

28 May 2024

Ta Ann Holdings

Weak Timber Earnings Weigh

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TAANN's 1QFY24 results met our forecast but disappointed the market. Its 1QFY24 core net profit eased 9% YoY as improved plantations profits were more than offset by weaker timber earnings. Lower cost at its plantation operation will continue to drive earnings. We maintain our forecasts, TP of RM4.00 and MARKET PERFORM call.

Its 1QFY24 core net profit of RM35m (excluding RM8.4m fair value gain and RM0.2m net disposal loss and impairment) came in at 19% and 17% of our full-year forecast and the full-year consensus estimate, respectively. We consider the results within our forecast (given the seasonally low 1Q, harvesting only 19% and 23% of its annual FFB and timber production, respectively) but disappointed the market. It declared a NDPS of 15 sen, on track to meet our full-year of forecast of 25 sen.

YoY, its 1QFY24 top line was flattish on similarly flattish average CPO selling price realised of around RM3,900 per MT as FFB production dropped and timber turnover declined. However, its core net profit slipped 9% as improved plantations profits (on lower cost) were more than offset by weaker timber earnings.

QoQ, its 1QFY24 core net profit dipped 19% as FFB and log harvest fell 35% and 17%, respectively, offsetting the stronger CPO prices. Its timber earnings were weaker on softer demand while FFB production declined from a high base in 4Q, which is typically the second best quarter in terms of plantation harvest.

Outlook. We expect flattish CPO prices in CY24 as global edible oil inventory is expected to decline though staying manageable. Worldwide, edible oil supply is expected to struggle in keeping pace with trendline YoY growth of 3%-4% in edible oil demand in CY24 and possibly up to mid-CY25. As such, we are keeping our forecast average CPO prices of RM3,800 per MT for FY24-25 intact. However, the cost of producing CPO is expected to moderate. Fertiliser prices are now 30% lower YoY while energy cost is 10% weaker. After declining since mid-CY22, palm kernel (PK) prices have started rising in April 2024 and as CPO mills sell PK as a byproduct, better PK prices translate to lower CPO cost.

Soft timber demand still likely. Home building and construction activities are expected to stay subdued in view of economic headwinds and higher borrowing costs. Prices of hardwood log have continued to slide but hardwood sawn timber prices are gradually inching up. However, overall hardwood timber demand is expected to remain muted for FY24-25 hence timber earnings are likely to remain soft.

Forecasts. Maintained.

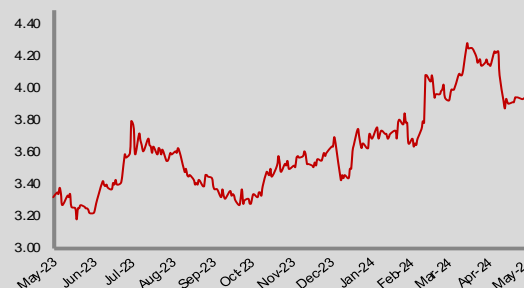
Valuations. We also maintain our TP of RM4.00 based on 1.0x PBV, the average for smaller plantation companies' PBV range of 0.9x-1.1x, with a 5% ESG discount for its 2-star rating as appraised by us (see Page 3). TAANN's plantations are MSPO certified but not RSPO while its timber unit is under Malaysian Timber Certification Scheme and European-based PERF. Maintain **MARKET PERFORM**.

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

MARKET PERFORM ↔

Price : **RM3.90**
Target Price : **RM4.00** ↔

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	6.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TAH MK EQUITY
Market Cap (RM m)	1,717.8
Shares Outstanding	440.5
52-week range (H)	4.32
52-week range (L)	3.18
3-mth avg. daily vol.	755,355
Free Float	38%
Beta	1.2

Major Shareholders

Mountex Sdn Bhd	21.3%
Wahab Haji Dolah Bin	9.4%
Haji Sepawi Amar Abd	7.5%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	1,680.7	1,724.2	1,762.8
EBIT	289.0	280.7	295.9
PBT	275.9	307.1	326.2
Net Profit (NP)	156.4	180.2	191.4
Core NP	174.1	180.2	191.4
Consensus (CNP)	-	199.6	195.1
Earnings Revision	-	-	-
Core EPS (sen)	39.5	40.9	43.5
Core EPS Growth (%)	-47.3	3.5	6.2
NDPS (sen)	25.0	25.0	25.0
NTA/Share (RM)	4.11	4.20	4.28
Core PER (x)	9.9	9.5	9.0
Price/NTA (x)	0.95	0.93	0.91
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	6.4	6.4	6.4

