

# Nam Cheong Ltd (NCL SP)

Share Price: SGD0.15

MCap (USD): 224M

Singapore

Target Price: SGD0.12 (-21%)

ADTV (USD): 0.8M

Oil &amp; Gas

# SELL

 (Unchanged)

## Brace for a longer winter

- 3Q15 just broke even, missing expectations. Shipbuilding and vessel chartering were weaker. Cut FY15-17E by 34-66%.
- Likely to see an order drought in a sustained OSV downturn.
- Maintain SELL, TP cut from SGD0.17 to SGD0.12, now based on 0.5x FY16 P/BV.

### What's New

3Q15 broke even, missing expectations. 9M15 PATMI of MYR49.5m formed only 42% of both our and consensus' FY15E. The weak 3Q15 was due to: 1) lower shipbuilding revenue with only 2 vessels delivered (2Q15: 2, 3Q14: 6) and no new vessel sales, 2) lower shipbuilding gross margin of 14.3% (2Q15: 15.3%, 3Q14: 24.0%) due to higher proportion of lower-margin build-to-order vessels and 3) MYR5.0m gross loss in the vessel chartering segment due to poor utilisation.

### What's Our View

We believe that Nam Cheong could face a long order drought in a sustained OSV downturn. Second-hand vessels may be readily available at lower prices, especially from weak and desperate OSV owners. Nam Cheong still has eight unsold vessels under its 2015 shipbuilding program and 18 unsold for 2016. Vessels which were sold are also likely to see deliveries deferred. This will result in slower revenue recognition and cash collections. Fortunately, Nam Cheong's sub-contracting model to third-party government-owned Chinese yards, allows it to also defer payments to the yards.

Its net orderbook stood at MYR880m as at 3Q15 where it said ~25% would be recognised in 4Q15. We cut FY15-17 EPS by 34-66% as we now assume that it can only sell four out of its 26 unsold vessels in 2016 and the remaining to be deferred to 2017 and beyond.

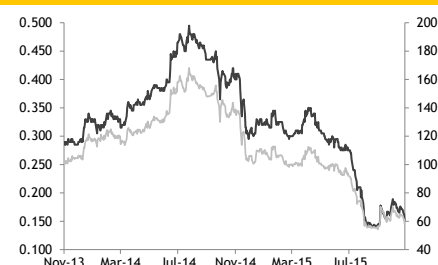
Net gearing at 9M15 was 0.97x but it said it just paid off SGD110m (~MYR330m) of its MYR1.9b debt and short-term debt now stands at ~MYR500m. We cut TP from SGD0.17 to SGD0.12 as we lower our P/BV valuation multiple from 0.7x to 0.5x. Maintain SELL.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,257.4	1,928.6	906.0	859.4	1,144.3
EBITDA	219.9	324.3	97.0	71.8	136.4
Core net profit	205.6	301.8	53.0	36.3	102.4
Core EPS (sen)	9.8	14.4	2.5	1.7	4.9
Core EPS growth (%)	37.0	47.1	(82.4)	(31.6)	182.3
Net DPS (sen)	2.6	3.9	0.0	0.0	1.3
Core P/E (x)	4.8	3.2	18.5	27.0	9.6
P/BV (x)	1.0	0.8	0.7	0.7	0.6
Net dividend yield (%)	5.6	8.4	0.0	0.0	2.9
ROAE (%)	26.9	28.0	4.1	2.6	7.0
ROAA (%)	11.8	11.1	1.5	1.0	2.7
EV/EBITDA (x)	10.0	6.9	23.2	29.8	15.0
Net debt/equity (%)	52.1	41.8	92.1	82.1	70.3

### Key Data

52w high/low (SGD)	0.41/0.14
3m avg turnover (USDm)	0.8
Free float (%)	38.1
Issued shares (m)	2,103
Market capitalization	SGD319.7M
Major shareholders:	
-S K Tiong Enterprise Sdn. Bhd.	27.3%
-Hung Yung Enterprise Sdn. Bhd.	15.2%
-TIONG SU KOUK	7.8%

### Share Price Performance



— Nam Cheong - (LHS, SGD) — Nam Cheong / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	(5.0)	(25.9)	(63.8)
Relative to index (%)	(3.1)	(21.6)	(59.1)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	2	4
	Maybank Consensus		% +/-
Target Price (SGD)	0.12	0.17	(29.4)
'15 PATMI (MYRm)	53	124	(57.1)
'16 PATMI (MYRm)	36	135	(73.1)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss summary

