

29 January 2024

# TSH Resources

## Embarking on New Expansion Cycle

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After selective asset divestment, TSH has minimal net gearing today. As such, the group has started work to expand its oil palm area by another 20%-25% within the next 2-3 years. The group is also studying carbon market opportunities following its secondary listing in SGX Mainboard. We maintain our forecasts, TP of RM1.30 and OUTPERFORM call.

**NE Kalimantan land sale, a significant pivot.** Saddled with RM637m in net debt in April 2022, TSH agreed to sell 13,898 Ha of mostly unplanted agriculture land for RM731m cash. 7,817 Ha of the land was sold in Aug 2022 followed by another 575 Ha in Jan 2023. All in all, TSH has received RM457m in cash. Coupled with operating cash flows, net debt has been pared to just RM88m as of Sept 2023. Disposal of the remaining 5,506 Ha for RM274m cash should conclude by mid-2024. Altogether, the divestment has already enabled TSH to substantially de-gear and the group can now consider expansion once again.

**Long-term bullish on palm oil.** Unlike the past few decades, moving ahead, TSH expects more modest growth from palm oil supply even as edible oil demand is likely to continue growing. As such, the group will not rule out further expansion, organically or via acquisitions. However, the top priority for the next two to three years is to grow organically, planting up another 8k-10k Ha of oil palm land which the group already owns.

**Expanding oil palm planting by 20%-25% over the coming 2-3 years.** After the NE Kalimantan land sales, TSH should still have 60k Ha of land left with only 40k Ha planted up with oil palm. More importantly, the divestment has allowed TSH to re-capitalise and it is now planning to develop new oil palm area. A new nursery and planting team are now in place and the group is aiming to plant 8k-10k Ha of new area over the next 2-3 years. Estimated capex of RM200-300m will be funded by a mix of sale proceed, operating cash flows as well as borrowings.

**SGX Mainboard listing.** In Sept 2023, SGX welcomed the secondary listing of TSH to its Mainboard. TSH's primary listing remains on Bursa but sees wider opportunities with a SGX presence. Firstly, the bulk of TSH's earnings are already from Indonesia; hence, an SGX listing could provide greater flexibility in terms of: (i) funding, (ii) regional growth, for example many Indonesian corporations are comfortable with Singaporean listing, and (iii) wider carbon-related opportunities in term of market or trading including renewable energy and sustainable forestry where TSH manages over 100,000 Ha in Sabah.

**Forecasts.** Maintained. CPO is expected to trade between RM3,500 to RM4,000 per MT but lower for TSH (at RM3,000-3,500 per MT) as most of its CPO is sold at Indonesian prices. However, FY24-25F margins are likely to improve compare to FY23 on lower input costs such as fertiliser and fuel. The weakness in palm kernel (PK) prices should also see modest recovery FY24 as buyers need to restock even though the underlying market is likely to stay soft.

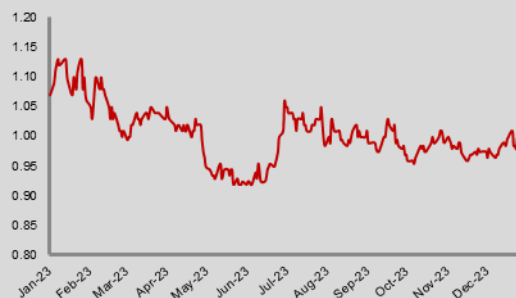
**Maintain OUTPERFORM, FY23-24F CEPS and TP of RM1.30** based on average P/NTA of 0.8x for smaller to mid-sized plantation players. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

**Risks to our call include:** (i) Western hostility towards palm oil on sustainability and bio-diversity issues, (ii) impact of weather and labour shortages on production, (iii) weak CPO and palm kernel prices, and (iv) cost inflation particularly fertilizers.

# OUTPERFORM ↔

Price : **RM1.02**  
Target Price : **RM1.30** ↔

### Share Price Performance



KLCI 1,506.28  
YTD KLCI chg 3.5%  
YTD stock price chg 4.6%

### 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) 1.15  
52-week range (L) 0.92  
3-mth avg daily vol: 1,277,324  
Free Float 45%  
Beta 1.5

### Major Shareholders

Tan Aik Pen 24.8%  
Tan Aik Yong 5.2%  
Tan Aik Kiong 4.2%

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	1,306	1,148	1,349
EBIT	238.9	171.6	139.9
PBT	557.3	165.1	320.8
<b>Net Profit (NP)</b>	<b>456.4</b>	<b>142.2</b>	<b>199.0</b>
<b>Core NP</b>	<b>282.5</b>	<b>77.2</b>	<b>99.0</b>
Consensus (CNP)	-	91.2	110.5
Earnings Revision	-	0%	0%
Core EPS (sen)	20.5	5.6	7.2
Core EPS grwth (%)	29.8	-72.7	28.3
NDPS (sen)	10.5	1.0	2.0
NTA/Share (RM)	1.51	1.51	1.65
Core P/ER (x)	5.0	18.2	14.2
Price/NTA (x)	0.68	0.68	0.62
Net Gearing (x)	0.09	0.10	0.00
Dividend Yield (%)	10.3	1.0	2.0

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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	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.		
<b>PLANTATION</b>																	
GENTING PLANTATIONS BHD	MP	6.40	5.70	-10.9%	5,741.8	Y	12/2023	29.0	33.3	-44.6%	14.8%	22.0	19.2	1.0	4.8%	15.0	2.3%
HAP SENG PLANTATIONS HOLDINGS	MP	1.85	1.80	-2.7%	1,479.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	17.4	15.7	0.8	4.4%	7.0	3.8%
IOI CORP BHD	MP	3.97	3.80	-4.3%	24,628.7	Y	06/2024	22.9	23.9	-5.8%	4.3%	17.3	16.6	2.2	13.4%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	22.68	24.50	8.0%	24,458.9	Y	09/2024	147.0	165.1	40.9%	12.3%	15.4	13.7	1.5	10.4%	50.0	2.2%
PPB GROUP BHD	OP	14.48	18.40	27.1%	20,599.2	Y	12/2023	76.6	115.1	-49.8%	50.2%	18.9	12.6	0.8	4.8%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.35	4.00	-8.0%	30,083.4	Y	12/2023	13.8	16.6	-53.4%	20.3%	31.6	26.2	1.7	11.4%	18.0	4.1%
TA ANN HOLDINGS BHD	MP	3.69	3.80	3.0%	1,625.3	Y	12/2023	36.0	36.2	-62.2%	0.6%	10.3	10.2	0.9	9.9%	25.0	6.8%
TSH RESOURCES BHD	OP	1.02	1.30	27.5%	1,407.8	Y	12/2023	5.6	7.2	-72.7%	28.3%	18.2	14.2	0.7	7.5%	1.0	1.0%
UNITED MALACCA BHD	MP	5.00	5.00	0.0%	1,048.8	Y	04/2024	33.0	21.7	-40.3%	-34.2%	15.1	23.0	0.7	4.4%	12.0	2.4%
<b>Simple Average</b>					<b>116,181</b>					<b>-38.3%</b>	<b>19.1%</b>	<b>19.0</b>	<b>16.0</b>	<b>1.1</b>	<b>7.6%</b>		<b>3.4%</b>

Source: Bloomberg, Kenanga Research

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

- ☆ 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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