

Boustead (Cease Coverage, EPS ↓)

EARNINGS EVALUATION
INDUSTRY: CONGLOMERATE
1 March 2016
Target Price: RM4.00 (↓)
Share Price: RM4.08

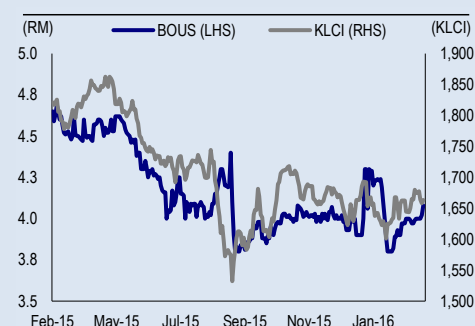
Results In Red

- | | |
|-------------------|--|
| Results | <ul style="list-style-type: none"> 2015 core net losses of RM17.8m came in way below our expectation. |
| Deviations | <ul style="list-style-type: none"> Weaker-than-expected performance from all divisions. |
| Dividend | <ul style="list-style-type: none"> Declared 4th single-tier interim DPS of 4sen, bringing YTD DPS to 20 sen. This translates into total net dividend yield of 4.9%. |
| Highlights | <ul style="list-style-type: none"> Boustead reported net losses of RM74.3m in 4Q15 (3Q15: profit of RM31.9m; 4Q14: profit of RM208.7m) mainly dragged by losses in heavy industries of RM83.7m (due to liquidated ascertained damages (LAD) charges, additional project cost and impairment of chemical tankers and receivables) and weaker performance from pharmaceutical division (due to higher amortization for its Pharmacy Information System (PhIS)). For 2015, Boustead recorded net losses of RM17.8m mainly due to the provision and higher project cost in heavy industries and weaker performance from other divisions. Plantation division's 2015 operating profit was down 53.2% yoy due to lower palm product prices while pharmaceutical division's performance was affected by decline in government orders and higher amortization for its Pharmacy Information System (PhIS). Besides, contribution from Affin has declined significantly due to loan loss provisions and higher overhead costs. |
| Risk | <ul style="list-style-type: none"> Lower than expected revenue contributions from different divisions and/or margins falling short of expectations as well as relatively high gearing. |
| Forecasts | <ul style="list-style-type: none"> FY16-17 core net profit forecasts cut by 34-38%, largely to account for weak set of 2015 performance. |
| Rating | <p>CEASE COVERAGE, TP: RM4.00 (↓)</p> <ul style="list-style-type: none"> Positives – Relatively high and quarterly net dividend yield. Negatives – Relatively high gearing and complicated group, quarterly fluctuation in earnings and weak near-term earnings outlook. |
| Valuation | <ul style="list-style-type: none"> We are ceasing coverage with a lower Target Price to RM4.00 (previous TP: RM4.07) based on SOP due to its continuous set of disappointing results and unexciting outlook across divisions. |

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KLCI	1,654.8
Expected share price return	-2.0%
Expected dividend return	4.9%
Expected total return	2.9%

Share Price



Information

Bloomberg Ticker	BOUSMK
Bursa Code	2771
Issued Shares (m)	1,034
Market cap (RM m)	4,209
3-mth avg. volume ('000)	113
Shariah Compliance	No

Price Performance	1M	3M	12M
Absolute	4.9	0.2	-12.3
Relative	5.7	1.3	-3.4

Major shareholders

LTAT	58.6%
KWAP	9.0%

Summary Earnings Table

FY Dec (RMm)	FY14A	FY15A	FY16F	FY17F
Revenue	10,608	8,663	8,890	9,082
Operating profit	633	313	382	389
PBT	686	269	203	187
Net profit	463	86	122	112
Core net profit	352	-18	122	112
Basic EPS (sen)	44.7	8.3	11.8	10.8
Core EPS (sen)	34.0	-1.7	11.8	10.8
P/E - core (x)	12.0	n.m.	34.7	37.7
DPS (sen)	26.0	20.0	20.0	20.0
Div yield (%)	6.4	4.9	4.9	4.9
BVPS (RM)	5.7	5.6	5.5	5.4
P/Book (x)	1.4	1.4	1.3	1.3
Net gearing (x)	1.0	1.2	1.3	1.5

