

Fiamma Holdings Bhd

Not Just Any Appliances Distributor

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INVESTMENT MERIT

- Not just any home appliances distributor.** Fiamma Holdings Bhd (FIAMMA) might not sound familiar compared to other household appliances distributors like Panasonic, Pensonic or Khind that carry a single brand name for all their products. FIAMMA is much more diversified as they carry a wider range of products and brands. Other than just home appliances, FIAMMA's products include sanitary wares, bathroom accessories, home furniture & fittings and medical & healthcare products, which give them wider reach and better competitive edge in the market. Some of their home brands are also well established in the local market such as Elba, Faber, Rubine, MEC, Tuscany, Haustern, and Ebac Home.
- Superior margins vis-à-vis peers.** In terms of margins, FIAMMA's double-digit operating margin for its trading segment (home appliances) averaged out at 16.7% for the past two years, a lot more higher compared to its peers' operating margin i.e. Panasonic, Pensonic, and Khind that averaged at the range of between 2.2% - 10.6%. We believe that its superior performance vis-à-vis its peers could be due to lower fixed overhead costs, and also product positioning whereby FIAMMA aims to sell more small ticket items i.e. electric kettle, rice cookers, induction cooker, table fan and etc. as these items command better margins, over big ticket items i.e. fridge, washing machines, and television. Its fixed overhead costs are much lower compared to its peers as FIAMMA outsourced all of its product manufacturing to China as the local production cost in Malaysia are not as competitive as China.
- Property division still small for now.** Aside from its bread & butter business, FIAMMA also plans to grow its property development division. To date, FIAMMA has planned for two projects, located in Klang Valley with a collective GDV of RM900.0m i.e. Jalan Yap Kwan Seng (GDV: RM600.0m) and Bandar Manjalara (GDV: RM300.0m). In view of a subdued market, management intends to launch its Bandar Manjalara project first by the end of 2015, and the Jalan Yap Kwan Seng project in 2016. Its Bandar Manjalara project is targeted at the mid-range market with service apartment priced at the average range of RM550.0k-RM650.0k/unit, while its Jalan Yap Kwan Seng project is in the high-end segment, but the pricing is yet to be finalised. We believe its Bandar Manjalara project would garner a lot of buying interest given its close proximity to Desa Park City and Tesco, which is just walking distance away. At this juncture, investors need not to worry too much about this exposure as property development makes up c.20% of our FY15E earnings, while the main driver is still home appliances.
- Healthy balance sheet.** As of 2Q15, FIAMMA is still in a net cash position of RM23.2m or 16.0 sen/share prior to the completion of its land purchase in Sg. Besi (GDV: c.RM240m). Post the Sg. Besi land acquisition that amounts to RM48.9m, we expect its net gearing to come up to 0.06x which is still at a very comfortable range. Hence, FIAMMA should not have any funding issue in executing their existing project. For FY15-16E we are projecting net profits of RM36.3m (-12.3%, YoY) and RM40.5m (+11.6%, YoY), respectively.
- Not Rated.** We fairly value FIAMMA at RM1.92 based on SoP; trading division at RM1.68 based on 9.0x FY15E PER, while its property division at RM0.23 based on 5.0x FY15E PER. We are applying 9x FY15E PER for its trading division (13.0% higher than its peer, i.e. Khind of 8.2x), due to its superior double-digit net margin. The 5.0x price-earnings multiple applied to its FY15E property division earnings implies 35.0% discount to the small-mid-cap players' average PER of 7.8x. That said, for its property division to be valued at only RM0.23, it implies a steep discount of 87.0% to its property RNAV of RM1.83.

	Rating	Fair Value
Last Price		RM1.84
Kenanga	Not Rated	RM1.92
Consensus	N.A.	N.A.

Stock Information

Stock Name	Fiamma Holdings Berhad
CAT Code	6939
Industry	Retail
Industry Sub-sector	Retail-Appliances
YTD stock price chg	-11.54%
Market Cap (RM m)	252.98
Issued shares (m)	137.49
52-week range (Hi)	2.5
52-week range (Low)	1.76
3-mth avg daily vol:	35089.06
Free Float	18%
Beta	1.05
Altman's Z-score	3.24

Major Shareholders

Casa Holdings Limite	24.95%
Choo Hong Lim	23.34%
Wee Bin Ngo	9.76%

Financials

FYE Sep (RM'm)	2014A	2015E	2016E
Revenue	338.2	348.3	388.8
EBIT	61.2	52.8	59.0
Net Profit (NP)	41.4	36.3	40.5
Core EPS (sen)	26.7	23.4	26.1
BV/Share (RM)	2.07	2.30	2.56
Core PER (x)	6.9	7.9	7.0
Price/BV (x)	0.9	0.8	0.7
Net Gearing (x)	-0.1	-0.2	-0.2
NDPS (sen)	8.4	7.0	7.8
Dividend Yield (%)	4.6%	3.9%	4.3%

