PP14767/09/2012(030761)

Thursday, May 28, 2015

TH Plantation Bhd (THP)

"Leap, and the Net will Appear"

Market Access

Results Review

- **Actual vs. expectations.** TH Plantation Berhad (THP) 1Q15 net profit of RM6.6 million (-32% q-o-q and +15% y-o-y) came in within ours estimates. PATAMI shed by 37% q-o-q but advanced 15% y-o-y to RM6.6 million at the back of 17% q-o-q and 34% y-o-y decrease in revenue to RM82.3 million as FFB and CPO production declined by 29% q-o-q (-20% y-o-y) and 22% q-o-q (22% y-o-y) respectively. This was also aided by lower average CPO selling price realised that declined by 14% compared to 1Q14 (+6% q-o-q).

- **Dividend.** No dividend was declared during the quarter.

- **Margins squeezed.** In-line with revenue deterioration to RM82.3 million in 1Q15 (1Q14: RM124.2 million; 4Q14: RM98.8 million) and 14% decline in CPO average selling price, the group registered a lower EBIT and net profit of RM9.0 million and RM6.6 million respectively that dipped by 35% and 37% q-o-q respectively. This was also added by the decline in THP's FFB production and CPO production to 137,988 MT (1Q14: 172,002 MT; 4Q14: 194,,434 MT) and 31,052 MT (1Q14: 39,618 MT; 4Q14: 39,562 MT) respectively in 1Q15 as yield tanked by 29% y-o-y and 37% q-o-q due to, inter alia 1) biological tree stress due to drought phenomena which affected the region in 1Q14; 2) floods in December and early January 2015 that enveloped the eastern region that disrupted harvesting activities; and 3) younger estates (1^{st} year harvesting of 8,205 hectares at 33% of mature area). This is no thanks to lower average CPO price realised of RM2,162 per MT (-14% y-o-y) and a drop in OER from 19.93% in 1Q14 to 19.28% in 1Q15. Hence, EBIT margin was squeezed to 11% from 15% from the year before. However, THP's FFB production has started to pick-up in the month of March 2015 where the production has increased by 23% m-o-m to 51,709 MT as the sector

HOLD (TP: RM1.47)

Current Price (RM)	RM1.54
New Target Price (RM)	**RM1.47**
Previous Target Price (RM)	RM1.47
Previous Recommend.	HOLD
Upside To Target Price	**-4.4%**
Dividend Yield (FY16)	**1.3%**

Stock Code

Bloomberg	THP MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		883.9
Market Cap (RM mn)		1,361.1
YTD Chg. In Share Price		-9.41%
Beta (x)		0.73
52-week Hi/Lo (RM)	RM2.14	RM1.40
3M Average Volume ('000shrs)		176.2
Estimated Free Float		20.3%

Major Shareholders

Lembaga Tabung Haji	72.5%
EPF	7.3%
Dimensional Fund Adv.	0.4%

Noorhayati Maamor
noorhayati_m@mna.com.my
03-22821820 ext. 277

moved into growing up cycle production month that normally experience in the month of April till October (1Q15: CPO price realised increased by 6% q-o-q). We assume the same trend by other plantation players.

- **Higher production costs.** According to THP's management, THP's had recorded a marginal +1% increase in CPO production cost, +5% jump in estate production cost and +0.5% in mill manufacturing cost to RM1,506/MT, RM255/MT and RM64/MT respectively in 1Q15 against 1Q14 pressurised by higher production and costs associated with younger estates and younger age profile and hence, leading to a lower FFB yield of 3.17MT/ha (1Q14: 4.48MT/ha). Of note, young mature areas would incur full fixed maintenance and overhead costs that comes with lower yield and thus, affecting the performance of THP. To recap, as we mentioned in our previous report, management has guided that THP will be expecting a 5% to 7% increase in estates cost for financial year 2015 that associated with younger estates further driven by 8,205 ha and 6,600 ha of first year harvesting and second year harvesting respectively. 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.

- **Sector Outlook.** We maintain our **NEUTRAL** call on the plantation sector due to the absence of new fresh catalyst with prolong supply-demand miss-match coming on stream as production may build-up amid seasonal production growth cycle. In addition, demand is expected to be moderate in 2015 as import from major trading partner is likely to be slower. We are of the view that the only re-rating catalyst for CPO price in 2015 will be the widening premium of soybean oil against the palm oil and weather abnormalities, if any. We assume CPO prices to hover around RM2,100/MT – RM2,500/MT throughout the year and hence, averaging at RM2,300/MT in 2015.

- **Maintain forecast.** Despite the initial pain of softer yield and higher-than-average production costs relating to young estates, finance and amortisation costs as well as the absence of new fresh catalyst on CPO prices, we maintain our FY15 and FY16 earnings forecast of RM26 million and RM65 million respectively. We anticipate THP's earnings to bounce back in 2016 given its enlarged area of young mature age between 4-9 years old of 59% of planted areas that are going into its fundamental growth maturity of much higher yield with improved cost efficiencies.

