

PP14767/09/2012(030761)

Thursday, May 21, 2015

TSH Resources Berhad

“A Tough Quarter - More Room to Grow”

Results Review

- Actual vs. expectations.** TSH Resources Berhad (TSH) 1Q15 core operating profit of RM31.5 million (1Q14: RM55.0 million) excluding foreign exchange losses of RM23.0 million in 1Q15, was slightly in-line with ours estimates, making-up 23% of our full year forecast. The group reported EBIT of RM32.4 million that was 39% lower than 1Q14 of RM53.6 million (4Q14: RM33.8 million) mainly hurt by lower contribution from both palm product and wood product manufacturing segments. TSH 1Q15 revenue touched RM206.0 million or 28% lower from 1Q14 (-16% q-o-q), mainly dragged by lower CPO price realised and lower sale volume from other products segments. Average CPO selling price achieved was 13% lower or at RM2,201/MT compared to RM2,543/MT in 1Q14 (4Q14: RM2,165/MT), in line with the deceleration in CPO price recorded by the broader market which we assume to be in line with other plantation players performance.
- Dividend.** No dividend has been proposed for this quarter.
- Margin squeezed y-o-y.** In-line with the decline in revenue of 28% in 1Q15 of RM206 million (1Q14: RM287 million), the Group registered a lower profit before tax and net profit of RM8.5 million (-88% y-o-y) and RM6.4 million (-88% y-o-y) respectively. However, excluding the forex exchange loss of RM23.0 million in 1Q15 and exchange gain of RM17.9 million in 1Q14, core operating profit was actually RM31.5 million compared to RM55.0 million in the corresponding quarter a year ago. EBIT margin was squeezed to 15.7% from 18.7% and 4.1% from 25.4% (PBT) partly due to lower average CPO price realised in 1Q15 of RM2,201/MT compared in 1Q14 of RM2,543/MT (4Q14: RM2,165/MT; 3Q14: RM2,170/MT; 2Q14: RM2,463/MT), weighed by softness in CPO price.

HOLD (TP: RM2.38)

Current Price (RM)	RM2.25
New Target Price (RM)	RM2.38
Previous Target Price (RM)	RM2.38
Previous Recommend.	HOLD
Upside To Target Price	5.9%
Dividend Yield (FY15)	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)	3,050.4	
YTD Chg In Share Price	-2.6%	
Beta (x)	0.94	
52-week Hi/Lo (RM)	RM2.67	RM2.05
3M Average Volume ('000 shares)	561.2	
Estimated Free Float	33.5%	

Major Shareholders

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

- Palm product division.** In 1Q15, palm product division posted revenue and segment profit of RM180.0 million and RM35.8 million respectively due to the decline in average CPO price realised as well as lower FFB and CPO production during the period. FFB and CPO production in 1Q15 slipped by 8.6% and 27.9% y-o-y to 143,258 MT (4Q14: 157,321 MT; 3Q14: 163,646 MT; 2Q14: 162,661 MT; 1Q14: 156,742 MT) and 61,928 MT (4Q14: 81,687 MT; 3Q14: 87,826 MT; 2Q14: 89,854 MT; 1Q14: 85,927 MT) respectively, mirroring last quarter trend, weighed by delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with the dry weather during early 2015 in East Malaysia that run concurrently with seasonally low cycle. However, we anticipate that TSH's FFB production may start to pick-up in the month of April 2015 as the sector moves into up cycle production month that normally experience in the month of April till October. This is to be added with younger plantation areas that come into maturity especially in Indonesia estates. The drop in CPO production was in line with the slower in production capacity of its mills where FFB processed shrunk by 27% to 294,011 tonnes from 402,549 tonnes in 1Q14 (4Q14: 383,223 tonnes) coupled with depressed oil extraction rate of 21.06% in 1Q15 from 21.35% in 1Q14. We assume other plantation players would face similar trend.
- Wood product manufacturing, bio-integration and other.** In-line with a lower revenue of RM10.2 million, wood product manufacturing division posted operational loss of RM0.1 million in 1Q15 compared to RM0.1 million profits in 1Q14, impacted by lower export due to weaker demand from export market as well as full recognition of deferred investment capital grant in respect of the carbon credit in 2014. As for bio-integration and other segments, the lower sale volume of energy and cocoa revenue resultant in lower revenue and operating profit of RM15.9 million and RM6.0 million respectively in 1Q15 as against RM22.7 million and RM11 million recorded in 1Q14.
- Sector outlook.** We are maintaining our **NEUTRAL** call on the 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.
- Maintain forecast.** We maintain our FY15 and FY16 earnings forecast on TSH of RM136 million and RM162 million respectively after imputing our view on uncertain of CPO price given no strong catalyst can support higher CPO price this year. We assume CPO prices may be hover around RM2,100/MT - RM2,500/MT throughout the year and averaging at RM2,300/MT in 2015. The only concern is the stronger of USD currency that may impact the US Dollar denominated borrowings of TSH on the non-cash flow forex translation. However, we are positive on TSH's future outlook given its long-term prospect anchored by its 1) potential double-digit growth in FFB production (FY14: 18%; FY13: 28%; 5-yrs 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 4) superior FFB yield and high percentage of immature to young matured land over planted area of 69%.

- Valuation & recommendation. We maintain our **HOLD** call on TSH with unchanged target price of RM2.38 based on 20x PER over CY16 EPS of 11.9sen.

