

30 November 2017

## Southern Acids (M) Berhad Soft Oleochemicals Performance

Southern Acids (M) Berhad (SAB) recorded 1H18 CNP of RM15.8m, which came in below both consensus at 34% and our forecast at 32% on weaker-than-expected oleochemicals margins and low plantation upstream season. No dividend was announced, as expected. We lower our FY18-19E CNP by 11-10% to reflect weaker downstream performance. Maintain **OUTPERFORM** with lower TP of RM4.95 (from RM5.25) based on Sum-of-Parts valuation.

**1H17 misses expectations.** 1H18 CNP of RM15.8m came in below consensus expectation of RM46.8m at 34% and missed our RM49.0m forecast at 32% due to weaker-than-expected Oleochemicals margins due to volatile input prices, as well as low 1H upstream results due to low production season. FFB production at 34.4k metric tons (MT) made up 44% of our full-year estimate, coming in close to last year's 1H production which made up 43% of full-year production. No dividend was announced, as expected.

**Oleochemicals soften. YoY, CNP rose by 20%** as all segments except Oleochemicals recorded improvements. Notably, Healthcare PBT improved 16% on higher average revenue per patient (ARPP) thanks to higher complex surgeries performed, and higher number of outpatient treatments. Plantation upstream contribution rose 7% to RM6.7m on better CPO prices (+7%) and higher FFB production (+2%). However, the Oleochemical segment's PBT declined 84% due to higher input costs. **QoQ, CNP fell 45%** mainly on weaker Oleochemical contribution which saw a LBT of RM0.5m from PBT of RM2.0m in 1Q18 due to higher input costs. Other segments performed reasonably well, with Plantation upstream PBT improving 64% thanks to better FFB production (+22%) which offset lower CPO prices (-3%).

**Less optimistic.** Management noted that the Oleochemical segment saw unexpectedly weak performance despite improvement in plant utilization due to increased production cost, which had led them to turn less optimistic on the segment. However, in upstream segment, better FFB volumes should improve CPO production and thus strengthens 2H18 results. Meanwhile, the Healthcare segment should continue to see stable growth on continued improvements in ARPP and gradual bed expansions. Overall, we expect the upstream and Healthcare segments to support earnings in the second half, while Oleochemicals should be flat-to-stronger as PK prices stabilize.

**Reduce FY18-19E CNP by 11-10% to RM43.6-48.1m** as we update our Oleochemical assumptions to reflect thinner margins.

**Maintain OUTPERFORM with lower TP of RM4.95** (from RM5.25) post earnings adjustment. We also roll forward our valuation base year to FY19E (from CY18E). In our Sum-of-Parts valuation, our Upstream applied PER is maintained at 16.0x, in line with small-cap plantation average, while Oleochemicals applied PER is 15.0x representing a small discount to small-cap planters. We apply a Healthcare Fwd. PER of 18.0x, also in line with the small cap segment average. We maintain our conglomerate discount of 15% for adjusted Sum-of-Parts valuation of RM800m, implying a TP of RM4.95. We continue to like SAB for its integrated operations where Oleochemicals' weakness is offset by better Plantation upstream performance. Meanwhile, the Healthcare outlook remains positive on top-line expansions. Note that SAB continues to maintain a solid balance sheet position with net cash of RM164m (RM1.20/share), supporting its 5.0 sen dividend (1.1% dividend yield) and any potential expansions in the medium to long term. Thus, we maintain our **OUTPERFORM** call on SAB.

## OUTPERFORM ↔

**Price:** RM4.42  
**Target Price:** RM4.95 ↓

**Expected Capital Gain:** RM0.59 +12.0%  
**Expected Divd. Yield:** RM0.06 +1.1%  
**Expected Total Return:** RM0.65 +13.1%

**KLCI Index** 1,720.38

### Stock Information

Bloomberg Ticker	SA MK Equity
Bursa Code	5134
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	136.9
Market Cap (RM m)	605.2
Par value per share (RM)	1.00
52-week range (H)	5.25
52-week range (L)	3.90
Free Float	47%
Beta	0.3
3-mth avg daily vol:	10,056

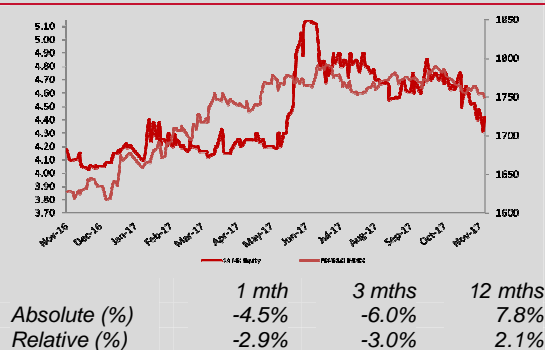
### Major Shareholders

Southern Palm Industry	31.3%
Lembaga Tabung Haji	13.1%
Southern Realty (Malaya)	8.4%

### Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	740.1	723.2	755.3
EBIT	69.5	64.8	69.2
PBT	73.8	68.8	74.7
<b>Net Profit (NP)</b>	<b>48.7</b>	<b>43.6</b>	<b>48.1</b>
<b>Core NP</b>	<b>43.4</b>	<b>43.6</b>	<b>48.1</b>
Consensus (NP)	N.A	46.8	47.5
Earnings Revision	N.A	-11%	-10%
Core EPS (sen)	31.7	31.8	35.1
Core EPS growth (%)	50.9	0.5	10.3
NDPS (sen)	5.0	5.0	5.0
NTA per Share (RM)	4.16	4.43	4.73
Price to NTA (x)	1.1	1.0	0.9
PER (x)	13.9	13.9	12.6
Debt-to-Equity ratio(x)	Cash	Cash	Cash
Return on Asset (%)	6.1	5.8	6.1
Return on Equity (%)	7.6	7.2	7.4
Net Div. Yield (%)	1.1	1.1	1.1

### Share Price Performance



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Results Highlights								
FY Mar	2Q18	1Q18	QoQ %	2Q17	YoY%	1H18	1H17	YoY%
<b>Revenue</b>	<b>189.0</b>	<b>178.7</b>	<b>6%</b>	<b>161.3</b>	<b>17%</b>	<b>367.7</b>	<b>328.1</b>	<b>12%</b>
Op Profit	9.3	10.6	-12%	13.3	-31%	19.8	25.2	-21%
Pretax Profit	9.4	10.7	-12%	13.4	-29%	20.1	25.3	-20%
Tax	(2.3)	(2.0)	14%	(3.3)	-31%	(4.3)	(6.4)	-33%
MI	(1.4)	(0.9)	53%	(1.4)	-1%	(2.3)	(1.1)	112%
<b>Net Profit</b>	<b>5.7</b>	<b>7.7</b>	<b>-26%</b>	<b>8.6</b>	<b>-33%</b>	<b>13.5</b>	<b>17.7</b>	<b>-24%</b>
<b>Core Net Profit</b>	<b>5.6</b>	<b>10.2</b>	<b>-45%</b>	<b>7.0</b>	<b>-20%</b>	<b>15.8</b>	<b>13.2</b>	<b>20%</b>
<b>EPS (sen)</b>	<b>4.2</b>	<b>5.7</b>	<b>-26%</b>	<b>6.3</b>	<b>-33%</b>	<b>9.9</b>	<b>12.9</b>	<b>-24%</b>
Net DPS (sen)	0.0	5.0	N.M.	5.0	N.M.	5.0	5.0	0%
EBIT %	4.9%	5.9%		8.3%		5.4%	7.7%	
PBT%	5.0%	6.0%		8.3%		5.5%	7.7%	
Tax %	24.3%	18.9%		25.0%		21.5%	25.5%	
<b>MPOB CPO Avg. (RM)</b>	<b>2,612</b>	<b>2,681</b>	<b>-3%</b>	<b>2,332</b>	<b>12%</b>	<b>2,643</b>	<b>2,462</b>	<b>7%</b>
<b>FFB Prod ('000 mt)</b>	<b>18,877</b>	<b>15,527</b>	<b>22%</b>	<b>19,664</b>	<b>-4%</b>	<b>34,404</b>	<b>33,722</b>	<b>2%</b>

