

PP14767/09/2012(030761)

Thursday, May 07, 2015

TSH Resources Berhad (TSH)

“Promising Future”

We recently met up with TSH Resources Berhad (TSH) management and returned with upbeat and optimistic view on TSH's future earnings, banking on its operational efficiencies and promising long-term earnings growth potential. These bright spots would be supported by 1) double-digit growth in FFB production (FY14: 18%; FY13: 28%; 5-yr CAGR: 23%); 2) young age profile of 7 years which provides visible revenue and earnings growth catalyst; 3) enlarged unplanted land bank size of 67,853 hectares as at Dec 2014 that will sustain the company's growth and expansion for the next 10 to 14 years; and 3) superior FFB yield and high percentage of immature to young matured land over planted area of 69%.

Key takeaways note:

- **Up-stream player.** TSH's business model of becoming pure upstream player may bode well given that the company is focusing of expanding its landbanks in Indonesia and Sabah. The most recent acquisitions were in Sabah and Kalimantan that have further increased their plantation landbanks by 5,000 ha and 9,000 ha respectively. We are of the view that in light of unexciting investors sentiment coupled with almost negligible new catalyst that may brighten the sector to uplift the CPO price in the near-term, we foresee that the time is right for new acquisition when arises the opportunity. Of note, TSH's total landbank as at 31 Dec 2014 stood at 109,154 hectares (excl. associate) and expected to double in size in next 3 to 5 years as per management guidance.
- **Banking on younger estates.** TSH has the highest immature to young mature trees area among its peers (stock under coverage) or 69% of its planted area with mature area (8-15yrs) amounting to 14% and the remaining old mature area (16-6yrs) of 16%, are seen as a major catalyst for the production growth moving

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HOLD (TP: RM2.38)

Current Price (RM)	RM2.26
New Target Price (RM)	RM2.38
Previous Target Price (RM)	RM2.08
Previous Recommend.	HOLD
Upside To Target Price	5.2%
Dividend Yield (FY15F)	1.1%

Stock Code

Bloomberg	TSH MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	1,355.7	
Market Cap (RM mn)	3,064.0	
YTD Chg In Share Price	-2.2%	
Beta (x)	0.94	
52-week Hi/Lo (RM)	RM2.67	RM2.05
3M Average Volume ('000 shares)	565.5	
Estimated Free Float	33.5%	

Major Shareholders

Aik Pen Tan	12.05%
Tunas Lestari S/B	6.31%
Embun Yakim S/B	5.58%

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

FYE: DEC	2008	2009	2010	2011	2012	2013	2014	2015F
Ave. Matured Area Harvested (Ha)	8,335	8,781	12,361	14,779	17,244	21,411	23,859	28,744
FFB Production ('000 tone)	198.7	230.1	279.0	399.6	424.7	543.0	640.4	736.4
Yield per matured Ha-(tone)	23.83	26.21	22.57	27.04	24.63	25.36	26.84	25.62
CPO - Oil Extraction Rate (%)	20.49	20.68	20.55	20.96	21.00	20.96	21.53	21.59
Ave. CPO Price (RM/MT)					2,640	2,251	2,335	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

forward. According to the management, TSH has been able to expand its FFB production at a 5-year CAGR of 23% (2009-2014) mainly driven by FFB production growth in Indonesia with Sabah showing relatively constant performance. Encouragingly, we project TSH's FFB production to grow at a 3-year CAGR of 20% for a period of FY13-FY15. With that, we foresee growth momentum will continue for TSH stemming from its development project in Indonesia. The company has younger age profile in the Indonesian estates (5 years) and 7 years on average for all other estates (Malaysia and Indonesia) which will provide visible revenue and earnings growth catalyst moving forward. Of note, lands in Indonesia are mostly the first generation cultivation land that are more fertile for palm oil planting and hence, will end up with higher FFB yield and OER. For 2014, Indonesia has recorded a 25.2 MT/ha of FFB yield compared to Sabah of 29.7 MT/ha as the latter estates profile is younger.

- **New planting momentum to continue.** We believe TSH high percentage of plantation reserves land totalling 67,853 ha (60% of total land bank excluding associate) can sustain yearly planting for at least 10 to 14 years assuming 3,000-4,000 ha new and replanting program per year and, hence providing sustainable growth moving forward. Management guided that so far they had planted about 521 ha of new planting in 1Q15 (FY14: 2,800 ha). On top of that, TSH can also be categorised as an efficient plantation company given its CPO production costs, on average over the past 5 years, of RM884/MT (Sabah) and RM1,225/MT (Indonesia), are efficient if compared to industry of about RM1,500/MT - RM2,000/MT. Management expects cost of production to be higher but manageable judging by its younger estates as well as continuous new planting program in Indonesia. We also foresee that the USD110.3 million (as at 31 Dec 2014) borrowings used for development in Indonesia plantation could result in unrealised foreign exchange losses if dollar

strengthen further; which we believe a normal cause of doing business for plantation company that venturing in plantation development.