FYE Dec (MYR m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comments
Revenue	189.3	192.7	618.6	(1.8)	(69.4)	
Cost of goods sold	(168.1)	(162.1)	(469.9)	3.7	(64.2)	
<b>Gross profit</b>	<b>21.1</b>	<b>30.6</b>	<b>148.7</b>	<b>(30.9)</b>	<b>(85.8)</b>	
Administrative expenses	(16.0)	(25.8)	(14.9)	(37.9)	7.8	2Q15 was higher due to net forex loss of MYR7.4m and higher marketing expenses.
Other op. inc/exp	1.2	11.7	0.9	(90.1)	30.3	
<b>EBIT</b>	<b>6.3</b>	<b>16.5</b>	<b>134.7</b>	<b>(62.0)</b>	<b>(95.3)</b>	
Interest income	2.0	2.1	0.2	(4.7)	789.2	
Interest expense	(4.7)	(6.3)	(7.5)	(24.5)	(37.4)	
Associate/JV income	(2.5)	(0.2)	2.2	1028.7	(213.5)	
<b>EBT</b>	<b>1.0</b>	<b>12.1</b>	<b>129.6</b>	<b>(91.6)</b>	<b>(99.2)</b>	
Taxation	(0.6)	(1.6)	(4.0)	n.m.	(85.0)	
<b>Net profit</b>	<b>0.4</b>	<b>10.5</b>	<b>125.6</b>	<b>(96.1)</b>	<b>(99.7)</b>	
Minority interests	(0.4)	0.2	0.7	(306.1)	(161.8)	
<b>PATMI</b>	<b>0.0</b>	<b>10.7</b>	<b>126.3</b>	<b>(99.9)</b>	<b>(100.0)</b>	
<b>Segmental breakdown</b>	<b>3Q15</b>	<b>2Q15</b>	<b>3Q14</b>	<b>% chg QoQ</b>	<b>% chg YoY</b>	<b>Comments</b>
<b>Revenue (MYR m)</b>						
Shipbuilding	182.1	179.2	595.1	1.7	(69.4)	Delivered 2 vessels in 3Q15 vs 6 in 3Q14
Vessel chartering	7.1	13.5	23.5	(47.1)	(69.7)	Lower vessel utilisation in 3Q15
<b>Total</b>	<b>189.3</b>	<b>192.7</b>	<b>618.6</b>	<b>(1.8)</b>	<b>(69.4)</b>	
<b>Gross profit (MYR m)</b>						
Shipbuilding	26.1	27.5	143.0	(4.8)	(81.7)	
Vessel chartering	(5.0)	3.1	5.7	(259.3)	(187.7)	
<b>Total</b>	<b>21.1</b>	<b>30.6</b>	<b>148.7</b>	<b>(30.9)</b>	<b>(85.8)</b>	
<b>Gross margins (%)</b>						
Shipbuilding	14.3	15.3	24.0	(1.0)	(9.7)	
Vessel chartering	(69.9)	23.2	24.2	(93.1)	(94.1)	
<b>Total</b>	<b>11.2</b>	<b>15.9</b>	<b>24.0</b>	<b>(4.7)</b>	<b>(12.9)</b>	

Source: Company, Maybank KE

Figure 2: 9M profit and loss summary

FYE Dec (MYR m)	9M15	9M14	% chg YoY	MBKE FY15E	YTD as % of FY15E	Comments
Revenue	708.2	1,404.7	(49.6)	1,331.0	53	
Cost of goods sold	(588.1)	(1,102.7)	(46.7)	(1,123.7)	52	
<b>Gross profit</b>	<b>120.0</b>	<b>302.0</b>	<b>(60.2)</b>	<b>207.3</b>	<b>58</b>	
Administrative expenses	(60.5)	(41.4)	46.1	(79.9)	76	Higher due to net forex gain of MYR10.8m, higher depreciation of MYR3.2m and increase in marketing expenses of MYR10.8m.
Other op. inc/exp	8.1	13.8	(41.0)	16.0	51	
<b>EBIT</b>	<b>67.7</b>	<b>274.3</b>	<b>(75.3)</b>	<b>143.4</b>	<b>47</b>	
Interest income	5.6	0.7	643.8	2.2	250	
Interest expense	(17.9)	(15.0)	19.9	(27.7)	65	
Associate/JV income	(2.9)	5.3	(155.3)	8.0	(36)	
<b>EBT</b>	<b>52.4</b>	<b>265.4</b>	<b>(80.3)</b>	<b>125.9</b>	<b>42</b>	
Taxation	(2.2)	(5.4)	(59.2)	(5.9)	37	
<b>Net profit</b>	<b>50.2</b>	<b>260.0</b>	<b>(80.7)</b>	<b>120.0</b>	<b>42</b>	
Minority interests	(0.0)	0.7	(100.0)	(0.4)	0	
<b>PATMI</b>	<b>50.2</b>	<b>260.7</b>	<b>(80.7)</b>	<b>119.7</b>	<b>42</b>	

