

# TSH Resources Berhad

## Time To Shine

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We walked away from a meeting with TSH's management, reassured of TSH and the plantation sector's FY20 prospects. Expecting FY20 earnings to return with a vengeance (+116% YoY) on (i) higher FY20 CPO price of RM2,700/MT (+27% YoY), (ii) sturdy FFB growth (management: 8-12%; ours: 4.5%) as c.4k Ha of palms come into maturity, and (iii) production cost under control at c.RM1,600/MT. Consensus' implied 4QFY19 earnings (-58% QoQ) appears too conservative (vs. our +30% QoQ). No changes to our above consensus earnings estimate. Reiterate OUTPERFORM with a TP of RM1.90 (+1.0SD level).

**Our above consensus CY20 CPO forecast of RM2,700/MT remains.** The company visit reassured us of TSH and the plantation sector's prospects. Current CPO prices should be supported by weak production in FY20 (arising from dry weather impact, lower fertilizer application and replanting activities) while demand remains robust. In addition, it appears that management is also comfortable with our CPO forecast of RM2,700/MT.

**Sturdy FY20 FFB growth + production cost under control = FY20 earnings returning with a vengeance.** Despite industry-wide expectations of weaker production in FY20 (arising from dry weather impact, lower fertilizer application and replanting), management continues to expect sturdy FFB growth of 8-12% in FY20 as c.4k Ha of palms are coming into maturity. However, we are maintaining our conservative FY20 FFB growth of 4.5% premised on our view of weaker production in 1HFY20. Meanwhile, having locked in fertilizer requirements for FY20 (6-7% higher than FY19), management appears confident to keep **FY20 cost under control at c.RM1,600/MT**. This is in line with our FY20 production cost of RM1,560/MT. Alongside improved CPO price outlook, we expect earnings to return with a vengeance in FY20.

**4QFY19 earnings likely to surprise consensus.** TSH is scheduled to release its 4QFY19 results in the last week of February. With higher CPO price (+23% QoQ) and only a slight sequential dip in 4QFY19 FFB output (our expectation for 4QFY19 FFB output: c.240k MT), we expect TSH's 4QFY19 earnings to improve significantly to register around RM15m (+30% QoQ). For 9MFY19, TSH already registered CNP of RM34.2m (87% of consensus) and **we highlight that consensus' FY19E CNP of RM39.1m appears too conservative, implying (-58% QoQ)**, when in fact, CPO price has risen 23% QoQ.

**No changes to our above consensus earnings estimates** as updates were consistent with expectations. We underscore that our FY19-20E earnings are 26-48% higher than consensus.

**Reiterate OUTPERFORM with an unchanged TP of RM1.90** based on an unchanged Fwd. PER of 24.4x applied on FY20E EPS of 7.69 sen, reflecting +1.0SD valuation basis, justified by: (i) current CPO price of c.RM3,060/MT (TSH was also traded at +1.0SD levels when CPO prices were at RM2,700-2,900/MT in 2017), and (ii) the likelihood of significant sequential earnings improvement ahead. Valuations of other planters under our coverage are pegged at mean to +1.0SD levels.

**Risks to our call include** sharp falls in CPO prices and a precipitous rise in labour/fertiliser/transportation costs.

## OUTPERFORM ↔

Price : RM1.54  
Target Price : RM1.90 ↔

### Share Price Performance



KLCI 1,589.10  
YTD KLCI chg 0.02%  
YTD stock price chg 0.00%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TSH MK Equity
Market Cap (RM m)	2,125.5
Shares Outstanding	1,380.2
52-week range (H)	1.59
52-week range (L)	0.87
3-mth avg daily vol:	755,048
Free Float	32%
Beta	0.6

### Major Shareholders

Tan Aik Pen	13.9%
Employees Provident Fund Board	7.1%
Tunas Lestari Sdn Bhd	5.2%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	906.3	915.5	1143.8
EBIT	127.6	105.7	209.2
PBT	81.3	89.4	193.2
<b>Net Profit (NP)</b>	<b>40.1</b>	<b>49.2</b>	<b>106.3</b>
<b>Core NP</b>	<b>49.8</b>	<b>49.2</b>	<b>106.3</b>
Consensus (CNP)	N.A.	39.1	71.9
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	3.58	3.56	7.69
Core EPS grwth (%)	-50.8	-1.2	116.1
NDPS (sen)	1.0	1.0	2.3
NTA/Share (RM)	1.04	1.08	1.15
Core PER (x)	43.0	43.3	20.0
Price/NTA (x)	1.48	1.43	1.34
Net Gearing (x)	0.98	0.96	0.88
Dividend Yield (%)	0.6	0.6	1.5

