

Boustead Plantations (BPLANT MK)

4Q19: Kitchen sinking

New management, new direction? D/G to HOLD

Downgrade to HOLD given limited upside to our lower RNAV TP of MYR0.62 (previously MYR0.68) to reflect higher debts. The new management took the opportunity to impair MYR176m of assets in 4Q19. Otherwise, 2019 core loss of MYR82m was lower than expected at 93% of our forecast. Given the sudden reversal of CPO prices (due to threat from COVID-19) and BPLANT's decision not to dispose its assets, the stock lacks immediate catalyst and could put the high dividends at risk.

4Q19: a small core profit of MYR3m

Excluding the MYR176m impairment, BPLANT posted a 4Q19 core net profit of MYR3m (4Q18: -MYR13m, 3Q19: -MYR33m) due to higher CPO ASP of MYR2,446/t (+24% YoY, +21% QoQ), which offset lower FFB output (-18% YoY, +5% QoQ) in 4Q19. For 2019, cumulative core losses widened to MYR82m (+57% YoY) mainly on lower CPO ASP of MYR2,134/t (-6% YoY).

2019: improved cash flows & lower cost per tonne

By our estimate, BPLANT's 2019 all-in operating cost of production was 5% lower YoY at MYR2,237/t. This was despite marginally higher FFB output of 979,973t (+1% YoY). We attribute the lower cost per tonne to its cost-cutting measures and lower fertiliser applied during the year. We note improvement to its 2019 operating cash flows with net cash generated from operating activities at MYR148m (+95% YoY).

Asset disposals put on hold? High dividends at risk

Under the previous management, BPLANT reclassified 197ha of Balau estate in Selangor to "asset held for sale" (worth MYR237m). In 4Q19, BPLANT reclassified it back to "long-term assets", perhaps a reflection of the new management's intention to put asset disposals on hold. Our EPS forecasts have yet to factor in any disposals. But the absence of any disposals is likely to prolong the restructuring and shareholders will less likely be rewarded with decent dividend payouts. However, following better cost controls in FY19, we reduced our FY20E core losses and now expect BPLANT to turn profitable in FY21E. Our CPO ASPs for FY20-21E are unchanged at MYR2,300 /2,400/t. We introduce our FY22E EPS.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	584	577	664	711	759
EBITDA	119	145	199	221	250
Core net profit	(52)	(82)	(11)	15	39
Core EPS (sen)	(2.3)	(3.6)	(0.5)	0.7	1.7
Core EPS growth (%)	nm	nm	nm	nm	155.6
Net DPS (sen)	7.0	1.0	0.0	0.5	1.0
Core P/E (x)	nm	nm	nm	84.9	33.2
P/BV (x)	0.6	0.7	0.5	0.5	0.5
Net dividend yield (%)	9.3	1.3	0.0	0.9	1.7
ROAE (%)	(1.8)	(5.5)	(0.4)	0.6	1.5
ROAA (%)	(1.4)	(2.0)	(0.3)	0.4	0.9
EV/EBITDA (x)	22.6	20.4	12.6	11.0	9.5
Net gearing (%) (incl perps)	40.3	55.3	54.0	51.4	47.9
Consensus net profit	-	-	(34)	(17)	na
MKE vs. Consensus (%)	-	-	66.9	187.2	na

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HOLD

[Prior:BUY]

Share Price MYR 0.58
 12m Price Target MYR 0.62 (+8%)
 Previous Price Target MYR 0.68

Company Description

Boustead Plantations is a pure upstream oil palm plantation company with estates located principally in Malaysia.

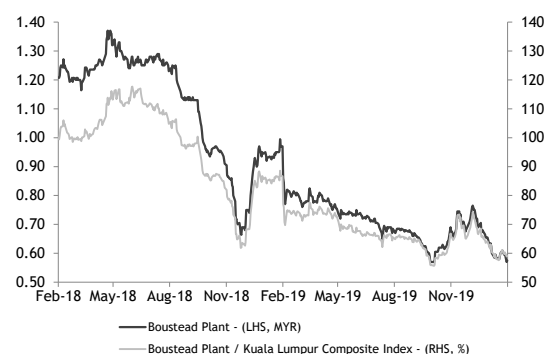
Statistics

52w high/low (MYR)	0.86/0.57
3m avg turnover (USDm)	0.2
Free float (%)	33.2
Issued shares (m)	2,240
Market capitalisation	MYR1.3B USD304M

Major shareholders:

