

03 June 2019

## CB Industrial Product

### 1Q19 Within Expectations

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**CB Industrial Product (CBIP)'s 1Q19 CNP of RM11.0m came in within our/consensus' expectations, at 24%/23%. No dividend was declared, which is unusual as CBIP typically declares dividend in 1Q and 3Q. No change to FY19-20E earnings estimates. Maintain MP with an unchanged TP of RM1.10.**

**1Q19 within expectations.** 1Q19 Core Net Profit (CNP) of RM11.0m came within our/consensus' expectations at 24%/23%. No dividend was declared, which is unusual as CBIP typically declares dividend in 1Q and 3Q. However, we are keeping our DPS forecasts as we expect a lump sum to be declared in 3Q.

**Driven by POME segment.** YoY, despite Palm Oil Mill Equipment (POME)'s improved performance (Revenue: +6%; PBT +23%), 1Q19 CNP fell (-38%) to RM11.0m largely attributed to: (i) SPV segment (LBT: RM1.0m vs. 1Q18 PBT: RM5.7m) due to lack of order-book replenishment following completion of projects, and (ii) enlarged losses from plantation segment (over 9x on low base) to LBT of RM4.5m (vs. 1Q18 LBT: RM0.5m) on higher financial costs and operating expenses. **QoQ**, 1Q19 CNP surged (over 13x) to RM11.0m from a low base as POME's PBT increased (276%) to RM23.8m on a significant improvement (22.4ppt to 28.6%) in the POME's PBT margin – as 4Q18 registered exceptionally low margin due to cost overrun. However, we do not think the group's margin is sustainable as the POME segment typically commands PBT margin of 18-20%.

**POME's torrent of contract flows not over yet.** YTD, POME's order book replenishment stands at RM301.4m, accounting for 79% of our FY19E target of RM380m. Moving forward, we anticipate CBIP to clinch 1-2 more contracts by year-end, enabling it to meet our FY19E target. Meanwhile, we estimate CBIP's current POME outstanding order-book to stand at c.RM504.4m, which should provide 1-1.5 years visibility.

**No changes to FY19-20E CNP** of RM46.6-62.3m as results were in line with expectations.

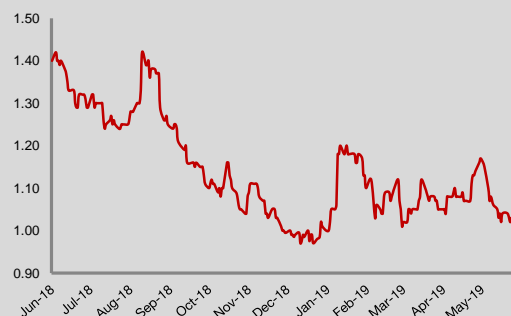
**Maintain MARKET PERFORM with an unchanged Target Price of RM1.10** based on an unchanged Fwd. PER of 9.3x applied to FY20E EPS of 12.0 sen. Our Fwd. PER reflects -1.0SD vs. other planters' range (-2.0SD to -1.0SD) under our coverage, warranted by CBIP's torrent of contract flows lately. However, we believe that its plantation segment should continue to be a drag due to depressed CPO price outlook.

**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 :** RM1.02  
**Target Price :** RM1.10 ↔

### Share Price Performance



KLCI 1,650.76  
YTD KLCI chg -2.4%  
YTD stock price chg 2.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CBP MK Equity
Market Cap (RM m)	519.9
Shares Outstanding	509.7
52-week range (H)	1.42
52-week range (L)	0.96
3-mth avg daily vol:	174,730
Free Float	57%
Beta	0.9

### Major Shareholders

Chai Beng Lim	32.5%
Chai Guan Lim	5.3%
Tan Sow Peng	5.3%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	481.1	515.2	695.4
EBIT	98.8	51.5	80.3
PBT	92.5	58.9	87.7
<b>Net Profit (NP)</b>	<b>46.0</b>	<b>46.6</b>	<b>62.3</b>
<b>Core NP</b>	<b>51.8</b>	<b>46.6</b>	<b>62.3</b>
Consensus (CNP)	n.a.	47.7	56.2
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	10.0	9.0	12.0
Core EPS grwth (%)	-40.0	-10.0	33.7
NDPS (sen)	4.0	4.0	4.0
Book Value (RM)	1.43	1.47	1.56
Core PER	10.2	11.4	8.5
Price/BV (x)	0.71	0.69	0.65
Net Gearing (x)	0.03	0.07	0.07
Net Dvd Yield (%)	3.9%	3.9%	3.9%



