

PP14767/09/2012(030761)

Tuesday, September 01, 2015

## TH Plantation Bhd (THP)

## “Weigh by Lower Palm Product Prices”

## Results Review

- Actual vs. expectations.** TH Plantation Berhad (THP) 1H15 net profit of RM11.7 million came in within our estimates, making up 45% of our full year net profit forecast. 2Q15 net profit shed by 22% q-o-q and 74% y-o-y to RM5.1 million at the back of 34% q-o-q increase and 17% y-o-y decrease in revenue to RM110.2 million. Cumulatively, THP's net profit and revenue in 1H15 declined by 55% and 25% respectively to RM11.7 million and RM192.5 million against 1H14 as FFB and CPO production declined by 9% and 7% respectively. This was also weighed by lower average CPO selling price realised that declined by 16% y-o-y to RM2,121/MT against RM2,515/MT in 1H14.
- Dividend.** No dividend was declared during the quarter.
- Margins squeezed.** In-line with revenue deterioration to RM192.5 million in 1H15 (1H14: RM256.8 million) and 16% decline in CPO average selling price to RM2,121/MT (1H14: RM2,515/MT), the group registered a lower EBIT and net profit of RM24.1 million and RM11.7 million respectively that dipped by 48% and 55% y-o-y respectively. This was also aided by the decline in THP's FFB production and CPO production to 327,598 MT (1H14: 358,804 MT) and 72,656 MT (1H14: 77,739 MT) respectively in 1H15 as yield tanked by 19% y-o-y 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<sup>st</sup> year harvesting of 8,205 hectares at 33% of mature area). Hence, EBIT margin was squeezed to 13% from 18% from the year before. Of note, we notice the same trend by other plantation players. We are of the view that FFB production growth and yield to be temporary suppressed this year before

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## HOLD (TP: RM1.21)

Current Price (RM)	RM1.20
New Target Price (RM)	RM1.21
Previous Target Price (RM)	RM1.47
Previous Recommend.	HOLD
Upside To Target Price	0.5%
Dividend Yield (FY16)	1.3%

## Stock Code

Bloomberg	THP MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	883.9	
Market Cap (RM mn)	1,060.6	
YTD Chg. In Share Price	-29.4%	
Beta (x)	0.76	
52-week Hi/Lo (RM)	RM1.89	RM1.11
3M Average Volume ('000shrs)	78.4	
Estimated Free Float	19.9%	

## Major Shareholders

Lembaga Tabung Haji	72.8%
EPF	7.3%
Dimensional Fund Adv.	0.5%

picking up again in FY16 as more areas coming into its fundamental growth maturity as their palm trees enter into the young and prime age. THP's FFB production has started to pick-up in the 2Q15 where production jumped by 37% q-o-q to 189,610 MT as the sector moved into growing up cycle production month that normally experience in the month of April till October.

- **Well contain production costs.** THP's had recorded 4% decrease in CPO production cost (excl. depreciation), a 4% slip in estate production cost and 3% tank in mill manufacturing cost to RM1,374/MT, RM223/MT and RM62/MT respectively in 1H15 against 1H14 as the Group implemented comprehensive cost control measures throughout operations to mitigate the impact of higher cost associated with younger estates and younger age profile and hence, leading to a lower FFB yield of 7.52MT/ha (1H14: 9.34MT/ha). To recap, we mentioned in our previous report that the 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 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 plantation sector at this moment and may review it in due course if the landscapes change to be more unfavourable. At this junction, we stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015. As we mentioned in recent report, the weak sentiment on plantation sector is not really or totally a fundamental issue but more related to macro issues weighed by uncertainty of the world economy. Until then, global commodities prices movement i.e. palm oil may suffer volatility, pushing importing countries like China and India to wait at the side-lines until asset prices stabilise. In the past 10 years, the CPO price (MPOB) has been averaging at RM2,441/MT and we expect a probability of price to go the bottom of RM1,805/MT (based on 1-SD below its 10-yr average price) if demand continued to be slow dampen further by burgeoning global soybean supplies with slumping global crude oil prices.
- **Changed forecast.** We have done some house-keeping exercise and came-out with new FY15 and FY16 earnings forecast of RM23 million (-11%) and RM53 million (-18%) respectively reflecting 1) our cautious view on CPO price assumption and its recovery period; 2) new FFB yield and OER forecast; 3) higher cost of production as younger estates require more upkeep and maintenance; 4) sluggish demand weighed by uncertainty of the world economy; and 5) the expected volatility of Ringgit exchange rate due to the strengthening of US Dollar. However, we anticipate that THP's earnings may 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. 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 83%.

## Result Review -TH Plantations Berhad

- **Valuation & recommendation.** In view of the earnings revision, our target price is now reduced to RM1.21 (from RM1.47) premised on 20x PER over CY16 EPS of 6.03sen. Maintain **HOLD**.