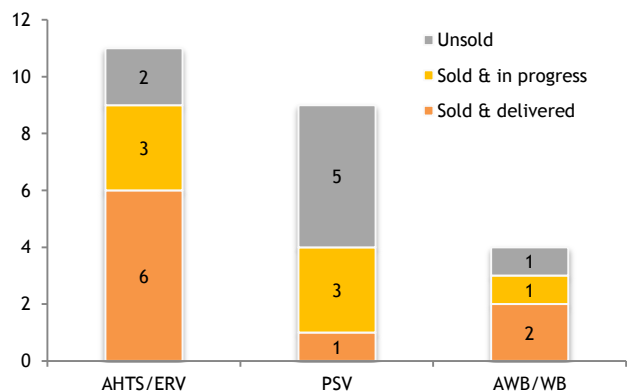
  

Segmental breakdown	9M15	9M14	% chg YoY	Comments
<b>Revenue (MYR m)</b>				
Shipbuilding	672.0	1,333.9	(49.6)	Delivered 9 vessels in 9M15 vs 18 in 9M14
Vessel chartering	36.2	70.8	(48.9)	Lower vessel utilisation
<b>Total</b>	<b>708.2</b>	<b>1,404.7</b>	<b>(49.6)</b>	
<b>Gross profit (MYR m)</b>				
Shipbuilding	115.7	280.7	(58.8)	
Vessel chartering	4.3	21.3	(79.7)	
<b>Total</b>	<b>120.0</b>	<b>302.0</b>	<b>(60.2)</b>	
<b>Gross margins (%)</b>				
Shipbuilding	17.2	21.04	(3.8)	
Vessel chartering	11.9	30.1	(18.2)	
<b>Total</b>	<b>17.0</b>	<b>21.5</b>	<b>(4.5)</b>	

Source: Company, Maybank KE

Figure 3: Original 2015 shipbuilding programme

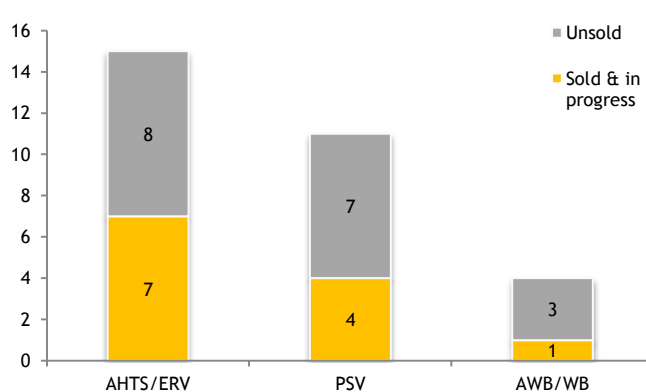
8 vessels originally due for 2015 still unsold as at 3Q15. Most likely to be deferred, we now assume that they sell 4 of the 8 unsold vessels in 2016 and the rest in 2017 and beyond.



Source: Company

Figure 4: Original 2016 shipbuilding programme

18 vessels originally due for 2016 still unsold 3Q15. Most likely to be deferred.



Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	4.8	3.2	18.5	27.0	9.6
Core P/E (x)	4.8	3.2	18.5	27.0	9.6
P/BV (x)	1.0	0.8	0.7	0.7	0.6
P/NTA (x)	1.0	0.8	0.7	0.7	0.6
Net dividend yield (%)	5.6	8.4	0.0	0.0	2.9
FCF yield (%)	nm	5.6	nm	10.2	8.4
EV/EBITDA (x)	10.0	6.9	23.2	29.8	15.0
EV/EBIT (x)	10.7	7.4	29.1	42.6	17.7

