

20 November 2023

BM Greentech Bhd

Outlook Clouded by Soft CPO Prices

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BMGREEN's 1HFY24 results beat expectations. Its 1HFY24 net profit surged 1.5x YoY driven by strong billings and improved margins. On a more cautious tone, soft CPO prices may push back planters' capex plans including the replacement or upgrading of boilers. We raise our FY24-25F earnings by 16% each, lift our TP by 13% to RM0.81 (from RM0.72) but maintain our UNDERPERFORM call.

Above expectations. Its 1HFY24 net profit of RM16m beat expectations, coming in at 69% and 61% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast came largely from the stronger-than-expected margins at its boiler manufacturing and solar energy segments.

Results' highlights. YoY, BMGREEN's 1HFY24 revenue rose 24% underpinned by strong billings across the board, i.e. boiler manufacturing (+19%), water treatment projects (+26%) and the solar energy segment (+72%), particularly in the residential space. Its core net profit surged 1.5x thanks to: (i) lower input costs at its boiler manufacturing segment specifically hot-rolled coil (-21% YoY), and (ii) lower solar panel prices and the write-back of doubtful debt at its solar energy segment.

QoQ, Likewise, its core net profit increased 10% thanks to better performance from the water treatment and solar energy segments.

Outlook. BMGREEN's boiler manufacturing segment may be hit by the soft CPO prices that pushed back planters' capex plans including the replacement or upgrading of boilers. On a brighter note, its solar energy segment is riding on a new wave of investment in renewable energy (RE) generation assets underpinned by the government's commitment towards RE making up 70% of total generation mix by 2050, as outlined in the National Energy Transition Roadmap (NETR). We are mindful that boiler manufacturing contributes to the lion's share of BMGREEN's total profits, to the tune of about 78%, vs. about 13% of the solar energy segment.

Forecasts. We raise our FY24-25F earnings by 16% each to reflect higher margins in the boiler manufacturing and solar energy segments.

Consequently, we raise our TP by 13% to RM0.81 (from RM0.72) based on an unchanged 16x PER and a rolled-forward FY25F EPS, at a 20% premium to the historical one-year forward PER of 13x of boiler makers to reflect BMGREEN's additional growth potential in the renewable energy space. There is no change to our TP based on ESG given 3-star rating as appraised by us (see Page 4).

We like BMGREEN 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, over the immediate term, amidst soft CPO prices, palm oil millers are likely to cut back on their capex including the replacement and upgrading of boilers. Maintain **UNDERPERFORM**.

Risks to our call include: (i) palm oil millers restarting their capex plans on a sharp rise in CPO prices, (ii) lower input costs, and (iii) operations in regional markets gain traction.

UNDERPERFORM ↔

Price: **RM0.98**
Target Price: **RM0.81** ↑

Expected Capital Gain: **-RM0.17 -17.3%**
Expected Divd. Yield: **+RM0.018 +1.8%**
Expected Total Gain: **-RM0.152 -15.5%**

KLCI Index 1,460.67

Stock Information

Bloomberg Ticker	BMGREEN MK Equity
Bursa Code	0168
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	516.0
Market Cap (RM m)	505.7
Par value per share (RM)	N.A.
52-week range (H)	1.01
52-week range (L)	0.66
Free Float	26%
Beta	0.8
3-mth avg daily vol	150,452

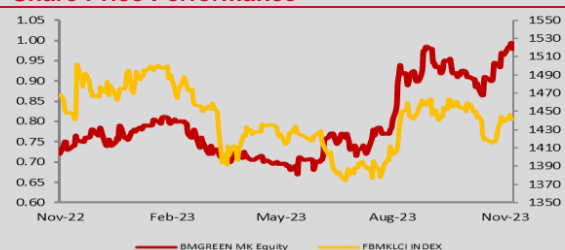
Major Shareholders

QL Resources Bhd	52.6%
Leong Yew Cheong	5.1%
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	39.4	42.3
PBT	20.9	40.0	38.9
Net Profit	14.1	27.0	26.2
Consensus (NP)	-	26.2	26.9
Earnings Revision (%)	-	16.1	15.7
Core EPS (sen)	2.7	5.2	5.1
Core EPS growth (%)	-17.0	91.8	-2.8
NDPS (sen)	1.8	1.8	1.8
BVPS (RM)	0.5	0.5	0.5
PER (x)	35.9	18.7	19.3
PBV (x)	2.1	2.0	1.9
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	1.8	1.8	1.8

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	8.3%	4.3%	34.2%
Relative (%)	7.1%	3.4%	33.5%



