

02 December 2019

## Boustead Holdings

### 9MFY19 Registers A Loss

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**9MFY19 Core Net Loss (CNL) came in at RM70.4m compared to our full-year Net Profit forecast of RM76.8m, way below our expectation due to lower-than-expected contribution from heavy industries and plantation. We now forecast net loss of RM40.5m/RM40.7m instead of net profit of RM76m/RM76m for FY19/FY20. Our target price is lowered from RM1.05 to RM1.00 based on a revised SoP. Maintain MP.**

**Below forecasts.** 9MFY19 Core Net Loss (CNL) came in at RM70.4m compared to our full-year Net Profit forecast of RM76.8m, way below our expectation due to lower-than-expected contribution from heavy industries and plantation. No dividend was declared as in this quarter.

**Results' highlights.** **QoQ, 3QFY19** CNP came in at RM6.2m compared to a loss of RM44.3m in 2QFY19. 3QFY19 CNP excluded one-off impairment on PPE (RM123m) and impairment of goodwill (RM38.1m). The better performance was due to Heavy Industries, Plantation and Trading. The Plantation division's operating losses narrowed due to higher CPO and PK prices by 2% and 4%, respectively. The Heavy Industries surprisingly registered a small operating profit compared to a loss in 2QFY19 excluding a one-off impairment of aircraft and goodwill in MHS Aviation totalling RM119m. On the positive note, BNS recorded a better contribution on the back of increased gross profit from the LCS and LMS projects. The Trading & Industrial division was higher due to a stockholding gain recorded by BPM and better contribution from UAC Berhad.

**YoY, 9MFY19** recorded CNL of RM70.4m excluding: (i) gains from sale of a plantation land (effectively amounting to RM68.6m) from 57.42%-owned Boustead Plantations, (ii) one-off impairment on PPE (RM123m); and (iii) impairment of goodwill (RM38.1m), compared to a CNL of RM29.4m in 9MFY18, no thanks to losses at Heavy Industries and Plantation. Plantation was lower due to lower CPO (-16%) and PKO (-39%) prices. The Heavy Industries division posted a deficit on the back of weaker results from its operating units. BNS incurred heavier losses mainly due to revision of margins and variation of milestones achieved for the LCS project, though 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 aircrafts.

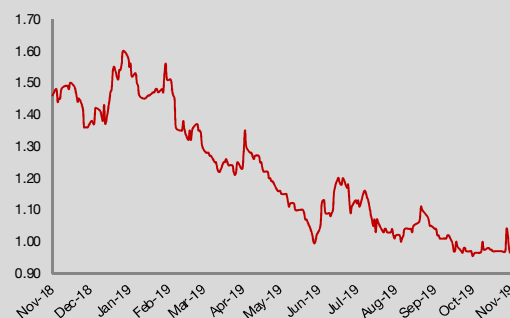
**Outlook.** The group is expected to continue seeing volatile quarterly results based on its historical volatile earnings trend. All in, we expect plantation earnings to anchor the bulk of earnings, and since 91% of its plantation estates are already matured, this hinges largely on CPO price movements 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 RM1.05 to RM1.00. Reiterate MP.

## MARKET PERFORM ↔

Price : **RM0.965**  
Target Price : **RM1.00** ↓

### Share Price Performance



KLCI 1,561.74  
YTD KLCI chg -7.6%  
YTD stock price chg -31.6%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker BOUS MK Equity  
Market Cap (RM m) 1,956.0  
Shares Outstanding 2,027.0  
52-week range (H) 1.63  
52-week range (L) 0.95  
3-mth avg daily vol: 617,883  
Free Float 20%  
Beta 0.7

### Major Shareholders

Lembaga Tabung Angkatan Tentera 59.5%  
KWAP 9.2%  
Employees Provident Fund 5.0%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	10,186	10524.6	10563.7
PBT	(387.9)	(71.9)	(72.0)
<b>Net Profit (NP)</b>	<b>(469.2)</b>	<b>(40.5)</b>	<b>(40.7)</b>
<b>Core Net Profit/Loss</b>	<b>(286.5)</b>	<b>(40.5)</b>	<b>(40.7)</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	2.60	2.55
PER (X)	-7.1	-48.0	-47.9
P/BV (X)	0.4	0.4	0.4
Net Gearing (x)	1.7	2.4	2.9
Dividend Yield (%)	5.2	3.1	3.1