- **Valuation & recommendation.** Maintain **HOLD** on TH Plant with unchanged target price of RM1.47 based on 20x PER over CY16 EPS of 7.4sen. We are still banking on THP's positive future earnings prospects convinced by its long-term potential 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 to young matured land over planted area of 87%.

Noorhayati Maamor
noorhayati_m@mna.com.my
03-22821820 ext. 277

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Table 1: Results Review - Quarterly figures

FYE 31 Dec (RM' M)	1Q14	4Q14	1Q15	q-o-q	y-o-y
Revenue	124.2	98.8	82.3	-17%	-34%
EBIT	18.7	13.8	9.0	-35%	-52%
Pretax profit	12.0	6.3	0.3	-95%	-97%
Taxation	-3.6	2.0	4.8	142%	-232%
Minority interest	-2.7	2.2	1.5	-32%	-155%
Net Profit	5.7	10.4	6.6	-37%	15%
EPS (sen)	0.65	1.18	0.74	-37%	15%
Net gearing (x)	0.55	0.46	0.84	83%	51%
EBIT margin (%)	15.1	14.0	11.0		
PBT margin (%)	9.7	6.3	0.4		
Net margin (%)	4.6	10.6	8.0		

Source: Bursa Malaysia, M&A Securities

Table 2: 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)	8.6	21.5	28.2	53.3	20.9
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	2.4	1.3	0.6	1.3

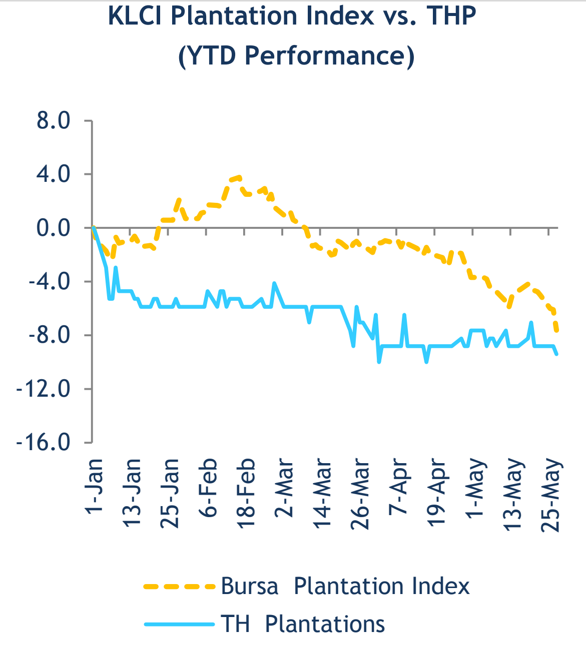
Source: Bursa Malaysia, M&A Securities

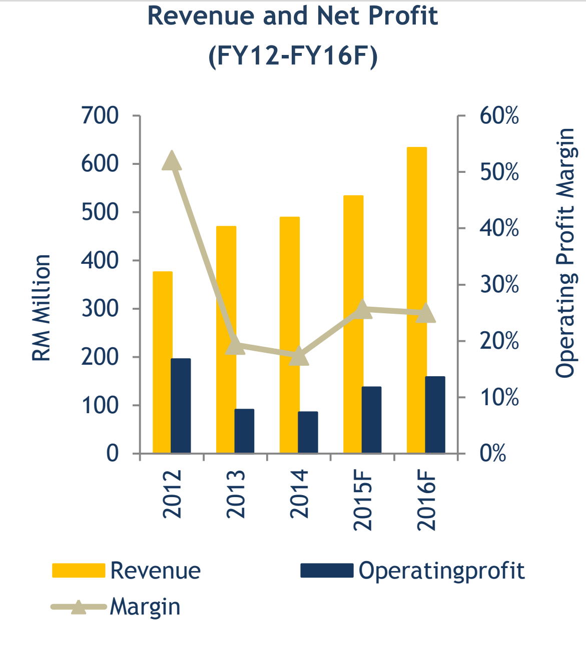
Table 3: Plantation Statistics

YE: December (tonne)	1Q14	4Q14	1Q15	q-o-q	y-o-y
FFB Production (MT)	172,002	194,434	137,988	-29%	-20%
FFB Yield (MT/ha)	4.48	5.06	3.17	-37%	-29%
CPO Production (MT)	39,618	39,562	31,052	-22%	-22%
CPO Sales (MT)	39,096	40,544	29,914	-26%	-23%
Oil Extraction Rate (%)	19.93	19.58	19.28	-0.30	-0.65
Ave. selling price - CPO [RM MT]	2,507	2,041	2,162	6%	-14%

Source: Bursa Malaysia, M&A Securities

Noorhayati Maamor
noorhayati_m@mna.com.my
03-22821820 ext. 277





Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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Noorhayati Maamor
noorhayati_m@mna.com.my
03-22821820 ext. 277

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M & A Securities Sdn Bhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45 & 47,43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820   Fax: +603 - 2283 1893
Website: www.mnaonline.com.my

Noorhayati Maamor
noorhayati_m@mna.com.my
03-22821820 ext. 277