

27 November 2019

## Southern Acids (M) Berhad Upstream Comes Through

Southern Acids (M) Berhad (SAB)'s 1HFY20 Core Net Profit (CNP) of RM12.9m came within our expectation at 50%, but above consensus at 66%, likely due to seasonally higher FFB output. We have accounted for this FFB output boost; hence, 1HFY20 FFB output of 47k MT is within our estimate at 53%. No dividend was declared as expected. No changes to FY20-21E earnings. Maintain MARKET PERFORM with an unchanged SoP driven TP of RM3.65.

Within our expectations, but above consensus. 2QFY20 CNP of RM7.7m brought 1HFY20 CNP to RM12.9m, within our expectation at 50%, but above consensus at 66%, likely due to seasonally higher FFB output (+26% QoQ). However, we have accounted for this in our estimates with 1HFY20 FFB output of 47k MT coming within our estimate at 53%. No dividend was declared, as expected.

Boosted by upstream. YoY, 1HFY20 CNP declined (-18%), dragged by Oleochemicals segment's loss before tax (LBT) of RM3.6m (vs. PBT of RM0.4m in 1HFY19) amidst high operating cost and stiff competition in the market. This resulted in Oleochemicals PBT margin compression (-2.8ppt). QoQ, 2QFY20 CNP leapt (+48%) boosted by upstream (+317%) on a 26% increase in FFB output. The gains would have been more significant if not for Oleochemicals PBT margin compression (-1.4ppt), resulting in a higher LBT of RM2.4m (vs. LBT of RM1.2m in 1QFY20).

Plantation the shining star. Moving forward, we expect sequential improvement from its upstream division on higher CPO prices (QTD 4QCY19: +12%). However, its Oleochemical segment should continue to face high operating cost and stiff competition in the market, as unit cost is likely to be higher due to lower economies of scale, given its relatively smaller production size in the market. Meanwhile, for its healthcare segment, we continue to expect stable growth, driven by higher complex surgeries, leading to higher average revenue per patient (ARPP) as the company continues to recruit more specialists.

No changes to FY20-21E earnings as the results came within expectations.

Maintain MARKET PERFORM with an unchanged TP of RM3.65 based on Sum-of-Parts (SoP) valuation. In our SoP valuation, we maintain our average Fwd. PER of 18x, applying a 25% discount to upstream segment, given its smaller planted area. Meanwhile, we maintain Oleochemical segment at 14.0x Fwd. PER ascribing 40% discount to average of small-to-mid cap planters in light of the lower economies of scale and stiff competition in the market. For its healthcare division, we maintain our assumptions with an unchanged 24.0x PER as well as our conglomerate discount of 5% to arrive at our SoP TP of RM3.65. Our TP implies CY20E PER of 16.7x, which is close to its 3-year mean.

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

## MARKET PERFORM ↔

Price: RM3.65  
Target Price: RM3.65 ↔

Expected Capital Gain: RM0.000 0.0%  
Expected Div. Yield: RM0.060 +1.6%  
Expected Total Return: RM0.060 +1.6%

KLCI Index 1,583.87

### Stock Information

Bloomberg Ticker	SA MK Equity
Bursa Code	5134
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	136.9
Market Cap (RM m)	499.8
Par value per share (RM)	1.00
52-week range (H)	3.98
52-week range (L)	3.55
Free Float	19%
Beta	0.7
3-mth avg daily vol:	1,903

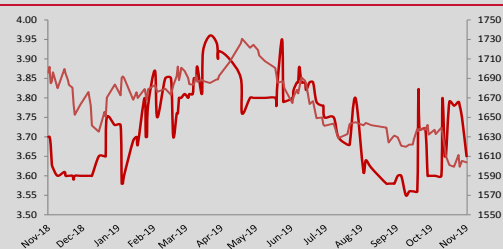
### Major Shareholders

Southern Palm Industry	31.3%
Lembaga Tabung Haji	13.0%
Southern Realty (Malaya)	8.4%

### Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	598.6	672.7	719.4
EBIT	38.7	49.8	57.1
PBT	38.6	54.4	61.3
<b>Net Profit (NP)</b>	<b>21.5</b>	<b>26.0</b>	<b>31.1</b>
<b>Core NP</b>	<b>17.3</b>	<b>26.0</b>	<b>31.1</b>
Consensus (NP)	n.a.	19.5	23.8
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	12.7	19.0	22.7
Core EPS growth (%)	-55	50	20
NDPS (sen)	5.0	6.0	5.0
NTA per Share (RM)	4.39	4.52	4.69
Price to NTA (x)	0.8	0.8	0.8
PER (x)	28.8	19.2	16.0
Debt-to-Equity ratio(x)	Net	Net	Net
	Cash	Cash	Cash
Return on Asset (%)	2.4	3.5	4.4
Return on Equity (%)	2.9	4.2	4.8
Net Div. Yield (%)	1.4	1.6	1.4

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	1.4%	-3.9%	-1.4%
Relative (%)	0.5%	-2.9%	5.6%

Adrian Kok

[adrian.kok@kenanga.com.my](mailto:adrian.kok@kenanga.com.my)

+603-2172 2653

27 November 2019

Results Highlights								
FY Mar	2Q20	1Q20	QoQ %	2Q19	YoY%	1H20	1H19	YoY%
<b>Revenue</b>	<b>166.8</b>	<b>142.6</b>	<b>17%</b>	<b>153.0</b>	<b>9%</b>	<b>309.3</b>	<b>311.0</b>	<b>-1%</b>
Op Profit	14.2	7.4	91%	13.2	7%	21.6	23.5	-8%
Pretax Profit	14.1	7.5	87%	13.2	7%	21.6	23.9	-9%
Tax	(3.4)	(1.7)	103%	(2.7)	27%	(5.1)	(4.8)	6%
MI	(3.0)	(0.7)	354%	(2.3)	30%	(3.6)	(3.4)	6%
<b>Net Profit</b>	<b>7.7</b>	<b>5.2</b>	<b>48%</b>	<b>8.2</b>	<b>-7%</b>	<b>12.9</b>	<b>15.6</b>	<b>-18%</b>
<b>Core Net Profit</b>	<b>7.7</b>	<b>5.2</b>	<b>48%</b>	<b>8.3</b>	<b>-7%</b>	<b>12.9</b>	<b>15.7</b>	<b>-18%</b>
<b>EPS (sen)</b>	<b>5.6</b>	<b>3.8</b>	<b>49%</b>	<b>6.0</b>	<b>-7%</b>	<b>9.4</b>	<b>11.0</b>	<b>-14%</b>
Net DPS (sen)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	8.5%	5.2%		8.6%		7.0%	7.6%	
PBT margin	8.4%	5.3%		8.6%		7.0%	7.7%	
Effective tax rate	24.2%	22.4%		20.3%		23.6%	20.1%	
<b>MPOB CPO Avg. (RM)</b>	<b>1,903</b>	<b>1,978</b>	<b>-4%</b>	<b>1,969</b>	<b>-3%</b>	<b>1,912</b>	<b>2,082</b>	<b>-8%</b>
<b>FFB Prod ('000 mt)</b>	<b>26,307</b>	<b>20,945</b>	<b>26%</b>	<b>26,408</b>	<b>0%</b>	<b>47,252</b>	<b>44,401</b>	<b>6%</b>

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar	2Q20	1Q20	QoQ %	2Q19	YoY%	1H20	1H19	YoY%
<b>Segmental Revenue</b>								
- Oleochemical	75.0	68.7	9.1%	75.3	0%	143.7	151.5	-5%
- Upstream Plantation	63.5	47.8	33%	50.7	25%	111.3	107.8	3%
- Healthcare	23.3	21.8	7%	20.9	11%	45.0	41.1	10%
- Others	5.0	4.3	18%	6.2	-18%	9.3	10.6	-12%
<b>Total Group</b>	<b>166.8</b>	<b>142.6</b>	<b>17%</b>	<b>153.0</b>	<b>9%</b>	<b>309.3</b>	<b>311.0</b>	<b>-1%</b>
<b>Segmental Profit</b>								
- Oleochemical	(2.4)	(1.2)	98%	(0.5)	391%	(3.6)	0.4	nm
- Upstream Plantation	9.1	2.2	317%	7.0	30%	11.2	10.9	3%
- Healthcare	6.3	6.1	4%	5.6	14%	12.4	11.0	13%
- Others	1.2	0.4	213%	1.1	5%	1.6	1.3	19%
- Share of associate profit	(0.1)	0.1	nm	0.0	nm	0.0	0.3	nm
<b>Total PBT</b>	<b>14.1</b>	<b>7.5</b>	<b>87%</b>	<b>13.2</b>	<b>7%</b>	<b>21.6</b>	<b>23.9</b>	<b>-9%</b>

