

19 November 2020

TSH Resources Berhad

Within Expectations

By Adrian Kok | adrian.kok@kenanga.com.my

9MFY20 CNP of RM51.7m (+59% YoY) is within both our (72%) and consensus' (75%) expectations. 9MFY20 FFB output is also within at 72%. Sequential earnings improvement is anticipated in 4QFY20 on higher CPO prices (QTD 4QFY20: +13%) and production recovery in Indonesia. No changes to earnings estimate. Downgrade to MARKET PERFORM with an unchanged TP of RM1.10 on FY21E PBV of 0.9x (-0.5SD). Reward-to-risk favours the latter at this juncture given expected downside bias towards CPO price. On PER valuation, TSH is traded at 15% premium to peers.

Within expectations. 3QFY20 Core Net Profit (CNP) came in at RM17.3m (+77% YoY), which brought 9MFY20 CNP to RM51.7m (+59% YoY) - within both our (72%) and consensus' (75%) estimates. Both 9MFY20 FFB output of 505k MT (+1% YoY) at 72% of our full-year estimate and absence of dividend were as expected.

Results' highlight. YoY, 9MFY20 CNP leapt (+59%) boosted by higher CPO price (+23%). As a result, plantation segmental profit surged (+86%). This would have been more significant if not for the flat (+1%) FFB output, caused by lower 3QFY20 FFB output (-6% YoY). The dip was mainly caused by a lagged impact of the dry season in Indonesia during 3QFY19.

Expecting a strong end to FY20. Premised on higher CPO prices (QTD 4QFY20: +13% QoQ), and our expectations of stronger FFB output in 4QFY20, we expect sequential improvement in 4QFY20 earnings. Note that peak production season in Indonesia is expected in 4QFY20. Based on TSH's notes to financial statements, the group's FFB production which was affected in 3QFY20 is expected to normalize in 4QFY20, in line with our expectations of seasonally higher FFB output. Having said that, we highlight our downside bias towards CPO prices, which is the leading share price performance indicator (especially for upstream planters).

No changes to earnings estimate as results were in line.

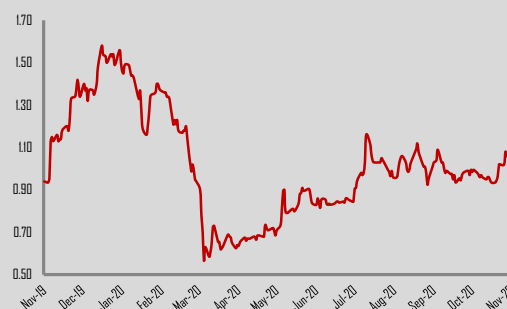
Downgrade to MARKET PERFORM with an unchanged Target Price of RM1.10 based on an unchanged FY21E PBV of 0.9x, reflecting -0.5SD valuation (in-line with peers). Since our upgrade (*report date: 27 Aug 2020*), TSH's share price has risen 12%. At current price, TSH is trading at FY21E PER of 23x (15% premium to peers). Given our view that CPO price is likely to come under pressure in the coming months, we believe reward-to-risk favours the latter at this juncture and our tactical MARKET PERFORM rating is appropriate.

Risks to our call include sharp increase/decline in CPO prices and a precipitous rise/fall in labour/fertiliser/transportation costs.

MARKET PERFORM ↓

Price : RM1.10
Target Price : RM1.10 ↔

Share Price Performance



KLCI	1,604.75
YTD KLCI chg	1.0%
YTD stock price chg	-28.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TSH MK Equity
Market Cap (RM m)	1,518.2
Shares Outstanding	1,380.2
52-week range (H)	1.59
52-week range (L)	0.56
3-mth avg daily vol:	4,459,413
Free Float	35%
Beta	1.5

Major Shareholders

Aik Pen Tan	15.1%
Employees Provident Fund Board	8.0%
Urusharta Jamaah Sdn Bhd	4.5%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	838.9	812.5	925.7
EBIT	102.8	168.8	147.8
PBT	73.8	145.2	133.1
Net Profit (NP)	44.0	71.9	104.7
Core NP	40.5	71.9	65.9
Consensus (CNP)	N.A.	68.8	81.1
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	2.9	5.2	4.8
Core EPS grwth (%)	-17.7	77.4	-8.4
NDPS (sen)	1.0	1.5	2.5
NTA/Share (RM)	1.10	1.12	1.18
Core PER (x)	37.5	21.1	23.1
Price/NTA (x)	1.00	0.98	0.93
Net Gearing (x)	0.91	0.84	0.47
Dividend Yield (%)	0.9	1.4	2.3

