



Poh Huat Resources Holdings Bhd

Unlocking the real value



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Why Poh Huat share is undervalued

- Dividend payout is too low
- ROIC on the furniture business are +/- 30% but returns to shareholders are depressed by non-core acquisitions
- Warrants that are unneeded
- Lack of good corporate governance practices
- Poh Huat could be a RM1bn market capitalisation company if it pays regular, higher dividends and sells its non-core assets



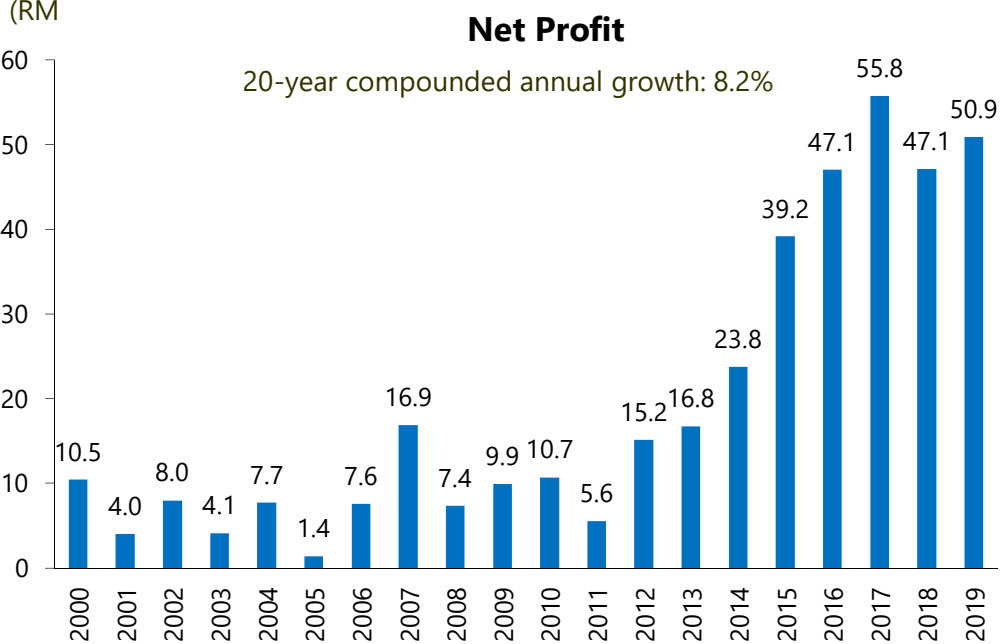
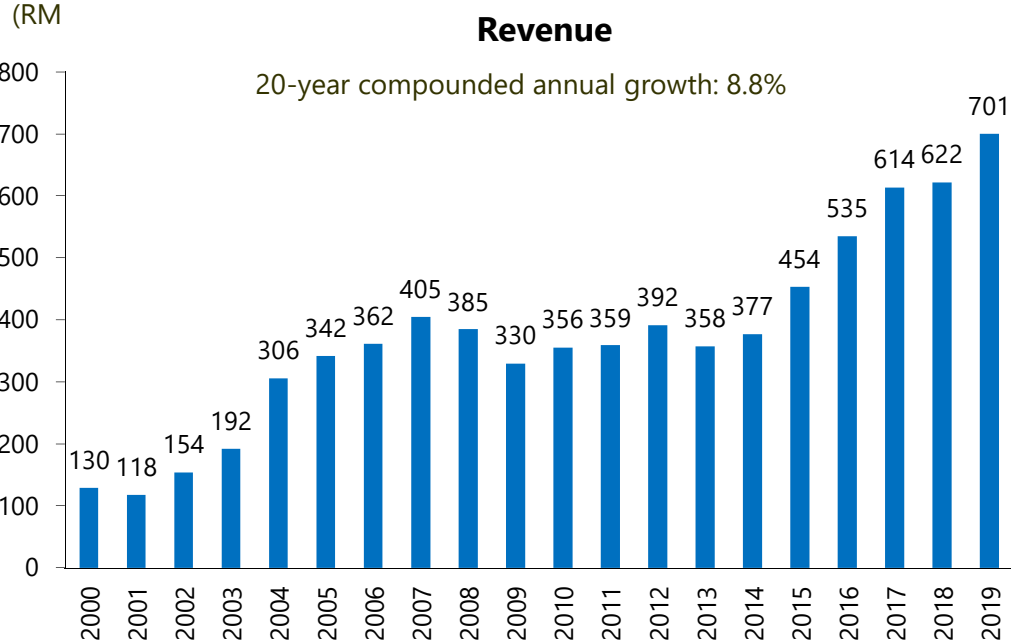
Cash-rich furniture maker with 290% upside potential

