

PP14767/09/2012(030761)

TH Plantation Bhd (THP)

“Leap, and the Net will Appear”

We are of the view that most plantation companies under our coverage may record unimpressive results in 1Q2015 results season given the dilemma of 1) lower CPO average selling price realise, 2) slower FFB and CPO production, 3) poor and/or squeeze in downstream margins, and 4) higher unrealised forex translation loss. As for TH Plantation Berhad (THP), we anticipate the company may record a lower profit in FY15 and its 1Q15 earnings results may have a higher probabilities of turning into the red as its FFB and CPO production had recorded a double-digits declined in volume during the quarter. Although the company does not have any exposure in forex translation but it may incur higher production cost in-line with its younger estates profile. We reiterate our **HOLD** call on the stock with a new TP of RM1.47.

Slow FFB and CPO production. THP's FFB and CPO production in 1Q15 had declined 29% q-o-q (20% y-o-y) and 22% q-o-q (22% y-o-y) respectively to 137,988 MT and 31,052 MT due to inter alia 1) drought phenomena which affected the region in 1Q14 and hence, delayed effect to production as a result; 2) floods in December that enveloped the eastern region including Kedah; 3) younger estates (1st year harvesting of 7,484 hectares at 17% of mature area); and 4) seasonally low cycles. Although management has guided that THP is targeting a 15% to 20% growth in FFB production for financial year 2015 driven by 9,300 ha of new maturity and 7,500 ha of 2nd year maturity, we have projected its FFB will only grow by 5% (as per table 1) as production may be impacted by the delayed impact of adverse weather condition coupled with tree stress effect (in 2013 THP had recorded an impressive growth in FFB production by 49% y-o-y; 2014: 0.8% y-o-y) on top of its younger estates and younger age profile.

Young estates profile of average 9 year. THP is banking on its younger estates as a catalyst for exponential growth in

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HOLD (TP: RM1.47)

Current Price (RM)	RM1.55
New Target Price (RM)	RM1.47
Previous Target Price (RM)	RM1.45
Previous Recommend.	HOLD
Upside To Target Price	-5.1%
Dividend Yield (FY16)	1.3%

Stock Code

Bloomberg	THP MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	883.9	
Market Cap (RM mn)	1,370.0	
YTD Chg. In Share Price	-8.82%	
Beta (x)	0.73	
52-week Hi/Lo (RM)	RM2.18	RM1.40
3M Average Volume ('000shrs)	169.8	
Estimated Free Float	20.3%	

Major Shareholders

Lembaga Tabung Haji	72.4%
EPF	7.3%
Dimensional Fund Adv.	0.4%

the next couple of years when its estates turn into its fundamental growth maturity. THP has the highest immature to young mature trees area among its peers (stock under coverage) or 87% of its planted area with mature area (10-19yrs) amounting to 24% and the remaining mature to old mature area (20-25yrs) of 25%, are seen as a major catalyst for the production growth moving forward. According to the management, in order to strengthen its position as a medium size plantation company, they had set a KPI in 2012 to undertake new and strategic land bank expansion of 30,000 ha by FY2013 - FY2015. To date, THP have achieved 60% of the targeted land bank expansions via the acquisition of oil palm plantation in Bintulu, Sarawak (6,000 ha) and PT Persada Kencana Prima in Kalimantan (10,000 ha). Post-acquisition, THP's total landbank as at 31 March 2015 has stood close to 105,000 hectares with Sarawak dominating 48% of the total landbank, followed by Sabah 24%, Peninsular 18% and Indonesia 8%. As such, Sarawak has turned out to be the biggest contributor in FFB production in 2014 accounting for 48% (2013: 43%) of the total FFB production, followed by Peninsular 32% and Sabah 20%.

