

25 November 2019

CB Industrial Product

Back-to-Back Misses

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CB Industrial Product (CBIP)'s 9MFY19 CNP of RM12.8m came in markedly below our/consensus' expectations, at merely 38%/44% due to lower-than-expected POME margins and higher-than-expected CPO production costs due to young palms. No dividend was declared, which was a negative surprise. Cut FY19-20E earnings by 34-20% and lower FY19E DPS to 2.0 sen (from 4.0 sen). Downgrade to **UNDERPERFORM** with an unchanged TP of RM0.860 based on higher Fwd PE of 11.5x.

3QFY19 misses the mark. 3QFY19 registered Core Net Profit (CNP) of a mere RM0.7m, bringing 9MFY19 CNP to RM12.8m which is markedly below our/consensus' expectations, at 38%/44%, respectively. The deviation mainly stemmed from: (i) lower-than-expected 3QFY19 PBT margins for its POME segment (+6%) vs. expected (16%) on higher production cost, and (ii) higher-than-expected production costs from its plantation division due to young palms. No dividend was declared, which was a negative surprise as we had expected 2.0 sen each for 3QFY19 and 4QFY19.

Plantation remains a drag. YoY, 9MFY19 CNP fell (-75%) mainly attributed to enlarged losses from plantation segment (10x on a low base) from lower CPO prices (-15% YoY) and higher operating expenses due to its young Indonesian tree age profile. This was exacerbated by Palm Oil Mill Equipment (POME) segment's PBT margin compression (-3ppt) from higher production costs. **QoQ**, despite a 10% improvement in revenue, 3QFY19 CNP fell (-39%) despite the low earnings base the previous quarter arising from: (i) POME PBT margin compression (-6ppt) from higher production costs, and (ii) tax expense of RM1.4m (vs. positive taxation of RM3.4m in 2QFY19).

Plantation lacking steam. Cost of CPO production is expected to remain high given CBIP's extremely young palms' age profile. Additionally, lower yields from the young trees are expected to hamper the group's ability to capitalize on the CPO price rally (QTD: +13%). Meanwhile, YTD POME's order-book replenishment stands at RM301.4m, which accounts for 79% of our FY19E target of RM380m. We are still hoping for one more POME contract by year-end to meet our FY19E target. Its current outstanding order-book stands at RM459m (POME: RM385m; SPV: RM74m), which should provide 1-year visibility.

Cut FY19-20E earnings by 34-20% to RM22.1-38.8m as we: (i) adjusted POME PBT margins lower (-4ppt), and (ii) increased CPO production cost (+5%) to RM2,200/MT.

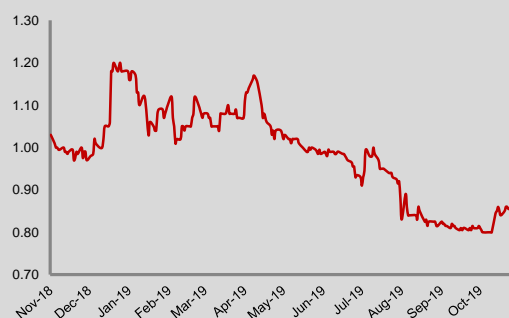
Downgrade to UNDERPERFORM with an unchanged Target Price of RM0.860 based on a higher Fwd. PER of 11.5x (from 9.3x), representing close to -1.5SD from mean. Despite higher CPO prices, we think -1.5SD valuation is justified as its plantation division is only expected to break even in FY20 stemming from low FFB yields and stubbornly high operating costs due to its young palms' age profile.

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

UNDERPERFORM ↓

Price : **RM0.960**
Target Price : **RM0.860** ↔

Share Price Performance



KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	-4.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CBP MK Equity
Market Cap (RM m)	485.2
Shares Outstanding	505.5
52-week range (H)	1.25
52-week range (L)	0.80
3-mth avg daily vol:	260,091
Free Float	41%
Beta	0.9

Major Shareholders

Lim Chai Beng	32.8%
Yacktman Asset Management LP	5.6%
Tan Sow Peng	5.4%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	481.1	368.5	421.9
EBIT	98.8	32.9	55.3
PBT	92.5	24.5	55.9
Net Profit (NP)	46.0	22.1	38.8
Core NP	51.8	22.1	38.8
Consensus (CNP)	n.a.	29.4	41.9
Earnings Revision	n.a.	-34%	-20%
Core EPS (sen)	10.0	4.3	7.5
Core EPS grwth (%)	-40.0	-57.2	75.4
NDPS (sen)	4.0	2.0	4.0
Book Value (RM)	1.43	1.44	1.48
Core PER	9.6	22.5	12.8
Price/BV (x)	0.67	0.67	0.65
Net Gearing (x)	0.03	0.09	0.13
Net Dvd Yield (%)	4.2%	2.1%	4.2%

