

Trading idea: To retest RM1.73-1.96 in anticipation of strong 4Q16 results and potential final dividend surprise

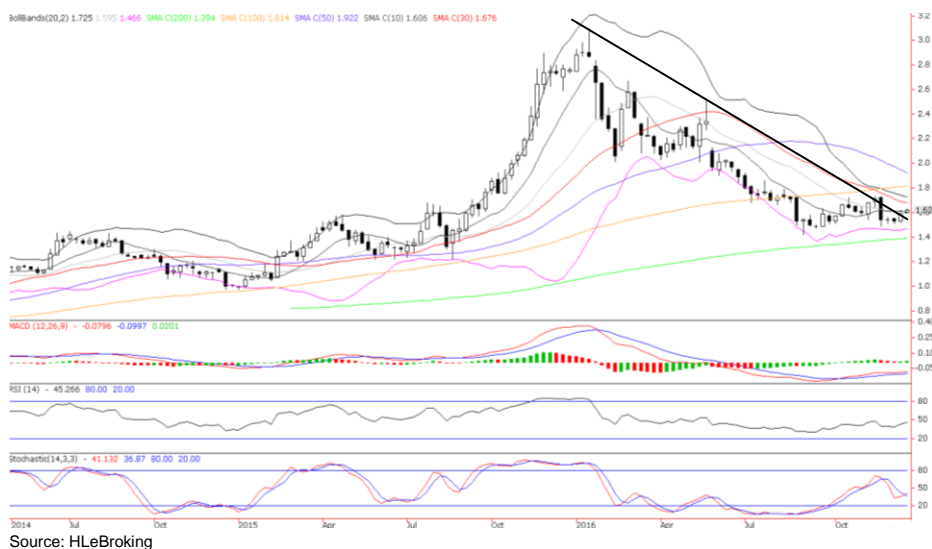
December 20, 2016

FLBHD (RM1.62/Vol:444k)

DAILY CHART: POISED TO RETEST RM1.73-1.96 ZONES AFTER A DOWNTREND LINE BREAKOUT



WEEKLY CHART: UPSIDE BIAS FOLLOWING A LT DOWNTREND LINE BREAKOUT



- **A downstream plywood manufacturer.** FLBHD (founded in 1980s) focuses on the manufacturing and sale of plywood and veneer, using the waste from its manufacturing activities to generate and sell electricity. FLBHD exports over 98% of its products, mainly to US (71% of FY15 revenue), Korea (12.4%), Taiwan (11.5%) and India (2.1%).
- **Promising US Recreational Vehicle (RV) industry outlook.** Approximately 70% of FLBhd's FY15 revenue was derived from the US market, of which bulk of its plywood is catered to the RV industry. The US RV market is expected to grow positively on the back of recovering US economy, which bodes well for FLBHD's plywood. According to the latest forecast from RVIA, the RV industry's shipments will top 438,000 units in 2017, a 4.4% increase above the projected 2016 total of 419,500 units, the 8th consecutive year of growth for the RV market.

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Risk Profile

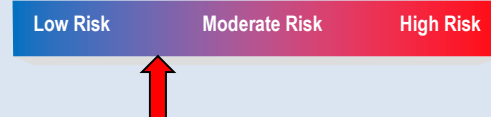


FIG1: Financials and technical snapshots

Daily RSI	Bullish
Daily Slow stochastic	Overbought
Daily MACD	Bullish
52-w High/Low	3.09/1.42
BVPS (RM)	RM1.53
P/BV (x)	1.06
Average volume	1M (1.03m); 3M (1.07m)
Dividend (ex-date)	6sen (29 Dec)
Price performance: 1-d/1-wk	+1.9%/+5.2%
S1/S2 (RM)	1.58/1.50
R1/R2 (RM)	1.73/1.84
LT technical objective (RM)	1.96
Stop loss (RM)	1.48
HLIB institutional TP (RM)	Not-rated
Bloomberg institutional TP (RM)	Not-rated
Upside to LT technical target	+34 sen (+21.0%)
Downside to stop loss	-14 sen (-8.6%)
Trading period (max)	4 weeks

