

31 May 2019

# Boustead Holdings

## 1Q19 Considered Inline

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**1Q19 Core Net Loss (CNL) came in at RM22.4m 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 RM1.50 to RM1.15, as we factored in lower TP for Pharmaniaga into our SoP calculation and attached a holding company discount of 20%. Maintain MP.**

**1Q19 Core Net Loss (CNL) came in at RM22.4m 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 expected.**

**Results' highlights.** QoQ, 1Q19 CNL narrowed to RM22.4m compared to 4Q18 core net loss of RM276m. 4Q18 core net loss excludes impairment of goodwill (RM106.2m), impairment of PPE and other receivables (RM107.5m), gains from sale of PPE (RM2.7m) and net fair value gain on investment properties (RM32.7m) largely due to higher contribution from Pharmaceutical and lower losses at Heavy Industries division. Pharmaceutical Division improved due to higher demand from government and private hospitals in Malaysia and Indonesia as well as lower finance cost. The lower deficit in Heavy Industries improved due to the high base in 4Q18 impacted by impairment of good will for BN Sand MHSa, revision in LCS project cost due to variation orders, share of loss in a joint venture company on provision for LAD, as well as impairment of aircraft.

**YoY, 1Q19** recorded CNL of RM22.4m compared to a Core Net Profit of RM6m in the previous period, no thanks to losses at heavy industries and weaker contributions from Plantation and Property. Plantation was lower due to lower CPO (-19%) and PKO (-41%) 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 the revision of margins for the LCS project. In addition, ship repair activities were impacted by lack of projects. The Property segment was weaker due to weaker contributions from its various segments. The Hotel segment recorded an increased deficit, mainly due to lower occupancy and room rates. The Property investment segment also registered a higher deficit arising from start-up costs for the newly completed Nucleus Tower.

**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 RM1.50 to RM1.15 implying 30.3x FY19E EPS (-1.0SD below 5-year forward historical mean), as we factor in lower TP for Pharmaniaga (from RM2.50 to RM2.35) into our SoP calculation and attached a holding company discount of 20%. Maintain MP.

# MARKET PERFORM ↔

Price : **RM1.11**  
Target Price : **RM1.15** ↓

## Share Price Performance



KLCI 1,636.50  
YTD KLCI chg -3.2%  
YTD stock price chg -21.3%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BOUS MK Equity
Market Cap (RM m)	2,250.0
Shares Outstanding	2,027.0
52-week range (H)	2.52
52-week range (L)	1.11
3-mth avg daily vol:	329,676
Free Float	25%
Beta	0.7

## Major Shareholders

Lembaga Tabung Angkatan Tentera	59.5%
KWAP	10.1%
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>	(469.2)	76.8	76.4
<b>Core Net Profit/Loss</b>	(286.5)	76.8	76.4
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	29.3	29.4
P/BV (X)	0.4	0.4	0.4
Net Gearing (x)	1.7	2.3	2.7
Dividend Yield (%)	4.5	2.7	2.7



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**Result Highlight (Q-o-Q)**

<b>FY Dec (RMm)</b>	<b>2018 1Q</b>	<b>2018 4Q</b>	<b>2019 1Q</b>	<b>Y-o-Y Chg (%)</b>	<b>Q-o-Q Chg (%)</b>
<b>Revenue</b>	2,300.3	3,024.7	2,506.7	(17.1)	9.0
Plantation	154.6	156.6	134.9	(13.9)	(12.7)
Heavy Industries	157.2	556.1	207.6	(62.7)	32.1
Property	108.2	167.4	110.3	(34.1)	1.9
Finance & Investment	49.1	57.2	52.5	(8.2)	6.9
Pharmaceutical	617.9	596.7	786.1	31.7	27.2
Trading & Industrial	1,213.3	1,490.7	1,215.3	(18.5)	0.2
<b>EBIT</b>	91.9	(367.1)	92.3	(125.1)	0.4
Plantation	8.8	1.8	(0.9)	(150.0)	(110.2)
Heavy Industries	7.2	(423.9)	(16.2)	(96.2)	(325.0)
Property	8.4	30.4	3.4	(88.8)	(59.5)
Finance & Investment	2.3	4.2	10.2	142.9	343.5
Pharmaceutical	34.0	19.5	37.5	92.3	10.3
Trading & Industrial	31.2	0.9	58.3	NM	86.9
<b>Pretax profit</b>	70.3	-542.4	51.5	(109.5)	(26.7)
Taxation	(32.2)	-22.6	-40.1	77.4	24.5
Minorities	(32.0)	110.0	(33.8)	(130.7)	5.6
<b>Net profit</b>	6.1	(455.0)	(22.4)	(95.1)	NM
<b>EPS</b>	0.3	(22.5)	(1.1)	(95.1)	NM
<b>Ebit margin %</b>					
Plantation	5.7	1.1	(0.7)		
Heavy Industries	4.6	(76.2)	(7.8)		
Property Development	7.8	18.2	3.1		
Finance & Investment	4.7	7.3	19.4		
Pharmaceutical	5.5	3.3	4.8		
Trading & manufacturing	2.6	0.1	4.8		
<b>Effective tax rate</b>	45.8	(4.2)	77.9		

Source: Company, Kenanga Research, Bursa Malaysia

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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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