Quarterly

Financial Data	4Q14	1Q15	2Q15
Revenue	86.0	76.9	92.1
EBIT	14.4	13.8	16.8
Net Profit (NP)	9.2	7.8	10.2
EPS (sen)	6.7	5.7	7.4
EPS Growth (QoQ)	-27%	-15%	30%
Revenue Growth (QoQ)	-7%	-11%	20%
OP Margin	17%	18%	18%

Peers

Comparisons	PER (FY15)	Div. Yld (%)	Mkt Cap (RM'm)
Khind Holdings	8.2	0.0%	84.1
Pensonic Holdings	18.3	0.0%	59.6
Panasonic	12.7	3.9%	1,342.5
Average	13.1	1.3%	495.4
FIAMMA	7.9	3.9%	253.0
FBM KLCI	16.1	3.3%	1.0T



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Daily Charting – Fiamma Holdings Berhad



Comment: FIAMMA has been trending on a downward regression channel over the past 9-months. The underlying share price is currently trading below all its key SMA levels. Over the past month, trading volume has also been lacklustre while key momentum indicators (Stochastic and RSI) are relatively flattish. With the lacklustre outlook depicted by the uninspiring indicators, we reckon that the share price could continue on its consolidation mode until a fresh catalyst emerges to rally the stock. Sideways trading is expected in the near-term between RM1.75-RM1.90.

About the stock:

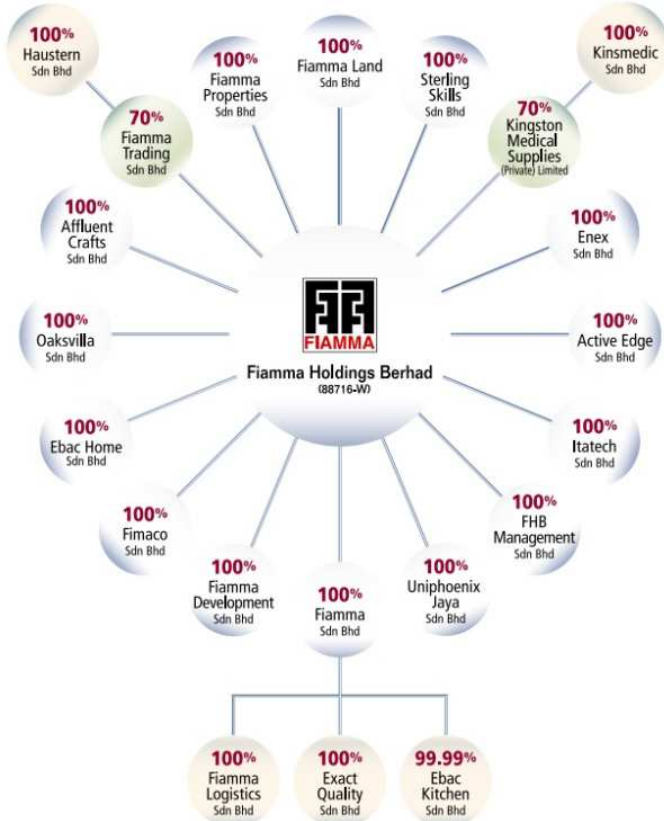
Name : Fiamma Holdings Berhad
Bursa Code : FIAMMA
CAT Code : 6939

Key Support & Resistance level

Resistance : RM1.90 (R1) RM1.99 (R2) RM2.10 (R3)
Support : RM1.75 (S1) RM1.67 (S2) RM1.55 (S3)
Outlook : Neutral

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- Listed in 1997, Fiamma Holdings began trading operations in 1979, distributing a range of electrical home appliances under the ELBA and FABER brands. The company gradually expanded its distribution network throughout Malaysia. Fiamma is also involved in property development and property investments.

BUSINESS SEGMENTS

- Trading and services.** Distribution and servicing of electrical home appliances, sanitarywares, other household products, bathroom accessories, home furniture, medical devices and healthcare products. Some key brands distributed include ELBA, FABER, Rubine, and Tuscani. Fiamma also distributes agency brands like Braun, Omron and Whirlpool. This segment contributed c.81% to FY14 revenue.
- Property development.** Development of residential and commercial real estate. This segment accounted for c.18% of FY14 revenue.
- Investment holding and property investment.** Long-term investment in unquoted shares and property investments.

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