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

FY Dec (RMm)	1Q19	2Q19	3Q19	Q-o-Q chg (%)
<b>Revenue</b>	<b>2,506.7</b>	<b>2,544.1</b>	<b>2,734.7</b>	<b>7.5</b>
Plantation	134.9	124.0	139.2	12.3
Heavy Industries	207.6	282.8	391.1	38.3
Property	110.3	152.5	137.7	(9.7)
Finance & Investment	52.5	49.8	52.2	4.8
Pharmaceutical	786.1	601.9	716.8	19.1
Trading & Industrial	1,215.3	1,333.1	1,297.7	(2.7)
<b>EBIT</b>	<b>92.3</b>	<b>37.8</b>	<b>82.9</b>	<b>119.3</b>
Plantation	(0.9)	(22.1)	(11.7)	(47.1)
Heavy Industries	(16.2)	(15.4)	6.4	(141.6)
Property	3.4	19.1	29.3	53.4
Finance & Investment	10.2	5.1	5.5	7.8
Pharmaceutical	37.5	20.1	12.8	(36.3)
Trading & Industrial	58.3	31.0	40.6	31.0
Associates	27.1	30.4	4.4	(85.5)
Pretax profit	51.5	118.9	-156.4	(231.5)
Taxation	-40.1	-34.8	-31.1	(10.6)
Minorities^	(33.8)	(59.8)	32.5	(154.3)
<b>Reported Net profit</b>	<b>(22.4)</b>	<b>24.3</b>	<b>(155.0)</b>	<b>(737.9)</b>
EPS	(1.1)	1.2	(7.7)	(737.5)
<b>EBIT margin (%)</b>				
Plantation	(0.7)	(17.8)	(8.4)	
Heavy Industries	(7.8)	(5.4)	1.6	
Property Development	3.1	12.5	21.3	
Finance & Investment	19.4	10.2	10.5	
Pharmaceutical	4.8	3.3	1.8	
Trading & manufacturing	4.8	2.3	3.1	
Effective tax rate	77.9	29.3	(19.9)	

Source: Company, Kenanga Research, Bursa Malaysia

### Result highlight (YTD)

FY Dec (RM m)	9MFY18	9MFY19	Y-o-Y Chg (%)
<b>Revenue</b>	<b>7,333.6</b>	<b>7,785.5</b>	<b>6.2</b>
Plantation	427.40	398.1	(6.9)
Heavy Industries	578.90	881.5	52.3
Property	366.70	400.5	9.2
Finance & Investment	147.30	154.5	4.9
Pharmaceutical	1788.30	2,104.8	17.7
Trading & industrial	4025.00	3,846.1	(4.4)
<b>EBIT</b>	<b>257.1</b>	<b>213.0</b>	<b>(17.2)</b>
Plantation	(22.3)	(34.7)	55.6
Heavy Industries	17.60	(25.2)	(243.2)
Property	47.60	51.8	8.8
Finance & Investment	7.20	20.8	188.9
Pharmaceutical	77.70	70.4	(9.4)
Trading & Industrial	129.30	129.9	0.5
Associates	67.8	61.9	(8.7)
Pretax profit	154.5	14.0	87.9
Taxation	-77.6	(106.0)	39.0
Minorities^	-91.1	(61.1)	60.5
<b>Reported Net profit</b>	<b>(14.2)</b>	<b>(153.1)</b>	<b>(108.8)</b>
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

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Sum-of-parts valuation

Listed entities	no. of shares effective stakes (m)	Current share price (RM/share)	Value (RM m)	Comments
Affin Holdings	309.2	2.45	758	Based on house target price
Boustead Heavy Industries	161.5	1.60	258	
Boustead Plantations	128.8	1.00	1,286	Based on house target price
Pharmaniaga	309.2	1.85	238	
Property development	Remaining land bank (acres)	Market value psf (RM)	Market Value (RM m)	
Mutiara Rini (Johor)	980	30	1,281	
Mutiara Damansara	24	200	209	
Mutiara Hills Semenyih	125	25	136	
Bukit Raja (30% stake)	500	30	196	
Jalan Chochrane			118	
Bukit Rajah (Astacanggih)			160	
Property investments	Net lettable area (NLA)	Market value psf (RM)	Value (RM m)	
Curve	680,000	850	561	
e@Curve	200,000	850	170	
Curve NX	80,000	800	74	
Menara Boustead KL & Wisma Boustead	277,174	700	195	
Menara Affin	200,756	700	140	
Menara Boustead Penang	210,083	350	74	
Menara UAC			45	
183 Jalan Ampang			142	
Hotels	No of rooms	Estimated average price/room (RM)		
Royale Bintang Kuala Lumpur	400	400,000	160	
Royale Bintang Curve Seremban	150	300,000	45	
Royale Bintang Damansara	300	100,000	30	
Royale Bintang Damansara	370	250,000	93	
Trading and manufacturing (excl UAC)			1,220	Based on 12x earnings
Indonesian listed (PT Millenium Pharmacon International TBK)			12	Based on market price and 55% stake
Less net debt			(5,545)	
Total RNAV less net debt			2,055	
no. of shares			2,027	
RNAV/share RM			1.00	

Source: Company, 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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