

29 August 2019

## Boustead Holdings

1H19 Considered As Inline

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**1H19 Core Net Loss (CNL) came in at RM66.7m compared to our full-year Net Profit forecast of RM76.8m. We consider the result to be within expectation due to the volatile quarterly results swinging back and forth between profitability and losses. Our SoP-derived target price is lowered from RM1.15 to RM1.05, as we attached a higher holding company discount of 30% (previously 20%) due to its weak earnings visibility. Maintain MP.**

**1H19 Core Net Loss (CNL) came in at RM66.7m compared to our full-year Net Profit forecast of RM76.8m. We consider the result to be within expectation due to the volatile quarterly results swinging back and forth between profitability and losses. No dividend was declared as in this quarter (2Q18: 1.0 sen).**

**Results' highlights. QoQ, 2Q19 CNL widened to RM44.3m compared to RM22.4m in 1Q19. 2Q19 core net loss excluded gains from sale of a plantation land effectively amounting to RM68.6m from 57.42%-owned Boustead Plantations. The losses widened no thanks to Plantations and heavy industries coupled with lower contribution from Pharmaceutical and Trading. The Plantation division suffered higher operating losses due to lower CPO price at RM1,989/tonne (-1.4%) while PK price was also weaker at RM1,099/tonne (-15.5%). FFB production saw an 11% reduction. The Heavy Industries registered reduced deficit primarily driven by better results from BHIC on progress of works for MRO activities, although this was moderated by a higher loss by BNS, due to unrealised forex loss on outstanding trade payables. The Pharmaceutical Division was lower QoQ in 2Q19, attributable to decreased overall demand from the concession and non-concession businesses in Malaysia and Indonesia. The Trading & Industrial division was lower due to a stockholding loss incurred by BPM as a result of lower oil prices.**

**YoY, 1H19 recorded CNL of RM66.7m compared to a CNL of RM21.5m in 1H18, no thanks to losses at heavy industries and Plantation. Plantation was lower due to lower CPO (-18%) and PKO (-40%) prices. The Heavy Industries Division posted a deficit on the back of weaker results from its operating units. BNS incurred heavier losses for the quarter, mainly due to revision of margins and variation of milestones achieved for the LCS project, although this was partially offset by higher gross profit from ship repair activities and the LMS project. Boustead Heavy Industries Corporation was impacted by lower contribution from maintenance, repair and overhaul activities and reduced share of profit from joint venture companies. MHS Aviation was also impacted by a lack of projects as well as costs to maintain its fleet of aircraft.**

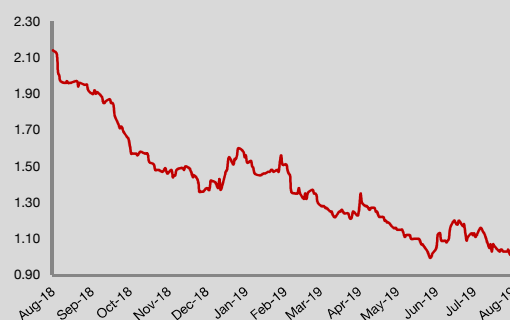
**Outlook.** The group is expected to continue seeing volatile quarterly results based on its historical volatile earnings trend. All in, we expect plantation earnings to anchor the bulk of earnings, and since 91% of its plantation estates are already matured, it hinges largely on CPO price movements of which the outlook over the short-term looks cloudy. The Heavy Industries division remains volatile with quarterly earnings oscillating between profits and losses. We expect the trading and manufacturing as well as pharmaceutical divisions to show pedestrian growth but deliver sustainable recurring incomes.

**Maintain MP.** Our SoP-derived target price is lowered from RM1.15 to RM1.05 implying 27.6x FY20E PER (-1.5SD below 5-year historical forward mean), as we attached a higher holding company discount of 30% (previously 20%) due to its weak earnings visibility. Maintain MP.