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Figure 1: Quarterly Results Comparison

FYE Dec (RMm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	Comments
Revenue	2,825.9	2,120.3	2,442.3	15.2	-13.6	
- Plantation	160.7	160.1	163.4	2.1	1.7	Improvement in CPO ASP offset by lower sale volume.
- Heavy industries	814.4	307.7	519.7	68.9	-36.2	
- Property	228.2	162.1	166.4	2.7	-27.1	
- Finance & investment	52.1	46.0	56.9	23.7	9.2	
- Pharmaceutical	627.1	524.4	680.1	29.7	8.5	QoQ: supported by higher orders from government hospitals under the concession and non-concession businesses.
- Trading & industrial	943.4	920.0	855.8	-7.0	-9.3	
Profit from operations	195.6	99.5	10.4	-89.5	-94.7	
- Plantation	12.3	14.0	13.8	-1.4	12.2	QoQ: lower sales volume.
- Heavy Industries	54.8	14.8	-83.7	NM	NM	Losses due to liquidated ascertained damages (LAD) charges, additional project cost and impairment of chemical tankers and receivables.
- Property	90.1	39.8	45.8	15.1	-49.2	Qoq: Fair value gain on investment properties.
- Finance & investment	1.7	-6.4	4.0	NM	>100	Improved contribution from University of Nottingham Malaysia Campus operation.
- Pharmaceutical	40.7	28.9	21.1	-27.0	-48.2	
- Trading & industrial	-4.0	8.4	9.4	11.9	NM	
Net finance cost	-65.9	-69.5	-61.9	-10.9	-6.1	
Other investment results	94.5	0.2	72.3	>100	-23.5	
Associates & JVs	132.2	18.4	29.0	57.6	-78.1	
Profit before tax	356.4	66.7	49.7	-25.5	-86.1	
Taxation	-32.4	-20.4	-50.5	>100	55.9	Higher effective tax rate due to non-deductibility of certain expenses and non-availability of group relief for losses of certain subsidiaries.
Minority interests	-7.0	-21.7	23.6	NM	NM	
Reported net profit	317.0	24.6	22.8	-7.3	-92.8	
Exceptional items	-108.3	7.3	-97.1	NM	NM	Relates to disposal gain on plantation assets and properties of RM7.5m, forex gain of RM18.5m, fair value losses on derivatives of RM7.7m and net fair value gain on investment properties of RM83.1m.
Core net profit	208.7	31.9	-74.3	NM	NM	
Basic EPS (sen)	30.7	2.4	2.2	-7.3	-92.8	
Core EPS (sen)	20.2	3.1	-7.2	NM	NM	
DPS (sen)	5.0	6.0	4.0	-33.3	-20.0	
Margins	%	%	%	%-pts	%-pts	
Profit from operations	6.9	4.7	0.4	-4.3	-6.5	
Profit before tax	12.6	3.1	2.0	-1.1	-10.6	
Reported net profit	11.2	1.2	0.9	-0.2	-10.3	
Core net profit	7.4	1.5	-3.0	-4.5	-10.4	
Effective tax rate	9.1	30.6	101.6	71.0	92.5	