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## Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	872	1074	906	916	1144
EBITDA	204	281	201	192	297
Depreciation	70	76	74	87	88
Operating Profit	133	205	128	106	209
Interest Expense	-21	-42	-44	-24	-23
Interest Income	0	0	0	2	2
Associate	7	9	2	0	0
Jointly Ctrl Entity	11	8	5	5	5
PBT	114	192	81	89	193
Taxation	-47	-50	-30	-28	-60
Minority Interest	-9	-29	-11	-12	-27
Net Profit	58	114	40	49	106
<b>Core Net Profit</b>	<b>80</b>	<b>101</b>	<b>50</b>	<b>49</b>	<b>106</b>

## Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	1917	1937	1946	1954	1960
Biological Assets	391	401	419	437	456
Intangible Assets	50	56	56	56	56
Other FA	442	426	375	362	347
Inventories	212	200	192	240	234
Receivables	84	49	139	174	169
Other CA	36	38	38	38	38
Cash	139	108	90	103	170
<b>Total Assets</b>	<b>3269</b>	<b>3214</b>	<b>3255</b>	<b>3364</b>	<b>3430</b>
Payables	108	98	124	154	151
ST Borrowings	649	663	663	663	663
Other ST Liability	14	3	3	3	3
LT Borrowings	793	793	773	753	733
Other LT Liability	167	156	150	150	150
Minorities Int.	125	131	137	143	149
<b>Net Assets</b>	<b>1414</b>	<b>1370</b>	<b>1405</b>	<b>1498</b>	<b>1581</b>
Share Capital	741	741	741	741	741
Retained Earnings	846	860	895	988	1071
Other Reserves	-173	-230	-230	-230	-230
<b>Equity</b>	<b>1414</b>	<b>1370</b>	<b>1405</b>	<b>1498</b>	<b>1581</b>

## Cashflow Statement

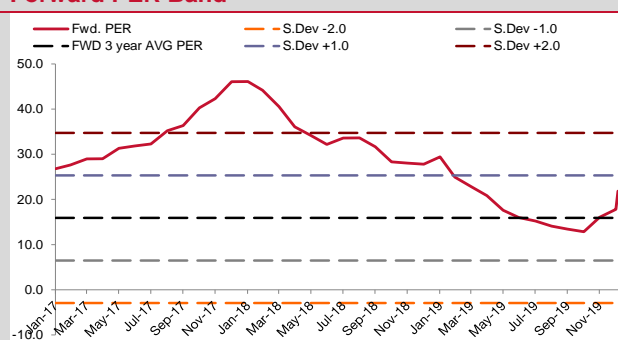
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	168	143	141	164	236
Investing CF	-113	-142	-142	-142	-142
Financing CF	-50	-23	-9	-9	-27
Change In Cash	6	-22	-10	13	67
Free CF	56	1	-1	22	94