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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Mar (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Turnover	118.4	100.8	17.4%	99.4	19.2%	219.3	177.1	23.8%
EBIT	11.9	10.1	18.4%	4.6	158.9%	22.0	8.5	157.7%
PBT/(LBT)	11.9	10.0	18.6%	4.6	160.2%	21.9	8.4	159.1%
Taxation	-3.0	-2.3	-27.2%	-1.1	-170.0%	-5.3	-1.8	-197.7%
Minority Interest	-0.5	0.0	-934.7%	-0.1	-745.0%	-0.6	-0.4	-38.7%
Net Profit	8.4	7.6	10.0%	3.4	146.7%	16.0	6.3	155.8%
EPS (sen)	1.6	1.5	10.0%	0.7	146.7%	3.1	1.2	155.8%
EBIT margin	10.1%	10.0%		4.6%		10.0%	4.8%	
PBT margin	10.0%	9.9%		4.6%		10.0%	4.8%	
NP margin	7.1%	7.6%		3.4%		7.3%	3.5%	
Effective tax rate	25.0%	23.3%		24.1%		24.3%	21.1%	

Source: Company, Kenanga Research

Geographical Segments

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
Revenue (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Malaysia	48.7	46.9	3.8%	53.0	-8.2%	95.6	102.8	-7.0%
Others	69.8	54.0	29.3%	46.3	50.6%	123.7	74.3	66.5%
Total	118.4	100.8	17.4%	99.4	19.2%	219.3	177.1	23.8%

Source: Company, Kenanga Research

Revenue Segments

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
Revenue (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Boiler Manufacturing	92.2	83.8	10.0%	82.8	11.4%	176.0	147.4	19.4%
Water Treatment cum Biogas Capture	13.1	8.5	55.1%	9.0	45.3%	21.6	17.1	26.1%
Solar Energy	13.1	8.6	53.6%	7.6	73.9%	21.7	12.6	72.2%
Total	118.4	100.8	17.4%	99.4	19.2%	219.3	177.1	23.8%
PBT (RM m)								
Boiler Manufacturing	8.4	8.7	-3.0%	4.3	94.1%	17.1	7.3	133.0%
Water Treatment cum Biogas Capture	1.7	0.2	613.6%	0.7	151.8%	1.9	1.4	32.1%
Solar Energy	1.8	1.2	53.3%	-0.4	497.7%	2.9	-0.3	948.3%
Total	11.9	10.1	17.9%	4.6	160.2%	21.9	8.4	159.8%
PBT Margin								
Boiler Manufacturing	9.1%	10.4%		5.2%		9.7%	5.0%	
Water Treatment cum Biogas Capture	12.8%	2.8%		7.4%		8.9%	8.5%	
Solar Energy	13.4%	13.5%		-5.9%		13.4%	-2.7%	
Total	10.0%	10.0%		4.6%		10.0%	4.8%	

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. (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	1.16	1.50	29.3%	1,108.6	Y	05/2024	10.0	12.9	44.4%	31.3%	11.6	9.0	1.9	18.3%	1.0	0.9%
BOILERMECH HOLDINGS BHD	UP	0.980	0.830	-15.3%	505.7	Y	03/2024	5.2	5.1	91.5%	-2.8%	18.7	19.3	1.9	10.4%	1.8	1.8%
BP PLASTICS HOLDINGS BHD	MP	1.21	1.23	1.7%	340.6	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.8	1.3	13.6%	5.5	4.5%
HPP HOLDINGS BHD	OP	0.390	0.720	84.6%	151.5	Y	05/2024	3.7	5.5	52.7%	51.4%	10.7	7.0	1.1	11.0%	1.5	3.8%
KUMPULAN PERANGSANG SELANGOR	UP	0.770	0.510	-33.8%	413.8	Y	12/2023	1.3	5.1	-73.6%	279.2%	57.5	15.2	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.66	3.23	-11.7%	5,676.9	Y	07/2024	35.2	36.5	18.3%	3.6%	10.4	10.0	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.850	0.850	0.0%	269.4	Y	12/2023	3.8	4.9	-27.3%	30.0%	22.5	17.3	1.4	6.3%	5.0	5.9%
TECHBOND GROUP BHD	OP	0.445	0.450	1.1%	237.5	Y	06/2024	3.8	4.1	112.8%	9.5%	11.8	10.8	1.3	11.5%	1.5	3.4%
THONG GUAN INDUSTRIES BHD	OP	1.88	3.05	62.2%	742.7	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.2	6.8	0.8	10.2%	4.8	2.5%
Sector Aggregate					9,446.6					25.3%	12.6%	11.1	9.9	1.3	11.5%		2.9%

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

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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