

28 February 2020

## CB Industrial Product

### Lifted by POME Segment

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CB Industrial Product (CBIP)'s FY19 CNP of RM32.6m came in above both our (147%) and consensus' (145%) expectations on higher project billings from POME segment. Plantation division is likely to remain in the red for FY20 given stubbornly high operating costs due to its young palms' age profile, rendering CBIP unlikely to directly benefit from higher CPO price. Trim FY20E CNP by 5% on lower FFB production (dry weather impact) and introduce FY21E CNP of RM42.5m. Maintain MARKET PERFORM with lower TP of RM9.70.

**FY19 above expectations.** 4QFY19 registered Core Net Profit (CNP) of RM19.7m (YoY: +29x; QoQ: +24x), bringing FY19 CNP to RM32.6m (-37% YoY) which was above both our (147%) and consensus' (145%) expectations mainly due to higher project billings from Palm Oil Mill Equipment (POME) segment. FY19 DPS of 2.0 sen was as expected.

**POME segment lends a boost.** YoY, FY19 CNP fell (-37%) mainly attributed to: (i) 98% decline in PBT from its SPV segment due to lack of order-book replenishment following the completion of projects, (ii) enlarged losses from plantation segment (21x on a low base) from higher operating expenses due to its trees' young age profile in Indonesia. This was partially cushioned by improvement (+53%) in its POME segment. QoQ, 4QFY19 CNP surged (29x on a low base) on higher project billings from its POME segment, leading to 87% and c.8x increase in POME revenue and PBT, respectively. This resulted in overall group PBT margin expansion (+15.7ppt) to 17.9%.

**Too early for plantation segment to contribute.** Given CBIP's extremely young palms' age profile, cost of CPO production is expected to remain high. As a result, the division is likely to remain in the red in FY20. Meanwhile, we understand that the group's FY19 POME order-book replenishment stood at c.RM420m accounting for 111% of our targeted RM380m. Currently, the group's total outstanding order-book stands at RM495m (POME: RM429m; SPV: RM66m), which should provide 1-year visibility.

**Trim FY20E CNP by 5%** to RM40.1m as we conservatively reduce FY20 FFB growth (-5%) in lieu of the dry weather impact. Meanwhile, we introduce FY21E CNP of RM42.5m.

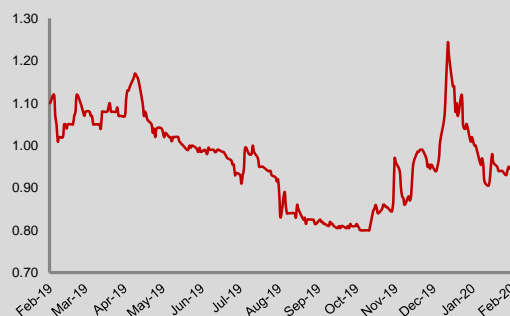
**Maintain MARKET PERFORM with a lower TP of RM0.970** based on an unchanged Fwd. PER of 12.6x, representing mean valuation. Despite higher CPO prices, we think a mean valuation is justified as its plantation division is likely to remain in the red in FY20 from stubbornly high operating costs due to its palms' young age profile.

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

## MARKET PERFORM ↔

Price : **RM0.910**  
Target Price : **RM0.970** ↓

### Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.2%
YTD stock price chg	-17.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CBP MK Equity
Market Cap (RM m)	459.6
Shares Outstanding	505.0
52-week range (H)	1.25
52-week range (L)	0.80
3-mth avg daily vol:	297,831
Free Float	41%
Beta	1.1

### Major Shareholders

Lim Chai Beng	32.9%
Yacktman Asset Management LP	5.6%
Lim Chai Guan	5.4%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	450.3	427.4	443.9
EBIT	62.0	57.1	59.3
PBT	44.3	57.7	60.8
<b>Net Profit (NP)</b>	<b>35.5</b>	<b>40.1</b>	<b>42.5</b>
<b>Core NP</b>	<b>32.6</b>	<b>40.1</b>	<b>42.5</b>
Consensus (CNP)	n.a.	39.9	54.7
Earnings Revision	n.a.	-5%	NEW
Core EPS (sen)	6.3	7.7	8.2
Core EPS grwth (%)	-37.1	23.1	6.0
NDPS (sen)	2.0	2.0	2.0
Book Value (RM)	1.47	1.53	1.60
Core PER	14.5	11.8	0.0
Price/BV (x)	0.62	0.60	0.57
Net Gearing (x)	0.07	0.09	0.11
Net Dvd Yield (%)	2.2	2.2	2.2

