

Chasen Holdings Limited

(CHLD SP/CHHL.SI)

Moving with the times

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- Chasen Holdings (Chasen) provides specialist relocation solutions mainly for the manufacturing sector.
- With its track record in Asia and the ongoing trade war, the group is well-positioned for the shift of manufacturing capacity to Southeast-Asian countries.
- Chasen's valuations are attractive at only 6.5x historical P/E and 0.5x P/B. We expect earnings growth from favourable tailwinds in its main business, as well as contribution from a major project in the US for an auto manufacturer.

Figure 1: Revenue and gross profit contribution by segments

Income Statement YE March (S\$'000)	2014	2015	2016	2017	2018	2019
Revenues						
Specialist Relocation Solutions	33,319	47,502	42,744	52,758	75,071	77,999
Third Party Logistics	28,152	17,871	17,227	18,640	22,900	23,516
Technical & Engineering	40,008	33,427	33,540	34,772	29,592	30,365
Gross Profit						
Specialist Relocation Solutions	11,190	16,098	11,058	20,611	22,307	24,106
Third Party Logistics	5,731	3,671	2,132	2,770	3,815	3,694
Technical & Engineering	5,535	923	3,890	3,485	3,091	4,318
Gross profit	22,456	20,692	17,080	26,866	29,213	32,118

Source: Company data, KGI Research

Specialist movers. Chasen provides relocation services for companies, as well as third party logistics in Singapore, Malaysia, China, Vietnam, Thailand and the US. It reports three business segments: 1) Specialist Relocation Solutions, 2) Third Party Logistics, and 3) Technical & Engineering. Its Specialist Relocation Solutions contributed to around 75% of the group's gross profits over the past three years, and hence, will be the key driver to watch out for.

Diversified client base. The group's main customers are in sectors as diverse as TFT Display panel production, semiconductor, chip testing and assembly, solar panel assembly, consumer electronics, telecommunications, marine ordnance and construction services.

From China to Southeast Asia. A key advantage that Chasen has is its track record in China and in Southeast Asia, which are currently undergoing supply chain disruption due to the trade war. In FY2019, revenues from China accounted for 36% of total revenues, while 56% is derived from countries in Southeast Asia such as Singapore (37%), Malaysia (13%), Vietnam (4%) and Thailand (3%). Chasen generates around a tenth of its sales from the US, a business that may contribute significantly to its earnings in FY2020 and FY2021.

US surprise. In Chasen's FY2019 annual report, it alluded to a delayed project to move equipment in for an automobile parts manufacturing plant in Nevada, US. Based on our research, it seems that Tesla's Gigafactory stands out as the only car manufacturer expanding aggressively in Nevada, and is coincidentally near Tesla's headquarters (around 450km) located in Palo Alto, California. Chasen has stated

Not Rated		Performance (Absolute)	
Price as of 24 Jul 19 (SGD)	0.09	1 Month (%)	10.6
12M TP (\$)	-	3 Month (%)	9.6
Previous TP (\$)	-	12 Month (%)	25.2
Upside (%)	-		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	36		
Issued Shares (mn)	387		
Vol - 3M Daily avg (mn)	8.1		
Val - 3M Daily avg (\$mn)	0.7		
Free Float (%)	72.3%		
Major Shareholders		Previous Recommendations	
Low Weng Fatt	13.3%		
Yap Koon Bee	9.0%		

that the project is expected to commence in only late 2019 or possibly first half of 2020.

Figure 2: Tesla's Gigafactory in Nevada



Source: Google Maps, KGI Research

Valuation & Action: Chasen trades at an attractive 6.5x FY2019 EPS; its 8% 2-years average ROE compares favourably to its 0.5x P/B, which we believe has not fully priced in the potential business from the supply-chain shift occurring in Asia, as well as the Nevada project for the US auto manufacturer. It has a healthy balance sheet with manageable debt levels of 0.3x net/equity.

Risks: The business is labour intensive and deals with advanced and very sensitive equipment, such as those used in cleanroom or "raised floor" environments. As a result, executing these projects well and on-time are key risks that may impact profitability and the reputation of the group.

Chasen has been on SGX's Minimum Trading Price Watchlist since June 2017 for not meeting the minimum trading price of S\$0.20 for Mainboard companies. The group will have until June 2020 to exit the watchlist, after which it may have to evaluate moving its listing from the Mainboard to Catalist.

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