

23 May 2023

TSH Resources

Sub-par CPO Prices in 1QFY23

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TSH's 1QFY23 results disappointed due to its surprisingly low CPO prices achieved, about RM500 below average spot prices. Its refining JV with Wilmar also swung into losses but otherwise FFB production managed to stay flat despite the divestment of two matured Sabah estates in Mar 2022. We cut our FY23-24F net profit by 33-11%, reduce our TP by 19% to RM1.10 (from RM1.35) and downgrade our call to MARKET PERFORM from OUTPERFORM.

The anaemic 1QFY23 CNP of RM3.6m made up <3% of both our full-year forecast and the full-year consensus estimate. Spot CPO prices for the quarter were even higher than what TSH realised but we believe their forward position should unwind with the group achieving prices closer to market levels. 1QFY23 NP also included a disposal gain of RM27.6m which stemmed from the agreed disposal of 13,898 Ha (only 28% planted) in NE Kalimantan for RM731m cash in June 2022. RM429m worth of lands was transferred before FY22 ended with realised gain of RM311m then. In Jan 2023, a small parcel (575 Ha) was transferred resulting in the gain in 1QFY23. The remaining pieces of land should be sold within this financial year with total divestment gain of RM120m-RM140m.

Firm FFB harvest. 1QFY23 CPO price of RM3,550 per MT (+0.4% QoQ, -26% YoY) was flattish but RM500 below spot prices for Jan-March 2023, hence the downswing in earnings. FFB output of 0.199m MT (-11% QoQ, +1% YoY) was better than seemed as two matured Sabah estates with annual production of 60K MT of FFB were divested last March. If harvest from these two estates were included, 1QFY23 FFB output would be 6%-7% higher YoY. As for the 11% QoQ dip in FFB, it is seasonal. Historically, TSH's first quarter harvest is 13% QoQ weaker rather than the 11% achieved in 1QFY23.

Earnings should bottom out in FY23. Due to the poor 1QFY23 price which was realised, we are toning down TSH's FY23F average CPO price from RM3,800 per MT to RM3,700. Softer 2023 CPO price is due from recovery in supply but the threat of El Nino which is looking likely in 2HFY23 and recovering demand (which stagnated during Covid years) should provide some firmness in CPO prices moving ahead. Rising costs have also tightened margins since mid-2022 but this could be plateauing on softer fertiliser and fuel costs with higher FFB yields tempering wage inflation to result in earnings recovering come FY24.

Long-term expansion: Prior to FY22, high borrowings slowed the planting for up of 20k-25k Ha the group already owns. Strong FY22 operating cash flows, part disposal of the NE Kalimantan land (RM429m) and RM258m from the two matured Sabah estates divestiture have pared net debt from RM816m at the end of FY21 to RM131m (7% net gearing) as of 31 March 2023. New planting should start within 6 to 12 months.

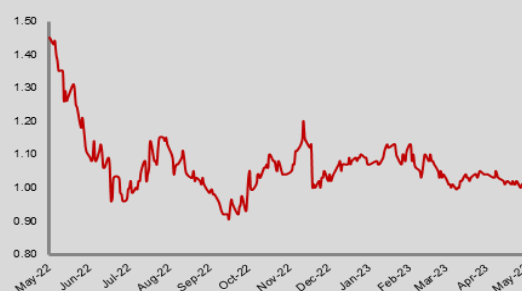
Downgrade to MARKET PERFORM (from OUTPERFORM) as we revised down FY23-24F net profit by 33-11% and TP from RM1.35 to RM1.10 based on FY24F CEPS at 11x PER after considering the group's smaller market capitalisation (integrated target PER is 15x), 3-star ESG rating and the risk of its long-term upstream expansion plans. We still like its longer-term growth outlook and the value creation potential of expanding its planted area from 40K Ha to 60-65K Ha. Rating of 0.6x P/NTA is not demanding either.

Risks to our call include: (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) cost inflation.

MARKET PERFORM ↓

Price : RM1.02
Target Price : RM1.10 ↓

Share Price Performance



KLCI 1,419.00
YTD KLCI chg -5.1%
YTD stock price chg -4.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TSH MK Equity
Market Cap (RM m)	1,407.8
Shares Outstanding	1,380.2
52-week range (H)	1.49
52-week range (L)	0.90
3-mth avg daily vol:	1,499,251
Free Float	46%
Beta	1.3

Major Shareholders

Tan Aik Pen	24.7%
Tan Aik Yong	5.1%
Tan Aik Kiong	4.0%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	1,306	1,376	1,464
EBIT	238.9	162.8	134.9
PBT	557.3	326.6	224.9
Net Profit (NP)	456.4	255.4	148.9
Core NP	282.5	115.4	148.9
Consensus (CNP)	-	131.7	118.5
Earnings Revision	-	-33%	-11%
Core EPS (sen)	20.4	8.3	10.8
Core EPS grwth (%)	29.8	-59.2	29.1
NDPS (sen)	10.5	2.0	3.0
NTA/Share (RM)	1.51	1.59	1.68
Core P/ER (x)	5.0	12.2	9.5
Price/NTA (x)	0.68	0.64	0.61
Net Gearing (x)	0.09	0.05	0.00
Dividend Yield (%)	10.3	2.0	2.9