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Results Highlights								
FYE Dec (RM m)	3Q	2Q*	QoQ %	3Q	YoY%	9M20	9M19	YoY%
	FY20	FY20*		FY19				
Revenue	194.2	210.6*	(8%)	181.1	7%	586.4	523.8	12%
EBIT	30.0	23.4*	28%	21.5	40%	94.5	59.9	58%
Pretax Profit	34.9	28.1*	24%	13.1	167%	71.4	40.7	76%
Taxation	(6.4)	(6.8)*	(5%)	(7.0)	(9%)	(23.2)	(14.8)	57%
MI	(3.0)	(1.5)*	101%	(1.7)	73%	(10.1)	(1.4)	632%
Net Profit	25.5	19.8*	29%	4.3	490%	48.2	25.9	86%
Core Net Profit	17.3	10.6*	64%	9.8	77%	51.7	32.5	59%
Core EPS (sen)	1.25	0.76*	64%	0.71	77%	3.78	2.36	60%
EBIT %	15.5%	11.1%		11.9%		16.1%	11.4%	
PBT %	18.0%	13.3%		7.2%		12.2%	7.8%	
Tax %	18.3%	24.1%		53.8%		32.5%	36.3%	
FFB Volume (mt)	177,476	219,082*	(19%)	188,991	(6%)	504,532	501,572	1%
CPO (RM / mt)	2,404	2,099*	15%	1,920	25%	2,377	1,926	23%

Source: Company, Kenanga Research

*Adjustments for disc. Ops not available

Segmental Breakdown								
FYE Dec (RM m)	3Q	2Q*	QoQ %	3Q	YoY%	9M20	9M19	YoY%
	FY20	FY20*		FY19				
Segmental Rev:								
Palm Product	165.5	182.0*	(9%)	151.2	9%	493.6	438.0	13%
Others	28.7	28.6*	0%	29.9	(4%)	92.8	85.8	8%
Group Rev	194.2	210.6*	(8%)	181.1	7%	586.4	523.8	12%
Segmental Profit:								
Palm Product	32.5	19.4*	67%	21.2	53%	91.0	49.0	86%
Others	0.0	7.5*	(100%)	6.5	(99%)	14.4	25.5	(44%)
Group segmental profit (before adjustments)	32.5	27.0*	21%	27.7	17%	105.4	74.5	41%

Source: Company, Kenanga Research

*Adjustments for disc. Ops not available

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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
					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.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.22	4,450.7	Y	12/2020	2.4%	8.2%	292.0%	26.8%	86.4	22.0	17.4	1.1	1.0	4.8%	1.6%	1.25	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	64.0	40.7	29.1	2.2	2.1	5.2%	1.4%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.82	1,455.4	Y	12/2020	-0.9%	9.5%	174.2%	30.3%	69.3	25.3	19.4	0.9	0.9	4.6%	2.2%	1.95	OP
IJM PLANTATIONS BHD	1.83	1,611.5	N	03/2021	11.0%	7.1%	99.7%	13.2%	46.3	23.2	20.5	1.4	1.3	5.8%	1.7%	1.70	UP
IOI CORPORATION BHD	4.56	28,573.7	Y	06/2021	15.1%	7.4%	18.8%	6.5%	37.7	34.0	26.9	3.0	2.9	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.32	25,150.1	Y	09/2021	9.4%	3.5%	23.1%	5.4%	33.1	26.9	25.5	2.3	2.2	8.4%	2.4%	26.00	OP
PPB GROUP BERHAD	19.00	27,029.4	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.5	23.8	21.2	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.25	36,144.0	Y	12/2020	10.9%	4.9%	304.5%	40.2%	224.6	55.5	39.6	2.7	2.6	4.8%	1.1%	5.15	MP
TA ANN HOLDINGS BERHAD	3.03	1,334.6	Y	12/2020	14.7%	5.1%	57.7%	8.1%	19.5	12.4	11.4	0.9	0.9	7.4%	2.6%	3.45	OP
TSH RESOURCES BHD	1.10	1,518.2	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	37.5	21.1	23.1	1.0	1.0	5.0%	1.4%	1.10	MP
UNITED MALACCA BHD	4.96	1,040.5	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	100.0	53.4	0.8	0.8	0.8%	1.6%	4.85	MP
Simple Average					7.2%	7.3%	122.0%	23.8%	64.2	35.0	26.1	1.6	1.5	5.7%	1.8%		

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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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 E-mail: research@kenanga.com.my

