PP14767/09/2012(030761)

Wednesday, August 26, 2015

Market Access

TSH Resources Berhad

"No Doubt - Challenging Environment"

Results Review

- **Actual vs. expectations.** TSH Resources Berhad (TSH) 1H15 core operating profit of RM57.8 million (1H14: RM106.0 million) excluding foreign exchange losses of RM34.0 million in 1H15 (gain RM10.5 million in 1H14), was below our estimates as revenue decreased by 30% y-o-y to RM412.2 million from RM588.9 million in 1H14. Y-o-y, earnings slipped by 85% to RM13.5 million dragged by weaker-than-expected profits contribution from both the plantation and wood product manufacturing division weighed by 1) lower average CPO selling prices; 2) lower FFB and CPO production; and 3) operating loss of RM1 million in 1H15 compared to breakeven in 1H14 for wood product division.

- **Dividend.** No dividend has been proposed for this quarter.

- **Margin squeezed y-o-y.** In-line with the decline in revenue of 30% in 1H15 of RM412.2 million (1H14: RM588.9 million), the Group registered a lower profit before tax and net profit of RM23.9 million (-79% y-o-y) and RM13.5 million (-85% y-o-y) respectively. However, excluding the forex exchange losses of RM33.96 million in 1H15 and exchange gain of RM10.47 million in 1H14, core operating profit was actually RM57.8 million compared to RM106.0 million in the corresponding quarter a year ago. EBIT margin was squeezed to 15.7% from 18.6% and 5.8% from 19.8% (PBT) partly due to lower average CPO price realised in 1H15 of RM2,152/MT compared in 1H14 of RM2,501/MT (2Q15: RM2,107/MT; 1Q15: RM2,201/MT; 2Q14: RM2,463/MT). This is 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.

HOLD (TP: RM1.95)

Current Price (RM)	RM1.83
New Target Price (RM)	**RM1.95**
Previous Target Price (RM)	RM2.38
Previous Recommend.	HOLD
Upside To Target Price	**6.6%**
Dividend Yield (FY15)	**0.7%**

Stock Code

Bloomberg	TSH MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		1,355.7
Market Cap (RM mn)		2,481.0
YTD Chg In Share Price		-20.8%
Beta (x)		1.08
52-week Hi/Lo (RM)	RM2.41	RM1.74
3M Average Volume ('000 shares)		473
Estimated Free Float		35.7%

Major Shareholders

Aik Pen Tan	12.35%
Tunas Lestari S/B	6.31%
Embun Yakin S/B	5.58%

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- **Palm product division.** In 2Q15, palm product division posted a lower segment profit of RM32.1 million (1Q15: RM35.8 million) although revenue increased slightly by 2.3%% q-o-q to RM184.2 million from RM180.0 million in 1Q15 due to lower average CPO selling price of RM2,107/MT in 2Q15 compared to RM2,201/MT in 1Q15, that partly mitigated by higher FFB and CPO production recorded during the quarter (Table 3). Cumulatively, revenue in 1H15 of RM364.2 million was hampered by lower average CPO selling price that decreased by 14% y-o-y to RM2,152/MT from RM2,501/MT in 1H14, resulting in lower segment profit of RM68.0 million. The lower earnings were also added by a combined impact of weaker FFB and CPO production during the period. FFB and CPO production in 1H15 slipped by 7% and 23% y-o-y to 297.2k MT (1H14: 319.4k MT) and 135.4k MT (1H14: 175.8k MT) respectively, weighed by delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with dry weather during early 2015 in East Malaysia. The drop in CPO production was in line with the slower production capacity of its mills where FFB processed shrunk by 20.6% to 649,764 tonnes from 818,,212 tonnes in 1H14 coupled with depressed oil extraction rate of 20.83% in 1H15 from 21.48% in 1H14. We assume other plantation players would face similar trend.

- **Wood product manufacturing, bio-integration and other.** In-line with lower revenue of RM18.1 million, wood product manufacturing division posted operational losses of RM0.99 million in 1H15 compared to RM0.82 million profits in 1H14, 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 production of electricity and steam resulting in slightly lower revenue and operating profit of RM29.9 million and RM15.1 million respectively in 1H15.

- **Sector 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, at this stage we maintain our **NEUTRAL** call on plantation sector but if the landscapes change, we may review our call on the sector. 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 probability of price to go bottom to RM1,805/MT (based on 1-SD below its 10-yrs average price) could materialise if demand continued to be slow dampen further by burgeoning global soybean supplies with slumping global crude oil prices. We are of the view that most of companies under our coverage may record unimpressive result given the same dilemma of lower CPO average selling price realise, slower production, poor downstream margins and/or higher unrealised forex translation loss.

- **FY15 and FY16 earnings forecast changed**. With the current state of the economy that is weighed by uncertainties, we are of the view that plantation sector would continue to be soft with no strong catalyst seen to chart higher CPO price this year and next year. As such, we have tweaked our FY15 and FY16 earnings forecast to RM66 million (-51%) and RM132 million (-18%)

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respectively to impute our view of challenging business conditions moving forward, given slower demand as well as stiff competition from other edibles oil, slower CPO price recovery, lower crude oil prices and stronger US Dollar. However, we are still positive on TSH's future outlook given its long-term prospect anchored by its 1) young age profile of 7 years which provides visible revenue and earnings growth catalyst; 2) 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%.