Boustead Holdings Bhd.	57.4%
Lembaga Tabung Angkatan Tentera	12.1%
Employees Provident Fund	4.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(17)	(41)
Relative to index (%)	(7)	(11)	(31)

Source: FactSet

Fig 1: Boustead Plantations 4QFY19 results summary

FYE Dec (MYR m)	Quarterly					Cumulative		
	4QFY19	4QFY18	% YoY	3QFY19	% QoQ	12MFY19	12MFY18	% YoY
Revenue	179.1	156.6	14.4	139.2	28.6	577.2	584.0	(1.2)
EBIT	12.8	1.7	666.9	(11.7)	NM	(21.8)	(20.5)	6.0
Interest income	0.1	0.0	93.2	0.1	34.9	1.1	1.3	(15.0)
Finance cost	(16.7)	(13.6)	22.2	(17.5)	(4.5)	(64.8)	(36.8)	76.2
Share of results of Associates	2.0	2.5	(20.8)	1.3	52.5	6.6	5.0	31.3
Gain on disposal of estate land	-	-	NA	-	NA	119.5	-	NM
Impairment of assets	(176.0)	-	NM	-	NA	(176.0)	-	NM
Pretax profit / (loss)	(177.7)	(9.4)	>100.0	(27.7)	>100.0	(135.4)	(51.0)	165.6
Tax	1.9	(5.8)	NM	(9.3)	NM	(21.9)	(12.9)	69.4
Minority Interest	3.1	2.3	34.7	3.8	(19.1)	13.3	12.1	9.4
PATAMI/ (LATAMI)	(172.7)	(12.9)	>100.0	(33.3)	>100.0	(144.0)	(51.8)	178.1
Core PATAMI/ (LATAMI)	3.2	(12.9)	NM	(33.3)	NM	(81.5)	(51.8)	57.4
			+/-ppt		+/-ppt			+/-ppt
EBIT margin	7.2	1.1	6.1	(8.4)	15.5	(3.8)	(3.5)	(0.3)
Effective Tax rate %	51.0	(48.5)	99.5	(32.1)	83.1	(25.6)	(23.1)	(2.5)
			% YoY		% QoQ			% YoY
FFB output (MT)	252,202	306,044	(17.6)	239,573	5.3	979,973	966,132	1.4
CPO ASP (MYR/t)	2,446	1,967	24.4	2,026	20.7	2,134	2,261	(5.6)

Sources: Company, Maybank KE

Fig 2: Boustead Plantations RNAV

Estates	Owner -ship	Status	Size	NBV	BV	Market price	Market Value	MV (based on equity stake)	SOTP on 50%-disc on estates	SOP/sh
			Hectare	MYR 'm	MYR psf	MYR psf	MYR'm	MYR'm	MYR'm	MYR
Balau	100%	FH	247	27.3	1.03	12.00	319.4	319.4	319.4	0.14
Kulai Young	100%	FH	671	53.8	0.80	8.00	577.2	577.2	577.2	0.26
Bukit Mertajam	100%	FH	2,165	139.5	0.60	4.00	931.7	931.7	931.7	0.42
Kuala Muda	50%	FH	1,520	34.0	0.21	1.50	245.2	122.6	122.6	0.05
Malakoff	100%	FH	562	42.1	0.70	8.00	483.8	483.8	483.8	0.22
Telok Sengat	100%	FH	3,690	280.3	0.71	1.50	595.5	595.5	595.5	0.27
Batu Pekaka	100%	FH	969	55.2	0.53	1.50	156.3	156.3	156.3	0.07
Taipng Rubber	100%	FH	1,379	81.3	0.55	1.50	222.6	222.6	222.6	0.10
			**10,443	700.1			3,531.9	3,409.2	3,409.2	1.52
						Replacement cost				
						MYR/ha				
Remaining adjusted planted (ha)			70,953			30,000		<u>2,128.6</u>	<u>2,128.6</u>	<u>0.95</u>
Value of revalued estates at replacements costs/ market value								<u>5,537.8</u>	<u>5,537.8</u>	<u>2.47</u>
Less: 50% discount								-	<u>(2,768.9)</u>	<u>(1.24)</u>
Discounted value of estates								5,537.8	2,768.9	1.24
JV company at book value								34.3	34.3	0.02
Net debt (@ 31 Dec 2020)								(1,317.7)	(1,317.7)	(0.59)
Minority Interest (@ 31 Dec 2020)								<u>(101.0)</u>	<u>(101.0)</u>	<u>(0.05)</u>
RNAV								4,153.4	1,384.5	0.62
No of shares issued ('m)								2,240.0	2,240.0	
RNAV (MYR per share)								1.85	0.62	

