

28 May 2018

Southern Acids (M) Berhad FY18 Within Expectations

Southern Acids (M) Berhad (SAB) FY18 Core Net Profit (CNP) of RM38.3m came in within expectations at 105% of consensus and 102% of our forecast. A final dividend of 5.0 sen was announced, as expected. We cut FY19E CNP by 5% to RM42.9m and also we introduce our FY20E CNP of RM45.2m. Downgrade to MARKET PERFORM with a lower TP of RM3.95 (from RM4.40).

FY18 slightly above. Excluding one-off unrealised forex loss (RM6.0m), inventory write-down (RM0.1m), bad debt written-off and other provision (RM0.1m), FY18 CNP came in at RM38.8m. This is within expectations, making up 105% of consensus' RM37.0m and 102% of our RM38.1m estimate. FFB production at 71.5k metric tons (MT) was lower than our estimate, making up 92% of full-year forecast. A final dividend of 5.0 sen was announced, for full-year DPS of 5.0 sen, exactly in line with our estimate. This implies a pay-out ratio of 65% and dividend yield of 1.3%.

Oleochemical and upstream plantation weakened. YoY, FY18 CNP was down (-9%) on sharp PBT decline in Oleochemical (-72%) and Plantation Upstream (-40%) due to lower FFB volumes (-4%), leading to higher production cost. However, healthcare division remains resilient with stronger PBT recorded at RM22.3m (+15%), largely on better PBT margin of 26% (vs. 24% in FY17). This was on the back of higher complex surgeries performed on increased average revenue per patient (ARPP) for impatient treatments. **QoQ**, CNP dropped (-4%) as Oleochemical division saw LBT of RM0.3m (from PBT of RM4.6m) as well as subdued performance by Upstream segment as PBT came in at only RM4.9m (-42%), likely caused by higher raw materials and lower ASP that led to margins erosion. However, healthcare business held up well with stronger PBT of RM7.6m (+54%) driven by an increase in revenue (14%) on improved ARPP of impatient.

Challenging prospects. Management noted that the prospect of oleochemical segment will remain challenging amidst the current high production cost environment as volatility of USD/MYR rate continues to be a concern. However, in Upstream segment, recovery in production volume should improve unit costs through economies of scale, which will offset the expectation of declining CPO prices. Meanwhile, healthcare will continue to register robust growth driven by improvement in average revenue per patient (ARPP). This is lifted by higher complex surgeries performed as a result of the company continuous effort in recruiting more specialists.

Reduce FY19E CNP by 5% to RM42.9m we update our Oleochemical assumptions to reflect thinner margins but this is offset by improving healthcare margins. We also introduce our FY20E CNP of RM45.2m which implies EPS growth of 5%.

Downgrade to MARKET PERFORM with lower TP of RM3.95 (from RM4.40) based on Sum-of-Parts as we rolled forward our valuation base year to average of FY19-20E, for lower applied EPS of 31.3 sen (from 33.0 sen). In our Sum-of-Parts (SoP) valuation, we maintain our Fwd. PER of 13.0x for Oleochemical segment but tweaked EBIT to RM4.6m (from RM14.4m) to account for its challenging business prospect. We maintain 14.5x for upstream plantation division. For healthcare division, we update the segment margins slightly higher to 25% (from 24%) with unchanged 18.0x PER as well as our conglomerate discount of 15%. Thus, our adjusted SoP valuation arrives at RM538.0m which implies a TP of RM3.95. While we expect long-term earnings to be positive on upcoming seasonally strong production, we downgrade our call to MARKET PERFORM (from OUTPERFORM) in view of the challenging immediate outlook in the Oleochemicals sector.

Risks to our call include: (i) lower-than-expected CPO prices, (ii) higher-than-expected cost of production, and (iii) lower-than-expected CPO output.

