

29 November 2023

Ta Ann Holdings

Plantation Profits Take Off in 3QFY23

By Teh Kian Yeong | tehky@kenanga.com.my

TAANN's 9MFY23 results beat our forecast but met market expectation. Its 3QFY23 core net profit jumped 87% QoQ driven by higher FFB production and lower cost, while timber earnings stayed subdued. We raise our FY23-24F net profit forecasts by 9% and 5%, respectively, lift our TP by 12% to RM3.80 (from RM3.40) but keep our MARKET PERFORM call.

Its 9MFY23 core net profit beat our expectation at 82% of our full-year forecast but only met market expectations at 76% of the full-year consensus estimate. The variance against our forecast came largely from stronger FFB output and lower costs.

YoY, its 9MFY23 core net profit declined YoY as last year's CPO prices were unusually high but 3QFY23 core net profit surged sequentially (+87% QoQ, -37% YoY) on better plantation earnings, thanks to seasonally higher FFB output, easier costs and relatively steady QoQ CPO price. Timber performance stayed muted in 3QFY23 on soft log and plywood demand. Net cash rose QoQ from RM223m to RM255m. Having declared dividends of 10.0 sen in 1QFY23 but none in 2QFY23, a 3QFY23 dividend of 15.0 sen was declared, bringing YTD NDPS to 25.0 sen (vs. 40.0 sen for 9MFY22).

Plantation earnings should improve. We are nudging up FY23-24F CNP by 9% and 5%, respectively, **on flattish palm oil prices amidst a moderating cost environment.** We are keeping our forecast average CPO prices of RM3,800 per MT intact for FY23-24 on tight global edible oil inventory outlook. After three stagnant years, demand in 2023 is recovering, dampening inventory increment to minimal. Meanwhile flattish or tighter end-2024 inventory is now expected on dull supply outlook while demand should continue growing by 3%-4% YoY. With firm CPO prices, lower input costs (fertiliser, fuel but also spare parts), and better margins, earnings should emerge higher over FY24-25.

Soft timber earnings look more likely. Home building and construction activities are expected to stay subdued as the real estate sector adjusts to a higher interest rate environment. Softwood prices have dropped 20%-25% YoY but hardwood prices held up better, at 5-7% weaker YoY for log and flattish for sawn timber on more tightly regulated supply. Nevertheless, muted timber demand and prices, and hence earnings are still more likely for 4QFY23 and FY24.

Still expecting 25 sen dividends. TAAN has no dividend policy or schedule. In FY22, it announced dividends in Feb (5 sen), May (10 sen), Sept (15 sen) and Nov (10 sen). For FY23, a 10 sen dividend has been declared YTD with a full year NDPS of 25 sen likely for FY23-24.

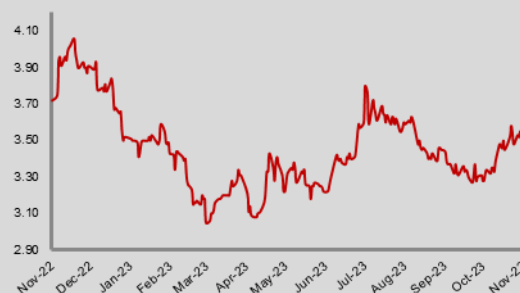
Forecasts. TAANN cost base is expected to inch up moving forward but we are still raising FY23-24F CNP by 9% and 5% respectively on the stronger-than-expected YTD earnings thus far.

Consequently, we lift our TP by 12% to RM3.80 (from RM3.40) based on 11x FY24F PER, at a 30% discount to the average forward 16x PER for integrated plantation players of 16x PER, and a 5% ESG rating discount given its 2-star rating as appraised by us (see Page 3). Its palm oil operation is MSPO certified (but not RSPO) while Malaysian Timber Certification Scheme and European-based PERF certify its logging operations. TAANN offers defensive net cash balance sheet and dividends yields but earnings growth is muted by weak timber outlook. Maintain **MARKET PERFORM**.

MARKET PERFORM ↔

Price : RM3.51
Target Price : RM3.80 ↑

Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	-7.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TAH MK EQUITY
Market Cap (RM m)	1,546.0
Shares Outstanding	440.5
52-week range (H)	4.07
52-week range (L)	3.03
3-mth avg daily vol:	454,765
Free Float	40%
Beta	1.3

Major Shareholders

Mountex Sdn Bhd	21.3%
Haji Sepawi Amar Abd	7.5%
Employees Provident	5.0%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	2,187.4	1,705.0	1,706.1
EBIT	498.5	268.9	251.4
PBT	524.3	310.4	277.8
Net Profit (NP)	395.0	174.7	159.4
Core NP	419.5	158.4	159.4
Consensus (CNP)	-	172.2	181.7
Earnings Revision	-	+9%	+5%
Core EPS (sen)	95.2	36.0	36.2
Core EPS growth (%)	14.9	-62.2	0.6
NDPS (sen)	40.0	25.0	25.0
NTA/Share (RM)	3.98	4.07	4.14
Core PER (x)	3.7	9.8	9.7
Price/NTA (x)	0.88	0.86	0.85
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	11.4	7.1	7.1