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<b>Results Highlights</b>								
	<b>4Q</b>	<b>3Q</b>	<b>QoQ</b>	<b>4Q</b>	<b>YoY</b>			<b>YoY</b>
<b>FYE Dec (RM m)</b>	<b>FY19</b>	<b>FY19</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>
<b>Revenue</b>	<b>170.0</b>	<b>101.9</b>	<b>67%</b>	<b>108.1</b>	<b>57%</b>	<b>450.3</b>	<b>481.1</b>	<b>-6%</b>
EBIT	33.3	6.3	432%	9.3	259%	62.0	98.8	-37%
Pretax Profit	30.4	2.2	1258%	8.2	270%	44.3	92.5	-52%
Taxation	(8.5)	(1.4)	505%	(5.5)	56%	(10.8)	(28.7)	-62%
MI	0.7	(0.1)	NM	(0.7)	NM	2.0	(17.5)	NM
<b>Net Profit</b>	<b>22.5</b>	<b>0.7</b>	<b>2921%</b>	<b>2.0</b>	<b>1016%</b>	<b>35.5</b>	<b>46.3</b>	<b>-23%</b>
<b>Core Net Profit</b>	<b>19.7</b>	<b>0.7</b>	<b>2779%</b>	<b>0.8</b>	<b>2308%</b>	<b>32.6</b>	<b>51.4</b>	<b>-37%</b>
<b>EPS (sen)</b>	<b>4.5</b>	<b>0.1</b>	<b>2930%</b>	<b>0.4</b>	<b>1055%</b>	<b>7.0</b>	<b>8.9</b>	<b>-21%</b>
EBIT margin	19.6%	6.1%		8.6%		13.8%	20.5%	
PBT margin	17.9%	2.2%		7.6%		9.8%	19.2%	
Effective tax rate	28.0%	62.9%		66.5%		24.4%	31.0%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>4Q</b>	<b>3Q</b>	<b>QoQ</b>	<b>4Q</b>	<b>YoY</b>			<b>YoY</b>
<b>FY Dec (RM m)</b>	<b>FY19</b>	<b>FY19</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	150.7	80.8	87%	102.3	47%	395.8	343.3	15%
- Retrofitting special purpose vehicle	1.2	3.4	-66%	1.8	-36%	5.7	120.7	-95%
- Plantation	18.1	17.7	2%	4.0	350%	48.7	17.1	185%
<b>Group Revenue</b>	<b>170.0</b>	<b>101.9</b>	<b>67%</b>	<b>108.1</b>	<b>57%</b>	<b>450.3</b>	<b>481.1</b>	<b>-6%</b>
<b>PBT:</b>								
- Palm oil mill equipment	40.2	5.1	689%	6.3	535%	78.7	51.4	53%
- Retrofitting special purpose vehicle	1.0	1.3	-24%	0.8	20%	1.0	44.3	-98%
- Plantation	(11.2)	(2.9)	292%	0.1	-8071%	(28.5)	(1.4)	1975%
- Associates	1.8	(0.7)	NM	2.3	-24%	(1.2)	2.1	NM
- Jointly Controlled Entities	(1.3)	(0.6)	141%	(1.4)	-5%	(5.7)	(4.0)	42%
<b>Group PBT</b>	<b>30.4</b>	<b>2.2</b>	<b>1258%</b>	<b>8.2</b>	<b>270%</b>	<b>44.3</b>	<b>92.5</b>	<b>-52%</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	0.910	459.6	Y	12/2020	-5.1%	3.9%	23.1%	6.0%	14.5	11.8	11.1	0.6	0.6	5.2%	2.2%	0.970	MP
FGV HOLDINGS BHD	1.21	4,414.3	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	10.9	1.0	1.0	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.38	9,312.9	Y	12/2020	5.7%	9.6%	143.3%	12.4%	61.0	25.1	22.3	2.1	2.0	8.1%	2.2%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.65	1,319.5	Y	12/2020	15.1%	4.5%	-79.2%	340.8%	62.8	14.2	13.1	0.8	0.8	1.9%	4.2%	2.55	OP
IJM PLANTATIONS BHD	1.76	1,549.8	N	03/2020	16.6%	16.2%	23.4%	118.9%	N.A.	34.4	15.7	0.9	0.9	2.6%	1.8%	2.90	OP
IOI CORPORATION BHD	4.25	26,711.4	Y	06/2020	3.5%	11.1%	30.9%	16.8%	35.1	26.8	23.0	2.9	2.7	10.5%	2.1%	5.15	OP
KUALA LUMPUR KEPONG BHD	22.34	24,149.9	Y	09/2020	17.9%	16.1%	50.2%	13.6%	38.5	25.7	22.6	2.3	2.2	8.8%	2.5%	28.80	OP
PPB GROUP BERHAD	18.30	26,033.6	Y	12/2020	7.6%	5.6%	15.7%	6.8%	24.8	21.5	20.1	1.2	1.2	5.6%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.00	34,422.9	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	153.9	164.8	32.2	2.6	2.6	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.81	521.7	Y	03/2020	21.5%	14.8%	93.2%	39.0%	30.1	15.6	11.2	0.9	0.8	5.5%	1.6%	4.25	OP
TA ANN HOLDINGS BERHAD	3.10	1,365.4	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	16.7	21.5	10.0	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.23	1,697.6	Y	12/2020	20.6%	1.5%	120.9%	6.4%	41.9	19.0	17.8	1.1	1.1	6.1%	1.6%	1.60	OP
UNITED MALACCA BHD	5.06	1,061.4	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	65.8	0.6	0.6	-1.5%	1.6%	5.55	MP
<b>Simple Average</b>					<b>17.0%</b>	<b>11.5%</b>	<b>-57.0%</b>	<b>96.2%</b>	<b>47.9</b>	<b>34.6</b>	<b>21.2</b>	<b>1.4</b>	<b>1.3</b>	<b>4.5%</b>	<b>1.8%</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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