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Results Highlights

<i>FYE Dec (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY	3MFY24	3MFY23	YoY
Revenue	352.4	455.7	-23%	350.7	0.5%	352.4	350.7	0.5%
Gross Profit	80.6	124.1	-35%	79.9	0.8%	80.6	79.9	0.8%
Operating Profit	51.8	77.5	-33%	53.6	-3%	51.8	53.6	-3%
Interest expenses	(1.6)	(2.0)	-19%	(2.8)	-43%	(1.6)	(2.8)	-43%
Associates & JVs	6.6	8.4	-21%	5.0	32%	6.6	5.0	32%
El (excl in core net profit)	8.2	(43.8)	-119%	0.7	1004%	8.2	0.7	1004%
Pretax Profit	65.2	41.4	58%	56.5	15%	65.2	56.5	15%
Taxation	(14.2)	(21.0)	-32%	(13.0)	10%	(14.2)	(13.0)	10%
MI	(7.8)	(11.4)	-32%	(4.3)	82%	(7.8)	(4.3)	82%
Net Profit	43.2	9.0	380%	39.3	10%	43.2	39.3	10%
Core Net Profit	35.0	43.1	-19%	38.5	-9%	35.0	38.5	-9%
Core EPS (sen)	7.9	9.8	-19%	8.7	-9%	7.9	8.7	-9%
DPS (sen)	15.0	-	-	10.0	50%	15.0	10.0	50%
GP %	23%	27%		23%		23%	23%	
EBIT %	15%	17%		15%		15%	15%	
PBT %	19%	9%		16%		19%	16%	
Tax %	22%	51%		23%		22%	23%	
Approx CPO (RM / mt)	3,900	3,600	8%	3,900	-	3,900	3,900	-
FFB Production (MT)	127,174	195,769	-35%	127,352	-0.1%	127,174	127,352	-0.1%
CPO Production (MT)	56,783	83,827	-32%	56,474	0.5%	56,783	56,474	0.5%
Log Production (m3)	49,286	59,495	-17%	76,192	-35%	49,286	76,192	-35%

Source: Company, Kenanga Research

Segmental Breakdown

<i>FYE Dec (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY%	3MFY24	3MFY23	YoY
Segmental Revenue:								
Timber	59.8	74.3	-20%	66.5	-10%	59.8	66.5	-10%
Plantation	292.5	381.3	-23%	283.6	3%	292.5	283.6	3%
Others	0.1	0.1	-10%	0.6	-82%	0.1	0.6	-82%
Group Revenue	352.4	455.7	-23%	350.7	0.5%	352.4	350.7	1%
Segmental Pretax Profit:								
Timber	4.5	2.0	129%	16.9	-73%	4.5	16.9	-73%
Plantation	52.3	82.8	-37%	38.6	35%	52.3	38.6	35%
Others	8.4	(43.4)	-119%	0.3	2635%	8.4	0.3	2635%
Group Pretax Profit	65.2	41.4	58%	56.5	15%	65.2	56.5	15%

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																	
GENTING PLANTATIONS BHD	MP	6.07	6.00	-1.2%	5,445.8	Y	12/2024	33.9	36.1	21.0%	6.4%	17.9	16.8	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HOLDING	MP	1.79	2.00	11.7%	1,431.4	Y	12/2024	12.8	13.1	13.0%	2.9%	14.0	13.6	0.7	5.1%	7.0	3.9%
IOI CORP BHD	MP	3.95	4.10	3.8%	24,504.6	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.9	18.6	2.2	11.6%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	21.98	21.00	-4.5%	24,099.0	Y	09/2024	90.0	125.7	8.7%	39.7%	24.4	17.5	1.6	6.7%	50.0	2.3%
PPB GROUP BHD	OP	14.88	18.50	24.3%	21,168.3	Y	12/2024	115.9	137.1	44.0%	18.3%	12.8	10.9	0.7	5.8%	45.0	3.0%
SIME DARBY PLANTATION BHD	MP	4.33	4.00	-7.6%	29,945.0	Y	12/2024	16.6	18.8	30.1%	13.5%	26.1	23.0	1.7	6.6%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.90	4.00	2.6%	1,717.8	Y	12/2024	40.9	43.5	3.5%	6.2%	9.5	9.0	0.9	10.0%	25.0	6.4%
TSH RESOURCES BHD	OP	1.12	1.30	16.1%	1,545.8	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.2	15.2	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.05	6.00	18.8%	1,059.3	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.5	15.4	0.7	3.2%	12.0	2.4%
Simple Average					110,917.1					11.0%	18.3%	19.5	16.5	1.2	7.1%		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

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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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Published by:

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