

28 February 2020

# TSH Resources Berhad

## Below Expectations

By Adrian Kok | [adrian.kok@kenanga.com.my](mailto:adrian.kok@kenanga.com.my)

TSH's FY19 CNP\* of RM40.5m came below our (82%), but within consensus' (104%), estimate, from lower-than-expected FY19 realized CPO price of RM1,995/MT (vs. our expected RM2,100/MT). FY19 FFB output (+4% YoY) and DPS of 1.0 sen was within expectation. 1QFY20 earnings expected to improve, in-line with higher CPO price (QTD-1QFY20: +15%) while sturdy FY20 FFB growth is expected as c.4k Ha of palms come into maturity. Reduce FY20E CNP by 16% on wider CPO discount and introduce FY21E CNP of RM93.6m. Maintain OUTPERFORM with lower TP of RM1.60.

**Below our, but within consensus', expectation.** 4QFY19 Core Net Profit (CNP) came in at RM6.3m (-22% YoY; -45% YoY), bringing FY19 CNP to RM40.5m (-18% YoY), which is below our estimate at 82%, but within consensus' at 104%. The negative deviation stemmed from lower-than-expected CPO price of RM1,995/MT (vs. our expected RM2,100/MT). FY19 FFB output of 894k MT (+4% YoY) was within our expectation at 100%. FY19 DPS of 1.0 sen was as expected.

**Performance hampered by deferred tax.** YoY, despite FFB growth (+4%), FY19 CNP fell (-18%) as topline declined (-7%) on the back of lower average CPO price (-4%). This resulted in EBIT margin compression (-1.9ppt) to 12.3%. QoQ, despite a surge in CPO price (+18%), 4QFY19 CNP plunged (-45%) due to: (i) 3% decline in FFB output, and (ii) spike in taxation (+84%) to RM13.4m (vs. RM7.3m in 3QFY19) mainly due to deferred taxation.

**Earnings to improve in 1QFY20.** Premised on higher CPO prices (QTD-1QFY20: +15%), we expect to see sequential earnings improvement in 1QFY20. Meanwhile, we understand that c.4k Ha of palms are coming into maturity and despite industry-wide expectations of weaker production in FY20 (arising from dry weather impact, lower fertilizer application and replanting), management expects sturdy FY20 FFB growth of 8-12%.

By imputing a wider discount (+5%) on TSH's realized CPO price, we **reduce FY20E CNP by 16%**. Introduce FY21E CNP of RM95.3m on FY21E FFB growth (+4%).

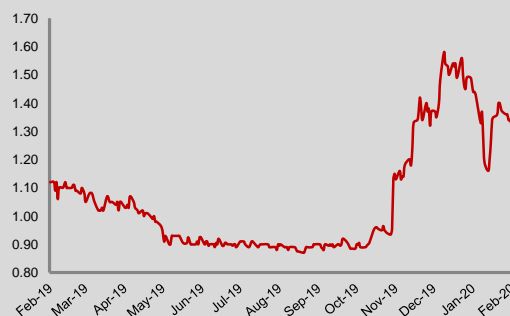
**Maintain OUTPERFORM with a lower Target Price of RM1.60 (from RM1.90)** based on an unchanged Fwd. PER of 24.4x applied on CY20E EPS of 6.48 sen, reflecting +1.0SD valuation basis, justified by: (i) current CPO price of c.RM2,600/MT (TSH also traded at +1.0SD levels when CPO prices were at c.RM2,700/MT 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 decline in CPO prices and a precipitous increase in labour/fertiliser/transportation costs.

# OUTPERFORM ↔

Price : RM1.23  
Target Price : RM1.60 ↓

### Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.23%
YTD stock price chg	-20.13%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TSH MK Equity
Market Cap (RM m)	1,697.6
Shares Outstanding	1,380.2
52-week range (H)	1.59
52-week range (L)	0.87
3-mth avg daily vol:	873,931
Free Float	37%
Beta	0.8

### Major Shareholders

Aik Pen Tan	14.1%
Employees Provident Fund Board	7.4%
Urusharta Jamaah Sdn Bhd	4.5%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	838.9	1011.8	1027.1
EBIT	102.8	184.6	195.8
PBT	73.8	180.8	192.3
<b>Net Profit (NP)</b>	<b>44.0</b>	<b>89.6</b>	<b>95.3</b>
<b>Core NP</b>	<b>40.5</b>	<b>89.6</b>	<b>95.3</b>
Consensus (CNP)	N.A.	77.0	90.6
Earnings Revision	N.A.	-16%	NEW
Core EPS (sen)	2.9	6.5	6.9
Core EPS grwth (%)	-17.7	120.9	6.4
NDPS (sen)	1.0	2.0	2.0
NTA/Share (RM)	1.10	1.13	1.18
Core PER (x)	41.9	19.0	17.8
Price/NTA (x)	1.12	1.09	1.04
Net Gearing (x)	0.92	0.90	0.85
Dividend Yield (%)	0.8	1.6	1.6