MARKET PERFORM

Price: **RM3.93**
Target Price: **RM3.95**

Expected Capital Gain: **RM0.02 +0.5%**
Expected Divd. Yield: **RM0.04 +1.0%**
Expected Total Return: **RM0.06 +1.5%**

KLCI Index **1,797.40**

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)	538.2
Par value per share (RM)	1.00
52-week range (H)	5.25
52-week range (L)	3.78
Free Float	47%
Beta	0.6
3-mth avg daily vol:	9,113

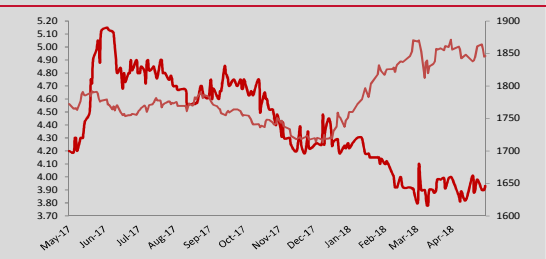
Major Shareholders

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

Summary Earnings Table

FY Mar (RM m)	2018A	2019E	2020E
Turnover	763.2	728.3	750.5
EBIT	51.1	60.1	62.3
PBT	51.4	64.7	67.3
Net Profit (NP)	32.7	42.9	45.2
Core NP	38.8	42.9	45.2
Consensus (NP)	37.0	43.4	46.2
Earnings Revision	N.A	-5%	N.A
Core EPS (sen)	28.4	31.3	33.0
Core EPS growth (%)	-11%	10%	5%
NDPS (sen)	5.0	4.0	4.0
NTA per Share (RM)	4.28	4.55	4.84
Price to NTA (x)	0.9	0.9	0.8
PER (x)	13.9	12.5	11.9
Debt-to-Equity ratio(x)	N. Cash	N.Cash	N. Cash
Return on Asset (%)	6.1	5.4	5.7
Return on Equity (%)	7.6	6.6	6.9
Net Div. Yield (%)	1.3	1.0	1.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.8%	-4.1%	-6.4%
Relative (%)	1.2%	-0.8%	93.6%

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Results Highlights								
FY Mar	4Q18	3Q18	QoQ %	3Q17	YoY%	FY18	FY17	YoY%
Revenue	196.7	198.8	-1%	191.9	3%	763.2	740.1	3%
Op Profit	13.4	17.8	-25%	24.2	-44%	51.1	75.0	-32%
Pretax Profit	13.5	17.8	-24%	23.0	-41%	51.4	73.8	-30%
Tax	(5.9)	(4.0)	47%	(5.2)	13%	(14.2)	(16.5)	-14%
MI	0.8	(2.9)	-127%	(3.7)	-121%	(4.5)	(8.7)	-49%
Net Profit	8.4	10.8	-22%	14.1	-41%	32.7	48.7	-33%
Core Net Profit	11.3	11.7	-4%	11.2	1%	38.8	42.8	-9%
EPS (sen)	6.1	7.9	-22%	10.3	-41%	23.9	35.5	-33%
Net DPS (sen)	5.0	0.0	N.M.	0.0	N.M.	10.0	5.0	100%
EBIT %	6.8%	9.0%		12.6%		6.7%	10.1%	
PBT%	6.9%	8.9%		12.0%		6.7%	10.0%	
Tax %	43.7%	22.6%		22.7%		27.7%	22.3%	
CPO Avg	2,467	2,547	-3%	2,724	-9%	2,571	2,728	-6%
FFB Prod ('000 mt)	18,915	21,612	-12%	25,594	-26%	74,931	78,428	-4%