Table 1: 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	26,395.2	4.16	15.6	22.9	26.7	18.2	3.2	3.0	7.8	0.6	4.04	HOLD
KLK	23,855.2	22.40	99.5	110.9	22.5	20.2	2.8	2.6	11.3	2.7	21.50	HOLD
GENPLANTS	7,737.5	10.00	52.3	58.9	19.1	17.0	1.9	1.7	10.3	1.4	10.63	HOLD
IJM PLANTS	3,064.4	3.48	12.5	17.1	27.8	20.4	2.0	1.9	9.2	1.4	3.20	HOLD
TH PLANTS	1,370.0	1.55	2.9	7.4	7.4	20.9	1.1	1.1	4.0	1.3	1.47	HOLD
TSH RESOURCES	3,050.4	2.25	10.1	11.9	22.3	18.9	2.3	2.1	11.1	1.1	2.38	HOLD
Average					21.0	19.3	2.2	2.1	8.9	1.4		

Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

Table 2: Results Review

FYE 31 Dec (RM'M)	1Q14	4Q14	1Q15	q-o-q	y-o-y
Revenue	287.1	244.0	206.0	-16%	-28%
EBIT	53.6	33.8	32.4	-4%	-39%
Pretax profit	72.9	20.7	8.5	-59%	-88%
Taxation	-14.9	-4.9	-1.7	-65%	-89%
Minority interest	-5.8	-2.2	-0.4	-82%	-93%
Net Profit	52.2	13.7	6.4	-53%	-88%
EPS (sen)	3.85	1.01	0.47	-53%	-88%
Net gearing (x)	0.68	0.82	0.90	9%	32%
EBIT margin (%)	18.7	13.8	15.7		
PBT margin (%)	25.4	8.5	4.1		
Net margin (%)	18.2	5.6	3.1		

Source: Bursa Malaysia, Company, M&A Securities

Table 3: Financial Summary

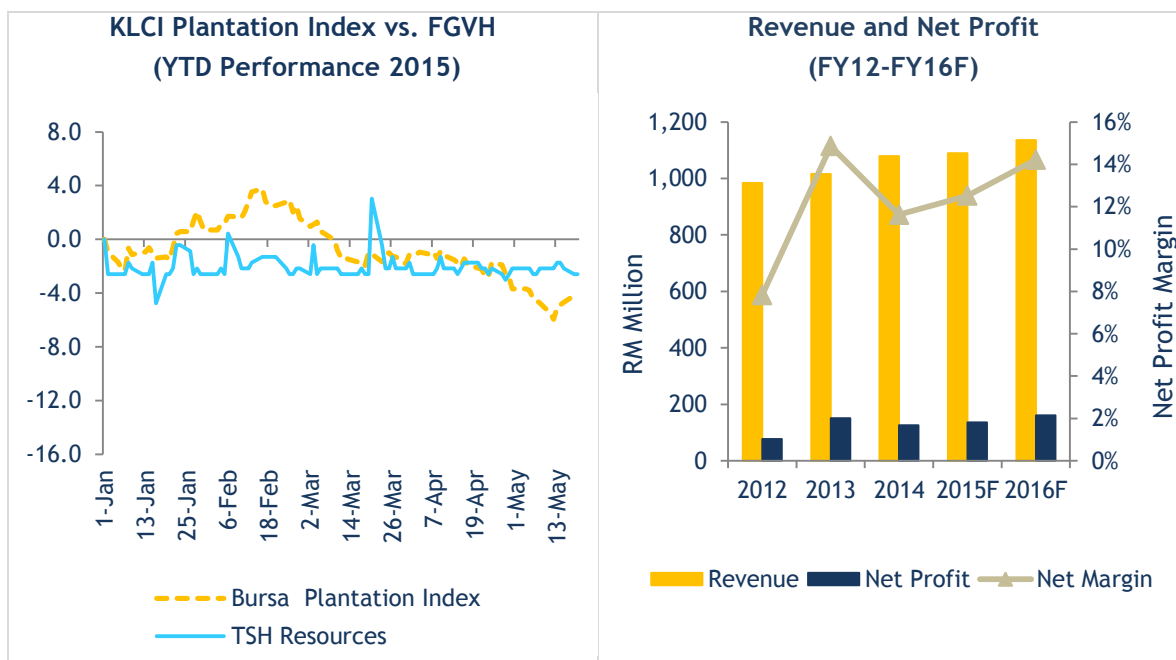
YE: Dec (RM million)	2012	2013	2014	2015F	2016F
Revenue	984	1,016	1,080	1,089	1,136
Operating profit	105	223	183	202	227
EBIT	131	200	185	213	234
PBT	100	164	171	182	202
Net profit	77	151	125	136	162
EPS (sen)	6.2	11.8	9.3	10.1	11.9
Pre-tax margin	10%	16%	16%	17%	18%
Net profit margin	8%	15%	12%	13%	14%
PER (x)	36.1	19.1	24.1	22.4	18.9
P/BV (x)	3.2	2.9	2.5	2.3	2.1
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

Table 4: Plantation Statistics

YE: December (tonne)	1Q14	4Q14	1Q15	q-o-q	y-o-y
FFB Production ('000 MT)	156.7	157.3	143.3	-8.9%	-8.6%
CPO Production ('000 MT)	85.9	81.7	61.9	-24.2%	-27.9%
Oil Extraction Rate (%)	21.35	21.32	21.06	-0.25	-0.28
Average selling price - CPO	2,543	2,165	2,201	1.7%	-13%

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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