- Top 3 largest furniture exporter in Malaysia
- Proven earnings track record even in a downturn
- Potential beneficiary of US-China trade war
- No formal dividend policy and spent too much cash on non-core assets



Proven earnings track record even in a downturn

- Business has grown nicely over the last 20 years



No formal dividend policy

- Company turned net cash for the first time in FY14
- Dividend is low despite growing net cash
- ***Cash tends to be invested in non-core businesses or buy assets***

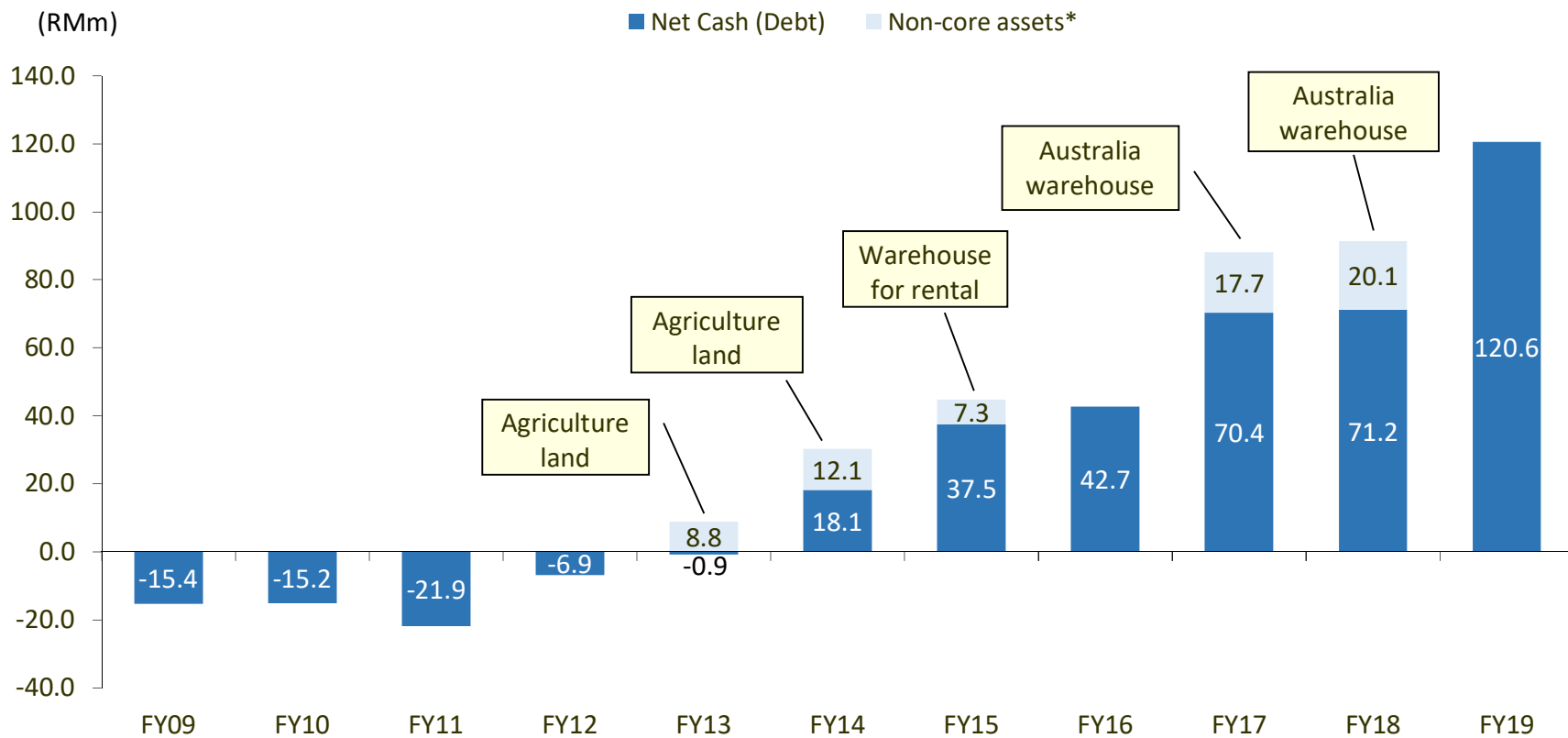
Poh Huat: Financial Snapshot

FYE Oct (RMm)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Profitability											
Sales (RMm)	330	356	359	392	358	377	454	535	614	622	701
Net Profit (RMm)	10	11	6	15	17	24	39	47	56	47	51
Net margin (%)	3%	3%	2%	4%	5%	6%	9%	9%	9%	8%	7%