* excludes estimated EBIT of estates with property development potential; ** effective stake; FH = Freehold

Source: Company, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, target price and rating for BPLANT. Key risks to the palm oil sector and BPLANT are: (i) lack of asset disposal to sustain its high dividend payout; (ii) weather anomalies resulting in poorer-than-expected output growth; (iii) lower-than-expected CPO price achieved; (iv) negative policies imposed by import countries; (v) unfriendly policies imposed by the Malaysian and Indonesian government on upstream or downstream segments; (vi) sharply lower crude oil prices, which make palm biodiesel demand not viable; and (vii) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	84.9	33.2
Core P/E (x)	nm	nm	nm	84.9	33.2
P/BV (x)	0.6	0.7	0.5	0.5	0.5
P/NTA (x)	0.6	0.7	0.5	0.5	0.5
Net dividend yield (%)	9.3	1.3	0.0	0.9	1.7
FCF yield (%)	nm	nm	8.1	10.6	12.3
EV/EBITDA (x)	22.6	20.4	12.6	11.0	9.5
EV/EBIT (x)	nm	nm	49.4	32.5	22.4
INCOME STATEMENT (MYR m)					
Revenue	584.0	577.2	664.2	710.8	759.3
Gross profit	(20.5)	(21.8)	50.7	75.3	106.2
EBITDA	119.2	145.4	199.4	221.4	249.8
EBIT	(20.5)	(21.8)	50.7	75.3	106.2
Net interest income / (exp)	(35.5)	(63.7)	(65.6)	(63.4)	(60.6)
Associates & JV	5.0	6.6	6.8	6.9	7.0
Exceptionals	0.0	(56.5)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(51.0)	(135.4)	(8.2)	18.8	52.6
Income tax	(12.9)	(21.9)	(3.6)	(2.9)	(10.9)
Minorities	12.1	13.3	0.6	(0.8)	(2.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(51.8)	(144.0)	(11.2)	15.2	38.8
Core net profit	(51.8)	(81.5)	(11.2)	15.2	38.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	57.8	20.5	59.7	121.5	196.3
Accounts receivable	35.2	34.8	40.0	42.8	45.8
Inventory	36.0	28.6	31.9	33.1	34.0
Property, Plant & Equip (net)	3,609.3	4,017.5	3,948.8	3,882.7	3,819.1
Intangible assets	2.3	2.3	2.3	2.3	2.3
Investment in Associates & JVs	29.0	27.5	34.3	41.2	48.2
Other assets	391.6	68.3	68.4	68.8	69.3
Total assets	4,161.3	4,199.5	4,185.4	4,192.4	4,215.0
ST interest bearing debt	744.6	722.5	722.5	722.5	722.5
Accounts payable	33.1	32.8	33.6	34.8	35.8
LT interest bearing debt	373.1	654.9	654.9	654.9	654.9
Other liabilities	379.0	337.0	334.0	335.0	335.0
Total Liabilities	1,530.2	1,747.3	1,745.3	1,747.1	1,748.6
Shareholders Equity	2,717.9	2,552.3	2,541.1	2,545.1	2,561.4
Minority Interest	(86.8)	(100.1)	(101.0)	(99.7)	(95.1)
Total shareholder equity	2,631.1	2,452.2	2,440.1	2,445.3	2,466.4
Total liabilities and equity	4,161.3	4,199.5	4,185.4	4,192.4	4,215.0
CASH FLOW (MYR m)					
Pretax profit	(51.0)	(135.4)	(8.2)	18.8	52.6
Depreciation & amortisation	139.7	167.2	148.6	146.1	143.7
Adj net interest (income)/exp	35.5	63.7	65.6	63.4	60.6
Change in working capital	(13.0)	65.9	(17.7)	(9.1)	(8.1)
Cash taxes paid	(34.9)	(12.9)	(3.6)	(2.9)	(10.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	76.3	148.5	184.9	216.4	237.8
Capex	(821.4)	(446.8)	(80.0)	(80.0)	(80.0)
Free cash flow	(745.1)	(298.4)	104.9	136.4	157.8
Dividends paid	(176.5)	(67.3)	0.0	(11.2)	(22.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	976.0	265.7	0.0	0.0	0.0
Other invest/financing cash flow	(34.0)	(52.4)	(65.6)	(63.4)	(60.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	36.9	(32.2)	39.2	61.8	74.9

