

Results Update

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Boustead Heavy Industries Corporation Berhad

Down But Not Out

Share Price : RM4.61
Target Price : RM5.70
Market Capitalisation (RMmn) : 1,145mn
Board : MAIN
Sector : INDUSTRIAL
Recommendation : BUY
Stock code : BHIC (8133)

Key Stock Statistics

YE Dec 31		2009	2010F
EPS	sen	30.7	47.5
P/E	x	15.0	9.7
Div / Share	sen	6.0	9.0
BV / Share	sen	1.51	1.89
Issued Capital	mn	248	
52 weeks price change	RM	5.35/2.39	
Major shareholders			
Boustead Holdings - 65%			

Per Share Data

YE Dec 31		2007	2008	2009	2010F
Book Value	(RM)	0.8	1.3	1.5	1.9
Cash Flow	(sen)	42.9	38.2	21.2	116.7
Earnings	(sen)	324.2	46.3	30.7	47.5
Earnings- adjusted	(sen)	61.9	46.3	30.7	47.5
Gross Dividend	(sen)	1.5	5.5	6.0	9.0
Payout Ratio	(%)	0.0	11.9	19.5	20.0
PER	(x)	7.5	9.9	15.0	9.7
Dividend Yield	(%)	0.0	1.2	1.3	2.0
ROE	(%)	44.7	35.9	20.3	25.1

P&L Analysis (RMmn)

YE Dec 31	2007	2008	2009	2010F
Revenue	117	496	544	619
EBITDA	29	89	74	125
Net Interest	0	1	0	(1)
Depreciation	(3)	(1)	(1)	(1)
Associate	57	45	22	27
Extraordinary Income	393	0	0	0
Pre-tax	475	135	95	151
Net Profit	485	115	76	118

Share Price chart



Source : Bloomberg

FY09 Results Highlights (RMmn)

YE 31 December	3Q09	4Q09	QOQ%	FY08	FY09	YOY%	
Turnover	144	164	13	496	544	10	
EBIT	21	16	(24)	88	73	(18)	
Interest Inc/(exp)	(0)	(0)	>100	1	0	>100	
Associate	7	6	(14)	45	22	(51)	
Pretax	28	22	(22)	135	95	(30)	
Taxation	(3)	(4)	nm	(18)	(18)	nm	
MI	(0)	0	nm	(2)	(0)	nm	
Net Profit	25	19	(25)	115	76	(34)	
EPS	(sen)	10	7	(25)	46	31	(34)
EBIT Margin	(%)	0	0	0	0		
Pretax Margin	(%)	0	0	0	0		
Tax Rate	(%)	0	0	0	0		

Weak 4Q09 Earnings

4Q09 results were generally below our expectations. Revenue actually rose 13.4% QoQ to RM163.6mn, thanks to higher progress billing. Pretax profit on the other hand declined 21.5% QoQ to RM22.0mn as a result of 23.6% contraction in operating profit. We understand that operating margin was affected by some cost overrun in relation to the chemical tanker contract as well as RM6mn in LAD booked in the quarter. In addition, contribution from Boustead Naval Shipyard S/B (BNS) also declined by 14.2% due to lower progress billing. However, YoY, net profit rose 24.2%, indicating the pace of work continued to increase.

Full Year Earnings Below Expectations

Consequently, FY09 earnings fell short of our expectations. Bulk of the discrepancy was attributable to higher cost incurred. Revenue though was in line with our estimate. All in, revenue increased 9.6% to RM543.9mn on the back of higher progress billing. Operating profit however declined 17.9% YoY due to the cost overrun and LAD payment mentioned above. Associate contribution declined by over 50% YoY to RM22.1mn. The comparison was distorted by a reversal of notional tax charge amounting to RM21.2mn in FY08. Excluding the one-off item, associate contribution would have declined by only 7.1% YoY due to lower progress billing. As a consolation though, the group declared 6 sen single-tier dividends (5.5 sen in FY09), translating into 1.3% yield at the current price.

Submarine Issue Being Resolved

We understand that the technical defect that caused KD Tunku Abdul Rahman unable to dive is close to being resolved currently. At this juncture, we do not expect any material impact on BNS arising from this issue. As for the life extension contracts for the two military corvettes, we understand that the contract details are being finalized and expected to start contributing to bottomline in 2H10.

Order Book Replenishment High On Agenda

Current order book amounted to c. RM850mn and management continues to be upbeat on securing new contracts in FY10 although they are tightlipped on the details. Out of the RM850mn, RM600mn is for construction of OPVs (under its 20.77% associate, BNS). According to management, the fifth OPV is already close to being delivered to the navy and the work on the sixth OPV is expected to complete by mid-2010.

Recommendation

Earnings Forecast Revised Lower

We have made several changes to assumptions, 1) FY10 revenue estimate revised lower by 13.4% after imputing a more conservative outlook in the potential new order book. We now assume RM500mn worth of new contracts in FY10, 2) updated balance order book for the Ops contract, and 3) margin assumption adjusted higher as we do not expect further significant cost overrun or LAD payment in FY10. The net impact is a 12.9% downgrade in FY10 net profit estimate to RM118.6mn.

Lower TP But BHIC Remains A Buy

Target price revised lower to RM5.70 but BHIC remains a Buy as the 24% upside potential to the share price. The target price is based on 12x target PER, a slight premium compared with long term average PER of 11x. We think the modest premium is justified given the relatively conservative earnings assumptions and high likelihood of BNS securing fresh OPVs contract by the end of the year.

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