

Boustead Holdings Bhd (“Bstead”) – Well Diversified & High Yield

Recommendation: Buy

Share Price RM5.80

FINANCIAL SUMMARY					OTHER KEY DATA	
FYE 31 Dec (RM mil)	2009A	2010A	2011F	2012F		
Revenue	5,392	6,181	8,010	8,650	Listing	Main Board
EBITDA	624	855	1,121	1,211	Issued Cap. (mil, RM0.50 par)	940.2
EBITDA Margin (%)	12	14	14	14	Market Cap. (RM mil)	5,453
Net Profit	342	538	641	692	52 Week Low/High (RM)	3.85 – 6.50
EPS (sen)	47.0	57.5	68.2	73.6	Gearing (x)	0.72
DPS (sen)	22.1	39.0	47.7	51.5	P/NAV (x)	1.30
PER (x)	12.3	10.1	8.5	7.9	NAV/share (RM)	4.46
Dividend Yield (%)	3.8	6.7	8.2	8.9	Major Shareholders	(%)
					Lembaga Tabung Angkatan Tentera	59.3

Source: Company, Bloomberg & PCM Estimates

We like Bstead for its well diversified business model and its high dividend yield.

Notwithstanding the GLC status, the management has been very pro-active recently which we can see from its acquisition of Pharma, the decision to divest the low yielding Indonesian plantation estate of around 18k ha and the move to raise free float by reducing LTAT’s stake in Bstead.

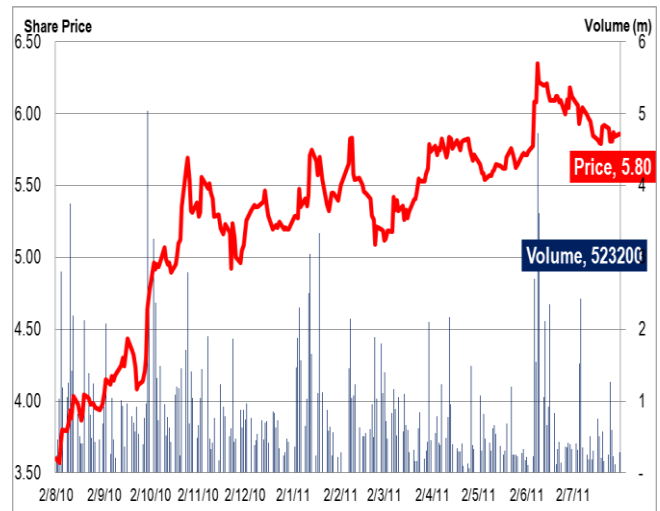
The growth catalysts of Bstead are as follows:

- (i) Steady income from Pharma
- (ii) Surge in Nasal Vessels contracts
- (iii) Lucrative government land deals

Moreover, Bstead is only trading at forward PE of 8x FY2012 EPS which is very attractive.

Therefore, we recommend a “Buy”.

Price Chart: Bstead (1 Year)



Source: Bloomberg

Highlights:

Background – Bstead is a well-diversified government linked corporation which embraces six important sectors in Malaysia. They are (i) plantation, (ii) heavy industries specializes in naval vessel building, repair and maintenance, (iii) Property, (iv) Finance and investment, (v) Pharmaceutical and (vi) Manufacturing and trading. In FY2010, Bstead’s earnings were mainly from plantation; Heavy Industries and Trading & Manufacturing division (**see Figure 1**). However, the earnings growth in the future will be led by plantation, heavy industries and properties division on the back of the growth catalysts set out below.

70% Dividend Payout – Bstead committed a 70% dividend payout effective from FY2011 which will translate into an auspicious dividend yield of approximately 7%-8%.

Div In Species, 1.7% Yield – Bstead acquired the largest integrated local healthcare company, Pharmaniaga Bhd (“Pharma”) in June 2010 at RM5.75 per share. To meet the required 25% free-float to make Pharma stays listed and cut borrowings of Bstead at the same time, Bstead proposed exercises as set out in **Figure 3** of which Bstead investors will enjoy 1.7% yield from the dividend in specie of Pharma shares.

Steady Income From Pharma – Pharma is a government health care provider and it will provide Bstead a steady income stream from the 10 years concession renewed in Dec 2009. The vertical integration from the acquisition of Pharma with its Idaman Pharma Manufacturing, a current supplier to Pharma is expected to create a synergetic growth in earnings. The earnings accretion from the acquisition will be reflected in FY2011 onwards.

