

22 August 2019

## CB Industrial Product 2Q19 Below Expectations

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CB Industrial Product (CBIP)'s 1H19 CNP of RM12.1m came in markedly below our and consensus' expectations, at 26% each of both full-year forecasts, due to higher-than-expected plantation losses and lower-than-expected POME margins. No dividend was declared, as expected. Moving forward, POME PBT margins are expected to normalize to 18-20% as costs stabilize. Cut FY19-20E earnings by 30-24%. Downgrade to MP with a lower TP of RM0.850.

**2Q19 markedly below expectations.** 2Q19 registered Core Net Profit (CNP) of RM1.1m, bringing 1H19 CNP to RM12.1m which is markedly below our and consensus' expectations, at 26% each of both full-year forecasts. The deviation mainly stemmed from: (i) lower-than-expected margins for its POME segment, which we believe was due to deferred recognition of fabrication costs captured into the quarter, and (ii) higher-than-expected losses from its plantation division due to depressed CPO prices and higher operating costs. No dividend was declared, as expected.

**Results highlight. YoY,** 1H19 CNP fell (-70%) to RM12.1m mainly attributed to: (i) SPV segment (LBT: RM1.3m vs. 1H18 PBT: RM32.3m) due to exhausted order-book, and (ii) enlarged losses from plantation segment (9x on low base) to LBT of RM14.4m (vs. 1H18 LBT: RM1.5m) owing to lower average CPO prices (YoY: -18%) and higher operating expenses. **QoQ,** 2Q19 CNP tumbled (-90%) to RM1.1m arising from: (i) PBT margin compression for its POME segment (-16.7 ppt), which we believe is due to deferred recognition of parts fabrication costs (from last quarter), and (ii) widening LBT (2Q19 LBT: RM9.9m vs. 1Q19 LBT: RM4.5m) from its plantation division from higher operating expenses and lower average CPO prices (RM1,977/MT vs. RM2,000 in 1Q19).

**POME margins expected to normalize.** Moving forward, PBT margins for POME segment are expected to moderate to 18-20% as recognition of its fabrication costs for parts normalize. Meanwhile, its biodiesel processing plants are still undergoing refurbishment with expected completion delayed to Nov 2019 (from Sep 2019). YTD, POME's order-book replenishment stands at RM301.4m, which accounts for 79% of our FY19E target of RM380m. Moving forward, we anticipate CBIP to clinch 1-2 more POME contracts by year-end, on track to meet our FY19E target. Its current outstanding order-book stands at RM482m (POME: RM406m; SPV: RM76m), which should provide 1-1.5 years visibility.

**Cut FY19-20E CNP by 30-24%** to RM32.9-48.0m as we factor in: (i) higher operating costs for its plantation division, (ii) slightly slower POME billings, and (iii) lower contribution from its biodiesel plants.

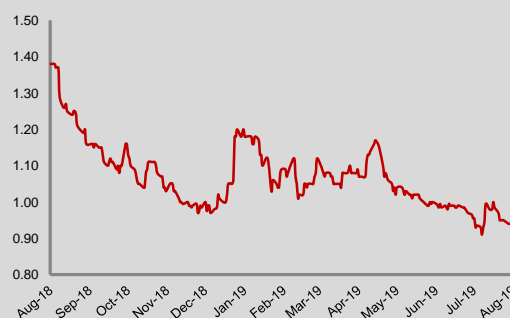
**Downgrade to MARKET PERFORM (from OUTPERFORM) with a lower Target Price of RM0.850** (from RM1.10) based on an unchanged Fwd. PER of 9.3x, representing -2.0SD vs. other planters' range (-2.0SD to -1.0SD) under our coverage, due to the earnings disappointment and the drag from plantation segment caused by initial lower yields and high operating costs.

**Risks to our call** include higher/lower-than-expected raw material cost, higher/lower order-book replenishment, and higher/lower-than-expected plantation losses.

## MARKET PERFORM ↓

Price : RM0.920  
Target Price : RM0.850 ↓

### Share Price Performance



KLCI 1,594.59  
YTD KLCI chg -5.7%  
YTD stock price chg -8.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CBP MK Equity
Market Cap (RM m)	466.0
Shares Outstanding	506.5
52-week range (H)	1.40
52-week range (L)	0.91
3-mth avg daily vol:	209,861
Free Float	57%
Beta	0.9

