

01 July 2020

# CB Industrial Product

## Headwinds Ahead

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1QFY20 CNP of RM12.3m is deemed within both our (32%) and consensus' (31%) estimates as sequential earnings decline is expected. The group has received a qualified opinion for its FY19 financial statements and we believe this may create a short-term negative perception towards the stock. POME segment is likely to remain subdued (from slow order-book replenishment and MCO impact) while its plantation division is likely to sink into losses again following the decline in CPO prices. Maintain UNDERPERFORM but with a higher TP of RM0.780 (from RM0.730) based on rolled-over FY21E PER of 9.9x (-2.0SD).

**1QFY20 deemed within expectations.** 1QFY20 registered Core Net Profit (CNP) of RM12.3m (+12% YoY; -37% QoQ) which we deemed within our/consensus' expectation at 32%/31%, respectively, as we believe lower CPO price in subsequent quarters is likely to drag earnings. Absence of dividend was expected.

**Dragged by POME segment.** YoY, despite a 42% decline in Palm Oil Mill Equipment (POME) segment's PBT contribution, 1QFY20 CNP improved (+12%) mainly attributed to: (i) higher CPO price (MPOB 1QFY20: +33% YoY) which resulted in a turnaround PBT of RM0.1m for its plantation division (vs. LBT of RM4.5m in 1QFY19), and (ii) lower tax expense (-46%). QoQ, 1QFY20 CNP fell (-37%) mainly stemming from lower PBT contribution (-66%) from POME segment which dived on slower project billings and sales due to the global pandemic. Note that the group has yet to secure any POME replenishment contracts for FY20.

**Qualified opinion for FY19 financial statements.** The group announced that it has received qualified opinion from its external auditor, Messrs. Crowe Malaysia PLT for its FY19 financial statements. The basis was due to: (i) unavailability of audited financial statements and the absence of purchase price allocation for its JV – Gulf Lubes Malaysia (GLM), (ii) unavailability of audited financial statements for its associates and JV mainly due to a delay in completion of its associates and JV's management accounts (based on our report dated 06-May-20), and (iii) the group's unwillingness to perform impairment assessment on bearer plant (contingent liability) with carrying amount of RM7.7m. In essence, we believe the qualified opinion may create a short-term negative perception towards CBIP.

**2QFY20 sequential earnings decline expected.** Given that the group has yet to secure any POME replenishment contracts for FY20 and alongside the MCO impact, POME segment is likely to remain subdued moving into 2QFY20. Meanwhile, lower CPO prices (QTD2QFY20: -15% QoQ) lead us to believe that its plantation segment could fall into the red again in 2QFY20.

**No changes to our earnings estimates** as results were within expectations.

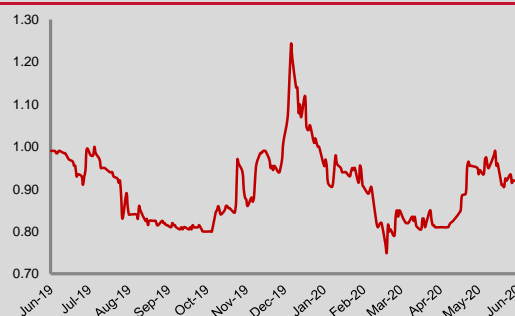
**Maintain UNDERPERFORM but with a higher TP of RM0.780 (from RM0.730)** based on a rolled-over FY21E PER of 9.9x, representing -2.0SD valuation justified by: (i) expected sequential losses from its plantation division due to lower CPO price and extremely young tree age profile, (ii) subdued POME segment which has yet to clinch any order-book replenishment for FY20, and (iii) the qualified audit opinion for FY19 accounts that may cast a negative perception.

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

# UNDERPERFORM ↔

Price : RM0.920  
Target Price : RM0.780 ↑

## Share Price Performance



KLCI 1,500.97  
YTD KLCI chg -5.5%  
YTD stock price chg -16.4%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CBP MK Equity
Market Cap (RM m)	453.5
Shares Outstanding	492.9
52-week range (H)	1.25
52-week range (L)	0.68
3-mth avg daily vol:	258,825
Free Float	40%
Beta	0.9

## Major Shareholders

Lim Chai Beng	32.8%
Yacktmann Asset Management LP	5.7%
Lim Chai Guan	5.5%

## Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	450.3	424.7	441.2
EBIT	62.0	54.8	57.0
PBT	44.3	55.4	58.5
<b>Net Profit (NP)</b>	<b>35.5</b>	<b>38.5</b>	<b>40.9</b>
<b>Core NP</b>	<b>32.6</b>	<b>38.5</b>	<b>40.9</b>
Consensus (CNP)	n.a.	40.1	46.2
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	6.3	7.4	7.9
Core EPS grwth (%)	-37.1	18.2	6.3
NDPS (sen)	2.0	2.0	2.0
Book Value (RM)	1.47	1.52	1.59
Core PER (x)	14.6	12.4	11.7
Price/BV (x)	0.63	0.60	0.58
Net Gearing (x)	0.07	0.09	0.11
Net Dvd Yield (%)	2.2	2.2	2.2