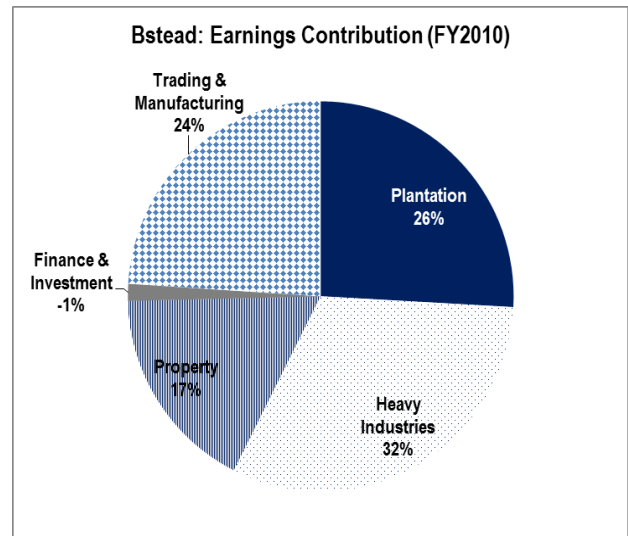
Surge In Naval Vessels Contracts – Bstead is looking at building second batch of 6 patrol vessels for Royal Malaysian Navy. It implies an additional contract value of RM6.7b or 3x of current order book if benchmarking the initial batch of 6 patrol vessels awarded in 1998.

Lucrative Government Land Deals – Bstead’s parent company, LTAT is finalizing 2 lucrative government land deals where the future MRT stations will be located. There are (i) 60 acres of Jalan Cochrane land and (ii) 245 acres of Batu Cantonment army base at Jalan Ipoh. With current limited landbank of only 10 acres in Mutiara Damansara, the growth engine of Bstead’s property division will be geared up again. By emulating the success of the 360 acres of Mutiara Damansara development, Bstead is set to reap lucrative earnings from the property development for another cycle.

Cheap Valuation – The implied PE of 5x for the high margin plantation, growing property and trading business is very attractive (see Figure 2). With the growth factors predominantly from the properties division, it is certainly a very compelling investment at this level.

Valuation & Recommendation – We like Bstead for its well diversified business model and its high dividend yield. Notwithstanding the GLC status, the management has been very pro-active recently which we can see from its acquisition of Pharma, the decision to divest the low yielding Indonesian plantation estate of around 18k ha and the move to raise free float by reducing LTAT’s stake in Bstead. Furthermore, there is various growth catalysts in the pipeline from property, nasal vessels contracts and health care businesses mentioned above. Moreover, Bstead is trading at low forward PE of 8x FY2012 EPS which is very attractive. Therefore, we recommend a “Buy”.

Figure 1: Earnings Contribution



Source: Bloomberg

Figure 2: Implied PE For Plantations, Property and Trading

	Issued Cap (mil)	Market Price @ 03/8/11	Market Cap (RM mil)	Market Stake	Effective Value (RM mil)	PE (x)	ROE (%)	Div Yield (ttm)
Bstead	940	5.80	5,453	100%	5,453	10	13	7
Less: Listed Subsidiaries/ Associate								
BHIC	249	3.72	924	65%	601	13	17	2
Pharmaniaga	107	5.90	631	86%	543	21	7	n.a
UAC	74	3.06	228	65%	148	14	5	8
Affin Holdings	1,495	3.39	5,067	21%	1,064	10	10	3
Al-Hadharah Boustead REIT	557	1.47	819	60%	491	10	11	7
					2,847			
					Residual value (RM mil)	2,606		
					Residual value per share	RM2.8		
					EPS (FY2010)	RM0.6		
					Implied PE	5	x	

Source: Bloomberg & PCM

Figure 3: Proposed Corporate Exercises Summary

Proposed Corporate Exercises	Basis	Remark
1 Dividend in specie of Pharma shares	1-for-57.5	Get cash if hold < 5,750 shares
2 Restricted offer for sale of Pharma shares	1-for-24	To shareholders except LTAT
3 Divestment of 17.5m Pharma shares	RM5.75/ share	To LTAT, Bstead Director & employee and other investor
4 Pharma bonus issue after #1,2 & 3	1-for-10	
5 Bstead bonus issue	1-for-10	