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar	2Q18	1Q18	QoQ %	2Q17	YoY%	1H18	1H17	YoY%
<b>Segmental Revenue</b>								
- Oleochemical	95.2	97.2	-2%	79.3	20%	192.4	156.1	23%
- Upstream Plantation	68.6	55.9	23%	60.2	14%	124.5	127.0	-2%
- Healthcare	20.9	21.2	-2%	19.3	8%	42.1	38.9	8%
- Others	4.3	4.4	-2%	2.5	71%	8.7	6.1	43%
<b>Total Group</b>	<b>189.0</b>	<b>178.7</b>	<b>6%</b>	<b>161.3</b>	<b>17%</b>	<b>367.7</b>	<b>328.1</b>	<b>12%</b>
<b>Segmental Profit</b>	<b>2Q18</b>	<b>1Q18</b>	<b>QoQ %</b>	<b>2Q17</b>	<b>YoY%</b>	<b>1H18</b>	<b>1H17</b>	<b>YoY%</b>
- Oleochemical	(0.5)	2.0	N.M.	3.6	N.M.	1.6	9.6	-84%
- Upstream Plantation	4.2	2.5	64%	6.2	-32%	6.7	6.3	7%
- Healthcare	4.9	4.9	0%	3.7	32%	9.9	8.5	16%
- Others	0.6	1.0	-39%	(0.1)	N.M.	1.7	0.8	110%
- Share of associate profit	0.2	0.1	41%	0.1	198%	0.3	0.1	210%
<b>Total PBT</b>	<b>9.4</b>	<b>10.7</b>	<b>-12%</b>	<b>13.4</b>	<b>-29%</b>	<b>20.1</b>	<b>25.3</b>	<b>-20%</b>

Source: Company, Kenanga Research

Sum-of-Parts Valuation					
Segment	Valuation	Note	Fair Value (RM'm)	PE/RNAV discount	Net Income (RM'm)
Oleochemicals	15x PER on CY18E earnings	Slight discount to Plantation small caps valuation	141	15.0	9.4
Hospital	18x PER on CY18E earnings	Small cap healthcare average valuation	301	18.0	16.7
Plantation	16x PER on CY18E earnings	In line with Plantation small caps valuation	358	16.0	22.4
<b>Sum-Of-Parts (RM m)</b>			<b>800</b>		
Conglomerate discount			15%		
<b>Adj. Sum-Of-Parts (RM m)</b>			<b>680</b>		
No of shares (m)			137		
<b>TP (RM)</b>			<b>4.95</b>		

Source: Company, Kenanga Research

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## Peer Comparison

NAME	Price (29- Nov- 2017)	Mkt Cap	Core PER (x)			Est. Net Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17A	FY17/18F	FY18/19F	(%)	(%)	(x)	FY16/17A	FY17/18F	FY18/19F	(%)	(%)	(RM)	
<b>Core Coverage</b>															
SIME	8.94	57,961	25.9	23.0	24.6	3.0%	6.6%	1.7	2,346.0	2,643.0	2,468.0	13%	-7%	9.65	MARKET PERFORM
IOICORP	4.44	27,905	25.4	23.7	21.4	2.3%	14.7%	3.7	1,099.0	1,174.0	1,257.0	7%	7%	5.00	OUTPERFORM
KLK	24.36	25,943	24.3	22.7	21.3	2.4%	9.2%	2.2	1,069.0	1,145.0	1,217.0	7%	6%	25.00	MARKET PERFORM
PPB	16.62	19,703	19.0	18.0	16.8	1.6%	4.9%	0.9	1,038.0	1,093.0	1,175.0	5%	8%	19.00	OUTPERFORM
GENP	10.40	8,353	27.4	24.5	26.2	1.1%	6.4%	1.8	300.0	342.0	327.0	14%	-4%	10.30	MARKET PERFORM
FGV	1.80	6,567	N.M.	49.0	44.8	2.8%	-2.7%	1.1	(157.2)	134.0	147.0	N.M.	10%	2.00	OUTPERFORM
IJMLNT	2.82	2,483	21.9	29.1	26.4	1.7%	6.3%	1.4	113.3	85.2	94.1	-25%	10%	2.50	UNDERPERFORM
TSH	1.66	2,292	28.2	20.4	19.7	1.2%	5.7%	1.6	79.3	110.4	116.5	39%	6%	1.75	MARKET PERFORM
HSPLANT	2.58	2,063	16.5	16.6	17.4	4.3%	6.0%	1.0	125.0	124.0	118.0	-1%	-5%	2.70	MARKET PERFORM
TAANN	3.62	1,610	13.0	12.0	13.0	4.4%	9.4%	1.2	123.6	134.0	124.0	8%	-7%	3.60	MARKET PERFORM
UMCCA	6.65	1,391	18.3	18.9	18.4	3.5%	4.3%	0.8	75.9	73.7	75.5	-3%	3%	7.15	OUTPERFORM
CBIP	1.82	952	10.6	9.9	9.3	4.0%	12.5%	1.3	90.0	95.3	102.1	6%	7%	2.10	OUTPERFORM
SAB	4.42	605	13.9	13.9	12.6	1.1%	7.6%	1.1	43.4	43.6	48.1	0%	10%	4.95	OUTPERFORM

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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