Returns											
ROE	7%	8%	4%	11%	11%	14%	18%	19%	20%	15%	14%
ROIC	7%	8%	4%	11%	11%	16%	22%	23%	26%	19%	21%
Div per share (sen)	0.8	1.1	1.1	1.1	2.7	4.0	5.0	8.0	8.0	6.0	7.0
Dividend Payment (RMm)	1.7	2.3	2.3	2.3	5.7	8.5	10.7	17.1	17.1	13.2	16
Dividend Payout (%)	17%	21%	41%	15%	34%	36%	27%	36%	31%	28%	31%
Balance Sheet Strength											
Net Cash (RMm)	-15	-15	-22	-7	-1	18	37	43	70	71	121
Shareholders' Equity (RMm)	133	132	131	143	157	172	214	243	285	317	362
Net Cash / Equity (x)	-0.12	-0.12	-0.17	-0.05	-0.01	0.11	0.18	0.18	0.25	0.22	0.33



Non-core assets of RM66m

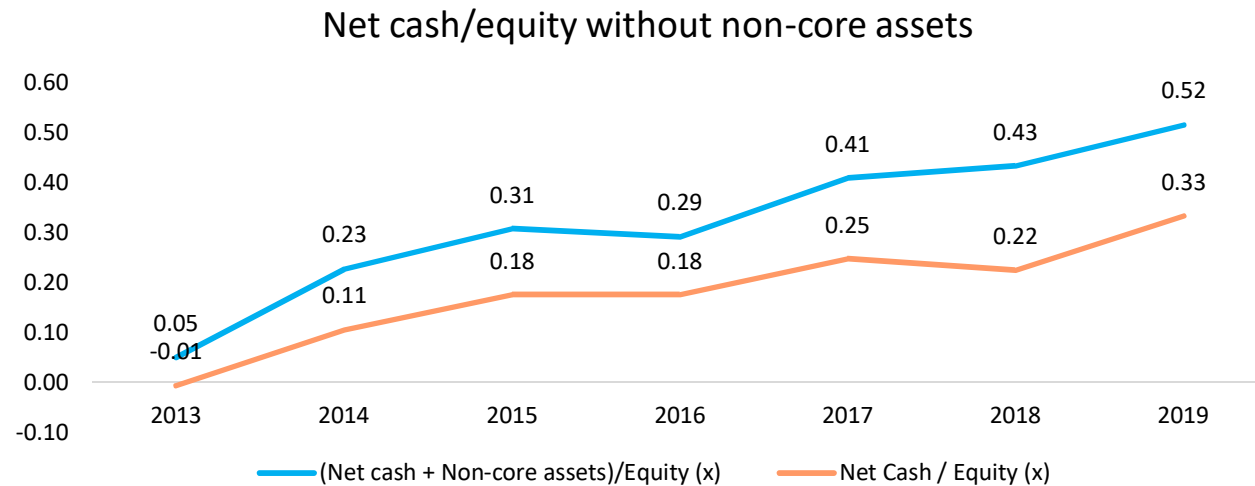
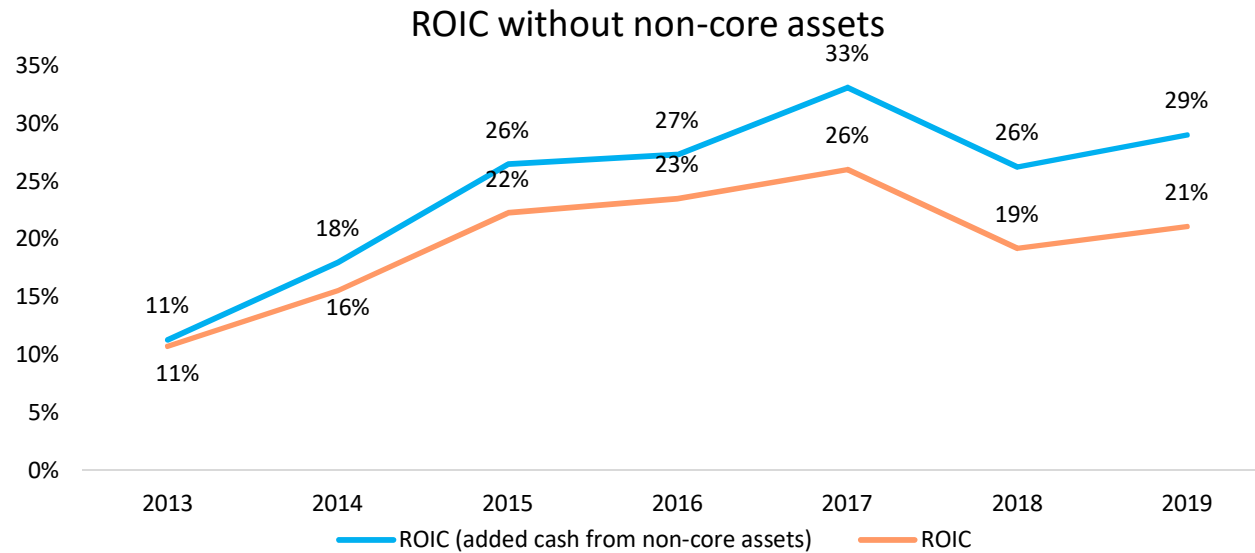
- Total RM66m was spent between FY13-18 for land and investment properties
- Without non-core assets, FY19 net cash would be RM186m or 77 sen/share