- **Valuation & recommendation**. In view of the earnings downgrade, our target price is reduced to RM1.95 (from RM2.38) premised on 20x PER over CY16 EPS of 9.75sen. Maintain **HOLD**.

Table 1: Results Review

FYE 31 Dec (RM'M)	2Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
Revenue	301.8	206.0	206.2	0%	-32%	588.9	412.2	-30%
EBIT	55.8	32.4	32.5	0%	-42%	109.5	64.9	-41%
Pretax profit	43.5	8.5	15.4	80%	-65%	116.5	23.9	-79%
Taxation	-5.6	-1.7	-7.4	330%	31%	-20.6	-9.1	-56%
Minority interest	-2.5	-0.4	-0.9	133%	-65%	-8.3	-1.3	-85%
Net Profit	35.4	6.4	7.1	10%	-80%	87.6	13.5	-85%
EPS (sen)	2.63	0.48	0.52	9%	-80%	6.51	1.00	-85%
Net gearing (x)	0.66	0.81	1.00	23%	51%	0.66	1.00	51%
EBIT margin (%)	18.5	15.7	15.7			18.6	15.7	
PBT margin (%)	14.4	4.1	7.4			19.8	5.8	
Net margin (%)	11.7	3.1	3.4			14.9	3.3	

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	2012	2013	2014	2015F	2016F
Revenue	984	1,016	1,080	978	1,158
Operating profit	105	223	183	108	191
EBIT	131	200	185	119	198
PBT	100	164	171	88	165
Net profit	77	151	125	66	132
EPS (sen)	6.2	11.8	9.3	4.9	9.8
Pre-tax margin	10%	16%	16%	9%	14%
Net profit margin	8%	15%	12%	7%	11%
PER (x)	29.4	15.6	19.6	37.5	18.8
P/BV (x)	2.6	2.3	2.1	2.0	1.8
ROE	8.9%	15.5%	11.1%	5.4%	10.2%
ROA	3.6%	6.5%	5.1%	2.5%	4.9%
Dividend (RM)	0.02	0.02	0.03	0.01	0.02
Dividend Yield	0.9	1.3	1.4	0.7	1.3
Dividend Payout	27%	21%	27%	25%	25%

Source: Bursa Malaysia, M&A Securities

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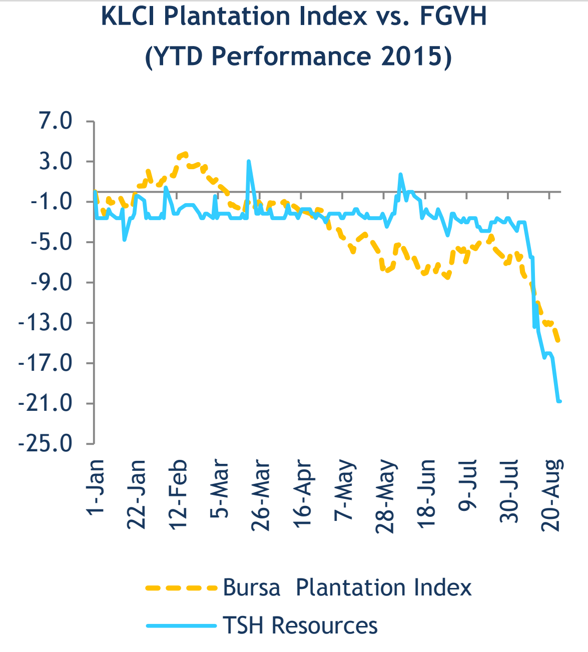
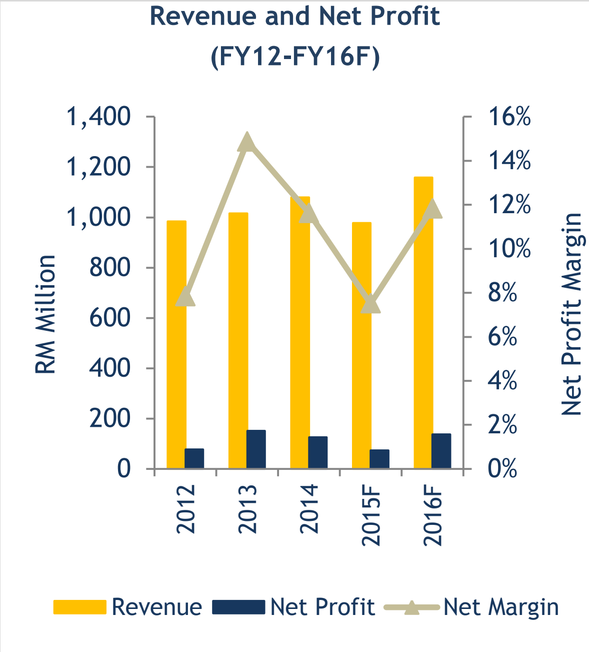
Table 3: Plantation Statistics

YE: December (tonne)	2Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
FFB Production ('000 MT)	162.7	143.3	154.0	7.5%	-5.3%	319.4	297.2	-7%
CPO Production ('000 MT)	89.9	61.9	73.4	18.6%	-18.3%	175.8	135.4	-23%
Oil Extraction Rate (%)	21.62	21.06	20.64	-0.42	-0.97	21.48	20.83	-0.65
Ave. selling price - CPO [RM MT]	2,463	2,201	2,107	-4.3%	-14%	2,501	2,152	-14%

Source: Bursa Malaysia, M&A Securities





Source: Bloomberg, M&A Securities

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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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