Source: Kenanga Research

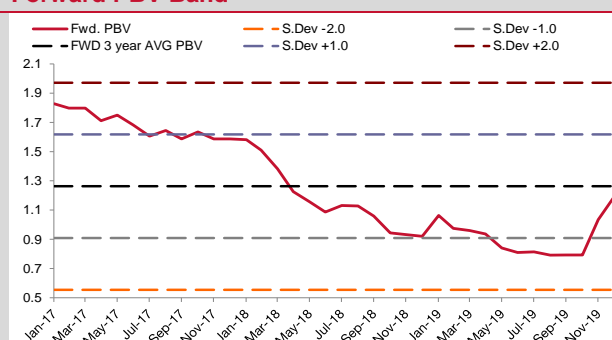
## Financial Data &amp; Ratios

FY Dec	2016A	2017A	2018A	2019E	2020E
<b>Growth (%)</b>					
Revenue	(10.8)	23.1	(15.6)	1.0	24.9
EBITDA	(32.8)	37.7	(28.2)	(4.5)	54.3
Operating Profit	(45.9)	53.3	(37.6)	(17.1)	97.9
Pre-tax Income	(45.9)	53.3	(37.6)	(17.1)	97.9
Core Net Income	(54.4)	26.7	(50.8)	(1.2)	116.1
<b>Profitability (%)</b>					
EBITDA Margin	23.4	26.1	22.2	21.0	26.0
Operating Margin	15.3	19.1	14.1	11.5	18.3
PBT Margin	13.0	17.9	9.0	9.8	16.9
Core Net Margin	9.1	9.4	5.5	5.4	9.3
Effective Tax Rate	41.0	25.8	36.6	31.2	31.2
ROA	1.7	3.5	1.2	1.5	3.2
ROE	5.5	7.2	3.6	3.5	7.1
<b>DuPont Analysis</b>					
Core Net Margin (%)	9.1	9.4	5.5	5.4	9.3
Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Leverage Factor (x)	2.4	2.3	2.3	2.3	2.2
ROE (%)	5.5	7.2	3.6	3.5	7.1
<b>Leverage</b>					
Debt/Asset (x)	0.44	0.44	0.45	0.44	0.42
Debt/Equity (x)	0.95	0.94	0.97	0.93	0.86
Net Cash/(Debt)	(1399)	(1303)	(1348)	(1346)	(1313)
Net Debt/Equity (x)	0.96	0.92	0.98	0.96	0.88
<b>Valuations</b>					
EPS (sen)	4.30	8.35	2.89	3.56	7.69
Core EPS (sen)	5.93	7.41	3.58	3.56	7.69
NDPS (sen)	2.0	2.0	1.0	1.0	2.3
NTA (RM)	1.16	1.09	1.04	1.08	1.15
PER (x)	35.8	18.4	53.4	43.3	20.0
Core PER (x)	26.0	20.8	43.0	43.3	20.0
Net Div. Yield (%)	1.3	1.3	0.6	0.6	1.5
P/NTA (x)	1.33	1.41	1.48	1.43	1.34
EV/EBITDA (x)	6.9	4.6	6.7	7.0	4.4

## Forward PER Band



## Forward PBV Band



Source: Bloomberg, 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	1.08	545.4	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	10.8	25.3	13.3	0.8	0.7	3.0%	1.9%	1.00	MP
FGV HOLDINGS BHD	1.47	5,362.8	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	13.3	1.2	1.2	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.60	9,510.3	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	59.7	73.6	25.0	2.1	2.1	2.9%	0.8%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.94	1,551.4	Y	12/2019	2.1%	29.1%	-61.0%	643.3%	53.4	136.7	18.4	0.9	0.9	0.7%	0.5%	2.50	OP
IJM PLANTATIONS BHD	2.25	1,981.3	N	03/2020	10.0%	18.0%	34.5%	192.8%	N.A.	64.8	22.1	1.2	1.1	1.8%	0.9%	2.90	OP
IOI CORP BHD	4.67	29,349.5	Y	06/2020	3.6%	11.2%	37.2%	16.6%	38.6	28.1	24.1	3.2	3.0	11.0%	2.1%	5.40	OP
KUALA LUMPUR KEPONG BHD	24.50	26,091.7	Y	09/2020	20.4%	16.3%	70.9%	14.7%	42.3	24.7	21.5	2.5	2.4	9.9%	1.8%	32.90	OP
PPB GROUP BERHAD	18.76	26,688.0	Y	12/2019	5.4%	5.6%	17.3%	9.4%	28.3	24.1	22.0	1.3	1.2	5.3%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.43	37,383.2	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	167.1	179.0	34.9	2.8	2.8	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.82	523.1	Y	03/2020	18.4%	14.8%	63.1%	46.0%	30.2	18.5	12.7	0.9	0.8	4.6%	1.6%	4.10	MP
TA ANN HOLDINGS BERHAD	3.25	1,431.5	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	17.5	22.5	10.5	1.1	1.1	4.7%	1.5%	4.15	OP
TSH RESOURCES BHD	1.54	2,125.5	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	43.0	43.3	20.0	1.5	1.4	3.4%	0.6%	1.90	OP
UNITED MALACCA BHD	5.30	1,111.8	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	68.9	0.7	0.7	-1.5%	1.5%	5.55	MP
<b>Simple Average</b>					<b>12.1%</b>	<b>17.4%</b>	<b>-82.8%</b>	<b>154.8%</b>	<b>49.1</b>	<b>58.2</b>	<b>23.6</b>	<b>1.5</b>	<b>1.5</b>	<b>3.6%</b>	<b>1.2%</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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