



AmInvestment Bank

Company report

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TSH RESOURCES

(TSH MK, TSH.KL)

PLANTATION

19 Nov 2020

Higher CPO prices offset weaker volume growth

BUY

(Maintained)

Rationale for report: Company results

Price **RM1.10**
Fair Value **RM1.25**
52-week High/Low RM1.59/RM0.56

Key Changes

Fair value
EPS

YE to Dec	FY19	FY20E	FY21F	FY22F
Revenue (RM mil)	838.9	901.3	986.7	1029.7
Net profit (RM mil)	44.3	68.2	68.9	75.4
EPS (sen)	3.2	4.9	5.0	5.5
EPS growth (%)	9.6	54.1	1.0	9.5
Consensus net (RM mil)	39.1	66.3	82.0	91.9
DPS (sen)	1.0	1.5	2.0	2.5
PE (x)	34.3	22.3	22.0	20.1
EV/EBITDA (x)	14.7	15.2	13.5	13.8
Div yield (%)	0.9	1.4	1.8	2.3
ROE (%)	3.1	4.6	4.5	4.8
Net gearing (%)	90.8	84.9	66.5	81.0

Stock and Financial Data

Shares Outstanding (million)	1,381.8
Market Cap (RM mil)	1,520.0
Book value (RM/share)	1.04
P/BV (x)	1.1
ROE (%)	3.1
Net Gearing (%)	90.8
Major Shareholders	Tan Family (60-70%) EPF (7.6%)

Free Float (%) 40
Avg Daily Value (RM mil) 4.6

Price performance	3mth	6mth	12mth
Absolute (%)	+0.1	+52.4	+19.8
Relative (%)	+11.5	+34.3	+20.1



Investment Highlights

- We maintain BUY on TSH Resources with a higher fair value of RM1.25/share vs. RM1.21/share previously. Our fair value for TSH is based on an FY21F PE of 25x. We have raised TSH's FY21F net profit by 2.8% to account for a higher average CPO price of RM2,500/tonne compared with RM2,400/tonne originally.
- TSH's 9MFY20 core net profit of RM57.3mil (ex-forex loss of RM10.9mil) was slightly above our forecast but within consensus. We have raised TSH's FY20E net profit by 5.3% to account for a higher-than-expected plantation operating profit margin.
- We believe that TSH's results in 9MFY20 would have been stronger without the RM9.0mil loss on commodity futures contracts and 57.3% QoQ plunge in the net profit of the palm refinery in 3QFY20. EBIT of the "others" division (cocoa and biomass) also plunged to zero in 3QFY20 from RM7.5mil in 2QFY20.
- TSH's core net profit of RM49.2mil in 9MFY20 included insurance claims of RM13.3mil in respect of the fire at the Ekowood plant in Gopeng, Perak. These were partly offset by write-offs on inventory, property, plant and equipment of RM13.4mil.
- TSH's gross profit rose by 5.2% YoY to RM191.1mil in 9MFY20. The 86.3% YoY climb in the EBIT of the palm division in 9MFY20 was partly negated by a 43.7% plunge in the earnings of the "others division. "Others" was affected by a weaker demand for cocoa products and drop in the sales volume of biomass resulting from insufficient feedstock in 9MFY20.
- Average CPO price realised grew by 24.7% to RM2,377/tonne in 9MFY20 from RM1,906/tonne in 9MFY19. FFB production grew a mere 0.6% YoY in 9MFY20. TSH's Malaysia unit posted a 3.6% YoY rise in FFB output in 9MFY20 while that of Indonesia slid by 0.8%. Indonesia accounted for 88.7% of TSH's FFB output in 9MFY20.
- We attribute the weak FFB production growth in 9MFY20 to tree stress after a productive 2HFY19. TSH's FFB output rose by 7.0% YoY in 2HFY19 in spite of the haze and drought, which took place in 3Q.

The share of net profit in the TSH/Wilmar palm refinery fell to RM13.8mil in 9MFY20 from RM18.5mil in 9MFY19. On a quarterly basis, the share of net profit in the palm refinery dived by 57.3% to RM3.5mil in 3QFY20. We believe that the refinery was affected by the surge in CPO prices in 3QFY20.

