

LCTH Corporation Berhad

Ready To Grow

By The Research Team | research@kenanga.com.my

INVESTMENT MERIT

- Ready to expand.** LCTH Corporation, a Johor-based precision plastic injection mould manufacturer, is aiming to secure more overseas manufacturing orders in FY15 as it nears the completion of a 3-year right-sizing strategy. To recap, LCTH has adopted the strategy since CY13 to focus on higher-margin projects, lean management, and to improve higher operational efficiency. The exercise saw the group shedding excess assets (and recorded RM18.6m gain from the disposal of property, plant and machinery) to Flextronics Technology S/B in FY13. Meanwhile, LCTH's wholly-owned subsidiary, Classic Advantage S/B (CASB), also consolidated its operations to a newly constructed smaller building since September-CY14, thus allowing the group to source new orders under the leaner and flexible manufacturing capabilities.
- No solid new order, yet.** While there is no solid progress in securing new order at this juncture, we understand that LCTH will continue focusing on higher gross profit margin projects (>10%) moving forward with key focus on industries in the automotive, medical, solar power, electrical and electronics sectors.
- Key competitive advantages.** Being a 70.6% owned subsidiary of the Singapore listed Fu Yu Corp, which is one of the largest suppliers of high-precision injection moulds and plastic injection moulded parts in the Asia region, LCTH is able to leverage and obtain support as well as essential technical know-how from its parent company. On top of that, the group also provide one-stop manufacturing services, thus enabling it to strengthen its standards in services as well as quality at competitive rates.
- Neutral impact from the currency fluctuation.** LCTH appears to be neutral from the currency fluctuation. Approximately 58% (FY13: 22%) of the group's sales are denominated in foreign currencies in FY14 whilst c.51% (FY13: 70%) of its costs are denominated in the functional currency (primarily USD, SGD, and EURO) of the group. For illustration purpose, based on the group's sensitivity analysis, FY14 net profit would see a positive impact of 1.3%, 0.06% and 0.01% should the USD, SGD and EURO each strengthen by 1% against the Ringgit.
- Healthy balance sheet.** LCTH has a strong cash position of RM89.8m (or c.RM0.25/share) as at end FY14 with zero borrowing. FY15 capex is estimated at RM10m for production capacity expansion. Despite the hefty war chest, LCTH has no imminent M&A plan in the pipeline and has also downplayed the capital repayment angle.
- Aiming to achieve higher operational efficiency.** LCTH is expecting its FY15 topline to be sustained at FY14 level should there is no new order being secured. The group also believe its margin can be improved following the near completion of its right-sizing strategy. Hence, we are projecting the group to achieve net profit of RM13.0m in FY15 followed RM13.7m a year later on the back of higher operational efficiency.
- Intends to resume its dividend policy.** LCTH set a div. policy to distribute a minimum 50% of its net profit during listing but was abolished since FY10 due to the poor financial performance. Moving forward, LCTH intends to resume its div. policy should there is no immediate expansion plan on hand. Assuming a 50% div. payout ratio, we project the group could potentially declare DPS of between 1.8 sen and 2.0 sen in FY15-FY16, translating into 3.8%-4.0% div. yield.
- Not Rated.** LCTH is currently trading at FY15E PER of 13.2x (vs. the FBMSmall Cap fwd PER of 10.3x and the industry average fwd PER of 14.9x). Assuming a 10%-15% discount (as a result of its smaller market cap) to the industry ave. fwd PER, we derived a fair value for LCTH at RM0.48-RM0.50 range, based on targeted FY15E PER of 12.7x-13.4x.

