

29 May 2024

BM Greentech

Weak Demand Outlook for Boilers

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BMGREEN's FY24 results beat expectations. Its FY24 core net profit more than doubled on improved billings and as it was no longer weighed down by high-cost inventory. However, its prospects remain unfavourable as millers hold back from replacing or upgrading boilers amidst flattish CPO prices. We raise our FY25F earnings forecast by 31%, lift our TP by 42% to RM1.15 (from RM0.81) but maintain our UNDERPERFORM call.

Its FY24 net profit of RM33.6m beat our forecast and consensus estimate by 24% and 12%, respectively. The variance against our forecast came largely from lower input cost at its boiler manufacturing unit and higher deliveries of rooftop solar EPCC jobs.

YoY, its FY24 revenue grew 17% primarily due to higher billings across the board, i.e. boiler manufacturing (+11%), water treatment (+5%), and rooftop solar EPCC (+72%). Its core net profit more than doubled thanks to lower input cost, specifically, hot-rolled coil (-5% YoY).

QoQ, similarly, its 4QFY24 top line rose 16% on higher billings from boiler manufacturing and rooftop solar EPCC. Its core net profit more than doubled on margin recovery at its boiler manufacturing as the division was no longer weighed down by high-cost inventory.

Outlook. The prospects for BMGREEN's boiler manufacturing segment are unfavourable as planters are holding back from replacing or upgrading their boilers amidst flattish CPO prices for other priorities, i.e. replanting of older trees. 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).

Forecasts. We raise our FY25F earnings forecast by 31% to reflect higher rooftop solar EPCC jobs and lower input cost while introducing our FY26F numbers.

Valuations. Correspondingly, we raise our TP by 42% to RM1.15 (from RM0.81) as we also roll forward our valuation base year to FY26F based on an unchanged 16x PER, 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).

Investment case. 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, (ii) its strong customer base with reputable names in the industry such as KL Kepong, Wilmar, Sime Darby, Boustead and Tradewinds, and (iii) its traction in rooftop solar EPCC jobs. However, over the immediate term, amidst flattish CPO prices, planters 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 cost, and (iii) operations in regional markets gain traction.

UNDERPERFORM ↔

Price: RM1.26
Target Price: RM1.15 ↑

Expected Capital Gain: -RM0.11 -8.7%
Expected Divd. Yield: +RM0.018 +1.4%
Expected Total Gain: -RM0.302 -7.3%

KLCI Index 1,615.82

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)	650.2
Par value per share (RM)	N.A.
52-week range (H)	1.34
52-week range (L)	0.68
Free Float	26%
Beta	1.0
3-mth avg. daily vol.	616,052

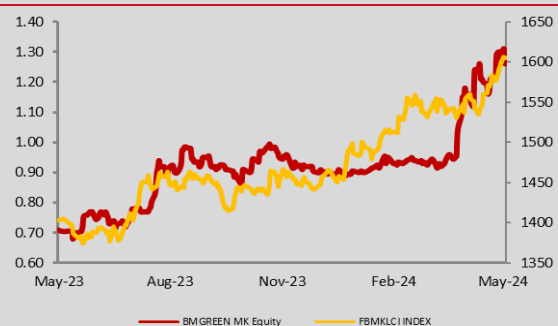
Major Shareholders

QL Resources Bhd	52.6%
Leong Yew Cheong	5.1%
Gan Chih Soon	4.0%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	440.3	465.5	515.9
EBIT	47.6	42.3	56.3
PBT	47.9	51.1	56.5
Net Profit	33.6	34.5	36.9
Consensus (NP)	-	30.1	36.0
Earnings Revision (%)	-	+31.4	NEW
Core EPS (sen)	6.5	6.7	7.2
Core EPS Growth (%)	138.9	2.5	7.1
NDPS (sen)	1.8	1.8	1.8
BVPS (RM)	0.5	0.6	0.6
PER (x)	19.3	18.9	17.6
PBV (x)	2.5	2.3	2.1
Net Gearing (x)	(0.2)	(0.2)	(0.2)
Net Div. Yield (%)	1.4	1.4	1.4

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	9.6%	35.5%	77.5%
Relative (%)	7.5%	31.1%	62.3%