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(23.2)	(1.2)	15.1	7.0	6.8
EBITDA growth	(54.2)	22.0	37.1	11.1	12.8
EBIT growth	nm	nm	nm	48.5	41.0
Pretax growth	nm	nm	nm	nm	179.4
Reported net profit growth	nm	nm	nm	nm	155.6
Core net profit growth	nm	nm	nm	nm	155.6
Profitability ratios (%)					
EBITDA margin	20.4	25.2	30.0	31.2	32.9
EBIT margin	nm	nm	7.6	10.6	14.0
Pretax profit margin	nm	nm	nm	2.6	6.9
Payout ratio	nm	nm	0.0	73.8	57.8
DuPont analysis					
Net profit margin (%)	nm	nm	nm	2.1	5.1
Revenue/Assets (x)	0.1	0.1	0.2	0.2	0.2
Assets/Equity (x)	1.5	1.6	1.6	1.6	1.6
ROAE (%)	(1.8)	(5.5)	(0.4)	0.6	1.5
ROAA (%)	(1.4)	(2.0)	(0.3)	0.4	0.9
Liquidity & Efficiency					
Cash conversion cycle	26.1	21.4	18.5	20.0	20.0
Days receivable outstanding	25.1	21.8	20.3	21.0	21.0
Days inventory outstanding	18.5	19.4	17.8	18.4	18.5
Days payables outstanding	17.5	19.8	19.5	19.4	19.5
Dividend cover (x)	(0.3)	(6.4)	nm	1.4	1.7
Current ratio (x)	0.5	0.2	0.2	0.3	0.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.4	2.4	2.4	2.4
Net gearing (%) (incl perps)	40.3	55.3	54.0	51.4	47.9
Net gearing (%) (excl. perps)	40.3	55.3	54.0	51.4	47.9
Net interest cover (x)	na	na	0.8	1.2	1.8
Debt/EBITDA (x)	9.4	9.5	6.9	6.2	5.5
Capex/revenue (%)	140.6	77.4	12.0	11.3	10.5
Net debt/ (net cash)	1,059.9	1,356.9	1,317.7	1,255.9	1,181.0

Source: Company; Maybank

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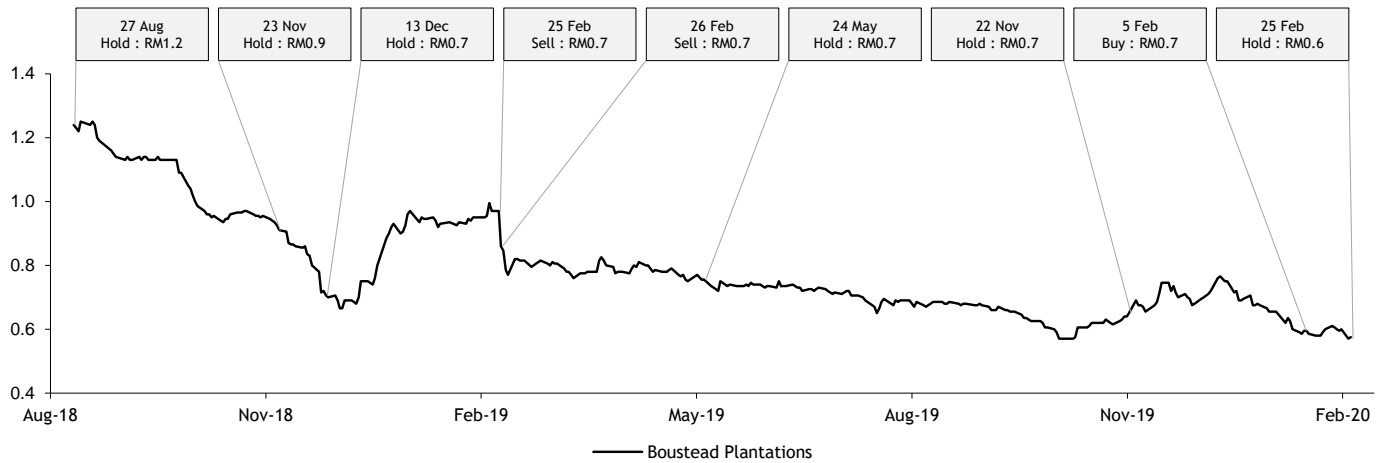
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