Figure 2: Cumulative Results Comparison

FYE Dec (RMm)	12M14	12M15	Chg (%)	Comments
Revenue	10,608.2	8,662.5	-18.3	
- Plantation	717.3	615.2	-14.2	Dragged by lower palm product prices.
- Heavy industries	1,895.9	1,422.3	-25.0	Lower revenue from LCS project and air transportation.
- Property	652.2	649.0	-0.5	
- Finance & investment	175.9	196.5	11.7	
- Pharmaceutical	2,122.9	2,189.3	3.1	Improved contribution from overseas operations.
- Trading & industrial	5,044.0	3,590.2	-28.8	Lower volume and fuel price.
Profit from operations	633.1	312.8	-50.6	
- Plantation	128.6	60.2	-53.2	Affected by weaker palm product prices.
- Heavy Industries	108.7	-69.4	-163.8	Provision for LAD made for KD KASTURI under the Service Life Extension Programme (SLEP), higher project cost and provision of foreseeable loss for the restoration of KD PERANTAU.
- Property	184.7	144.7	-21.7	Substantial fair value gain on its Jalan Cochrane property in 2014.
- Finance & investment	-2.2	-2.5	13.6	
- Pharmaceutical	132.4	118.1	-10.8	Reduced government orders and higher amortization for its PhIS.
- Trading & industrial	80.9	61.7	-23.7	Losses from the tiles and paints manufacturing segment.
Net finance cost	-259.9	-258.9	-0.4	
Other investment results	96.1	73.4	-23.6	
Associates & JVs	216.4	84.8	-60.8	Lower contribution from Affin
Profit before tax	685.7	269.2	-60.7	
Taxation	-152.4	-129.8	-14.8	
Minority interests	-70.6	-53.6		
Reported net profit	462.7	85.8	-81.5	
Exceptional items	-111.3	-103.6		Relates to disposal gain on plantation assets and properties of RM64.7m, forex losses of RM42.0m, fair value gain on derivatives of RM34.6m and net fair value gain on investment properties of RM83.1m
Core net profit	351.4	-17.8	-105.1	
Basic EPS (sen)	44.7	8.3	-81.5	
Core EPS (sen)	34.0	-1.7	-105.1	
DPS (sen)	26.0	20.0	-23.1	
Margins	%	%	Chg (%-pts)	
Profit from operations	6.0	3.6	-2.4	
Profit before tax	6.5	3.1	-3.4	
Reported net profit	4.4	1.0	-3.4	
Core net profit	3.3	-0.2	-3.5	
Effective tax rate	22.2	48.2	26.0	

Figure 3: Segmental operating profit margin trend (%)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Plantation	27.3	18.7	15.8	7.7	10.0	12.1	8.7	8.4
Heavy industries	7.5	9.1	1.9	6.7	8.7	-5.4	4.8	-16.1
Property	15.8	22.7	27.4	39.5	18.8	18.1	24.6	27.5
Finance & investment	-5.1	-10.6	5.4	3.3	1.3	-1.5	-13.9	7.0
Pharmaceutical	8.4	4.9	5.3	6.5	8.5	5.5	5.5	3.1
Trading & industrial	2.5	2.4	1.3	-0.4	2.0	2.8	0.9	1.1

Figure 4: HLIB's estimated SOP of BH

	RM/share	Valuation Method
Property		
- Property development	0.63	Estimated market value
- Property investment	2.51	Estimated market value
Heavy industries		
- BHIC	0.27	Based on current share price (64.9% stake)
- Others	0.13	8x FY17 net profit
Finance - Affin	0.68	Based on HLIB's TP of RM1.75/share (20.7% stake)
Plantations - Boustead Plantations	1.37	Based on current share price (57.4% stake)
Healthcare - Pharmaniaga	0.92	Based on HLIB's TP of RM6.52/share (56.4% stake)
Trading	0.32	8x FY17 net profit
Sum-of-parts value	6.84	
Net debt (as at 31 Dec 2014)	-1.99	
Total sum-of-parts valuation	4.84	
Holding company discount (20%)	-0.97	
Target price (RM)	4.00	

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Financial Projections

Income Statement

FY Dec (RMm)	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	11,212	10,608	8,663	8,890	9,082
Results from operations	504	633	313	382	389
Finance cost	-261	-289	-291	-289	-319
Associates and JVs	176	216	85	110	116
Profit before taxation	708	686	269	203	187
Income tax expense	-148	-152	-130	-51	-47
Profit after taxation	560	533	139	152	140
Minority interests	-81	-71	-54	-30	-28
Reported net profit	479	463	86	122	112
Core net profit	263	352	-18	122	112
Issued shares (m)	1,034	1,034	1,034	1,034	1,034
Basic EPS (sen)	46.3	44.7	8.3	11.8	10.8
Core EPS (sen)	25.4	34.0	-1.7	11.8	10.8