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Turnover	118.7	102.3	16.0%	116.8	1.6%	440.3	377.7	16.6%
EBIT	16.7	9.4	77.4%	10.6	57.2%	48.2	21.1	128.7%
PBT/(LBT)	16.6	9.4	76.9%	10.6	56.7%	47.9	20.9	129.3%
Taxation	-4.1	-2.9	-42.6%	-2.8	-48.8%	-12.3	-4.7	-161.5%
Minority Interest	-0.7	-0.7	4.4%	-1.3	50.7%	-1.9	-2.1	8.4%
Net Profit	11.8	5.8	103.6%	6.5	82.2%	33.6	14.1	138.9%
EPS (sen)	2.3	1.1	103.6%	1.3	82.2%	6.5	2.7	138.9%
EBIT margin	14.1%	9.2%		9.1%		10.9%	5.6%	
PBT margin	14.0%	9.2%		9.1%		10.9%	5.5%	
NP margin	10.0%	5.7%		5.6%		7.6%	3.7%	
Effective tax rate	-24.8%	-30.8%		-26.1%		-25.7%	-22.6%	

Source: Company, Kenanga Research

Geographical Segments

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Malaysia	65.9	57.9	14.0%	52.4	25.9%	219.3	202.5	8.3%
Others	52.8	44.5	18.7%	64.5	-18.1%	221.0	175.2	26.1%
Total	118.7	102.3	16.0%	116.8	1.6%	440.3	377.7	16.6%

Source: Company, Kenanga Research

Revenue Segments

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Boiler Manufacturing	77.8	71.5	8.8%	86.0	-9.6%	325.3	292.0	11.4%
Water Treatment cum Biogas Capture	14.4	14.4	0.3%	21.2	-31.9%	50.4	48.0	5.1%
Solar Energy	26.5	16.4	61.3%	9.6	175.8%	64.6	37.6	71.7%
Total	118.7	102.3	16.0%	116.8	1.6%	440.3	377.7	16.6%
PBT (RM m)								
Boiler Manufacturing	11.6	4.7	149.1%	5.8	101.4%	33.4	13.5	146.6%
Water Treatment cum Biogas Capture	2.1	2.2	-3.9%	4.1	-48.8%	6.1	5.9	4.5%
Solar Energy	2.9	2.6	13.4%	0.8	278.0%	8.4	1.4	481.1%
Total	16.6	9.4	76.9%	10.6	56.7%	47.9	20.9	129.6%
PBT Margin								
Boiler Manufacturing	14.9%	6.5%		6.7%		10.3%	4.6%	
Water Treatment cum Biogas Capture	14.4%	15.0%		19.1%		12.2%	12.3%	
Solar Energy	10.9%	15.6%		8.0%		13.0%	3.8%	
Total	14.0%	9.2%		9.1%		10.9%	5.5%	

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	1.06	1.50	41.5%	1,014.9	Y	05/2024	8.5	11.2	20.5%	36.7%	12.5	9.5	1.7	14.9%	1.0	0.9%
BM GREENTECH BHD	UP	1.26	1.15	-8.7%	650.2	Y	03/2025	6.7	7.2	2.7%	7.0%	18.8	17.6	2.4	13.3%	1.8	1.4%
BP PLASTICS HOLDINGS BHD	MP	1.38	1.42	2.9%	388.4	Y	12/2024	12.1	14.1	1.5%	16.8%	11.4	9.8	1.4	12.5%	6.5	4.7%
HPP HOLDINGS BHD	MP	0.355	0.320	-9.9%	137.9	Y	05/2024	0.7	2.2	-69.9%	203.6%	49.2	16.2	1.1	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.780	0.450	-42.3%	419.2	Y	12/2024	4.0	4.7	422.0%	18.7%	19.6	16.5	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	UP	4.28	3.85	-10.0%	6,639.4	Y	07/2024	35.3	36.5	32.1%	3.5%	12.1	11.7	1.7	14.5%	11.0	2.6%
SLP RESOURCES BHD	OP	1.00	1.16	16.0%	317.0	Y	12/2024	5.8	7.0	68.8%	20.7%	17.2	14.3	1.7	9.6%	6.0	6.0%
TECHBOND GROUP BHD	OP	0.435	0.500	14.9%	237.5	Y	06/2024	3.7	4.3	112.8%	14.0%	11.6	10.2	1.2	10.9%	1.3	2.9%
THONG GUAN INDUSTRIES BHD	OP	2.10	2.86	36.2%	841.3	Y	12/2024	25.8	30.0	22.2%	16.6%	8.2	7.0	0.8	10.3%	5.5	2.6%
Sector Aggregate					10,645.7					44.5%	10.6%	12.3	11.1	1.4	11.2%		2.8%

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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