Table 1: THP's Key Plantation Earnings Assumption and Drivers

FYE: DEC	2008	2009	2010	2011	2012	2013	2014	2015F
Ave. Matured Area Harvested (Ha)	15,712	24,176	21,232	22,924	32,579	32,763	38,415	40,874
FFB Production ('000 tone)	347,547	519,290	436,949	513,276	524,665	781,577	788,090	827,495
Yield per matured Ha-(tone)	22.12	21.48	20.58	22.39	21.51	23.86	20.52	20.25
CPO - Oil Extraction Rate (%)	20.15	20.50	21.09	20.49	20.21	20.05	20.19	20.39
Ave. CPO Price (RM/MT)	2,760	2,050	2,617	3,096	2,661	2,200	2,277	2,300

Source: Company, M&A Securities

Table 2: Plantation Sector Operational Metrics Projection

	2014	2015F
CPO Price (RM/MT)	2,408	2,300
CPO Production (Million Tonnes)	19.7	20.5
Palm Oil Export (Million Tonnes)	17.3	18.5
Ending Stocks (Million Tonnes)	2.0	2.05

Source: M&A Securities

Higher production costs. To recap, THP's had recorded a +13% increase in CPO production cost, +18% jump in estate production cost and +11% elevation in mill manufacturing cost to RM1,298/MT, RM217/MT and RM63/MT respectively in FY14 against FY13 pressurised by higher production and costs associated with younger estates and younger age profile and hence, leading to a lower FFB yield of 20.52MT/ha (FY13: 23.86MT/ha). Management has guided that THP is expecting a 5% to 7% increase in estates cost for financial year 2015 that associated with younger estates further driven by 9,300 ha of new maturity and 7,500 ha of 2nd year maturity. In-line with the management guidance, we are of the view that with the 9,300 ha of area coming into

maturity in 2015, 3,000 ha in the course of planting and 9,000 ha of greenfield are expected to be planted in the next couple of years and hence, higher cost of production and softer yields would prolong in the next two or three years. As such bottom-line would be lower or satisfactorily given the reasons mentioned above.

Outlook. We are still positive on the long-term outlook of the sector given that palm oil and palm kernel oil are the world largest consumable edible oil. However, due to delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with tree stress effect, we expect FFB production growth and yield to be temporary suppressed this year before picking up again in FY16 as more areas coming into its fundamental growth maturity. From the data we gathered, we understand that in 1Q15, THP's FFB production has dropped 29% q-o-q and 20% y-o-y to 137,988 MT indicating that the trend is following the last quarter trend (4Q14: -17%; 3Q14: +26%) as monsoon flood early of this year has curbed harvesting and disrupting logistic movement that run concurrently with seasonally low cycles. However, THP's FFB production has start to pick-up in the month of March 2015 where the production has growth by 23% m-o-m to 51,709 MT as the sector moved into growing up cycle production month that normally experience in the month of April till October. We assume the same trend would same experience by other plantation players too.

Change to forecast. We have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast of RM26 million and RM60 million on THP respectively anchored mainly by: 1) CPO price assumptions of RM2,300/MT for 2015 and RM2,400/MT for 2016; 2) FFB yield performance; 3) OER capability; and 4) higher cost of production as younger estates require more upkeep and maintenance. Given that THP is a pure up-stream player, we believe that higher FFB production and better CPO extraction rate may moderate the impact of lower palm oil product prices and hence, cushioning THP's earnings. As such, earnings will correlate with the CPO price movement. With that, in every RM100/tonne change in CPO price would result in circa 9% - 10% change in THP's 2015 projected earnings. Note that THP will tentatively issue their 1Q15 financial result on the 27th or 28th May 2015.

Valuation & recommendation. We foresee THP current hick-up of higher production cost may pressurise their borrowing (gearing FY14: 0.46x; FY15F: 0.58x) as young mature areas would incur full fixed maintenance and overhead costs that comes with lower yield and thus, affecting the performance of THP coupled with high depreciation and amortisation charges that are expected to remain high going forward in tandem with the larger asset base. However, we are still positive on THP's future outlook given its long-term prospect anchored by its 1) enlarged plantation land bank; 2) younger age profile of 9 years which provides visible revenue and earnings growth catalyst; and 3) high percentage of immature and young matured land over planted area of 87%. We have rolled forward our valuation to FY16 based on 20x PER over CY16 EPS of 7.4sen and thus, deriving a new target price of RM1.47 compared to RM1.45 previously. The stock is still a **HOLD**.

