

MONEY TALK

Mieco Chipboard (MIEC MK)

1Q18: Below Expectations, Negative Operating Dynamics

1Q18 RESULTS

Year to 31 Dec (RMm)	1Q17	4Q17	1Q18	qoq % chg	yoy % chg
Turnover	82.6	75.4	80.6	6.8	(2.4)
Core EBITDA	10.6	6.9	1.0	(86.0)	(90.8)
Depreciation	(4.4)	(4.5)	(5.1)	14.0	16.5
Core EBIT	6.2	2.5	(4.1)	n.m.	n.m.
Finance Cost	(1.0)	(1.3)	(2.4)	82.4	n.m.
Core Pre-tax Profit	5.2	1.1	(6.6)	n.m.	n.m.
Tax	(0.0)	0.0	(0.1)	n.m.	n.m.
Core Net Profit	5.2	1.1	(6.6)	n.m.	n.m.
Margins (%)	(%)	(%)	+/- ppt	+/- ppt	+/- ppt
Core EBITDA	12.9	9.2	1.2	(8.0)	(11.6)
Core EBIT	7.6	3.3	(5.1)	(8.4)	(12.7)
Core Pre-tax Profit	6.3	1.5	(8.1)	(9.6)	(14.5)
Core Net Profit	6.3	1.5	(8.2)	(9.7)	(14.6)

Source: Mieco, UOB Kay Hian

- Missed expectations.** Mieco posted a 1Q18 core net loss of RM6.6m (1Q17: RM5.2m, 4Q17: RM1.1m), vs our full year 2018 estimate of RM34.5m. This was below estimates, no thanks to the negative operating dynamics at the furniture industry. Similar to past practices, no dividends were declared between the January-March period.
- Revenue grew sequentially thanks to Great Platform.** During the quarter, revenue rose 6.8% qoq primarily attributed to maiden contribution of the newly-acquired Great Platform. Nevertheless, top-line fell 2.4% yoy on the back of: a) weaker ASPs (given intense price-based competition), and b) lower sales volume and lower utilisation rate due to festive season.
- Dragged by negative operating and financial leverage.** In 1Q18, core EBIT fell qoq into the red of RM4.1m, no thanks to negative operating leverage, escalating rubberwood and glue costs. These, coupled with higher finance expense (+82.4% qoq due to higher borrowings), weighed down core bottom line to a loss of RM6.6m (1Q17: RM5.2m, 4Q17: RM1.1m).
- Update and outlook.** Although 1Q18 continued to be challenging, we expect to see improvement in the subsequent quarters. Firstly, we understand competition has started to ease in April and thus, we expect ASP pressure to soften. Also, we gathered that raw material costs have been holding steady post-1Q18.
- Cut 2018-20 EPS by 22-45%** as we take into account lower ASP and higher costs. Key downside risks include: a) market share losses, b) failing to make strong inroads into the E0 and Super E0 particleboard markets, which command better margins, and c) higher-than-expected cost inflation.
- Maintain HOLD with a lower target price of RM0.44** (from RM0.68) as a result our earnings cut. Our target price is based on 8x 2019F PE, in line with the stock's 5-year forward mean PE of 9x but above the sector mean of 7x. The premium is supported by its leadership position in the local particleboard scene. Despite share price having fallen 64% since our rating downgrade in Nov 17, we believe this is still not a good time to accumulate the stock as it lacks near-term positive catalysts. Entry level is RM0.40.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net Turnover	324.1	349.3	419.0	484.5	524.2
EBITDA	34.4	56.9	52.5	55.2	55.8
Operating Profit	19.4	39.2	33.2	35.4	35.6
Net Profit (Reported/Actual)	24.7	34.6	26.9	28.8	29.4
Net Profit (Adjusted)	24.7	34.6	26.9	28.8	29.4
EPS (sen)	4.7	6.6	5.1	5.5	5.6
PE (x)	9.0	6.4	8.3	7.7	7.6
P/B (x)	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (x)	6.4	5.0	4.3	4.0	3.7
Dividend Yield (%)	9.4	2.4	2.4	2.6	2.6
Net Margin (%)	7.6	9.9	6.4	6.0	5.6
Net Debt/(Cash) to Equity (%)	0.0	(0.2)	(0.0)	0.0	0.0
Interest Cover (x)	4.0	8.8	5.5	5.6	6.0
ROE (%)	6.6	8.6	6.3	6.4	6.2
Consensus Net Profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Mieco, Bloomberg, UOB Kay Hian

