

Boilermech Holdings

Soft CPO Prices Cloud Outlook

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BOILERM's FY23 results beat our forecast but met the consensus estimate. A double-digit growth at its top line was offset by higher operating cost and foreign exchange losses. We are mindful of palm oil millers turning cautious on capital spending on the back of the softening CPO prices. We raise our FY24F earnings forecast by 5%, lift our TP marginally to RM0.72 (from RM0.70) and upgrade our call to MARKET PERFORM from UNDERPERFORM.

Above expectations. FY23 net profit of RM14.1m (-17% YoY) beat our forecast by 21% but met the consensus estimate. The key variance against our forecast came from higher deliveries of boilers, and water and water treatment projects.

Results' highlights. YoY, FY23 revenue jumped 19% driven by higher project deliveries across the board, namely in: (i) boiler manufacturing (+19%), (ii) water treatment (+29%), and (iii) solar energy (+10%) segments. However, EBIT fell 19% due to higher operating expenses (i.e. labour cost) as well as foreign exchange losses. More specifically, the performance of pre-tax margin by segment was as follows: boiler manufacturing (4.6%, -2.8ppts) and solar energy segment (3.8%, -3.4ppts). Similarly, net profit declined by 17%.

Improving outlook. Despite CPO price having softened from its peak during CY22, it has stabilized and is expected to hover in the range of RM3,500-RM4,000 per MT in CY23. In addition, the global edible oil supply is improving on top of the recovery in demand, thanks to: (i) uplift of border movement sanction in China, and (ii) firm biofuel demand. Going forward, we believe that BOILERM's outlook is bright as driven by growing demand for new boiler facilities and retrofitting from palm oil millers due to the abovementioned reasons. Meanwhile, we are positive on the development on its solar energy segment as we anticipated the demand for solar photovoltaic will grow, driven by the government's target of exceeding 30% renewable energy in the country's power mix by 2025. However, the contribution from this segment is expected to be marginal due to its much smaller scale when compared to the group's boiler manufacturing segment.

Forecasts. We raise our FY24F net profit forecast by 5% assuming higher project deliveries. Also, we introduce our FY25F numbers.

Consequently, we lift our TP marginally to RM0.72 (from RM0.70) based on an unchanged 16x FY24F PER, at a 20% premium to the historical one-year forward PER of 13x of boiler makers to reflect BOILER's additional growth potential in the renewable energy space. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

We like BOILERM for: (i) the long-term trend of investment and upgrading of palm oil milling assets driven by the growing ESG awareness among palm oil millers, and (ii) its strong customer base with reputable names in the industry such as KL Kepong, Wilmar, Sime Darby, Boustead and Tradewinds. However, we are mindful of palm oil millers turning cautious on capital spending on the back of the softening CPO prices. **Upgrade MARKET PERFORM.**

Risks to our call include: (i) palm oil millers dialling back on their capex plans on a sharp fall in CPO prices, (ii) rising input costs, and (iii) risks associated with operating in developing economies.

MARKET PERFORM ↑

Price: RM0.670
Target Price: RM0.720 ↑

Expected Capital Gain: 0.050 7.5%
Expected Divd. Yield: 0.020 3.0%
Expected Total Gain: 0.070 10.5%

KLCI Index 1402.48

Stock Information

Bloomberg Ticker	BMHB MK Equity
Bursa Code	0168
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	516.0
Market Cap (RM m)	345.7
Par value per share (RM)	N.A.
52-week range (H)	0.91
52-week range (L)	0.63
Free Float	25%
Beta	0.9
3-mth avg daily vol	42,528

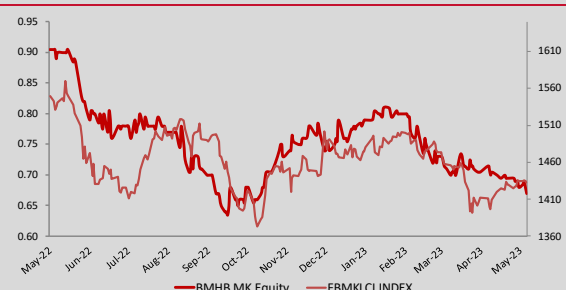
Major Shareholders

QL Green Resources Sdn. Bhd.	52.6%
Leong Yew Cheong	6.3%
Gan Chih Soon	4.0%

Summary Earnings Table

FY Mar (RM m)	2023A	2024F	2025F
Turnover	377.7	420.8	448.4
EBIT	21.8	35.5	35.0
PBT	20.9	34.5	33.6
Net Profit	14.1	23.3	22.7
Consensus (NP)	14.1	23.3	22.7
Earnings Revision	-	+5%	NEW
Core EPS (sen)	2.7	4.5	4.4
Core EPS growth (%)	-17.0	65.1	-2.5
NDPS (sen)	1.8	1.8	1.8
BVPS (RM)	0.5	0.5	0.5
PER (x)	24.6	14.9	15.2
PBV (x)	1.5	1.4	1.3
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	2.6	2.6	2.7

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-6.3%	-13.0%	-24.7%
Relative (%)	-4.7%	-9.3%	-16.1%

