

Results Update

22 November 2019

Boilermech Holdings Berhad

1HFY20: Boosted by Bio-energy division

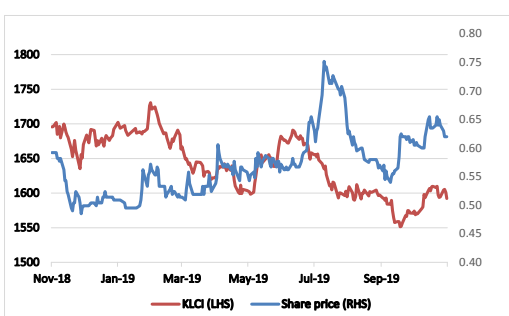
HOLD
Maintained

KLCI	1592.19 points
Share Price	RM0.62
Target Price	RM0.65
Expected share price return	4.8%
Expected dividend return	3.2%
Expected total return	8%

Stock Data	
Bursa / Bloomberg code	0168 / BMHB MK
Market / Board	Main / Industrial
Issued shares (m)	516.00
Market cap	RM319.92
Par value	RM0.1
52-week price Range	RM0.50 – 0.79
Beta (against KLCI)	0.48
3-m Average Daily Volume	0.30m
3-m Average Daily Value [^]	RM0.18m

Share Performance			
	1m	3m	12m
Absolute (%)	2.5	14.8	1.6
Relative (%-pts)	1.3	-0.2	8.2

Major Shareholders		%
QL Resources Bhd		44.23
Leong Yew Cheong		11.03
Estimated free float		27.75



Source: Bloomberg

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This report is also accessible at www.bursamids.com

Result

- Boilermech Holdings Berhad (Boilermech)** posted a net profit of RM5m during 2QFY20, which tumbled 22.1% qoq and 8.8% yoy. Meanwhile, revenue stood at RM56.5m which was down 7.1% qoq but flat yoy, +0.5%. The subdued yoy performance was due to lower margins from both Bio-energy and Water treatment segments coupled with lower project delivery from Water treatment segment. Moreover, the discouraging qoq performance was dented by slower project delivery as well as higher operating cost from Bio-energy segment.
- As for 1HFY20**, the Group reported net profit and revenue of RM11.5m and RM117.3m, up 10% yoy and 6.1% yoy respectively.
- Within our expectations.** The Group's 6MFY20 net profit of RM11.5m is within our expectation (47.3%) but below market expectation (43.7% of full year net earnings forecasts).

Comment

- Discouraging Bio-energy division pulled down QoQ performance.** Boilermech's revenue and PBT were down 15.1% qoq and 7.1% qoq respectively during 2QFY20, no thanks to Bio-energy segment as drop in both revenue (-11.3% qoq) and PBT (-21.3% qoq). Lower Bio-energy segment was due to lower project delivery as well as higher operating cost incurred. However Water treatment segment division performed better as both revenue and PBT increased 24% qoq and 113.1% qoq respectively following higher water treatment project and chemical sales delivery.
- Subdued margin from both segments bogged down YoY earnings.** The Group posted a lower PBT which was down 8.7% yoy amid flattish revenue growth of 0.5% yoy. Lower PBT was dragged down by lower PBT margin from both segments (Bio-energy: -0.9 ppts; Water Treatment: -3.5 ppts). However, revenue was slightly higher, thanks to higher contribution from Bio energy segment (+2% yoy) which offset lower revenue from Water treatment segment (-7% yoy).
- Stellar 1HFY20.** Cumulatively, Boilermech's revenue surged 6.1% yoy to RM117.3m mainly buoyed by higher revenue in both segments (Bio-energy: +6.8% yoy and Water treatment: +1.6% yoy). Besides, the Group's PBT margin also grew +0.4 ppts due to better margin in Bio energy segment. Overall, 1HFY20 performance was lifted by increase in project delivery especially from the major repair and refurbishment projects from Bio energy division.

- **Export sales abated, but still dominated overall top line.** Exports sales only accounted for 56.7% of Boilermech's revenue in 1HFY20 as compared to 61% during 1HFY19. We believe most of the contracts secured were mainly from Indonesia.
- **Steady outlook.** Looking forward, the Group remains upbeat on its business performance for the rest of the FY20F despite the challenging business operating environment. Besides, we expect the Group to sustain its business growth following current uptrend of CPO price which could lead to rebound in the prospects of plantation sector and improvement in planting activities for Malaysian market. However, lower production yield for Indonesian market as well as environmental and social issues could still affect the planters' upstream activities, thus hindering the Group's expansion plans.

Earnings Outlook

- **We retain our earnings forecasts for FY20 and FY21 at RM24.3m (-8.6% yoy) and RM26.6m (+9.6% yoy) respectively.**

Valuation/Recommendation

- **Maintain HOLD call for Boilermech with an unchanged target price of RM0.65,** which is based on PE valuation of 14x FY20 EPS. Target P/E ratio assigned is slightly below its 3-years average P/E of 16x.