HOLD (Maintained)

Share Price	RM0.43
Target Price	RM0.44
Upside	+3%
(Previous TP)	RM0.68

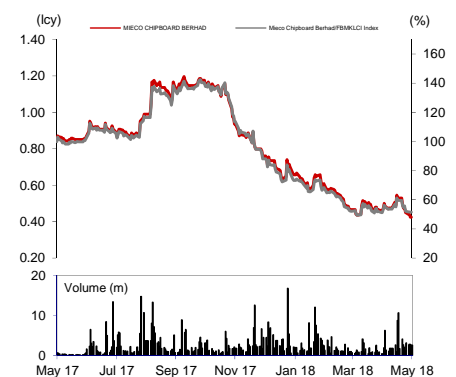
COMPANY DESCRIPTION

Mieco manufactures and distributes particle boards and value-added particle board-related products (eg laminated particle boards).

STOCK DATA

GICS sector	Materials
Bloomberg ticker	MIEC MK
Shares issued (m)	525.0
Market cap (RMm)	223.1
Market cap (US\$m)	56.0
3-mth avg turnover (US\$m)	0.3

PRICE CHART



Source: Bloomberg

ANALYSTS

Chan Jit Hoong, CFA, CPA
 +603 2147 1980
 jithoong@uobkayhian.com

Malaysia Retail Research Team
 +603 2147 1988
 research@uobkayhian.com

FINANCIAL STATEMENTS

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net Turnover	349.3	419.0	484.5	524.2
EBITDA	56.9	52.5	55.2	55.8
Depreciation & Amortisation	(17.7)	(19.3)	(19.8)	(20.2)
EBIT	39.2	33.2	35.4	35.6
Net Interest Income/(Expense)	(4.5)	(6.1)	(6.3)	(5.9)
Pre-tax Profit	34.7	27.2	29.1	29.7
Tax	(0.1)	(0.3)	(0.3)	(0.3)
Minorities	0.0	0.0	0.0	0.0
Net Profit	34.6	26.9	28.8	29.4
Net Profit (Adjusted)	34.6	26.9	28.8	29.4

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	(0.9)	106.4	44.9	47.6
Pre-tax Profit	34.7	27.2	29.1	29.7
Tax	0.1	(0.3)	(0.3)	(0.3)
Depreciation & Amortisation	17.7	19.3	19.8	20.2
Associates	0.0	0.0	0.0	0.0
Working Capital Changes	(60.0)	60.0	(3.7)	(2.0)
Other Operating Cashflows	6.5	0.1	(0.1)	0.0
Investing	(32.8)	(60.0)	(30.0)	(30.0)
Capex (Growth)	(27.7)	(60.0)	(30.0)	(30.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.3	0.0	0.0	0.0
Others	(5.4)	0.0	0.0	0.0
Financing	10.4	29.4	(10.2)	(11.2)
Dividend Payments	(21.0)	(5.4)	(5.8)	(5.9)
Issue of Shares	0.0	0.0	0.0	0.0
Proceeds from Borrowings	50.9	40.0	0.0	0.0
Loan Repayment	(2.3)	(10.0)	(5.0)	(5.0)
Others/Interest Paid	(17.3)	4.8	0.6	(0.3)
Net Cash Inflow (Outflow)	(23.3)	75.8	4.7	6.4
Beginning Cash & Cash Equivalent	35.5	12.2	88.0	92.7
Changes Due to Forex Impact	0.0	0.0	0.0	0.0
Ending Cash & Cash Equivalent	12.2	88.0	92.7	99.1

Source: Mico, UOB Kay Hian

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed Assets	435.2	464.0	474.3	484.1
Other LT Assets	10.2	170.2	170.2	170.2
Cash/ST Investment	18.1	88.0	92.3	98.9
Other Current Assets	135.4	151.8	176.2	191.2
Total Assets	598.9	873.9	912.9	944.4
ST Debt	66.1	92.2	87.2	82.2
Other Current Liabilities	71.0	147.5	168.2	181.3
LT Debt	14.7	0.0	0.0	0.0
Other LT Liabilities	44.3	210.1	210.2	210.2
Shareholders' Equity	402.7	424.2	447.3	470.8
Minority Interest	-	-	-	-
Total Liabilities & Equity	598.9	873.9	912.9	944.4