Table 1: Results Review - Quarterly figures

FYE 31 Dec (RM'm)	2Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
Revenue	132.6	82.3	110.2	34%	-17%	256.8	192.5	-25%
EBIT	27.8	9.0	15.0	67%	-46%	46.6	24.1	-48%
Pretax profit	21.4	0.3	9.2	2788%	-57%	33.6	9.6	-72%
Taxation	5.1	4.8	-2.7	-157%	-154%	1.4	2.1	45%
Minority interest	-6.4	1.5	-1.4	-193%	-78%	-9.1	0.1	-101%
Net Profit	20.2	6.6	5.1	-22%	-74%	25.9	11.7	-55%
EPS (sen)	2.28	0.74	0.58	-21%	-74%	2.94	1.33	-55%
Net gearing (x)	0.60	0.63	0.91	45%	53%	0.60	0.91	52%
EBIT margin (%)	21.0	10.9	13.6			18.1	12.5	-56
PBT margin (%)	16.2	0.4	8.4			13.1	5.0	-62
Net margin (%)	15.2	8.0	4.7			10.1	6.1	-40

Source: Bursa Malaysia, M&amp;A Securities

Table 2: Financial Summary

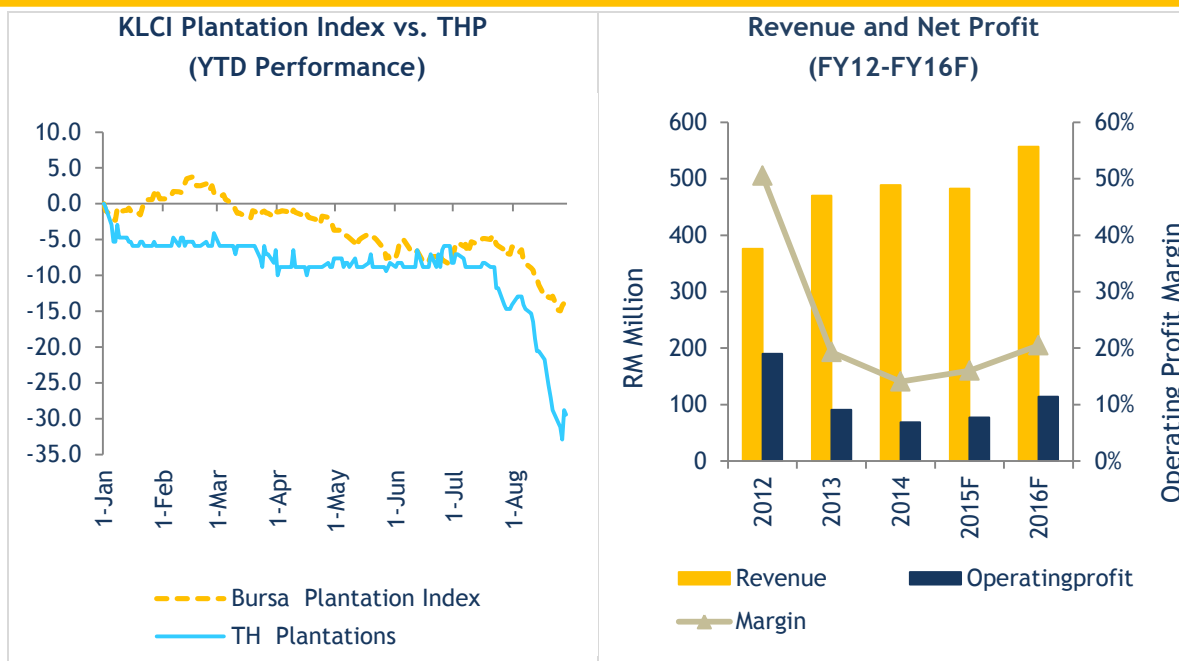
YE: December (RM'MN)	FY12	FY13	FY14	FY15F	FY16F
Revenue	376	470	489	483	557
Operating profit	190	91	69	77	114
PBT	180	71	58	31	72
Net profit	151	63	48	23	53
EPS (sen)	17.9	7.2	5.5	2.7	6.0
Pre-tax margin	48%	15%	12%	7%	13%
Net profit margin	40%	13%	10%	5%	10%
PER (x)	6.7	16.7	21.9	45.2	19.9
P/BV (x)	0.9	0.9	0.9	0.9	0.8
ROE	17.3%	5.5%	4.2%	2.0%	4.2%
ROA	8.0%	2.2%	1.4%	0.7%	1.6%
Dividend (RM)	0.03	0.04	0.02	0.01	0.02
Dividend Yield	2.5	3.0	1.7	0.6	1.3

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Plantation Statistics

YE: December (tonne)	4Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
FFB Production (MT)	186,802	137,988	189,610	37%	2%	358,804	327,598	-9%
FFB Yield (MT/ha)	4.86	3.17	4.35	37%	-10%	9.34	7.52	-19%
CPO Production (MT)	38,121	31,052	41,604	34%	9%	77,739	72,656	-7%
CPO Sales (MT)	37,908	29,914	41,718	39%	10%	77,004	71,632	-7%
Oil Extraction Rate (%)	20.10	19.28	19.59	0.31	-0.51	20.01	19.46	-0.55
Ave. selling price - CPO [RM MT]	2,524	2,162	2,092	-3%	-17%	2,515	2,121	-16%
Ave. selling price - PK [RM MT]	2,014	1,772	1,540	-13%	-24%	1,963	1,644	-16%
Ave. selling price - FFB [RM MT]	482	398	378	-5%	-22%	482	385	-20%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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