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## Results Highlights

<i>FYE Dec (RM m)</i>	4Q	3Q	QoQ %	4Q	YoY%			YoY%
	FY19	FY19		FY18		FY19	FY18	
<b>Revenue</b>	<b>241.5</b>	<b>203.8</b>	<b>18%</b>	<b>221.6</b>	<b>9%</b>	<b>838.9</b>	<b>906.4</b>	<b>(7%)</b>
EBIT	34.5	25.8	34%	18.0	92%	102.8	128.2	(20%)
Pretax Profit	32.0	15.0	113%	11.8	171%	73.8	81.7	(10%)
Taxation	(13.4)	(7.3)	84%	0.0	NM	(28.1)	(29.7)	(5%)
MI	(0.3)	(1.7)	(84%)	(1.4)	(81%)	(1.7)	(13.2)	(87%)
Net Profit	18.4	6.0	205%	10.4	77%	44.0	38.7	14%
<b>Core Net Profit</b>	<b>6.3</b>	<b>11.5</b>	<b>(45%)</b>	<b>8.0</b>	<b>(22%)</b>	<b>40.5</b>	<b>49.3</b>	<b>(18%)</b>
<b>Core EPS (sen)</b>	<b>0.46</b>	<b>0.83</b>	<b>(45%)</b>	<b>0.58</b>	<b>(22%)</b>	<b>2.94</b>	<b>3.56</b>	<b>(18%)</b>
EBIT %	14.3%	12.6%		8.1%		12.3%	14.1%	
PBT %	13.3%	7.4%		5.3%		8.8%	9.0%	
Tax %	41.7%	48.4%		0.0%		38.1%	36.4%	
<b>FFB Volume (mt)</b>	<b>240,590</b>	<b>247,576</b>	<b>(3%)</b>	<b>205,875</b>	<b>17%</b>	<b>893,739</b>	<b>857,803</b>	<b>4%</b>
<b>CPO (RM / mt)</b>	<b>2,250</b>	<b>1,905</b>	<b>18%</b>	<b>1,780</b>	<b>26%</b>	<b>1,995</b>	<b>2,086</b>	<b>(4%)</b>

Source: Company, Kenanga Research

## Segmental Breakdown

<i>FYE Dec (RM m)</i>	4Q	3Q	QoQ %	4Q	YoY%			YoY%
	FY19	FY19		FY18		FY19	FY18	
<b>Segmental Rev:</b>								
Palm Product	213.2	173.9	23%	183.5	16%	724.8	769.5	(6%)
Others	28.3	29.9	(5%)	37.9	(25%)	114.1	136.8	(17%)
<b>Group Rev</b>	<b>241.5</b>	<b>203.8</b>	<b>18%</b>	<b>221.5</b>	<b>9%</b>	<b>838.9</b>	<b>906.3</b>	<b>(7%)</b>
<b>EBIT:</b>								
Palm Product	38.0	25.5	49%	15.4	146%	95.3	122.0	(22%)
Others	4.5	6.5	(31%)	8.8	(49%)	30.0	29.7	1%
<b>Group EBIT</b>	<b>42.5</b>	<b>32.0</b>	<b>33%</b>	<b>24.3</b>	<b>75%</b>	<b>125.3</b>	<b>151.6</b>	<b>(17%)</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	0.910	459.6	Y	12/2020	-5.1%	3.9%	23.1%	6.0%	14.5	11.8	11.1	0.6	0.6	5.2%	2.2%	0.970	MP
FGV HOLDINGS BHD	1.21	4,414.3	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	10.9	1.0	1.0	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.38	9,312.9	Y	12/2020	5.7%	9.6%	143.3%	12.4%	61.0	25.1	22.3	2.1	2.0	8.1%	2.2%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.65	1,319.5	Y	12/2020	15.1%	4.5%	-79.2%	340.8%	62.8	14.2	13.1	0.8	0.8	1.9%	4.2%	2.55	OP
IJM PLANTATIONS BHD	1.76	1,549.8	N	03/2020	16.6%	16.2%	23.4%	118.9%	N.A.	34.4	15.7	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	22.34	24,149.9	Y	09/2020	17.9%	16.1%	50.2%	13.6%	38.5	25.7	22.6	2.3	2.2	8.8%	2.5%	28.80	OP
PPB GROUP BERHAD	18.30	26,033.6	Y	12/2020	7.6%	5.6%	15.7%	6.8%	24.8	21.5	20.1	1.2	1.2	5.6%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.00	34,422.9	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	153.9	164.8	32.2	2.6	2.6	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.81	521.7	Y	03/2020	21.5%	14.8%	93.2%	39.0%	30.1	15.6	11.2	0.9	0.8	5.5%	1.6%	4.25	OP
TA ANN HOLDINGS BERHAD	3.10	1,365.4	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	16.7	21.5	10.0	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.23	1,697.6	Y	12/2020	20.6%	1.5%	120.9%	6.4%	41.9	19.0	17.8	1.1	1.1	6.1%	1.6%	1.60	OP
UNITED MALACCA BHD	5.06	1,061.4	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	65.8	0.6	0.6	-1.5%	1.6%	5.55	MP
<b>Simple Average</b>					<b>17.0%</b>	<b>11.5%</b>	<b>-57.0%</b>	<b>96.2%</b>	<b>47.9</b>	<b>34.6</b>	<b>21.2</b>	<b>1.4</b>	<b>1.3</b>	<b>4.5%</b>	<b>1.8%</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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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)