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<b>Results Highlights</b>								
	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>	<b>3M</b>	<b>3M</b>	<b>YoY</b>
<b>FYE Dec</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>
<b>Revenue</b>	<b>85.9</b>	<b>108.1</b>	<b>-21%</b>	<b>131.3</b>	<b>-35%</b>	<b>85.9</b>	<b>131.3</b>	<b>-35%</b>
EBIT	20.7	9.3	123%	25.1	-17%	20.7	25.1	-17%
Pretax Profit	14.6	8.2	77%	24.9	-42%	14.6	24.9	-42%
Taxation	(4.3)	(5.5)	-21%	(4.9)	-11%	(4.3)	(4.9)	-11%
MI	0.7	(0.7)	nm	(2.3)	nm	0.7	(2.3)	nm
<b>Net Profit</b>	<b>11.0</b>	<b>2.0</b>	<b>445%</b>	<b>17.8</b>	<b>-38%</b>	<b>11.0</b>	<b>17.8</b>	<b>-38%</b>
<b>Core Net Profit</b>	<b>11.0</b>	<b>0.8</b>	<b>1245%</b>	<b>17.7</b>	<b>-38%</b>	<b>11.0</b>	<b>17.7</b>	<b>-38%</b>
<b>EPS (sen)</b>	<b>2.2</b>	<b>0.4</b>	<b>458%</b>	<b>3.4</b>	<b>-37%</b>	<b>2.2</b>	<b>3.4</b>	<b>-37%</b>
EBIT %	24.1%	8.6%		19.1%		24.1%	19.1%	
PBT %	17.0%	7.6%		19.0%		17.0%	19.0%	
Tax %	29.6%	66.5%		19.5%		29.6%	19.5%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>	<b>3M</b>	<b>3M</b>	<b>YoY</b>
<b>FY Dec (RM'm)</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>
<b>Segmental Rev:</b>								
- Palm oil mill equipment	83.4	102.3	-18%	78.95	6%	83.4	79.0	6%
- Retrofitting special purpose vehicle	0.1	1.8	-97%	48.55	-100%	0.1	48.5	-100%
- Plantation	2.4	4.0	-39%	3.79	-35%	2.4	3.8	-35%
<b>Group Revenue</b>	<b>85.9</b>	<b>108.1</b>	<b>-21%</b>	<b>131.3</b>	<b>-35%</b>	<b>85.9</b>	<b>131.3</b>	<b>-35%</b>
<b>PBT:</b>								
- Palm oil mill equipment	23.8	6.3	276%	19.3	23%	23.8	19.3	23%
- Retrofitting special purpose vehicle	(1.0)	0.8	nm	5.7	nm	(1.0)	5.7	nm
- Plantation	(4.5)	0.1	nm	(0.5)	826%	(4.5)	(0.5)	826%
- Associates	(1.9)	2.3	184%	0.4	nm	(1.9)	0.4	nm
- Jointly Controlled Entities	(1.8)	(1.4)	29%	0.0	nm	(1.8)	0.0	nm
<b>Group PBT</b>	<b>14.6</b>	<b>8.2</b>	<b>77%</b>	<b>24.9</b>	<b>-42%</b>	<b>14.6</b>	<b>24.9</b>	<b>-42%</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	1.02	519.9	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.2	11.4	8.5	0.7	0.7	6.2%	3.9%	1.10	MP
FGV HOLDINGS BHD	1.14	4,158.9	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	10.36	8,399.2	Y	12/2019	2.4%	6.2%	40.6%	39.1%	58.4	45.3	35.3	2.0	2.2	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.50	1,199.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	41.3	176.9	43.1	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.50	1,320.9	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	86.1	47.6	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORPORATION BHD	4.31	26,319.8	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	29.0	30.9	26.8	3.0	2.8	9.3%	1.6%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.80	26,411.1	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	29.6	30.7	27.1	2.3	2.2	7.4%	1.6%	22.00	UP
PPB GROUP BERHAD	18.78	26,716.4	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	22.9	22.0	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.66	32,082.1	Y	12/2019	71.7%	11.1%	126.5%	111.6%	143.4	63.3	29.9	2.4	2.4	3.8%	0.9%	4.00	UP
TA ANN HOLDINGS BERHAD	2.27	1,001.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.2	15.8	11.8	0.8	0.7	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.930	1,285.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	26.0	28.1	19.4	0.9	0.9	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.20	1,090.4	Y	04/2019	-35.6%	11.7%	-175.7%	-164.6%	28.4	N.A.	N.A.	0.7	0.6	3.5%	0.8%	4.90	UP
<b>Simple Average</b>					<b>4.8%</b>	<b>11.1%</b>	<b>-9.5%</b>	<b>-20.5%</b>	<b>40.7</b>	<b>51.1</b>	<b>27.2</b>	<b>1.4</b>	<b>1.4</b>	<b>3.7%</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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