likely to be taken out soon.
- **Bullish reading from oscillators.** MACD, RSI and Slow Stochastics have been gradually increasing, indicating stronger buying momentum. Hence, we are targeting RM0.765 and RM0.785, with a long-term objective of RM0.89 (measurement objective of Symmetrical Triangle pattern). Immediate supports are pegged at RM0.70 and RM0.685. Cut loss below RM0.67.

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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