



WELLCALL Holdings Bhd has caught the attention of London-based asset management company Mondrian Investment Partners Ltd with its growth story and attractive dividend yield.

The fund has raised its stake in the industrial rubber hose manufacturer and exporter by about 62% in less than two months.

Between Aug 2 and Sept 19, Mondrian Investment bought 5.02 million shares, to raise its shareholding in the company to almost 10% or 12.98 million shares. The company has a paid-up share capital of 132.58 million units of 50 sen each.

Aside from the London-based asset management group, other funds, including iCapital.biz Bhd, have stakes in Wellcall. According to iCapital.biz's 2013 annual report, it has 320,000 shares as of Sept 11, 2013.

Wellcall's share price has risen by over 40% since May 3, to close at RM3.04 on Nov 6, approaching analysts' expected fair value of RM3.08 (RHB Research, July) and RM3.10 (CIMB Research, Aug 26).

Of the company's outlook, its management says it will increase its gearing to finance up to 50% of an estimated RM35 mil to RM38 mil capital expenditure this year so it can maintain its close to 100% dividend payout ratio.

Executive director Alex Chew Chee Chek says the company is likely to take up some short-term borrowings to sustain its 90-100% payout ratio.

Speaking at an investor briefing at iCapital.biz's Investor Day recently, he says: "We will leverage but not much. We intend to pay back everything in four years."

Ipoh-based Wellcall was set up by managing director Huang Sha in the mid-1990s. It made its debut on Bursa Malaysia's ACE market in 2006 and was upgraded to the main board in 2008.

Over the past four years, Wellcall has paid out an average of 99.97% of its earnings per share (see table).

According to CIMB Research's calculations, its dividend yields have also been inching up, from 4.26% in FY10 to 4.65% in FY11 and 5.97% in 2012.

"Last year we did very well," says Chew, referring to the 33% increase in dividend payouts to 16 sen in 2012 from 12 sen in 2011.

Wellcall's financial statement for Q3 this year ended June 30 showed the group has declared a total dividend of 13 sen per share, up from 12 sen for the corresponding period last year.

However, its unaudited cumulative profit declined slightly, to RM16.96 mil from RM17.43 mil in the same period.

"The [profit growth for the] first half of the year has been slow but it has picked up in the second half," says Chew.

'Unique' business model

Chew attributes the group's ability to adhere to its dividend policy of a min-



by Lim Wey Wen



photo by DD Hoe

Wellcall Holdings Bhd

Key board members and management

Huang Sha
(managing director)
Alex Chew Chee Chek
(executive director)

Major shareholders

Maximum Perspective Sdn Bhd
11.05%

Mondrian Investment Partners Ltd
9.78%

Alex Chew Chee Chek
8.04%

Market cap
RM404m
(Nov 4)

Share price
RM3.05
(Nov 4)

52-week high
RM3.06

52-week-low
RM2

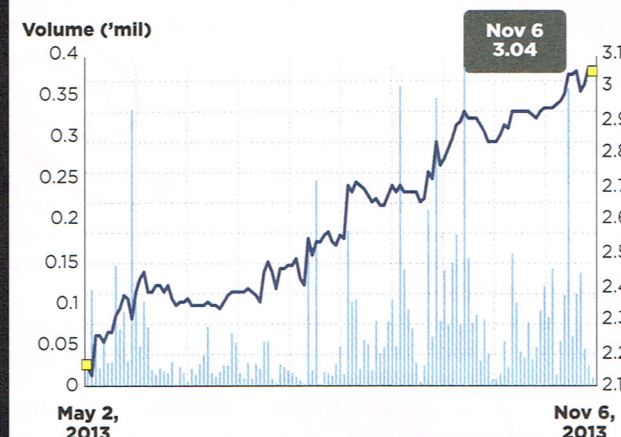
Financial results
(Q3 ended Sept 30, 2013, unaudited)

Revenue
RM35.5m

Net profit
RM6.81m

Wellcall catches attention of London-based fund

Mondrian Investment raises its holdings in industrial rubber hosemaker from 6% to 10%, attracted by its growth story and good dividend yield



from the company's current factory in Lahat.

Its last expansion was in 2006 when capacity was increased by more than 100%. "Our expansion plans are always demand-driven," says Chew.

He adds that the new factory will double the company's capacity in mandrel hose production when completed in 2015. This represents about 70% of the company's total capacity.

Significant investments will be made to bring in more sophisticated machines to produce mandrel hoses to cater to the North American mass market at which the company aims, Chew says.

This time, the company seems to be thinking ahead as it is eyeing another piece of land for possible future expansion.

Chew tells **FocusM** the company is in the process of applying for another 1.6ha from the Perak state government for its expansion plan.

Reaching fair value?

When asked whether the stock price has factored in the news of expansion and potential future earnings, CIMB Research analyst Nigel Foo qualifies that the target price (of RM3.10) in his Aug 26 report may not reflect the potential of the counter.

"We will review the target price towards the end of the year," he says, adding that the only headwinds expected are from the state of the global economy.

"As it is an export-driven company, its growth will be closely linked to the global economy," he says.

Another analyst monitoring the stock says the fundamentals of the company are intact. "Its major shareholders are also very involved in the company," he says.

As Wellcall's new factory and expanded capacity will kick in only by 2015, the continued growth of the company for 2014 will likely depend on the increase in demand for industrial rubber hoses, estimated at 4-5% annually.

"Further demand recovery and attractive dividend yields of 6-7% could catalyse the stock," says CIMB Research in its August report. **FocusM**

imum payout ratio of 50% to its "very conservative" business model.

"We insist on a 50% cash deposit upon sales order, and for riskier markets we go for 100%," he says.

To free capacity to take new orders, the company also helps its clients manage their holding costs by delivering their orders in a few batches.

"This model is not easy but it gives us ample capacity to fit new or potential customers into the production so they can immediately place an order," he adds.

The company's main products are rubber mandrel and extrusion type hoses, used for air, water, steam, oil, chemicals as well as food and beverages in industrial applications.

Its main market is the rubber hose replacement market, as the average

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- Chew

lifespan of a rubber hose typically ranges from two to eight weeks.

Currently, air and water hoses contribute most to Wellcall's revenue (43%), followed by gas and welding (20%), and oil and gas (31%).

For the past four years, the company has focused on developing its business in the oil and gas and mineral sectors, which Chew says command higher margins.

The company recently announced its third factory in close to two decades, to be built on a newly-acquired 3.3ha site in Perak that will be extended to about 3.5ha through reclamation. The new factory will be about 1km

Wellcall's dividend payout

Year	Earnings per share (sen)	Dividend (sen)	Dividend payout (%)
2009	10.30	11	106.80
2010	11.12	11	98.92
2011	11.61	12	103.36
2012	17.62	16	90.81

Source: Company annual report, CIMB Research