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	101.9	92.4	10%	83.6	22%	280.2	373.0	-25%
EBIT	6.3	1.8	251%	23.2	-73%	28.7	89.5	-68%
Pretax Profit	2.2	(2.9)	nm	21.2	-89%	13.9	84.3	-83%
Taxation	(1.4)	3.4	nm	(7.9)	-82%	(2.3)	(23.2)	-90%
MI	(0.1)	0.6	nm	(4.3)	-98%	1.3	(16.8)	nm
Net Profit	0.7	1.2	-38%	9.0	-92%	13.0	44.3	-71%
Core Net Profit	0.7	1.1	-39%	10.7	-94%	12.8	50.6	-75%
EPS (sen)	0.1	0.2	-38%	1.7	-91%	2.5	8.5	-70%
EBIT margin	6.1%	1.9%		27.7%		10.2%	24.0%	
PBT margin	2.2%	-3.1%		25.4%		5.0%	22.6%	
Effective tax rate	62.9%	119.6%		37.2%		16.4%	27.5%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segmental Rev:								
- Palm oil mill equipment	80.8	80.9	0%	66.6	21%	245.1	241.0	2%
- Retrofitting special purpose vehicle	3.4	1.1	224%	11.8	-71%	4.6	118.9	-96%
- Plantation	17.7	10.5	69%	5.2	241%	30.6	13.1	134%
Group Revenue	101.9	92.4	10%	83.6	22%	280.2	373.0	-25%
PBT:								
- Palm oil mill equipment	5.1	9.6	-47%	10.7	-52%	38.5	45.1	-15%
- Retrofitting special purpose vehicle	1.3	(0.3)	nm	11.2	-88%	(0.0)	43.5	Nm
- Plantation	(2.9)	(9.9)	-71%	(0.0)	10136%	(17.3)	(1.5)	1040%
- Associates	(0.7)	(0.3)	198%	0.5	-254%	(2.9)	(0.2)	1512%
- Jointly Controlled Entities	(0.6)	(2.0)	-72%	(1.1)	-51%	(4.4)	(2.6)	66%
Group PBT	2.2	(2.9)	-178%	21.2	-89%	13.9	84.3	-83%

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.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.960	485.2	Y	12/2019	-23.4%	14.5%	-57.2%	75.4%	9.6	22.5	12.8	0.7	0.7	3.0%	2.1%	0.860	UP
FGV HOLDINGS BHD	1.29	4,706.1	Y	12/2019	3.8%	3.8%	-332.3%	70.8%	N.A.	N.A.	55.0	1.0	1.0	-1.2%	0.0%	1.15	MP
GENTING PLANTATIONS BHD	10.42	9,348.8	Y	12/2019	4.9%	10.8%	28.2%	52.2%	58.7	50.0	35.6	2.0	2.2	4.4%	1.1%	9.80	MP
HAP SENG PLANTATIONS HLDGS	1.81	1,447.4	Y	12/2019	4.5%	14.3%	-61.0%	253.3%	49.8	127.6	36.1	0.9	0.9	0.7%	0.6%	1.90	OP
IJM PLANTATIONS BHD	1.74	1,532.2	Y	03/2020	0.6%	14.7%	37.4%	93.1%	N.A.	54.2	28.1	0.9	0.9	1.6%	1.1%	1.65	MP
IOI CORPORATION BHD	4.49	28,218.1	Y	06/2020	-2.0%	5.9%	37.1%	11.8%	37.1	27.1	24.2	3.0	2.9	11.0%	2.2%	4.60	MP
KUALA LUMPUR KEPONG BHD	23.80	25,346.2	Y	09/2020	16.2%	14.7%	46.1%	9.5%	41.0	28.1	25.7	2.4	2.4	8.5%	1.9%	24.60	OP
PPB GROUP BERHAD	18.26	25,976.7	Y	12/2019	5.4%	5.6%	17.3%	7.0%	27.5	23.4	21.9	1.2	1.2	5.3%	1.8%	17.90	UP
SIME DARBY PLANTATION BHD	5.14	35,386.7	Y	12/2019	87.7%	12.0%	63.2%	184.5%	158.2	96.9	34.1	2.7	2.6	2.7%	0.6%	5.10	MP
SOUTHERN ACIDS MALAYSIA BHD	3.75	513.5	Y	03/2020	12.4%	6.9%	49.8%	20.0%	29.6	19.8	16.5	0.9	0.8	4.3%	1.6%	3.65	MP
TA ANN HOLDINGS BERHAD	2.97	1,308.2	Y	12/2019	1.9%	18.1%	-22.4%	34.4%	16.0	20.6	15.3	1.0	1.0	4.7%	1.7%	3.20	OP
TSH RESOURCES BHD	1.13	1,559.6	Y	12/2019	1.0%	13.3%	-1.1%	36.9%	31.5	31.7	23.2	1.1	1.1	3.4%	0.8%	1.00	MP
UNITED MALACCA BHD	5.25	1,100.9	Y	04/2020	8.1%	13.5%	-377.0%	73.1%	N.A.	N.A.	89.7	0.6	0.7	-0.5%	1.1%	5.30	MP
Simple Average					9.3%	11.4%	-44.0%	70.9%	45.9	45.6	32.2	1.4	1.4	3.7%	1.3%		

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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