Source: HLIB, Bloomberg

- **Riding on strong US\$.** As over 98% of its exports is denominated in US\$ while about 80-90% of cost of sales is settled in RM, strengthening US\$ bodes well for the bottomline (average RM/US\$ has depreciated by 5.8% from RM3.90 in 2015 to RM4.13 YTD), given heightened prospects of Fed rate hike and sustainable US growth on the back of “Trumponomics”.
- **Ongoing efforts to improve quality and operational efficiencies.** In respond to the increasingly competitive market, FLBHD is currently in the midst of finalising a deal to acquire new machinery producing plywood with different sizes and specification, with the aim to increase the sales volume to US market with the production of these sizes of plywood as well as to reduce reliance on labour force.
- **Expecting a strong showing in 4Q16.** Despite a weak core PATAMI in 3Q16 (mainly due to timing gap in shipment to US), we remain optimistic of a better 4Q16 results, underpinned by several positive factors including: (i) Weakening RM/US\$ (slid 6.1% in 4Q16 to RM4.13 against average RM4.05 in 3Q16); (ii) Bright US RV industry outlook; (iii) Ongoing efforts to improve quality and operational efficiencies and (iv) Stabilizing ASPs. Hence, we expect FLBHD to record ~RM60m revenue in 4Q16, translating into a core PATAMI of RM6.6m, assuming a 11% net profit margin (slightly lower than average 11.9% in the last 4 quarters). All in all, FY16 revenue is expected to increase 9% yoy but core PATAMI will decline 19% yoy, predominantly due to reduction in sales volume, lower ASPs, higher overheads coupled with higher effective tax rates.
- **Potential final dividend poser amid stronger 4Q16 and solid balance sheet with net cash of 85 sen (~52% of share price).** Historically (excluding the outlier in FY15), the company registered operating netcash flow of 8-27sen/share and has been paying 6-8sen dividend consistently (15 sen in FY15) since listed in 2011. Last week, FLBHD declared a total dividend 6 sen for 9MFY16 on 15 Dec (ex-date 29 Dec).
- In anticipation of stronger 4Q16 results and its solid financial position, the company is capable of delivering another ~4sen final dividend, translating into a total 10sen for FY16 (i.e. 6.1% DY) or a dividend payout of 51% (still below 53%-65% range from FY11-15). Overall, we see limited downside risks for FLBHD, supported by the strong netcash/share of 85sen and interim 6 sen dividend. At RM1.62, FLBHD is trading at 1.06x P/B, 40% lower against its peers. In terms of P/E, FLBHD's 8.3x FY16 P/E (Ex-cash, P/E is only 3.9x!) is trading at 26% discount to its peers' 11.3x.
- **Positive downtrend line breakout to spur share prices to retest RM1.73-1.95 zones.** In view of the sluggish 3Q16 results, FLBHD's share prices tumbled on 22 Nov from RM1.69 to a low of RM1.49 intraday before closing at RM1.55. Thereafter, the stock steadily climbed to RM1.62 on 19 Dec after announcing 6 sen interim dividend on 15 Dec.
- Ahead of the dividend ex-date and in anticipation of a strong 4Q16 results (to be released in Feb), FLBHD's share price is poised to retest immediate resistance of RM1.73 (14 & 21 Nov high) following a downtrend line breakout yesterday. A decisive breakout above RM1.73 could take the next leg up towards RM1.84 (200-d SMA) before reaching our LT objective at RM1.96 (50% FR) levels. On the flip side, key supports are RM1.56 (20-d SMA) and RM1.50 psychological support. Cut loss at RM1.48.