* Vacant lands and investment properties i.e. warehouses in Malaysia and Australia



IF without non-core assets...



Cash Management

- Biggest headache for a finance director = too much debt
- Next biggest headache = too much cash and pressure to generate returns
- MNCs retain what is needed for working capital + emergency fund
- All the rest is returned to shareholders



Warrants – unnecessary corporate exercise

- There is no guarantee all warrants will be exercised
- Timing of cash inflow is uncertain
- Cash generation should come from operational efficiency, not shareholders
- Poh Huat's cash flow generation is superior. We don't need the warrants.

Poh Huat's Warrants

Issue Date	22-Oct-15
Maturity Date	21-Oct-20
Issue Size in Unit	53,361,427
Exercise Price	RM1.00
Exercise Ratio	1
Warrants outstanding	34,978,032



Corporate governance issue

- Practice 4.1: At least half of the board comprises independent directors. For Large Companies, the board comprises majority independent directors. **Departed**
Two out of seven members on the board are independent directors
- Practice 4.2: The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director. **Departed**
Mr Boo Chin Liong – 20 years on the board
Mr Chua Syer Cin – 18 years on the board



Recommended actions

- Increase dividend payout
- Regular dividend payment stream
- Stop investing in non-core assets
- Avoid unnecessary corporate exercises
- Comply with good corporate governance practices



Increase dividend payout

- Poh Huat is capable of raising the dividend payout to 75% of net profit
- At 75% payout, dividend yield will rise to 14.6%
- Assuming a constant 75% dividend payout ratio, the share price will re-rate to RM4.12, 264% upside potential

FY2019 EPS	Dividend Payout	Div/sh	Div Yield	Share Price	Share Price Upside	P/E
(sen)	(%)	(sen)	(%)	(RM)	(%)	(x)
22.0	32%	7.0	6.2	1.13	-	5.1

If dividend payout is raised to 75%

22.0	75%	16.5	14.6	4.12	264.4	18.8
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Note: Share price potential of RM4.12 is arrived assuming share price will rise at a normalised yield of 4%



Increase dividend payout (continue)