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA Margin	16.3	12.5	11.4	10.6
Pre-tax Margin	9.9	6.5	6.0	5.7
Net Margin	9.9	6.4	6.0	5.6
ROA	5.8	3.1	3.2	3.1
ROE	8.6	6.3	6.4	6.2
Growth				
Turnover	7.8	19.9	15.6	8.2
EBITDA	65.2	(7.6)	5.0	1.2
Pre-tax Profit	138.7	(21.8)	7.3	2.0
Net Profit	40.2	(22.4)	7.3	2.0
Net Profit (Adjusted)	40.2	(22.4)	7.3	2.0
EPS	40.2	(22.4)	7.3	2.0
Leverage				
Debt to Total Capital	(0.1)	(0.1)	(0.1)	(0.1)
Debt to Equity	(0.2)	(0.2)	(0.2)	(0.2)
Net (Debt)/Cash to Equity	(0.2)	(0.0)	0.0	0.0
Interest Cover (x)	8.8	5.5	5.6	6.0

Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	12/16	12/17	12/18E	12/19E
31/5/2018	67%	0%	33%	P/E	3.6	8.5	6.4	5.0
Target Price			0.68	EV/EBIT	16.5	4.3	-	-
Upside			60%	EV/EBITDA	8.9	3.2	7.5	6.4
				P/S	0.9	1.2	0.5	0.5
				P/B	0.8	0.4	-	-
				Div Yield	7.1%	12.9%	-	-
Income Statement	12/16	12/17	12/18E	12/19E	Profitability Ratios %			
Revenue	324	349	423	494	Gross Margin	-	-	-
Gross Income					EBITDA Margin	10.1	19.9	14.2
Operating Income	18	52	41	51	Operating Margin	5.4	14.9	9.7
Pre-tax Income	73	48	35	45	Profit Margin	25.5	13.7	8.2
Net Income Adjusted	83	48	35	44	Return on Assets	15.1	8.3	3.9
EPS Adjusted	0.39	0.09	0.07	0.09	Return on Equity	24.8	12.3	8.0
Dividends Per Share	0.10	0.10	-	-				
Payout Ratio (%)	25	44	-	-				
EBITDA	33	70	60	71				

Peer Comparison

Company	Ticker	Share Price 30 May 18 (RM)	Market Cap (RM)	PE 2018F (x)	PE 2019F (x)	P/B 2018F (x)	P/B 2019F (x)	Yield 2019F (%)
Lii Hen Industries Bhd	LHI MK	2.32	417.6	8.9	8.9	1.4	1.3	6.4
Poh Huat Resources Holdings Bhd	PHR MK	1.27	279.3	5.6	5.2	0.8	0.7	6.3
Latitude Tree Holdings Bhd	LATI MK	3.27	317.0	n.a.	n.a.	n.a.	n.a.	n.a.
Evergreen Fibreboard Bhd	EVF MK	0.425	359.5	9.7	8.3	0.3	0.3	2.6
SYF Resources Bhd	SYF MK	0.275	168.5	n.a.	n.a.	n.a.	n.a.	n.a.
Heveaboard Bhd	HAVE MK	0.76	424.6	17.3	10.4	0.8	0.7	2.6
Average				10.4	8.2	0.8	0.8	4.5
Mieco Chipboard Bhd	MIEC MK	0.43	223.1	8.3	7.7	0.5	0.5	2.4

Source: Bloomberg

Technical View



Source: Bursa Station Professional

Mieco Chipboard (MIEC MK)

Technical SELL with -10.6% potential return

Last price : RM0.425

Target price : RM0.395, RM0.38

Resistance : RM0.50

Stop-loss : RM0.505

SELL with a target price of RM0.38 and stop-loss at RM0.505. Based on the daily chart, MIEC formed a series of lower highs and lower lows that indicates a downtrend pattern. Currently, a selling signal is seen as the stock has been trading above the Ichimoku cloud. This is supported by the Heat Wave indicators - the Tenkan-sen line, Kinjun-sen line and Chikao span line - which suggest a bearish signal. The negative readings from the MACD and DMI suggest that the overall bearish bias remains intact.

Expected Timeframe: 2 weeks to 3 months

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Securities (M) Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2018, UOB Kay Hian Securities (M) Sdn. Bhd. All rights reserved.

<http://www.utrade.com.my>