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Results Highlights								
FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Revenue	250.3	283.4	-12%	337.3	-26%	250.3	337.3	-26%
EBIT	74.9	56.2	33%	125.1	-40%	74.9	125.1	-40%
Associates & JV	(4.8)	10.2	-148%	10.8	-145%	(4.8)	10.8	-145%
Pretax Profit	54.2	66.3	-18%	115.8	-53%	54.2	115.8	-53%
Taxation	(16.3)	(14.3)	14%	(9.1)	78%	(16.3)	(9.1)	78%
MI	(8.5)	(6.7)	27%	(10.2)	-17%	(8.5)	(10.2)	-17%
Net Profit	29.4	45.3	-35%	96.5	-69%	29.4	96.5	-69%
Core Net Profit	3.6	18.7	-81%	64.0	-94%	3.6	64.0	-94%
Core EPS (sen)	0.3	1.4	-81%	4.6	-94%	0.3	4.6	-94%
DPS (sen)	-	2.5	N.A.	-	N.A.	-	-	-
EBIT	30%	20%		37%		30%	37%	
PBT	22%	23%		34%		22%	34%	
Tax	30%	22%		8%		30%	8%	
FFB Production (MT)	199,334	222,807	-11%	197,947	1%	199,334	197,947	1%
CPO (RM / mt)	3,555	3,540	0%	4,779	-26%	3,555	4,779	-26%
PK (RM / mt)	1,770	1,805	-2%	3,950	-55%	1,770	3,950	-55%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Segmental Revenue:								
Palm Products	233.1	258.7	-10%	312.3	-25%	233.1	312.3	-25%
Others	17.2	24.7	-30%	25.1	-32%	17.2	25.1	-32%
Group Revenue	250.3	283.4	-12%	337.3	-26%	250.3	337.3	-26%
Segmental EBIT:								
Palm Products	78.1	56.9	37%	129.4	-40%	78.1	129.4	-40%
Others	(3.3)	(0.7)	348%	(4.3)	-24%	(3.3)	(4.3)	-24%
Group EBIT	74.9	56.2	33%	125.1	-40%	74.9	125.1	-40%
Finance Cost	(5.4)	(5.3)	2%	(8.9)	-40%	(5.4)	(8.9)	-40%
Associates & JV	(4.8)	10.2	-148%	10.8	-145%	(4.8)	10.8	-145%
Misc	(10.4)	5.2	-302%	(11.1)	-6%	(10.4)	(11.1)	-6%
Pretax Profit	54.2	66.3	-18%	115.8	-53%	54.2	115.8	-53%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
FGV HOLDINGS BHD	MP	1.44	1.40	-2.78%	5,253.3	Y	12/2023	21.5	21.7	-44.6%	0.9%	6.7	6.6	0.8	12.1%	8.0	5.6%
GENTING PLANTATIONS BHD	MP	6.11	5.50	-9.98%	5,481.9	Y	12/2023	40.9	41.8	-21.9%	2.1%	14.9	14.6	1.0	7.0%	20.0	3.3%
HAP SENG PLANTATIONS HOLDING	OP	1.90	2.30	21.05%	1,519.4	Y	12/2023	19.2	20.1	-25.0%	4.8%	9.9	9.5	0.8	7.8%	12.0	6.3%
IOI CORP BHD	MP	4.00	4.20	5.00%	24,825.4	Y	06/2023	26.8	21.2	-7.6%	-20.8%	14.9	18.8	2.3	15.7%	14.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	22.80	27.00	18.42%	24,588.3	Y	09/2023	171.6	168.4	-10.5%	-1.9%	13.3	13.5	1.7	13.1%	50.0	2.2%
PPB GROUP BHD	OP	16.10	19.30	19.88%	22,903.9	Y	12/2023	109.7	121.2	-28.1%	10.4%	14.7	13.3	0.8	5.9%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.52	3.65	-19.25%	31,259.0	Y	12/2023	24.3	22.0	-17.8%	-9.4%	18.6	20.5	1.8	10.4%	17.0	3.8%
TA ANN HOLDINGS BHD	MP	3.31	3.90	17.82%	1,457.9	Y	12/2023	41.7	42.5	-45.9%	2.0%	7.9	7.8	0.8	10.4%	25.0	7.6%
TSH RESOURCES BHD	MP	1.02	1.10	7.84%	1,407.8	Y	12/2023	8.3	10.8	-59.2%	29.1%	12.2	9.5	0.7	13.1%	2.0	2.0%
UNITED MALACCA BHD	MP	5.40	5.00	-7.41%	1,132.8	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.9	15.2	0.8	5.3%	15.0	2.8%
Simple Average					119,829.7					-22.6%	-3.8%	14.2	14.8	1.1	10.1%		4.0%

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	SPECIFIC	Product Safety to Users	★	★	★	
Product Safety to the Public		★	★	★		
Guest Labour Welfare		★	★	★		
Supply Chain Auditing		★	★	★		
Work Site Safety		★	★	★	☆	
Industrial Waste Disposal		★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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