

26 February 2020

## Southern Acids (M) Berhad Above Expectations

Southern Acids (M) Berhad (SAB)'s 9MFY20 Core Net Profit (CNP) of RM22.4m came above both our (79%) and consensus' (92%) estimates, mainly due to higher-than-expected FFB output (80% of our full-year estimate). Expect sequential earnings improvement from upstream division on higher CPO prices (QTD-4QFY20: +15%). Raise FY20-21E earnings by 18-13% on higher FY20-21E FFB output. Upgrade to **OUTPERFORM** with higher SoP-derived TP of RM4.25.

**Above expectations.** 3QFY20 CNP of RM10.2m (+24% YoY; +38% QoQ) brought 9MFY20 CNP to RM22.4m (+8% YoY), above both our (79%) and consensus' (92%) estimates. This is mainly due to higher-than-expected 9MFY20 FFB output of 71.3k MT (+6% YoY), which accounted for 80% of our full-year estimate. No dividend was declared, as expected.

**Lifted by upstream.** YoY, 9MFY20 CNP improved (+8%) mainly driven by a surge in profit (+37%) from upstream segment on the back of: (i) higher average CPO price (+2%), and (ii) higher FFB output (+6%). **QoQ**, despite a decline in FFB (-8%), 3QFY20 CNP leapt (38%) boosted by upstream (+32%) stemming from average higher CPO price (+14%). This resulted in EBIT margin expansion (+2.6ppt) to 11.1%.

**Upstream to continue delivering solid earnings.** Moving forward, we expect sequential earnings improvement from its upstream division on higher CPO prices (QTD 4QFY20: +15%). Despite the fact that its Oleochemical segment should continue to face high operating cost and stiff competition in the market, we are not too concerned as upstream margins should negate the loss in its Oleochemical segment. Meanwhile, the Covid-19 could prove to be a boon for its healthcare segment.

**Raise FY20-21E earnings by 18-13% (low base effect)** as we increase FY20-21E FFB output by 6-7%.

**Solid earnings growth; Upgrade to OUTPERFORM with a higher TP of RM4.25 (from RM4.10)** 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 20% (given its relatively smaller market cap) to arrive at our SoP-TP of RM4.25. Our TP implies CY20E PER of 17.4x, which is close to its 3-year mean.

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

## OUTPERFORM ↑

**Price:** RM3.72  
**Target Price:** RM4.25 ↑

**Expected Capital Gain:** RM0.530 +14.2%  
**Expected Div. Yield:** RM0.060 +1.6%  
**Expected Total Return:** RM0.590 +15.9%

**KLCI Index** 1,500.88

### 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)	509.4
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:	2,683

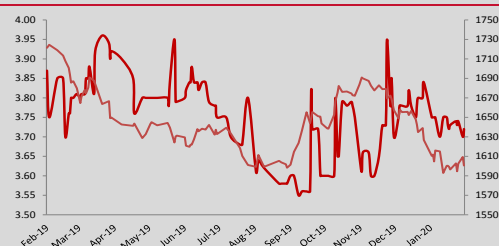
### Major Shareholders

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	727.2	835.1
EBIT	38.7	65.4	83.3
PBT	38.6	70.0	87.5
<b>Net Profit (NP)</b>	<b>21.5</b>	<b>33.5</b>	<b>46.6</b>
<b>Core NP</b>	<b>17.3</b>	<b>33.5</b>	<b>46.6</b>
Consensus (NP)	n.a.	24.5	30.3
Earnings Revision	n.a.	18%	13%
Core EPS (sen)	12.7	24.5	34.0
Core EPS growth (%)	-55%	93%	39%
NDPS (sen)	5.0	6.0	7.0
NTA per Share (RM)	4.39	4.57	4.84
Price to NTA (x)	0.8	0.8	0.8
PER (x)	29.4	15.2	10.9
Debt-to-Equity ratio(x)	Net	Net	Net
	Cash	Cash	Cash
Return on Asset (%)	2.4	4.4	6.4
Return on Equity (%)	2.9	5.3	7.0
Net Div. Yield (%)	1.3	1.6	1.9

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-3.1%	-0.8%	-3.9%
Relative (%)	1.4%	4.9%	9.1%

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Results Highlights								
FY Mar (RM m)	3Q20	2Q20	QoQ %	2Q19	YoY%	9M20	9M19	YoY%
<b>Revenue</b>	<b>171.3</b>	<b>166.8</b>	<b>3%</b>	<b>153.0</b>	<b>12%</b>	<b>480.6</b>	<b>457.6</b>	<b>5%</b>
Op Profit	19.0	14.2	34%	13.2	44%	40.6	33.0	23%
Pretax Profit	18.6	14.1	32%	13.2	41%	40.2	33.5	20%
Tax	(4.1)	(3.4)	21%	(2.7)	53%	(9.2)	(7.4)	25%
MI	(4.0)	(3.0)	35%	(2.3)	76%	(7.7)	(5.5)	40%
<b>Net Profit</b>	<b>10.4</b>	<b>7.7</b>	<b>36%</b>	<b>8.2</b>	<b>26%</b>	<b>23.3</b>	<b>20.7</b>	<b>13%</b>
<b>Core Net Profit</b>	<b>10.2</b>	<b>7.4</b>	<b>38%</b>	<b>8.3</b>	<b>24%</b>	<b>22.4</b>	<b>20.8</b>	<b>8%</b>
<b>EPS (sen)</b>	<b>7.6</b>	<b>5.6</b>	<b>35%</b>	<b>6.0</b>	<b>26%</b>	<b>17.0</b>	<b>14.8</b>	<b>15%</b>
Net DPS (sen)	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
EBIT margin	11.1%	8.5%		8.6%		8.4%	7.2%	
PBT margin	10.8%	8.4%		8.6%		8.4%	7.3%	
Effective tax rate	22.2%	24.2%		20.3%		22.9%	21.9%	
<b>MPOB CPO Avg. (RM)</b>	<b>2,165</b>	<b>1,903</b>	<b>14%</b>	<b>1,969</b>	<b>10%</b>	<b>2,011</b>	<b>1,979</b>	<b>2%</b>
<b>FFB Prod ('000 mt)</b>	<b>24,073</b>	<b>26,307</b>	<b>-8%</b>	<b>26,408</b>	<b>-9%</b>	<b>71,325</b>	<b>67,396</b>	<b>6%</b>