Table 3: Peers Comparison - Stocks under Coverage

Company	Mkt. Cap (RM m)	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE	Div. Yield	TP	Call
			FY1	FY2	FY1	FY2	FY1	FY2				
IOI CORP	26,412.9	4.16	15.6	22.9	26.7	18.2	3.2	3.0	24.7	0.6	4.04	HOLD
KLK	23,365.3	21.94	99.5	110.9	22.1	19.8	2.7	2.6	13.5	2.7	21.50	HOLD
GENPLANTS	7,621.0	9.85	52.3	58.9	18.8	16.7	1.9	1.7	9.7	1.4	10.63	HOLD
IJM PLANTS	2,949.9	3.35	12.5	17.1	26.8	19.6	2.0	1.9	6.4	1.5	3.20	HOLD
TH PLANTS	1,370.0	1.55	7.3	9.5	21.2	16.3	1.1	1.1	5.6	1.7	1.52	HOLD
TSH RESOURCES	3,064.0	2.26	10.1	11.9	22.4	19.0	2.4	2.2	11.1	1.1	2.38	HOLD
Average					23.0	18.3	2.2	2.1	11.8	1.5		

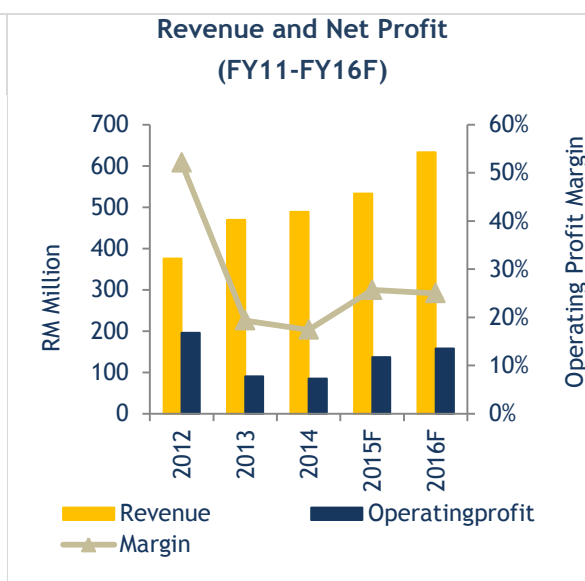
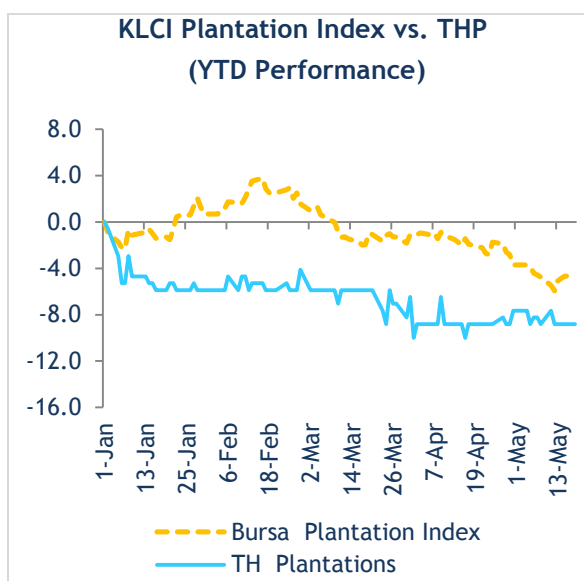
Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

Table 4: Financial Summary

YE: December (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	376	470	489	533	650
Operating profit	190	91	69	80	130
PBT	180	71	58	34	88
Net profit	151	63	48	26	65
EPS (sen)	17.9	7.2	5.5	2.9	7.4
Pre-tax margin	48%	15%	12%	6%	14%
Net profit margin	40%	13%	10%	5%	10%
PER (x)	8.7	21.6	28.3	53.7	21.1
P/BV (x)	1.2	1.1	1.1	1.1	1.1
ROE	17.3%	5.5%	4.2%	2.2%	5.1%
ROA	8.0%	2.2%	1.4%	0.7%	1.9%
Dividend (RM)	0.03	0.04	0.02	0.01	0.02
Dividend Yield	1.9	2.3	1.3	0.3	1.3

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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