## MARKET PERFORM ↔

Price : **RM1.01**  
Target Price : **RM1.05** ↓

### Share Price Performance



KLCI 1,589.82  
YTD KLCI chg -6.0%  
YTD stock price chg -28.4%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker BOUS MK Equity  
Market Cap (RM m) 2,047.3  
Shares Outstanding 2,027.0  
52-week range (H) 2.12  
52-week range (L) 1.00  
3-mth avg daily vol: 1,375,730  
Free Float 26%  
Beta 0.6

### Major Shareholders

Lembaga Tabung Angkatan Tentera 59.5%  
KWAP 9.3%  
Employees Provident Fund 5.1%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	10,186	10,524	10,563
PBT	(387.9)	70.1	69.6
<b>Net Profit (NP)</b>	<b>(469.2)</b>	<b>76.8</b>	<b>76.4</b>
<b>Core Net Profit/Loss</b>	<b>(286.5)</b>	<b>76.8</b>	<b>76.4</b>
Earnings Revision	-	-	-
Core EPS/(LPS) (sen)	(14.1)	3.8	3.8
EPS growth (%)	NM	NM	4.5
NDPS (sen)	5.0	3.0	3.0
BV/Share (RM)	2.65	2.66	2.67
PER (X)	NM	26.6	26.8
P/BV (X)	0.4	0.4	0.4
Net Gearing (x)	1.7	2.3	2.7
Dividend Yield (%)	4.5	3.0	3.0



29 August 2019

### Result Highlight (Q-o-Q)

FY Dec (RMm)	1Q19	2Q19	Q-o-Q chg (%)
<b>Revenue</b>	2,506.7	2,544.1	1.5
Plantation	134.9	124.0	(8.1)
Heavy Industries	207.6	282.8	36.2
Property	110.3	152.5	38.3
Finance & Investment	52.5	49.8	(5.1)
Pharmaceutical	786.1	601.9	(23.4)
Trading & Industrial	1,215.3	1,333.1	9.7
<b>EBIT</b>	92.3	37.8	(59.0)
Plantation	(0.9)	(22.1)	NM
Heavy Industries	(16.2)	(15.4)	(4.9)
Property	3.4	19.1	461.8
Finance & Investment	10.2	5.1	(50.0)
Pharmaceutical	37.5	20.1	(46.4)
Trading & Industrial	58.3	31.0	(46.8)
Associates	27.1	30.4	12.2
Pretax profit	51.5	118.9	130.9
Taxation	-40.1	-34.8	(13.2)
Minorities^	(33.8)	(59.8)	76.9
Reported Net profit	(22.4)	24.3	NM
EPS	(1.1)	1.2	NM
<b>EBIT margin (%)</b>			
Plantation	(0.7)	(17.8)	
Heavy Industries	(7.8)	(5.4)	
Property Development	3.1	12.5	
Finance & Investment	19.4	10.2	
Pharmaceutical	4.8	3.3	
Trading & manufacturing	4.8	2.3	
Effective tax rate	77.9	29.3	

Source: Company, Kenanga Research, Bursa Malaysia

### Result highlight (YTD)

FY Dec (RMm)	2018 6M	2019 6M	Y-o-Y Chg (%)
<b>Revenue</b>	4,731.2	5,050.8	6.8
Plantation	296.4	258.9	(12.7)
Heavy Industries	340.8	490.4	43.9
Property	235.9	262.8	11.4
Finance & Investment	100.2	102.3	2.1
Pharmaceutical	1,200.7	1,388.0	15.6
Trading & industrial	2,557.2	2,548.4	4.2
<b>EBIT</b>	148.7	130.1	(12.5)
Plantation	(10.8)	(23.0)	113.0
Heavy Industries	0.1	(31.6)	NM
Property	19.3	22.5	16.6
Finance & Investment	6.9	15.3	121.7
Pharmaceutical	52.1	57.6	10.6
Trading & Industrial	81.1	89.3	10.1
Associates	46.2	57.5	24.5
Pretax profit	90.7	170.4	87.9
Taxation	-53.9	-74.9	39.0
Minorities^	-58.3	-93.6	60.5
Reported Net profit	(21.5)	1.9	(108.8)
EPS	(1.1)	0.1	(108.5)
<b>EBIT margin (%)</b>			
Plantation	(3.2)	(8.9)	
Heavy Industries	0.0	(6.4)	
Property Development	8.2	8.6	
Finance & Investment	6.9	15.0	
Pharmaceutical	4.3	4.1	
Trading and manufacturing	3.3	3.5	
Effective tax rate	59.4	44.0	

Source: Company, Kenanga Research, Bursa Malaysia

29 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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