29 November 2023

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

Results Highlights

<i>FYE Dec (RM m)</i>	3Q23	1Q23	QoQ %	3Q22	YoY%	9MFY23	9MFY22	YoY%
Revenue	489.2	385.2	27%	594.9	-18%	1225.0	1,736.8	-29%
Operating Profit	97.8	57.4	70%	156.1	-37%	208.8	424.9	-51%
Pretax Profit	108.186	69.9	55%	166.2	-35%	234.6	464.7	-50%
Taxation	(24.2)	(16.0)	51%	(38.4)	-37%	(53.2)	(101.7)	-48%
MI	(18.9)	(10.9)	74%	(26.2)	-28%	(34.0)	(64.8)	-48%
Net Profit	65.1	43.0	52%	101.5	-36%	147.4	298.1	-51%
Core Net Profit	60.3	32.2	87%	96.2	-37%	131.0	283.6	-54%
Core EPS (sen)	13.7	7.3	87%	21.9	-37%	29.7	64.4	-54%
DPS (sen)	15.0	-	N/A	10.0	N/A	25.0	40.0	-38%
EBIT %	20%	15%		26%		17%	24%	
PBT %	22%	18%		28%		19%	27%	
Tax %	22%	23%		23%		23%	22%	
Approx CPO (RM / mt)	3,700	3,700	0%	4,500	-18%	3,750	5,500	-32%
FFB Production (MT)	210,829	143,072	47%	212,877	-1%	481,253	506,999	-5%
Log Production (m3)	67,100	69,663	-4%	83,933	-20%	212,955	253,822	-16%

Source: Company, Kenanga Research

Segmental Breakdown

<i>FYE Dec (RM m)</i>	3Q23	2Q23	QoQ %	3Q22	YoY%	9MFY23	9MFY22	YoY%
Segmental Revenue:								
Timber	92.9	76.6	21%	100.6	-8%	236.0	313.8	-25%
Plantation	396.1	306.9	29%	494.1	-20%	986.5	1,420.8	-31%
Others	0.2	1.7	-89%	0.2	14%	2.5	2.2	14%
Group Revenue	489.2	385.2	27%	594.9	-18%	1,225.0	1,736.8	-29%
Segmental Pretax Profit:								
Timber	8.2	8.3	-2%	25.8	-68%	33.5	75.3	-56%
Plantation	94.7	49.7	91%	134.0	-29%	183.0	374.7	-51%
Others	5.3	11.8	-56%	6.3	-17%	18.1	14.7	23%
Group Pretax Profit	108.2	69.9	55%	166.2	-35%	234.6	464.7	-50%

Source: Company, Kenanga Research

29 November 2023

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. 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.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
PLANTATION																					
BOUSTEAD PLANTATIONS BHD	AO	1.53	1.55	1.3%	3,427.2	Y	12/2023	1.3	2.6	-78.8%	100.0%	118.2	59.1	1.2	1.0%	2.0	1.3%				
GENTING PLANTATIONS BHD	MP	5.53	5.70	3.1%	4,961.3	Y	12/2023	29.0	33.3	-44.6%	14.8%	19.0	16.6	0.9	4.8%	15.0	2.7%				
HAP SENG PLANTATIONS HOLDING	MP	1.79	1.80	0.6%	1,431.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	16.8	15.2	0.7	4.4%	7.0	3.9%				
IOI CORP BHD	MP	3.99	3.80	-4.8%	24,752.8	Y	06/2024	22.9	23.9	-5.8%	4.3%	17.4	16.7	2.2	13.4%	11.0	2.8%				
KUALA LUMPUR KEPONG BHD	OP	21.50	24.50	14.0%	23,186.4	Y	09/2024	147.0	165.1	40.9%	12.3%	14.6	13.0	1.5	10.4%	50.0	2.3%				
PPB GROUP BHD	OP	14.06	19.30	37.3%	20,001.8	Y	12/2023	75.0	114.3	-50.8%	52.4%	18.7	12.3	0.7	4.1%	45.0	3.2%				
SIME DARBY PLANTATION BHD	MP	4.51	4.00	-11.3%	31,189.9	Y	12/2023	13.8	16.6	-53.4%	20.3%	32.7	27.2	1.8	11.4%	18.0	4.0%				
TA ANN HOLDINGS BHD	MP	3.51	3.80	8.3%	1,546.0	Y	12/2023	36.0	36.2	-62.2%	0.6%	9.8	9.7	0.9	9.9%	25.0	7.1%				
TSH RESOURCES BHD	OP	0.995	1.30	30.7%	1,373.3	Y	12/2023	5.6	7.2	-72.7%	28.3%	17.8	13.9	0.7	7.5%	1.0	1.0%				
UNITED MALACCA BHD	MP	4.92	5.00	1.6%	1,032.1	Y	04/2024	33.0	25.3	-40.3%	-23.4%	14.9	19.4	0.7	4.4%	12.0	2.4%				
Simple Average					112,902.1					-32.7%	19.1%	19.8	16.6	1.1	7.8%		3.3%				

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

29 November 2023

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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