- **Outlook.** We are still positive on the long-term outlook of the sector in-line with TSH's management 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. We understand that in 1Q15, TSH's FFB production has dropped 9% q-o-q and y-o-y to 143,258 MT which we assume to be in the same trend as other plantation players.
- **Change in forecast.** We have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast of RM136 million and RM162 million respectively underpinned mainly by: 1) CPO price assumptions of RM2,300/MT for 2015 and RM2,400/MT for 2016; 2) steady FFB yield performance; and 3) resilient OER capability. We do believe that higher FFB production and better CPO extraction rate may moderate the impact of lower palm oil product prices and hence, cushioning TSH's earnings. As an upstream plantation player, earnings will correlate with the CPO price movement. With that, in every RM100/tonne change in CPO price would result in circa 4-5% change in TSH's 2015 projected earnings. Note that TSH will tentatively issue their 1Q15 financial result on the 20th May 2015.
- **Valuation & recommendation.** We have rolled forward our valuation to FY16 based on 20x PER over CY16 EPS of 11.9sen and thus, deriving a new target price of RM2.38 compared to RM2.08 previously. The stock is 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	27,240.9	4.29	15.6	22.9	27.5	18.7	3.3	3.1	24.7	0.6	4.04	HOLD
KLK	23,663.5	22.22	99.5	110.9	22.3	20.0	2.7	2.6	13.5	2.6	21.50	HOLD
GENPLANTS	7,665.2	9.92	52.3	58.9	19.0	16.8	1.9	1.7	9.7	1.4	10.63	HOLD
IJM PLANTS	3,002.8	3.41	12.5	17.1	27.3	19.9	2.0	1.9	6.4	1.4	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	1.45	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					23.3	18.5	2.2	2.1	11.8	1.5		

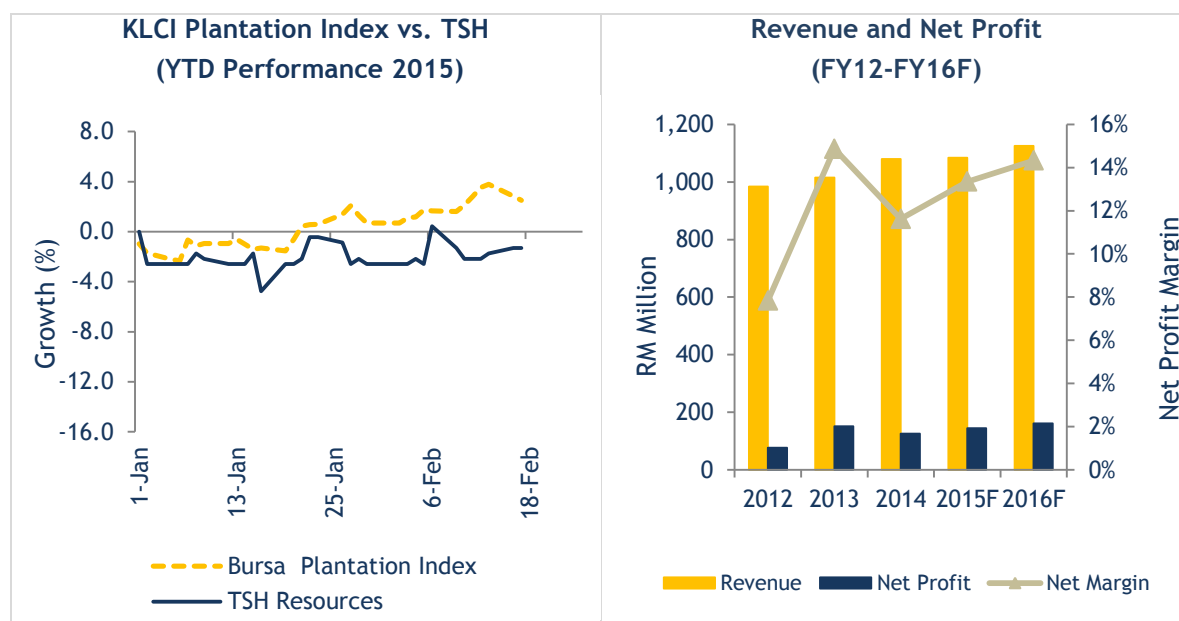
Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

Table 4: Financial Summary

YE: Dec (RM million)	2012	2013	2014	2015F	2016F
Revenue	984	1,016	1,080	1,089	1,136
Operating profit	105	223	183	202	227
EBIT	131	200	185	213	234
PBT	100	164	171	182	202
Net profit	77	151	125	136	162
EPS (sen)	6.2	11.8	9.3	10.1	11.9
Pre-tax margin	10%	16%	16%	17%	18%
Net profit margin	8%	15%	12%	13%	14%
PER (x)	36.3	19.2	24.2	22.5	19.0
P/BV (x)	3.2	2.9	2.5	2.4	2.2
ROE	8.9%	15.5%	11.1%	10.9%	11.9%
ROA	3.6%	6.5%	5.1%	5.1%	5.8%
Dividend (RM)	0.02	0.02	0.03	0.03	0.03
Dividend Yield	0.7	1.0	1.1	1.1	1.3
Dividend Payout	27%	21%	27%	25%	25%

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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