Quarterly Results

Year to 31 Dec	2QFY20 (RMm)	1QFY20 (RMm)	2QFY19 (RMm)	QoQ % chg	YoY % chg	6MFY20 (RMm)	6MFY19 (RMm)	YoY % chg
Revenue	56.5	60.8	56.2	-7.1%	0.5%	117.3	110.5	6.1%
Operating Profit /EBIT	7.5	8.9	8.3	-14.9%	-8.6%	16.4	15.1	9.0%
Pre-tax Profit	7.4	8.8	8.1	-15.1%	-8.7%	16.2	14.9	9.0%
Profit After Tax	5.3	6.6	5.9	-20.7%	-10.8%	11.9	10.8	10.6%
Net Profit	5.0	6.5	5.5	-22.1%	-8.8%	11.5	10.4	10.0%
Margin (%)				ppts	ppts			ppts
Operating Profit	13.4%	14.6%	14.7%	-1.2	-1.3	14.0%	13.6%	0.4
Profit Before Tax	13.2%	14.4%	14.5%	-1.2	-1.3	13.8%	13.4%	0.4
Net Profit	8.9%	10.6%	9.8%	-1.7	-0.9	9.8%	9.5%	0.3

(Source: Company, JF Apex)

Segmental Results

FY20	2QFY20 (RMm)	1QFY20 (RMm)	2QFY19 (RMm)	QoQ % chg	YoY % chg	6MFY20 (RMm)	6MFY19 (RMm)	YoY % chg
Segmental Revenue								
Bio energy system	47.5	53.5	46.5	-11.3%	2.0%	101.0	94.5	6.8%
Water Treatment	9.0	7.3	9.7	24.0%	-7.0%	16.3	16.0	1.6%
Segmental Profit Before Tax								
Bio energy system	6.6	8.4	6.9	-21.3%	-4.4%	14.9	13.6	10.0%
Water Treatment	0.9	0.4	1.3	113.1%	-31.8%	1.3	1.3	-1.3%
Profit Before Tax Margin (%)	ppts				ppts	ppts		
Bio energy system	13.8%	15.6%	14.8%	-1.8	-0.9	14.8%	14.4%	0.4
Water Treatment	9.6%	5.6%	13.1%	4.0	-3.5	7.8%	8.0%	-0.2

(Source: Company, JF Apex)

Income Statement

Income Statement (RMm)	FY16	FY17	FY18	FY19	FY20F	FY21
Revenue	260,109	237,190	225,907	234,810	242,268	251,149
(-) COGS	(186,629)	(182,661)	(172,664)	(174,116)	(191,392)	(198,408)
Gross profit	73,480	54,528	53,243	60,694	50,876	52,741
Gross Margin	28.25%	22.99%	23.57%	25.85%	21.00%	21.00%
Revenue Growth	-6.39%	-8.81%	-4.76%	3.94%	3.18%	3.67%
EBIT	39,740	32,869	30,615	37,035	34,160	37,421
EBIT Margin	15.28%	13.86%	13.55%	15.77%	14.55%	15.94%
EBT/PBT	39,581	32,391	30,205	36,615	33,918	37,070
PBT Margin	15.22%	13.66%	13.37%	15.59%	14.44%	15.79%
Tax expense	(8,692)	(8,533)	(8,278)	(8,789)	(8,819)	(9,638)
Minority Interest in earnings	(122)	(806)	(1,352)	(1,251)	(806)	(806)
Net income	30,767	23,052	20,575	26,576	24,293	26,625
Net margin	11.83%	9.72%	9.11%	11.32%	10.35%	11.34%
Earnings Growth	-21.42%	-25.07%	-10.75%	29.17%	-8.59%	9.60%
Per Share Level						
Dividend per share (RM)	0.015	0.015	0.0175	0.020	0.017	0.019
Dividend Yield (%)	2.73%	2.73%	3.18%	3.64%	3.17%	3.47%
Dividend Payout Ratio (%)	25.16%	33.58%	43.89%	38.83%	37.00%	37.00%
Earnings per share (RM)	0.0596	0.0447	0.0399	0.0515	0.0471	0.0516
PE Ratio (x)	9.22	12.31	13.79	10.68	11.68	10.66
PB Ratio (x)	1.76	1.68	1.49	1.39	1.41	1.37
Ratio						
ROE (%)	19.03%	13.64%	10.81%	13.02%	12.06%	12.83%
ROA (%)	10.29%	8.44%	6.67%	8.31%	7.47%	8.06%
Net Gearing	0.59	0.14	0.07	0.01	0.01	(0.03)

(Source: Company, JF Apex)

Balance Sheet

Balance Sheet (RMm)	FY16	FY17	FY18	FY19	FY20F	FY21F
ASSETS						
Cash	26,312	64,075	88,530	97,275	102,830	110,447
Current assets	178,386	118,167	131,881	137,637	124,848	120,703
Non-current assets	94,291	90,891	88,028	84,905	97,472	99,258
Total Assets	298,989	273,133	308,438	319,817	325,150	330,408
EQUITY AND LIABILITIES						
Shareholders' Fund	161,650	169,062	190,315	204,183	201,517	207,563
Non-current Liabilities	7,518	8,184	6,638	6,229	8,856	8,945
Current liabilities	121,848	88,010	102,288	99,280	104,600	103,623
Others	7,973	7,876	9,198	10,126	10,176	10,278
Total Equities and Liabilities	298,989	273,133	308,438	319,817	325,150	330,408

(Source: Company, JF Apex)

Cash flow Statement

Cash Flow (RMm)	FY16	FY17	FY18	FY19	FY20F	FY21F
Operating	8,837	60,854	32,502	16,008	12,762	15,679
Investing	(14,953)	(441)	942	2,425	1,721	1,730
Financing	6,333	(23,244)	(8,688)	(9,943)	(8,928)	(9,791)
Net Cash In/(out flow)	217	37,168	24,755	8,489	5,555	7,617
Effect of exchange rate	(486)	595	(299)	-	-	-
Begin Cash/Cash Equiv.	26,581	26,312	64,075	88,530	97,019	102,574
End'g Cash/Cash Equiv.	26,312	64,075	88,530	97,019	102,574	110,191

(Source: Company, JF Apex)

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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