Balance Sheet

FY Dec (RMm)	FY13A	FY14A	FY15A	FY16F	FY17F
Non-current assets	10,717	12,137	12,665	13,414	14,065
Current assets	4,401	4,543	4,849	4,659	4,442
Total assets	15,118	16,680	17,620	18,073	18,506
Current liabilities	6,006	6,794	7,887	7,887	7,887
Non-current liabilities	3,186	2,313	2,375	2,875	3,375
Share capital	517	517	517	517	517
Perpetual sukuk	679	1,141	1,208	1,141	1,141
Reserves	4,038	4,222	4,026	4,016	3,921
Non-controlling interests	692	1,694	1,608	1,638	1,666
Equity & liabilities	15,118	16,680	17,620	18,073	18,506

Quarterly Financial Summary

FY Dec (RMm)	4Q14	1Q15	2Q15	3Q15	4Q15
Revenue	2,826	1,892	2,208	2,120	2,442
Operating cost	-2,630	-1,773	-2,085	-2,021	-2,432
Profit from operations	196	119	123	100	10
Net finance cost	-66	-61	-66	-70	-62
Other investment results	95	0	1	0	72
Associates & JVs	132	11	27	18	29
Profit before tax	356	69	83	67	50
Taxation	-32	-26	-33	-20	-51
Minority interests	-7	-26	-30	-22	24
Reported net profit	317	17	21	25	23
Exceptional items	-108	1	-15	7	-97
Core net profit	209	18	6	32	-74
Basic EPS (sen)	30.7	1.7	2.0	2.4	2.2
Core EPS (sen)	20.2	1.8	0.6	3.1	-7.2
DPS (sen)	5.0	5.0	5.0	6.0	4.0

Other Ratios

FY Dec (RMm)	FY13A	FY14A	FY15A	FY16F	FY17F
P/E - core (x)	16.1	12.0	-237.5	34.7	37.7
DPS (sen)	30.0	26.0	20.0	20.0	20.0
Div yield (%)	7.4	6.4	4.9	4.9	4.9
BVPS (RM)	5.1	5.7	5.6	5.5	5.4
P/Book (x)	1.2	1.4	1.4	1.3	1.3
Net debt (RMm)	5,998	5,923	6,696	7,385	8,103
Net gearing (x)	1.1	1.0	1.2	1.3	1.5
EV (RMm)	10,218	10,142	10,915	11,605	12,322
Operating margin (%)	4.5	6.0	3.6	4.3	4.3
PBT margin (%)	6.3	6.5	3.1	2.3	2.1
Core net margin (%)	2.3	3.3	-0.2	1.4	1.2
Effective tax rate (%)	20.9	22.2	48.2	25.0	25.0
ROA (%)	1.7	2.1	-0.1	0.7	0.6
ROE (%)	5.0	6.0	-0.3	2.1	2.0

Cashflow

FY Dec (RMm)	FY13A	FY14A	FY15A	FY16F	FY17F
Operating activities	857	1,408	668	332	343
Investing activities	-412	-1,867	-707	-535	-535
Financing activities	-161	978	190	14	-26
Change in cash	284	519	151	-189	-218
Cash at end	608	1,126	1,279	1,089	871
Free cash flow	445	-460	-39	-203	-192
Operating cash flow (sen/share)	82.8	136.1	64.6	32.1	33.1
Free cash flow (sen/share)	43.0	-44.4	-3.7	-19.7	-18.6

Assumption Metrics

FY Dec (RMm)	FY16F	FY17F
Segmental revenue		
- Plantation	656	673
- Heavy industries	1,387	1,415
- Property	701	715
- Finance & investment	206	216
- Pharmaceutical	2,278	2,329
- Trading & industrial	3,662	3,735
	8,890	9,082
Segmental operating profit		
- Plantation	72	61
- Heavy industries	25	39
- Property	70	72
- Finance & investment	2	2
- Pharmaceutical	158	160
- Trading & industrial	55	56
	382	389

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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