Source: Company, Kenanga Research

Sum-of-Parts Valuation					
Segment	Valuation	Note	Fair Value (RM'm)	PE/RNAV discount	Net Income (RM'm)
Oleochemicals	14x PER on CY20E earnings	40% discount to caps valuation	38	14.0	2.7
Hospital	24x PER on CY20E earnings	10% discount to KPJ	296	24.0	12.3
Plantation	18x PER on CY20E earnings	25% discount to Plantation small caps valuation	192	18.0	10.7
<b>Sum-Of-Parts (RM m)</b>			<b>527</b>		
Conglomerate discount			5%		
<b>Adj. Sum-Of-Parts (RM m)</b>			<b>501</b>		
No of shares (m)			137		
<b>TP (RM)</b>			<b>3.65</b>		

Source: Company, Kenanga Research

27 November 2019

## Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
CB INDUSTRIAL PRODUCT HLDG	0.900	454.5	Y	12/2019	-23.4%	14.5%	-57.2%	75.4%	9.0	21.1	12.0	0.6	0.6	3.0%	2.2%	0.860	UP
FGV HOLDINGS BHD	1.31	4,779.1	Y	12/2019	3.8%	3.8%	-332.3%	70.8%	N.A.	N.A.	55.9	1.0	1.0	-1.2%	0.0%	1.15	MP
GENTING PLANTATIONS BHD	10.54	9,456.5	Y	12/2019	4.9%	10.8%	28.2%	52.2%	59.4	50.6	36.0	2.1	2.2	4.4%	1.0%	9.80	MP
HAP SENG PLANTATIONS HLDGS	1.75	1,399.4	Y	12/2019	4.5%	14.3%	-61.0%	253.3%	48.1	123.3	34.9	0.9	0.8	0.7%	0.6%	1.90	OP
IJM PLANTATIONS BHD	1.78	1,567.4	Y	03/2020	-2.8%	13.2%	71.4%	125.4%	N.A.	105.9	47.0	0.9	0.9	0.9%	0.6%	1.65	UP
IOI CORPORATION BHD	4.45	27,966.7	Y	06/2020	-2.1%	6.0%	24.5%	13.0%	36.8	29.5	26.1	3.0	2.9	10.0%	2.0%	4.45	MP
KUALA LUMPUR KEPONG BHD	23.70	25,239.7	Y	09/2020	16.2%	14.7%	46.1%	9.5%	40.9	28.0	25.6	2.4	2.3	8.5%	1.9%	24.60	OP
PPB GROUP BERHAD	18.24	25,948.2	Y	12/2019	5.4%	5.6%	17.3%	7.0%	27.5	23.4	21.9	1.2	1.2	5.3%	1.8%	17.90	MP
SIME DARBY PLANTATION BHD	5.02	34,560.6	Y	12/2019	87.7%	12.0%	63.2%	184.5%	154.5	94.7	33.3	2.6	2.6	2.7%	0.6%	5.10	MP
SOUTHERN ACIDS MALAYSIA BHD	3.65	499.8	Y	03/2020	12.4%	6.9%	49.8%	20.0%	28.8	19.2	16.0	0.8	0.8	4.3%	1.6%	3.65	MP
TA ANN HOLDINGS BERHAD	3.00	1,321.4	Y	12/2019	1.9%	18.1%	-22.4%	34.4%	16.2	20.8	15.5	1.0	1.0	4.7%	1.7%	3.20	OP
TSH RESOURCES BHD	1.13	1,559.6	Y	12/2019	1.0%	13.3%	-1.1%	36.9%	31.5	31.7	23.2	1.1	1.1	3.4%	0.8%	1.20	MP
UNITED MALACCA BHD	5.40	1,132.3	Y	04/2020	8.1%	13.5%	-377.0%	73.1%	N.A.	N.A.	92.3	0.7	0.7	-0.5%	1.1%	5.30	MP
<b>Simple Average</b>					<b>9.0%</b>	<b>11.3%</b>	<b>-42.3%</b>	<b>73.5%</b>	<b>45.3</b>	<b>49.8</b>	<b>33.8</b>	<b>1.4</b>	<b>1.4</b>	<b>3.6%</b>	<b>1.2%</b>		

Source: Bloomberg, Kenanga Research

27 November 2019

**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.**

---

This report has been prepared by Kenanga Investment Bank Berhad pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

This report is accessible at [www.bursamids.com](http://www.bursamids.com) too.