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	116.8	83.8	39.4%	87.5	33.5%	377.7	317.8	18.9%
EBIT	10.6	1.9	465.3%	4.9	119.0%	21.1	25.9	-18.8%
PBT/(LBT)	10.6	1.8	477.3%	4.8	120.2%	20.9	25.7	-18.8%
Taxation	-2.8	-0.2	-1640.9%	-1.1	-148.5%	-4.7	-6.5	27.1%
Minority Interest	-1.3	-0.3	-292.9%	-0.1	-1296.0%	-2.1	-2.3	8.7%
Net Profit	6.5	1.3	385.7%	2.7	136.8%	14.1	17.0	-17.0%
EPS (sen)	1.3	0.3	385.7%	0.5	136.8%	2.7	3.3	-17.0%
DPS (sen)	0.0	0.0		0.0		1.8	1.8	
EBIT margin	9.1%	2.2%		5.6%		5.6%	8.2%	
PBT margin	9.1%	2.2%		5.5%		5.5%	8.1%	
NP margin	5.6%	1.6%		3.1%		3.7%	5.3%	
Effective tax rate	-26.1%	-8.7%		-23.2%		-22.6%	-25.1%	

Source: Company, Kenanga Research

Geographical Segments

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Malaysia	52.4	47.3	10.7%	60.9	-14.0%	202.5	209.8	-3.5%
Others	64.5	36.5	76.8%	26.6	142.4%	175.2	108.0	62.3%
Total	116.8	83.8	39.4%	87.5	33.5%	377.7	317.8	18.9%

Source: Company, Kenanga Research

Revenue Segments

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Boiler Manufacturing	86.0	58.7	46.6%	59.5	44.5%	292.0	246.1	18.7%
Water Treatment cum Biogas Capture	21.2	9.7	119.2%	14.8	43.1%	48.0	37.4	28.5%
Solar Energy	9.6	15.4	-37.8%	13.2	-27.1%	37.6	34.3	9.6%
Total	116.8	83.8	39.4%	87.5	33.5%	377.7	317.8	18.9%
PBT (RM m)								
Boiler Manufacturing	5.8	0.4	1233.0%	1.6	252.4%	13.5	18.2	-25.8%
Water Treatment cum Biogas Capture	4.1	0.4	955.7%	2.8	42.4%	5.9	5.0	18.0%
Solar Energy	0.8	1.0	-24.7%	0.3	134.6%	1.4	2.5	-41.9%
Total	10.6	1.8	477.3%	4.8	120.2%	20.9	25.7	-18.8%
PBT Margin								
Boiler Manufacturing	6.7%	0.7%		2.8%		4.6%	7.4%	
Water Treatment cum Biogas Capture	19.1%	4.0%		19.2%		12.3%	13.3%	
Solar Energy	8.0%	6.6%		2.5%		3.8%	7.2%	
Total	9.1%	2.2%		5.5%		5.5%	8.1%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.00	1.80	80.00%	935.0	Y	05/2023	8.0	12.0	38.5%	50.1%	12.5	8.3	1.8	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	OP	0.670	0.700	4.48%	345.7	Y	03/2024	4.5	4.4	65.2%	-2.6%	14.8	15.2	1.3	9.0%	1.8	2.7%
BP PLASTICS HOLDINGS BHD	OP	1.24	1.63	31.45%	349.0	Y	12/2023	13.6	15.1	23.9%	10.7%	9.1	8.2	1.4	15.8%	5.5	4.4%
HIL INDUSTRIES BHD	UP	1.01	0.810	-19.80%	335.3	Y	12/2023	10.2	11.5	46.1%	12.7%	9.9	8.8	0.8	7.8%	2.0	2.0%
HPP HOLDINGS BhdHD	OP	0.285	0.440	54.39%	110.7	Y	05/2023	2.3	3.5	8.3%	47.3%	12.2	8.3	0.9	7.4%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.755	0.600	-20.53%	405.7	Y	12/2023	4.5	6.0	-11.7%	34.4%	16.8	12.5	0.4	2.2%	1.8	2.4%
SCIENTEX BHD	UP	3.36	2.99	-11.01%	5,211.6	Y	07/2023	30.6	35.5	15.0%	16.0%	11.0	9.5	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.885	1.09	23.16%	280.5	Y	12/2023	5.8	7.0	13.6%	20.7%	15.2	12.6	1.5	9.8%	5.5	6.2%
TECHBOND GROUP BHD	OP	0.385	0.450	16.88%	203.8	Y	06/2023	1.9	3.8	-9.8%	98.0%	20.2	10.2	1.2	6.2%	1.0	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.23	3.22	44.39%	873.2	Y	12/2023	26.1	29.3	-8.2%	12.2%	8.5	7.6	1.0	12.6%	5.5	2.5%
SECTOR AGGREGATE					9,050.6					23.2%	19.7%	11.2	9.4	1.3	11.3%		3.2%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Product Quality & Safety	★	★	★		
	Waste Management	★	★	★		
	Digitalization & Innovation	★	★	★		
	Material/Resource Management	★	★	★		
	Supply Chain Management	★	★			
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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%

**** The Expected Total Return might contain rounding discrepancy.**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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