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## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	108.0	170.0	-36%	85.9	26%	108.0	85.9	26%
EBIT	19.1	33.3	-43%	20.7	-8%	19.1	20.7	-8%
Pretax Profit	15.0	30.4	-51%	14.6	3%	15.0	14.6	3%
Taxation	(2.3)	(8.5)	-73%	(4.3)	-46%	(2.3)	(4.3)	-46%
MI	(0.3)	0.7	nm	0.7	nm	(0.3)	0.7	nm
Net Profit	12.3	22.5	-45%	11.0	12%	12.3	11.0	12%
Core Net Profit	12.3	19.7	-37%	11.0	12%	12.3	11.0	12%
EPS (sen)	2.5	4.5	-45%	2.2	15%	2.5	2.2	15%
EBIT margin	17.7%	19.6%		24.1%		17.7%	24.1%	
PBT margin	13.8%	17.9%		17.0%		13.8%	17.0%	
Effective tax rate	15.5%	28.0%		29.6%		15.5%	29.6%	

Source: Company, Kenanga Research

## Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY			YoY
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Segmental Rev:								
- Palm oil mill equipment	64.2	150.7	-57%	83.4	-23%	64.2	83.4	-23%
- Retrofitting special purpose vehicle	6.6	1.2	459%	0.1	10476%	6.6	0.1	10476%
- Plantation	14.3	18.1	-21%	2.4	484%	14.3	2.4	484%
- Biofuel/refinery	22.9	0.0	nm	0.0	nm	22.9	0.0	nm
Group Revenue	108.0	170.0	-36%	85.9	26%	108.0	85.9	26%
PBT:								
- Palm oil mill equipment	13.8	40.2	-66%	23.8	-42%	13.8	23.8	-42%
- Retrofitting special purpose vehicle	0.2	1.0	-80%	(1.0)	nm	0.2	(1.0)	nm
- Plantation	0.1	(11.2)	nm	(4.5)	nm	0.1	(4.5)	nm
- Biofuel/refinery	2.3	0.0	nm	0.0	nm	2.3	0.0	nm
- Associates	(0.4)	1.8	nm	(1.9)	-81%	(0.4)	(1.9)	-81%
- Jointly Controlled Entities	(1.1)	(1.3)	-14%	(1.8)	-36%	(1.1)	(1.8)	-36%
Group PBT	15.0	30.4	-51%	14.6	3%	15.0	14.6	3%

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.			
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.920	453.5	Y	12/2020	-5.7%	3.9%	18.2%	6.3%	14.6	12.4	11.7	0.6	0.6	5.0%	2.2%	0.780	UP
FGV HOLDINGS BHD	0.995	3,629.9	Y	12/2020	1.3%	8.7%	77.3%	97.5%	70.4	39.7	20.1	0.9	0.9	2.2%	2.0%	1.05	MP
GENTING PLANTATIONS BHD	9.83	8,819.5	Y	12/2020	-7.2%	10.5%	41.8%	33.6%	62.9	44.4	33.2	2.1	2.1	4.7%	1.2%	8.05	UP
HAP SENG PLANTATIONS HLDGS	1.50	1,199.5	Y	12/2020	-4.5%	9.8%	128.3%	36.0%	57.1	25.0	18.4	0.7	0.7	4.1%	2.7%	1.85	OP
IJM PLANTATIONS BHD	1.68	1,479.4	N	03/2021	7.4%	7.8%	53.5%	21.5%	42.5	27.7	22.8	1.2	1.2	4.4%	1.5%	1.60	MP
IOI CORPORATION BHD	4.34	27,198.0	Y	06/2020	-4.3%	8.1%	11.3%	13.1%	35.9	32.2	28.5	2.9	2.8	8.9%	1.8%	4.25	MP
KUALA LUMPUR KEPONG BHD	22.20	23,942.2	Y	09/2020	4.6%	16.2%	11.9%	13.8%	38.3	34.2	30.1	2.3	2.2	6.6%	2.3%	20.70	MP
PPB GROUP BERHAD	17.78	25,293.8	Y	12/2020	-2.3%	14.7%	-2.9%	12.3%	23.5	21.9	22.6	1.2	1.1	5.2%	1.8%	17.60	MP
SIME DARBY PLANTATION BHD	4.92	33,872.1	Y	12/2020	3.2%	5.1%	242.9%	35.2%	210.4	61.4	45.4	2.5	2.5	4.1%	0.8%	4.90	MP
SOUTHERN ACIDS MALAYSIA BHD	3.65	499.8	Y	03/2021	8.2%	3.6%	-7.7%	21.2%	15.0	16.2	13.4	0.8	0.8	4.8%	1.4%	3.40	MP
TA ANN HOLDINGS BERHAD	2.35	1,035.1	Y	12/2020	9.1%	5.2%	43.4%	9.0%	15.1	10.5	9.7	0.7	0.7	6.8%	3.0%	2.90	OP
TSH RESOURCES BHD	0.840	1,159.3	Y	12/2020	12.5%	5.4%	56.2%	15.8%	28.6	18.3	15.8	0.8	0.8	4.4%	1.8%	0.950	OP
UNITED MALACCA BHD	4.70	985.9	Y	04/2021	-2.0%	7.0%	-292.5%	288.9%	N.A.	N.A.	336.4	0.7	0.7	-0.6%	1.3%	4.80	MP
Simple Average					1.6%	8.1%	29.4%	46.5%	51.2	28.7	46.8	1.3	1.3	4.7%	1.8%		

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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