**INCOME STATEMENT (MYR m)**

Revenue	1,257.4	1,928.6	906.0	859.4	1,144.3
Gross profit	264.4	378.5	143.3	114.7	178.8
EBITDA	219.9	324.3	97.0	71.8	136.4
Depreciation	(13.2)	(18.1)	(19.9)	(21.6)	(20.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	206.7	306.2	77.2	50.2	115.8
Net interest income / (exp)	(10.4)	(13.2)	(15.9)	(12.8)	(10.4)
Associates & JV	2.9	10.3	(4.5)	1.0	3.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	199.2	303.3	56.8	38.4	108.5
Income tax	7.0	(1.1)	(3.4)	(2.1)	(5.8)
Minorities	(0.6)	(0.4)	(0.4)	(0.1)	(0.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	205.6	301.8	53.0	36.3	102.4
Core net profit	205.6	301.8	53.0	36.3	102.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	362.0	800.1	384.7	536.9	632.5
Accounts receivable	220.3	390.2	355.6	337.3	312.7
Inventory	751.1	1,040.7	1,629.9	1,591.5	1,587.1
Property, Plant & Equip (net)	290.1	282.2	429.1	409.7	391.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1.1	116.1	105.3	106.3	109.3
Other assets	554.5	623.2	881.2	848.6	819.1
<b>Total assets</b>	<b>2,179.2</b>	<b>3,252.4</b>	<b>3,785.9</b>	<b>3,830.3</b>	<b>3,852.0</b>
ST interest bearing debt	242.1	556.2	482.5	495.3	485.7
Accounts payable	380.6	671.7	679.6	643.9	560.8
LT interest bearing debt	609.1	753.1	1,171.9	1,202.8	1,214.2
Other liabilities	9.0	52.0	72.0	72.0	72.0
<b>Total Liabilities</b>	<b>1,240.6</b>	<b>2,033.1</b>	<b>2,406.4</b>	<b>2,414.3</b>	<b>2,333.1</b>
Shareholders Equity	938.0	1,218.8	1,378.7	1,415.0	1,517.7
Minority Interest	0.6	0.6	0.8	0.9	1.2
<b>Total shareholder equity</b>	<b>938.6</b>	<b>1,219.3</b>	<b>1,379.5</b>	<b>1,415.9</b>	<b>1,518.9</b>
<b>Total liabilities and equity</b>	<b>2,179.2</b>	<b>3,252.4</b>	<b>3,785.9</b>	<b>3,830.3</b>	<b>3,852.0</b>

**CASH FLOW (MYR m)**

Pretax profit	199.2	303.3	56.8	38.4	108.5
Depreciation & amortisation	13.2	18.1	19.9	21.6	20.6
Adj net interest (income)/exp	10.4	13.2	15.9	12.8	10.4
Change in working capital	(418.6)	(232.5)	(769.2)	53.7	(24.7)
Cash taxes paid	(0.4)	(4.3)	(3.4)	(2.1)	(5.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(230.5)	60.9	(684.3)	101.4	84.1
Capex	(43.8)	(6.1)	(2.0)	(2.0)	(2.0)
Free cash flow	(274.3)	54.8	(686.3)	99.4	82.1
Dividends paid	(25.9)	(54.7)	(81.8)	0.0	0.0
Equity raised / (purchased)	118.6	(12.0)	0.0	0.0	0.0
Change in Debt	400.0	517.0	345.1	43.6	1.8
Other invest/financing cash flow	(73.7)	(76.8)	7.5	9.2	11.7
Effect of exch rate changes	0.0	12.8	0.0	0.0	0.0
Net cash flow	144.7	441.1	(415.4)	152.3	95.6

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	43.5	53.4	(53.0)	(5.1)	33.1
EBITDA growth	46.3	47.5	(70.1)	(26.0)	90.1
EBIT growth	44.0	48.1	(74.8)	(34.9)	130.7
Pretax growth	43.8	52.2	(81.3)	(32.3)	182.3
Reported net profit growth	50.6	46.7	(82.4)	(31.6)	182.3
Core net profit growth	50.6	46.7	(82.4)	(31.6)	182.3
<b>Profitability ratios (%)</b>					
EBITDA margin	17.5	16.8	10.7	8.4	11.9
EBIT margin	16.4	15.9	8.5	5.8	10.1
Pretax profit margin	15.8	15.7	6.3	4.5	9.5
Payout ratio	26.6	27.1	0.0	0.0	27.3
<b>DuPont analysis</b>					
Net profit margin (%)	16.4	15.6	5.8	4.2	8.9
Revenue/Assets (x)	0.6	0.6	0.2	0.2	0.3
Assets/Equity (x)	2.3	2.7	2.7	2.7	2.5
ROAE (%)	26.9	28.0	4.1	2.6	7.0
ROAA (%)	11.8	11.1	1.5	1.0	2.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	151.6	142.8	nm	nm	nm
Days receivable outstanding	48.8	57.0	148.2	145.1	102.2
Days inventory outstanding	218.4	208.1	nm	nm	nm
Days payables outstanding	115.6	122.2	318.9	319.9	224.6
Dividend cover (x)	3.8	3.7	nm	nm	3.7
Current ratio (x)	2.9	2.1	2.5	2.6	2.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.6	1.6	1.6	1.7
Net debt/equity (%)	52.1	41.8	92.1	82.1	70.3
Net interest cover (x)	19.9	23.2	4.9	3.9	11.2
Debt/EBITDA (x)	3.9	4.0	17.1	nm	12.5
Capex/revenue (%)	3.5	0.3	0.2	0.2	0.2
Net debt/ (net cash)	489.1	509.2	1,269.7	1,161.1	1,067.3

Source: Company; Maybank

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