

22 June 2020

Boustead Holdings

Volatile Earnings Trend

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1QFY20 Core Net Loss (CNL) came in at RM73.1m. We deemed the results to be in line with our expectation. We are keeping our FY20 forecasts unchanged on expected volatile quarters ahead, with the group swinging back and forth between profitability and losses, judging by past quarterly trend. However, our target price is lowered from RM0.80 to RM0.66 in line with house's lower TP for Affin Holdings and Pharmaniaga. Maintain MP.

1QFY20 inline. 1QFY20 Core Net Loss (CNL) came in at RM73.1m, in line with our expectation. We are keeping our FY20 forecasts unchanged as the group is expected to continue seeing volatile quarters ahead based on near-term historical trend. No dividend was declared as expected.

Results' highlights. QoQ, 1QFY20 registered a narrower CNL of RM73.1m compared to net loss of RM205m in 4QFY19. The losses narrowed due to better performance from Pharmaceutical and Plantation which more than offset higher losses at Heavy industries and Trading. The Pharmaceutical division recorded a surplus of RM29.4m compared to a loss of RM240.5m in 4QFY19 bolstered by stronger demand from government and private hospitals in Malaysia and Indonesia. Similarly, Plantation return to profitability marginally due to higher palm product prices. The Trading, Finance & Investment division incurred a loss of RM22.4m compared to PBT of RM50.1m in 4QFY19 mainly due to stockholding losses recorded by Boustead Petroleum Marketing as a result of sharp drop in fuel prices.

YoY, 1QFY20 CNL widened no thanks to higher losses at Heavy Industries and Trading but cushioned by Pharmaceutical and Plantations. The Heavy Industries division losses widened to RM36.5m compared to RM18.2m in 1QFY19 due to loss from Boustead Naval Shipyard (BNS) and higher losses at Boustead Heavy Industries Corporation. Similarly, The Trading, Finance & Investment division recorded a deficit of RM22m against a surplus of RM79.3m in 1QFY19 due to lower average fuel prices. The loss incurred was mainly due to stockholding loss suffered by Boustead Petroleum Marketing as a result of sharp drop in fuel price as well as lower sales volume during MCO period. The Plantation division registered an improved result with a PBT of RM1.3m against the loss before tax of RM14m in 1QFY19. This was mainly attributed to better palm products prices. FFB production for the quarter of 209,857 MT was 19% lower than 1QFY19 crop of 258,996 MT. Oil extraction and kernel extraction rates were also lower at 21.0% (1QFY19: 21.4%) and 4.3% (1QFY19: 4.5%) respectively. The Pharmaceutical division's PBT rose 14% due to stronger contribution from Governments hospital and lower operating costs.

Outlook. The group is expected to continue seeing volatile quarterly results based on its historical volatile earnings trend. All in, we expect the trading and manufacturing as well as pharmaceutical divisions to show pedestrian growth but deliver sustainable recurring incomes. Meanwhile, plantation earnings rely on CPO movement since 91% of its plantation estates are already matured of which the outlook over the short-term looks cloudy. The Heavy Industries division remains volatile with quarterly earnings oscillating between profits and losses.

Maintain MP. Our target price is lowered from RM0.80 to RM0.66 after imputing a 20% holding co discount and lower TP for both Affin Holdings and Pharmaniaga in line with our house's TPs. That said, downside to the share price may be limited by a yet to be finalised reported proposal that LTAT plans on taking Boustead private at RM0.80/share.

MARKET PERFORM ↔

Price : **RM0.66**
Target Price : **RM0.66** ↓

Share Price Performance



KLCI 1,507.26
YTD KLCI chg -5.1%
YTD stock price chg -30.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker BOUS MK Equity
Market Cap (RM m) 1,337.8
Shares Outstanding 2,027.0
52-week range (H) 1.26
52-week range (L) 0.35
3-mth avg daily vol: 9,277,943
Free Float 20%
Beta 1.4

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	10,334	10,556	10,748
PBT	(1,336)	(131.3)	(134.8)
Net Profit (NP)	(1,279)	(46.6)	(50.7)
Core Net Profit/Loss	(198.0)	(46.6)	(50.7)
Earnings Revision	-	-	-
Core EPS/(LPS) (sen)	(9.8)	(2.3)	(2.5)
EPS growth (%)	NM	(76.5)	8.7
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.85	1.79	1.74
PER (X)	NM	NM	NM
P/BV (X)	0.4	0.4	0.4
Net Gearing (x)	1.9	2.6	3.5
Dividend Yield (%)	0.0	0.0	0.0

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Result Highlight (Q-o-Q)

FY Dec (RM m)	1QFY19	4QFY19	1QFY20	Y-o-Y chg (%)	Q-o-Q chg (%)
Revenue	2,506.7	2,536.2	2,260.9	(10.9)	(9.8)
Plantation	134.9	179.1	162.7	(9.2)	20.6
Heavy Industries	207.5	179.4	86.2	(52.0)	(58.5)
Property & Industrial	200.6	193.2	166.6	(13.8)	(16.9)
Pharmaceutical	786.1	715.7	819.9	14.6	4.3
Trading, Finance & Invest	1,177.6	1,268.8	1,025.5	(19.2)	(12.9)
Pre-tax profit / (loss)	51.5	(1,349.8)	(53.3)	(96.1)	(203.5)
Plantation	(14.0)	(177.7)	1.3	(100.7)	(109.3)
Heavy Industries	(18.2)	(1,013.8)	(36.5)	(96.4)	100.5
Property & Industrial	(21.5)	32.1	(25.1)	(178.2)	16.7
Pharmaceutical	25.9	(240.5)	29.4	(112.2)	13.5
Trading, Finance & Invest	79.3	50.1	(22.4)	(144.7)	(128.2)
Associates	27.1	102.1	18.7	(81.7)	(30.9)
Pretax profit / (loss)	51.5	(1349.8)	(53.3)	(96.1)	(203.5)
Taxation	-40.1	55.5	(22.3)	(140.2)	(44.4)
Minorities [^]	(33.8)	168.6	2.5	(98.5)	(107.4)
Reported Net profit / (loss)	(22.4)	(1,125.7)	(73.1)	(93.5)	(226.3)
Core Net Loss (CNL)	(22.4)	(205)	(73.1)	(64.4)	(226.3)
EPS / (LPS)	(1.1)	(55.5)	(3.6)	(93.5)	224.3
Pre-tax margin (%)					
Plantation	(10.4)	(99.2)	0.8		
Heavy Industries	(8.8)	(565.1)	(42.3)		
Property & Industrial	(10.7)	16.6	(15.1)		
Pharmaceutical	3.3	(33.6)	3.6		
Trading, Finance & Invest	6.7	3.9	(2.2)		
Effective tax rate	77.9	4.1	(41.8)		

Source: Bursa Malaysia, Kenanga Research

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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	1.45	448	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	174	
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	150	300,000	45	
Royale Bintang Seremban	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			1,681	
no. of shares			2,027	
RNAV/share RM (20% discount)			0.66	

Source: Company, Bursa Malaysia, 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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