Source: Co & PCM

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For Phillip Capital Management Sdn Bhd

Nona Salleh
Executive Chairperson

APPENDIX

LIST OF STOCKS RECOMMENDED SINCE 2010

Our Picks – 2010/11						
No	Stock	Date	Price*	Price @ 3/08/11	% Change	Comments
1	Axiata	20 Apr 09	RM1.64	RM5.07	209.1%	Hold. Price is testing Feb peak.
2	Mudajaya	24 Jun 09	RM0.971	RM3.13	222.3%	Buy. Good entry after price weakness.
3	MBSB	30 Nov 09	RM0.64	RM1.68	162.5%	Still a Buy. 2Q results out-performance 1Q.
4	Parkson	22 Dec 09	RM4.95	RM5.75	16.2%	Buy. After touching a high of RM6.10, it is now consolidating.
5	QSR	15 Jan 10	RM3.26	RM6.33	94.2%	Hold. Price surged to new high.
6	Salcon	22 Feb 10	RM0.635	RM0.55	-14.2%	Avoid. After hitting a low of RM0.50, it has recovered.
7	ULiCorp	30 Mar 10	RM0.58	RM1.21	108.6%	Medium Term Buy. The final disposal of business will be finalised soon.
8	Tomyapak	13 April 10	RM1.196	RM0.96	-19.7%	Buy/Hold. Not much interest on the stock.
9	Dayang	29 April 10	RM1.77	RM1.99	12.4%	Buy. No new development, so stock price sideways.
10	Suria	14 May 10	RM1.51	RM1.78	17.9%	Hold. Back to RM1.75 resistance again.
11	JTI	31 May 10	RM4.99	RM7.05	41.3%	Buy. Market is waiting for next special dividend.
12	Tenaga	18 June 10	RM6.52	RM6.05	-7.2%	Buy. Longer-term outlook improved after tariff hike.
13	KSL	30 June 10	RM1.35	RM1.77	31.1%	Hold. Ex 1:4 rights of warrant @ RM0.20.
14	CIMBX25	22 July 10	RM1.01	RM0.96	-5.4%	Buy. Opportunity to buy China at low price
15	Kian Joo	28 Aug 10	RM1.35	RM2.14	58.5%	Buy. Can One takeover of Kian Joo, hearing 13 Sept.
16	TSH	17 Sep 10	RM2.11	RM3.18	50.7%	Buy. Stock price firm despite weak market sentiment.
17	Public Bank	18 Oct 10	RM12.60	RM13.40	6.3%	LT Buy. 2Q results within expectation.
18	Padini	25 Oct 10	RM0.936	RM1.08	15.4%	Hold. Concentrate on consolidating local business.
19	Cypark	3 Dec 10	RM1.14	RM2.14	87.7%	Hold. Bet on solar energy project at dump[sites.
20	AirAsia	17 Dec 10	RM2.64	RM4.11	55.7%	Buy/Hold. After Philippines and Vietnam, it is setting up in Japan.
21	Benalec	18 Jan 11	RM1.34	RM1.49	11.2%	Strong Buy. Expected to secure large reclamation of maritime industrial park in Johore.
22	POS Malaysia	2 Mar 11	RM2.925	RM3.18	8.7%	Buy. Moving fast to use some post offices to provide services for Muamalat Bank
23	CIMB	9 Mar 11	RM7.93	RM8.37	5.5%	Buy. Price retraced to a good support level
24	Sarawak Oil Palm	30 Mar 11	RM3.46	RM4.49	29.8%	Buy/Hold. Like TSH, price going against market trend.
25	TRC	20 Apr 11	RM0.586	RM0.670	14.3%	Buy. Price did not perform after split, bonus and warrants
26	CenSoft	4 May 11	RM0.665	RM0.665	0.0%	Buy. Acquired a software co in Indonesia.
27	AMedia	6 June 11	RM0.285	RM0.270	-5.3%	Buy. PE of 4.5x is cheap for a stock which still has growth.

28	Landmarks	28 June 11	RM1.41	RM1.38	-2.1%	LT Buy. Undervalued but not much earnings yet.
29	PMetal	28 July 11	RM2.19	RM1.99	-9.1%	Buy. Price weakened after ex 1:3 rights of loan stocks with free wrt.

**Price adjusted for dividend, bonus and rights*