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar	4Q18	3Q18	QoQ %	3Q17	YoY%	FY18	FY17	YoY%
Segmental Revenue								
- Oleochemical	95.6	95.9	0%	96.7	-1%	384.0	365.2	5%
- Upstream Plantation	72.6	78.7	-8%	72.5	0%	275.8	283.1	-3%
- Healthcare	22.7	19.9	14%	19.3	18%	84.7	80.1	6%
- Others	5.8	4.2	40%	3.5	68%	18.7	11.7	60%
Total Group	196.7	198.8	-1%	191.9	3%	763.2	740.1	3%
						26%	24%	
Segmental Profit	4Q18	3Q18	QoQ %	3Q17	YoY%	FY18	FY17	YoY%
- Oleochemical	(0.3)	4.6	-106%	6.2	-104%	5.9	21.4	-72%
- Upstream Plantation	4.9	8.5	-42%	13.7	-64%	20.1	33.6	-40%
- Healthcare	7.6	4.9	54%	4.5	67%	22.3	19.4	15%
- Others	1.2	(0.2)	-779%	(0.3)	-521%	2.7	0.5	482%
- Share of associate profit	0.1	(0.0)	-220%	(1.1)	-105%	0.3	(1.1)	-127%
Total PBT	13.5	17.8	-24%	23.0	-41%	51.4	73.8	-30%

Source: Company, Kenanga Research

Sum-of-Parts Valuation					
Segment	Valuation	Note	Fair Value (RM'm)	PE/RNAV discount	Net Income (RM'm)
Oleochemicals	13x PER on CY18E earnings	20% discount to Plantation small caps valuation	39	13.0	3.0
Hospital	18x PER on CY18E earnings	Small cap healthcare average valuation	317	18.0	17.6
Plantation	14.5x PER on CY18E earnings	10% discount to Plantation small caps valuation	277	14.5	19.1
Sum-Of-Parts (RM m)			633		
Conglomerate discount			15%		
Adj. Sum-Of-Parts (RM m)			538		
No of shares (m)			137		
TP (RM)			3.95		

Source: Kenanga Research

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Peer Comparison

NAME	Price (25- May- 2018)	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)	
Core Coverage															
SIMEPLT	5.50	37,406	26.8	48.3	23.9	2.4%	10.8%	2.9	1,221.0	1,395.7	1,567.0	14%	12%	5.90	MARKET PERFORM
IOICORP	4.75	29,854	27.2	25.4	23.8	4.6%	14.7%	4.0	1,099.0	1,176.0	1,256.0	7%	7%	5.15	OUTPERFORM
KLK	25.02	26,645	24.9	23.3	21.9	2.4%	9.2%	2.3	1,069.0	1,145.0	1,217.0	7%	6%	25.75	MARKET PERFORM
PPB	20.00	23,710	19.5	19.4	19.2	1.5%	5.8%	1.1	1,217.0	1,221.0	1,232.0	0%	1%	22.60	OUTPERFORM
GENP	9.51	7,654	22.7	21.5	18.1	2.5%	7.0%	1.6	336.0	358.0	434.0	7%	21%	10.75	OUTPERFORM
FGV	1.60	5,837	N.M.	50.5	42.9	1.9%	1.9%	1.0	108.0	116.0	136.0	N.M.	17%	2.00	OUTPERFORM
IJMLNT	2.36	2,078	18.3	29.1	25.6	1.7%	6.3%	1.2	113.3	71.5	81.3	-37%	14%	2.00	UNDERPERFORM
TSH	1.23	1,698	16.6	26.2	20.7	1.0%	6.5%	1.1	101.1	65.3	82.4	-35%	26%	1.10	UNDERPERFORM
HSPLANT	2.42	1,935	14.5	16.4	16.1	4.5%	6.4%	0.9	125.0	130.0	134.0	4%	3%	2.30	MARKET PERFORM
TAANN	2.80	1,245	9.9	12.2	11.9	2.5%	9.4%	0.9	125.9	101.9	104.4	-19%	2%	3.05	OUTPERFORM
UMCCA	6.08	1,272	16.8	26.9	21.2	2.3%	4.3%	0.7	75.9	47.3	60.0	-38%	27%	6.20	MARKET PERFORM
CBIP	1.47	769	9.1	8.7	8.0	4.6%	11.6%	1.1	84.1	88.5	95.8	5%	8%	1.80	OUTPERFORM
SAB	3.93	538	13.8	12.6	11.9	1.0%	6.6%	0.9	38.8	42.9	45.2	11%	5%	3.95	MARKET PERFORM

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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