	Rating	Fair Value
Last Price		RM0.495
Kenanga	NOT RATED	-
Consensus	N/A	N/A

Stock Information

Stock Name	LCTH CORP BHD
CAT Code	5092
Industry	Miscellaneous Manufactur
Industry Sub-sector	Rubber/Plastic Products
YTD stock price chg	94.12%
Market Cap (RM m)	178.20
Issued shares (m)	360.00
52-week range (Hi)	0.55
52-week range (Low)	0.215
3-mth avg daily vol:	4091003
Free Float	19%
Beta	1.80
Altman's Z-score	3.03

Major Shareholders

FU YU CORP LTD	70.64%
LEMBAGA TABUNG HAJI	4.71%
UBS AG	1.40%

Financials

FYE Dec (RM'm)	2014A	2015E	2016E
Revenue	126.1	119.8	125.7
EBIT	13.4	13.7	13.8
Net Profit (NP)	12.9	13.5	14.2
Core EPS (sen)	3.6	3.7	3.9
BV/Share (RM)	0.5	0.5	0.6
PER	13.8	13.2	12.6
Price/BV (x)	1.0	0.9	0.9
Net gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	0.0	1.8	2.0
Dividend Yield (%)	0.0%	3.8%	4.0%

Quarterly Financial Data

	2Q14	3Q14	4Q14
Revenue	35.5	30.0	30.9
Revenue Growth (QoQ)	19.1%	-15.4%	2.9%
EBIT	3.3	-0.6	3.0
OP Margin	9.2%	-1.9%	9.7%
Net Profit (NP)	3.3	2.6	6.0
EPS (sen)	0.9	0.7	1.7
EPS Growth (QoQ)	190%	-20%	129%

Peers Comparisons	PER (FY15)	Div. Yld (%)	Mkt Cap (RM m)
SKP RESOURCES	19.4	2.7	938.4
VS INDUSTRIES	10.3	3.9	813.2
GE - SHEN	N.A.	N.A.	55.8
Simple Avg.	14.9	3.3	602.5

LCTH	13.2	3.8	178.2
FBMSC	10.3	3.1	116.3b

Daily Charting – LCTH CORP BHD



Comment:

Chart-wise, LCTH is trading at an uptrend for the past 4 months, supported by all SMA. However, LCTH waned after it hit 5-years high of RM0.55. Indicator-wise, both Stochastics and RSI indicators are retreating from the overbought territory, indicating that LCTH could consolidate further. Immediate resistance is capped at RM0.55 (R1), while the strong buying support could be found at RM0.47 (S1).

About the stock:

Name : LCTH CORP BHD
 Bursa Code : LCTH
 CAT Code : 5092

Key Support & Resistance level

Resistance	: RM0.55 (R1)	RM0.60 (R2)	RM0.65 (R3)
Support	: RM0.47 (S1)	RM0.42 (S2)	RM0.38 (S3)
Outlook	: Neutral		

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

LCTH Corporation Berhad, a company listed on Bursa Malaysia Securities Berhad, is a well-established Precision Plastic Injection Mould Manufacturer which emphasizes on continuous customer' satisfaction. The principal business activities of the LCTH Group are as follows:

- Manufacture of precision plastic parts and components
- Sub-assembly of plastic parts and components
- Fabrication of precision mould and dies

BUSINESS SEGMENTS

- **Precision moulds and dies** - The Tool and Die Department specialises in precision mould design and fabrication equipped with the advanced CNC machinery, precision measuring instrument as well as computer aided simulations, design and manufacturing system such as UGS, AutoCAD and PROE.
- **Precision Injection Moulding** - With superior quality machinery specifically imported from Germany and Japan, namely DEMAG, TOSHIBA, NISSEI & SUMITOMO, LCTH is able to produce outstanding quality precision and engineering plastic parts and components for the consumer electronics, telecommunication and electrical supply industries.
- **Secondary processes** - The use of automated in-line robotic spray painting, auto-spindle systems in the Class 10K Clean Room Facilities for both solvent based IR / UV curable paints, Semi-auto multiple colour tampo printing systems, silk screening, ultrasonic welding and heat staking provide fine decorative finishing & assembly techniques to these thermoplastic products.

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