- Still ample cash even if raising dividend payout to 75%

(RMm)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Net profit	50.9	50.9	50.9	50.9	50.9	50.9
+ Depreciation	10.3	10.3	10.3	10.3	10.3	10.3
	61.2	61.2	61.2	61.2	61.2	61.2
- Capex	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
- Dividend 75% of net profit	-38.2	-38.2	-38.2	-38.2	-38.2	-38.2
	3.1	3.1	3.1	3.1	3.1	3.1
+ Beginning year net cash	71.2	74.3	77.4	80.4	83.5	86.6
End of year net cash	74.3	77.4	80.4	83.5	86.6	89.6
- Provision for working capital / rainy day fund	-65.0	-65.0	-65.0	-65.0	-65.0	-65.0
Excess cash	9.31	12.4	15.4	18.5	21.6	24.6
Excess cash/sh (sen)	4.0	5.3	6.7	8.0	9.3	10.6
Div yield (%)	3.6	4.7	5.9	7.1	8.2	9.4

Note: Assume sustainable and stable net profits in the business, excess cash should accumulate over the years



Regular dividend payment stream

- For example, 4 interims a year
- Remove Final Dividend which requires longer waiting time until AGM approval
- Listed peer, Lii Hen Industries, started paying 4 interims in FY2018



Stop buying non-core assets

- Non-core assets generate lower return than furniture business
- Consider monetize these assets and pay special dividend
- Total spent on non-core assets over the years ~ RM66m or 28 sen per share
- This equals to 25% dividend yield



Avoid unnecessary corporate exercises

- Warrants, share splits, bonus issue, etc do not generate business benefits
- It costs the business fee charges which could have been saved and spent for the business' operation
- Rights Issue is more effective way of fund raising for business expansions and non-dilutive to existing shareholders



Improve corporate governance compliance

- Independent directors serve as an important check and balance in companies. They also play a special role in safeguarding the interests of minority shareholders.
- The nine years limit was intended as a safeguard against the loss of objectivity arising from too-friendly relationships between long-serving directors and management
- Good practice of corporate governance is important to mitigate risk, avoid mismanagement, and safeguard benefits of all stakeholders
- It also makes companies more accountable and transparent to investors



Conclusion

- Market does not like non-core activities, which impact profitability and destroy shareholder value
- Board and management should focus on the core business i.e. bedding set and office furniture
- If recommendations are followed, market will RE-RATE Poh Huat

Increase dividend payout at a regular pattern

DPS @ 75% payout (sen)	16.5
Share price (RM)	1.13
Dividend yield (%)	14.6%
Share price potential (RM)	4.12
Share price upside (%)	264%

Monetise non-core assets and pay special dividend

Non-core assets cost per share (RM)	0.28
Special dividend yield (%)	25%

End results

Potential share price would be (RM)	4.40
Total upside (%)	290%



Poh Huat's financial snapshot

Updated on 21 July 2020

POHUAT RESOURCES HLDGS BHD

HOLD

Rating: 7/10

Recent FX at 4.262

Last close on July 20, 2020

MYR 1.1

% Return 1mo: 8.8 3 mo: 24.7 1 yr: (27.0)

