

Boustead Heavy Industries Corporation

Recommendation: **HOLD**Stock Code: **8133**Bloomberg: **BHIC MK**Price: **MYR4.61**12-Month Target Price: **MYR5.00**Date: **February 23, 2010****Board:** Main**Sector:** Industrial Products**GICS:** Industrials/Construction & Farm Machinery & Heavy Trucks**Market Value - Total:** MYR1,145.4 mln

Summary: Boustead Heavy Industries Corporation (BHIC), formerly known as PSC Industries (PSCI), is an investment holding and property holding company with subsidiaries engaged in ship building, ship repair, construction and trading. BHIC was removed from PN17 classification in August 2007. The stock is a component of FBM 70 and FBM EMAS.

Analyst: Su Peng Ng**Results Review & Earnings Outlook**

- BHIC's 2009 results disappointed with net profit of MYR76.3 mln making only 85% of our 2009 estimates, as operating margins came in lower than expected.
- The group booked in 2009 revenue growth of 10% YoY due to higher progress billings for contracts at hand. Nevertheless, higher project costs and lower associate contribution (2008's associate contribution included a reversal of tax charges amounting to MYR21.2 mln) hurt pretax profits which fell 30% YoY.
- We have reviewed our 2010 revenue as we believe orderbook replenishment and progress payments for contracts in hand may not materialize as quickly as initially assumed given the fragile global economic recovery. We have trimmed our 2010 orders by about 15% and in view of the higher 2009 project cost and expectations for higher raw material costs in 2010, we also raise our cost assumptions for 2010. These changes would reduce our 2010 net profit estimate to MYR97.8 mln (from MYR130.4 mln). We also introduce our 2011 net profit forecast.
- BHIC has announced a single tier 2010 interim dividend of 6% (or 6 sen) which translates into a gross yield of 1.3%. The group did not declare dividends for 2009.

Recommendation & Investment Risks

- We downgrade our recommendation on BHIC to Hold (from Buy) with a lower 12-month target price of MYR5.00 (from MYR5.50) as we reduce our 2010 net profit estimate.
- Our valuation methodology continues to be a blend of PER and P/B. We utilize a target PER of 12x and P/B of 2x (both unchanged) against our estimated 2010 EPS and BVPS, plus a net DPS of 6 sen (from 4.1 sen) to arrive at our target price for BHIC. The target multiples are benchmarked to BHIC's listed regional and local peer averages.
- BHIC's total orderbook stands at around MYR2 bln (includes its 20.8% associate, Boustead Naval Shipyard's orderbook). The group is in discussions to secure a number of projects in 2010 and we may see more announcements on contract awards this year. In our opinion however, we believe BHIC is currently close to being fairly valued given that its current 2010 PER of 12x is at the higher end of peer valuations.
- Risks to our recommendation and target price include a delay in the delivery of OPVs, cancellation of existing contracts and higher-than-expected operating costs.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	30.7	39.4
PER (x)	15.0	11.7
Dividend/Share (sen)	0.0	6.0
NTA/Share (MYR)	1.51	1.84
Book Value/Share (MYR)	1.51	1.84
No. of Outstanding Shares (mln)	248.5	
52-week Share Price Range (MYR)	2.40 - 5.35	
Major Shareholders:	%	
Boustead Holdings	64.9	
Lembaga Tabung Angkatan Tentera	8.2	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	0.84	1.29	1.51	1.84
Cash Flow (sen)	62.7	46.8	35.6	43.8
Reported Earnings (sen)	195.4	46.3	30.7	39.4
Dividend (sen)	1.5	5.5	0.0	6.0
Payout Ratio (%)	4.0	11.9	0.0	15.2
PER (x)	2.4	10.0	15.0	11.7
P/Cash Flow (x)	7.3	9.8	13.0	10.5
P/Book Value (x)	5.5	3.6	3.1	2.5
Dividend Yield (%)	0.3	1.2	0.0	1.3
ROE (%)	-65.7	43.5	21.9	23.5
Net Gearing (%)	0.0	0.0	0.0	0.0

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FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	163.6	169.3	-3.4
Reported Operating Profit	15.8	17.8	-11.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.1	0.2	NM
Reported Pre-tax Profit	22.0	26.1	-15.7
Reported Net Profit	18.6	15.0	24.2
Reported Operating Margin (%)	9.7	10.5	-
Reported Pre-tax Margin (%)	13.4	15.4	-
Reported Net Margin (%)	11.4	8.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	496.3	543.9	676.1	733.2
Reported Operating Profit	88.4	72.6	101.4	110.0
Depreciation & Amortization	-1.2	-12.0	-11.0	-11.0
Net Interest Income / (Expense)	1.3	0.2	-0.5	-1.1
Reported Pre-tax Profit	134.7	94.9	126.0	132.3
Effective Tax Rate (%)	13.2	19.2	22.0	22.0
Reported Net Profit	115.1	76.3	97.8	102.7
Reported Operating Margin (%)	17.8	13.3	15.0	15.0
Reported Pre-tax Margin (%)	27.1	17.5	18.6	18.0
Reported Net Margin (%)	23.2	14.0	14.5	14.0

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	5.00
7-Aug-09	Buy	5.50
18-May-09	Hold	3.40
12-Nov-08	Hold	3.00
13-Aug-08	Hold	4.75
6-May-08	Buy	6.00
29-Feb-08	Buy	7.30
31-Oct-07	Buy	7.20
30-Oct-07	Buy	7.00
21-Aug-07	Hold	2.70
10-Aug-07	Strong Buy	2.40
4-Jun-07	Sell	2.25
27-Feb-07	Sell	2.50