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar (RM m)	3Q20	2Q20	QoQ %	2Q19	YoY%	9M20	9M19	YoY%
<b>Segmental Revenue</b>								
- Oleochemical	66.9	75.0	-10.7%	75.3	-11%	210.7	224.3	-6%
- Upstream Plantation	76.1	63.5	20%	50.7	50%	187.4	155.3	21%
- Healthcare	23.1	23.3	-1%	20.9	11%	68.1	63.0	8%
- Others	5.1	5.0	1%	6.2	-17%	14.4	15.1	-5%
<b>Total Group</b>	<b>171.3</b>	<b>166.8</b>	<b>3%</b>	<b>153.0</b>	<b>12%</b>	<b>480.6</b>	<b>457.6</b>	<b>5%</b>
<b>Segmental Profit</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ %</b>	<b>2Q19</b>	<b>YoY%</b>	<b>9M20</b>	<b>9M19</b>	<b>YoY%</b>
- Oleochemical	1.1	(2.4)	NM	(0.5)	NM	(2.5)	(2.3)	9%
- Upstream Plantation	11.9	9.1	32%	7.0	71%	23.2	16.9	37%
- Healthcare	6.3	6.3	0%	5.6	14%	18.7	16.8	11%
- Others	(0.7)	1.2	NM	1.1	NM	0.9	1.5	-42%
- Share of associate profit	(0.2)	(0.1)	136%	0.0	NM	(0.1)	0.5	NM
<b>Total PBT</b>	<b>18.6</b>	<b>14.1</b>	<b>32%</b>	<b>13.2</b>	<b>41%</b>	<b>40.2</b>	<b>33.5</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	14x PER on CY20E earnings	40% discount to caps valuation	120	14.0	8.6
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	313	18.0	17.4
<b>Sum-Of-Parts (RM m)</b>			<b>729</b>		
Conglomerate discount			20%		
<b>Adj. Sum-Of-Parts (RM m)</b>			<b>583</b>		
No of shares (m)			137		
<b>TP (RM)</b>			<b>4.25</b>		

Source: Company, Kenanga Research

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## 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	0.955	482.3	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	9.6	22.4	11.8	0.7	0.7	3.0%	2.1%	1.00	MP
FGV HOLDINGS BHD	1.24	4,523.7	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	11.2	1.0	1.0	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.14	9,097.6	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	57.1	70.4	24.0	2.0	2.0	2.9%	0.8%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.67	1,335.5	Y	12/2020	15.1%	4.5%	-79.2%	340.8%	63.5	14.4	13.2	0.8	0.8	1.9%	4.2%	2.55	OP
IJM PLANTATIONS BHD	1.77	1,558.6	N	03/2020	16.6%	16.2%	23.4%	118.9%	N.A.	34.6	15.8	0.9	0.9	2.6%	1.8%	2.90	OP
IOI CORPORATION BHD	4.25	26,711.4	Y	06/2020	3.5%	11.1%	30.9%	16.8%	35.1	26.8	23.0	2.9	2.7	10.5%	2.1%	5.15	OP
KUALA LUMPUR KEPONG BHD	22.24	24,041.8	Y	09/2020	17.9%	16.1%	50.2%	13.6%	38.4	25.5	22.5	2.3	2.2	8.8%	2.5%	28.80	OP
PPB GROUP BERHAD	17.90	25,464.5	Y	12/2019	5.4%	5.6%	17.4%	9.5%	27.0	23.0	21.0	1.2	1.2	5.8%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	4.96	34,147.5	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	152.6	163.5	31.9	2.6	2.6	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.72	509.4	Y	03/2020	21.5%	14.8%	93.2%	39.0%	29.4	15.2	10.9	0.8	0.8	5.5%	1.6%	4.25	OP
TA ANN HOLDINGS BERHAD	3.12	1,374.2	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	16.8	21.6	10.1	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.23	1,697.6	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	34.3	34.6	16.0	1.2	1.1	3.4%	0.8%	1.90	OP
UNITED MALACCA BHD	5.15	1,080.3	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	67.0	0.6	0.6	-1.5%	1.6%	5.55	MP
<b>Simple Average</b>					<b>13.6%</b>	<b>15.4%</b>	<b>-84.8%</b>	<b>125.3%</b>	<b>46.4</b>	<b>41.1</b>	<b>21.4</b>	<b>1.4</b>	<b>1.4</b>	<b>3.7%</b>	<b>1.6%</b>		

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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