### Major Shareholders

Lim Chai Beng	32.8%
Lim Chai Guan	5.4%
Tan Sow Peng	5.4%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	481.1	367.7	485.1
EBIT	98.8	31.9	58.9
PBT	92.5	39.3	66.4
<b>Net Profit (NP)</b>	<b>46.0</b>	<b>32.9</b>	<b>48.0</b>
<b>Core NP</b>	<b>51.8</b>	<b>32.9</b>	<b>48.0</b>
Consensus (CNP)	n.a.	45.9	54.5
Earnings Revision	n.a.	-30%	-24%
Core EPS (sen)	10.0	6.3	9.3
Core EPS grwth (%)	-40.0	-36.5	45.9
NDPS (sen)	4.0	4.0	4.0
Book Value (RM)	1.43	1.44	1.50
Core PER	9.2	14.5	9.9
Price/BV (x)	0.64	0.64	0.61
Net Gearing (x)	0.03	0.08	0.11
Net Dvd Yield (%)	4.3	4.3	4.3

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Results Highlights								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	92.4	108.1	-15%	158.1	-42%	178.3	289.4	-38%
EBIT	1.8	20.7	-91%	41.3	-96%	22.5	66.3	-66%
Pretax Profit	(2.9)	14.6	nm	38.1	nm	11.7	63.0	-81%
Taxation	3.4	(4.3)	nm	(10.4)	nm	(0.9)	(15.3)	-94%
MI	0.6	0.7	-14%	(10.2)	nm	1.4	(12.5)	nm
Net Profit	1.2	11.0	-89%	17.5	-93%	12.2	35.3	-65%
Core Net Profit	1.1	11.0	-90%	22.2	-95%	12.1	39.9	-70%
EPS (sen)	0.2	2.2	-89%	3.3	-93%	2.4	6.7	-65%
EBIT margin	1.9%	19.1%		26.1%		12.6%	22.9%	
PBT margin	-3.1%	13.5%		24.1%		6.6%	21.8%	
Effective tax rate	nm	29.6%		27.4%		7.5%	24.3%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
<b>Segmental Rev:</b>								
- Palm oil mill equipment	80.9	83.4	-3%	95.4	-15%	164.3	174.4	-6%
- Retrofitting special purpose vehicle	1.1	0.1	>100%	58.6	-98%	1.1	107.1	-99%
- Plantation	10.5	2.4	>100%	4.1	>100%	12.9	7.9	64%
<b>Group Revenue</b>	<b>92.4</b>	<b>85.9</b>	<b>8%</b>	<b>158.1</b>	<b>-42%</b>	<b>178.3</b>	<b>289.4</b>	<b>-38%</b>
<b>PBT:</b>								
- Palm oil mill equipment	9.6	23.8	-60%	15.1	-36%	33.4	34.4	-3%
- Retrofitting special purpose vehicle	(0.3)	(1.0)	-65%	26.6	nm	(1.3)	32.3	nm
- Plantation	(9.9)	(4.5)	>-100%	(1.0)	>100%	(14.4)	(1.5)	>100%
- Associates	(0.3)	(1.9)	87%	(1.1)	-77%	(2.2)	(0.7)	>100%
- Jointly Controlled Entities	(2.0)	(1.8)	-11%	(1.5)	32%	(3.8)	(1.5)	>100%
<b>Group PBT</b>	<b>(2.9)</b>	<b>14.6</b>	<b>nm</b>	<b>38.1</b>	<b>nm</b>	<b>11.7</b>	<b>63.0</b>	<b>-81%</b>

Source: Company, Kenanga Research

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Peer Comparison																	
Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
CB INDUSTRIAL PRODUCT HLDG	0.920	466.0	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	9.2	14.5	9.9	0.6	0.6	4.4%	4.3%	0.850	MP
FGV HOLDINGS BHD	1.08	3,940.0	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	9.75	8,747.7	Y	12/2019	2.4%	6.2%	40.6%	39.1%	54.9	42.6	33.2	1.9	2.0	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.48	1,303.3	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	85.0	47.0	0.8	0.8	0.9%	0.7%	1.40	UP
IOI CORPORATION BHD	4.25	26,709.7	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	35.1	28.3	27.7	2.9	2.8	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.62	25,154.5	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.2	37.8	29.9	2.5	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	23.0	22.1	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.71	32,426.3	Y	12/2019	71.7%	11.1%	88.6%	154.0%	277.1	117.8	47.1	2.4	2.4	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.80	520.3	Y	03/2020	5.1%	15.5%	-41.1%	20.2%	14.1	24.0	20.0	0.9	0.9	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.10	925.0	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	11.3	14.6	10.9	0.7	0.7	4.7%	3.8%	2.40	MP
TSH RESOURCES BHD	0.900	1,242.3	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	25.1	27.2	18.8	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
<b>Simple Average</b>					<b>6.1%</b>	<b>10.7%</b>	<b>-37.2%</b>	<b>5.6%</b>	<b>52.4</b>	<b>53.6</b>	<b>35.2</b>	<b>1.3</b>	<b>1.3</b>	<b>3.1%</b>	<b>1.5%</b>		

Source: Bloomberg, Kenanga Research

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**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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