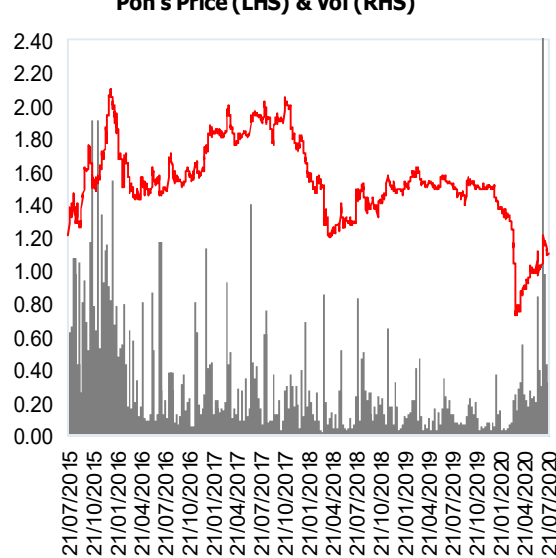
Fwd PE 8.5
MA MYR

FYE	Sales	EBIT	Net Profit	Free Cashflow	Cash & equiv	+Cash or -Debt	# share outstdg	FD EPS	DPS	N.CPS	1yr profit growth	P/E Ratio	P/B Ratio	N.Cash to MCap	N.Cash to Equity	Intst Cover	Divd Payout	Divd Yield	FCF Yield	Oper Margin	Net Margin	ROE	ROIC*
Oct	MYR m	MYR m	MYR m	MYR m	MYR m	MYR m	mln	MYR ¢	MYR ¢	MYR ¢	%	x	x	x	x	x	%	%	%	%	%	%	%
2015	453.9	48.2	39.2	32.7	70.9	38.6	213.4	18.4	8.0	18.1	64.6	6.0	1.10	0.15	0.18	24.2	43.6	7.3	13.9	10.6	8.6	22.8	23.1
2016	535.2	62.3	47.1	16.4	71.6	43.2	213.5	22.1	8.0	20.2	20.1	5.0	0.97	0.17	0.18	48.1	27.2	7.3	7.0	11.6	8.8	22.0	26.9
2017	614.3	68.1	55.8	33.1	92.9	70.9	214.9	26.1	8.0	33.0	18.5	4.2	0.83	0.28	0.25	45.2	31.2	7.3	14.0	11.1	9.1	22.9	27.9
2018	621.9	58.1	47.1	11.2	89.9	71.4	219.9	21.5	6.0	32.5	(15.5)	5.1	0.76	0.28	0.23	46.1	28.0	5.5	4.6	9.3	7.6	16.5	22.0
2019	701.0	70.7	50.9	51.0	133.1	120.4	228.8	22.9	7.0	52.6	8.0	4.8	0.69	0.47	0.33	65.2	26.8	6.4	20.3	10.1	7.3	16.1	20.7
2020F	613.5	47.0	36.2	32.3	157.5	150.0	280.1	12.9	1.0	53.6	(28.9)	8.5	0.64	0.59	0.38	67.6	7.7	0.9	10.5	6.5	5.9	10.0	15.0
2021F	628.1	52.6	40.9	32.0	173.2	170.7	280.1	14.6	4.0	60.9	13.1	7.5	0.59	0.67	0.40	151.5	27.4	3.6	10.4	7.2	6.5	10.4	16.7

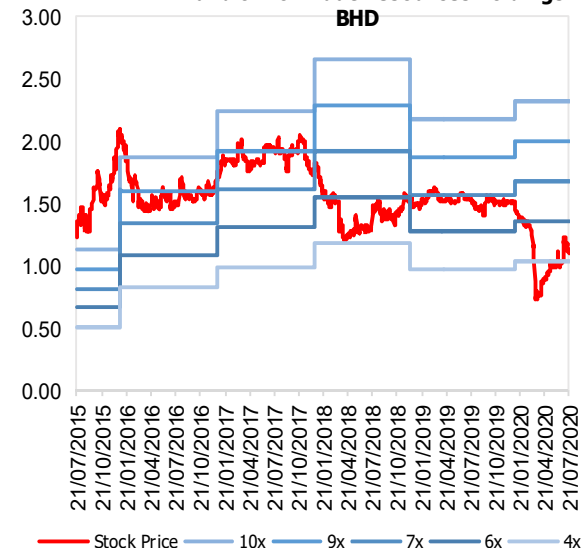
Latest quarter data (2020 Q2)

Ticker	PHR
Industry / Sector	Office Furnishings-Orig
Price on July 20, 2020 (MYR)	1.10
NAV per share (MYR)	1.63
Net +cash (or -debt) per share (MYR)	0.5
No. of outstanding shares (mln)	231.8
Last 6-mo avg trading volume (USD mln)	0.139
Market Cap (USD mln)	60.4
Book NAV (USD mln)	86.7
YTD return (%)	(27.0)
Net gearing (x)	(0.33)
Beta vs Index	120.2%
Free float (%)	56.8
Major shareholders	Tay Kim Huat (28.41%), Lim PT (14.75%)
Option/Warrant/CB	n/a
Share first trade date	29/03/2000
Auditor	Crow e Malaysia
Last AGM date	29 Apr 2019

Poh's Price (LHS) & Vol (RHS)



PE Band of Poh Huat Resources Holdings BHD



Business Description:

Poh Huat Resources Holdings Berhad is an investment holding company. The Company, through its subsidiaries, manufactures and trades furniture and parts.



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