EARNINGS SUMMARY

FYE 31 Dec	FY11	FY12	FY13	FY14	FY15	FY16E
Avg RM/US\$	3.06	3.09	3.15	3.27	3.90	4.13 (as at 19 Dec)
Revenue (RM'm)	122.2	132.8	147.2	150.4	180.7	196.9
PATAMI (RM'm)	13.7	11.6	15.1	16.0	31.7	17.4
Net forex gains	1.9	0.0	2.4	2.6	7.0	-
Core PATAMI (RM'm)	11.8	11.6	12.7	13.4	24.7	20.1
Issued shrs (m)	103.2	103.2	103.2	103.2	103.2	103.2
Core EPS (sen)	11.4	11.2	12.3	13.0	23.9	19.5
NP margins	9.7%	8.7%	8.6%	8.9%	13.7%	10.2%
Dividend (sen)	6.0	6.0	8.0	8.0	15.0	10.0
Payout	53%	53%	65%	62%	63%	51%
Netcash/shr (RM)	0.33	0.58	0.61	0.58	0.72	0.85 (end Sep)
P/ E (x)	14.2	14.4	13.2	12.5	6.8	8.3
Yield (%)	3.7	3.7	4.9	4.9	9.3	6.2

Source: Company, HLIB

QUARTERLY EARNINGS SUMMARY

FYE 31 Dec	4Q15	1Q16	2Q16	3Q16	9MFY16	4Q16E	FY16E
Avg USDMYR	4.28	4.19	4.01	4.05	4.08	4.30 (as at 19 Dec)	4.13 (as at 19 Dec)
Revenue (RM'm)	57.8	53.3	52.7	30.9	136.9	60.0	196.9
PATAMI (RM'm)	10.7	3.3	4.6	2.9	10.8	6.6	17.4
Net forex gains	0.0	(3.6)	0.6	0.3	(2.7)	-	-
Core PATAMI (RM'm)	10.7	6.9	4.0	2.6	13.5	6.6	20.1
Issued shrs (mil)	103.2	103.2	103.2	103.2	103.2	103.2	103.2
Core EPS (sen)	10.4	6.6	3.9	2.5	13.1	6.4	19.5
NP margins	18.5%	12.9%	7.7%	8.5%	9.9%	11.0%	10.2%
Dividend (sen)	-	-	-	-	6.0	4.0	10.0
Payout					46%	63%	51%

Source: Company, HLIB

DIVIDEND TRACK RECORD

FYE 31 Dec	FY11	FY12	FY13	FY14	FY15	9MFY16
Date announced	15 Dec 2011	7 Jan 2013	16 Dec 2013	5 Dec 2014	30 Jul (5sen)	15 Dec (6sen)
					17 Nov (10sen)	
Ex-date	3 Jan 2012	22 Jan 2013	30 Dec 2013	18 Dec 2014	13 Aug & 3 Dec 2015	29 Dec 2016
Net cashflow from operating (RM)	0.08	0.27	0.13	0.14	0.32	0.10
Netcash/shr (RM)	0.33	0.58	0.61	0.58	0.72	0.85
DPS (RM)	0.06	0.06	0.08	0.08	0.15	0.06
Payout	52%	53%	65%	62%	63%	46%

Source: Company, HLIB

EXPORTS PROFILE

FYE 31 Dec	FY11	FY12	FY13	FY14	FY15
Overseas	89.4%	91.7%	92.8%	97.8%	99.1%
Malaysia	10.6%	8.3%	7.2%	2.2%	0.9%
Major destinations					
USA	48.3%	57.2%	66.3%	64.9%	71.4%
Taiwan	23.7%	21.8%	11.5%	12.8%	11.5%
Korea	6.3%	11.2%	9.4%	14.0%	12.4%
Malaysia	10.6%	8.3%	7.2%	2.2%	0.9%

Source: Annual report

PEERS COMPARISON

Stocks	20-Dis (RM)	BVPS (sen)	P/BV (x)	EPS16 (sen)	P/E (x)	Remarks
FLBHD	1.620	1.53	1.06	19.5	8.3	HLIB est
HEVEA	1.550	0.85	1.82	17.8	8.7	Trailing EPS
EVERGRN	0.975	1.35	0.72	9.0	10.8	HLIB est
VANACHAI (Thailand)	14.100	5.05	2.79	98.0	14.4	Bloomberg
Average			1.78		11.3	
FLBHD vs avg			-40%		-26%	
Source: Bloomberg, HLIB						

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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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