TABLE 1: EARNINGS SUMMARY

YE 31 Dec (RM mil)	9MFY19	9MFY20	%	2QFY20	3QFY20	%
Revenue	597.5	586.4	-1.8	210.6	194.2	-7.8
Cost of sales	(415.7)	(395.3)	-4.9	(141.9)	(131.2)	-7.5
Gross profit	181.7	191.1	5.2	68.7	63.0	-8.3
Other op income	64.4	34.3	-46.7	21.7	4.6	-79.0
Other op expenses	(177.9)	(130.7)	-26.5	(67.0)	(37.5)	-44.0
Op profit	68.3	94.8	38.9	23.4	30.0	28.1
Interest expense	(40.2)	(32.1)	-20.1	(12.4)	(9.6)	-22.9
Forex	(4.7)	(10.9)	131.6	6.7	8.7	29.3
Gain on disposal of investment	0.0	0.0		0.0	0.0	
FV chg on biological assets	0.0	0.0		0.0	0.0	
Loss on discount operations	0.0	0.0		0.0	0.0	
Share of profits in associates	(0.1)	6.2	-4743.6	2.2	2.3	3.5
Share of profits in JV	18.5	13.8	-25.5	8.1	3.5	-57.3
Pre-tax profit	41.7	71.7	71.8	28.1	34.9	24.3
Profit from discount operations	1.1	8.1		0.0	(1.5)	
Tax	(14.7)	(23.2)		(6.8)	(6.4)	
Minority interest	(1.4)	(10.1)		(1.5)	(3.0)	
Net profit	26.7	46.4	73.7	19.8	24.1	21.4
Net profit ex-forex	31.4	57.3	82.4	13.1	15.4	17.4

Source: Bursa Announcement

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue	906.4	838.9	901.3	986.7	1,029.7
EBITDA	183.9	192.2	183.3	187.2	202.3
Depreciation	(73.7)	(100.3)	(68.1)	(77.1)	(86.1)
Operating income (EBIT)	110.3	91.9	115.2	110.1	116.2
Other income & associates	7.3	19.2	21.3	23.4	25.8
Net interest	(35.9)	(37.1)	(36.2)	(32.3)	(31.2)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	81.7	74.0	100.3	101.3	110.9
Taxation	(29.7)	(28.4)	(26.1)	(26.3)	(28.8)
Minorities/pref dividends	(11.5)	(1.3)	(6.0)	(6.1)	(6.7)
Net profit	40.5	44.3	68.2	68.9	75.4
Core net profit	50.2	39.2	68.2	68.9	75.4
Balance Sheet (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Fixed assets	1937.1	1755.4	1787.3	1810.2	1824.1
Intangible assets	56.2	56.9	56.9	56.9	56.9
Other long-term assets	825.6	1069.2	1057.5	1081.0	1106.8
Total non-current assets	2,818.8	2,881.4	2,901.7	2,948.0	2,987.7
Cash & equivalent	108.0	125.9	188.7	198.7	220.5
Stock	200.0	172.4	148.2	162.2	169.3
Trade debtors	52.4	56.8	66.7	73.0	76.2
Other current assets	38.2	28.7	28.7	28.7	28.7
Total current assets	398.6	383.7	432.2	462.5	494.6
Trade creditors	99.1	100.2	95.8	105.1	109.0
Short-term borrowings	663.1	535.6	546.4	557.3	568.4
Other current liabilities	2.9	1.3	1.3	1.3	1.3
Total current liabilities	765.1	637.1	643.4	663.6	678.7
Long-term borrowings	792.6	896.1	905.1	914.2	923.3
Other long-term liabilities	155.1	157.1	157.1	157.1	157.1
Total long-term liabilities	947.7	1053.3	1062.3	1071.3	1080.4
Shareholders' funds	1373.1	1439.0	1486.5	1527.8	1568.7
Minority interests	131.5	135.7	141.8	147.8	154.5
BV/share (RM)	0.99	1.04	1.08	1.11	1.14
Cash Flow (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Pretax profit	81.7	74.0	100.3	101.3	110.9
Depreciation	81.3	99.2	68.1	77.1	86.1
Net change in working capital	(17.6)	(29.6)	(73.2)	(92.7)	(88.9)
Others	27.5	38.6	32.7	25.0	21.1
Cash flow from operations	172.9	182.2	127.9	110.7	129.1
Capital expenditure	(151.1)	(101.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	1.0	1.7	0.0	0.0	0.0
Others	17.8	22.7	32.9	0.0	0.0
Cash flow from investing	(132.3)	(77.2)	(67.1)	(100.0)	(100.0)
Debt raised/(repaid)	6.0	(20.3)	19.7	20.0	20.3
Equity raised/(repaid)	0.0	(1.5)	0.0	0.0	0.0
Dividends paid	(28.6)	(13.8)	(13.8)	(20.7)	(27.6)
Others	(44.0)	(53.7)	0.0	0.0	0.0
Cash flow from financing	(66.6)	(89.3)	5.9	(0.7)	(7.3)
Net cash flow	(26.0)	15.7	66.7	10.0	21.8
Net cash/(debt) b/f	127.9	99.8	122.0	188.7	198.7
Forex	(2.0)	0.0	0.0	0.0	0.0
Net cash/(debt) c/f	99.9	115.6	188.7	198.7	220.5
Key Ratios (YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue growth (%)	-15.6	-7.5	7.4	9.5	4.4
EBITDA growth (%)	-28.3	4.5	-4.7	2.1	8.1
Pretax margins (%)	9.0	8.8	11.1	10.3	10.8
Net profit margins (%)	4.5	5.3	7.6	7.0	7.3
Interest cover (x)	5.1	5.2	5.1	5.8	6.5
Effective tax rate (%)	-36.4	-38.3	-26.0	-26.0	-26.0
Net dividend payout (%)	34.2	31.2	30.3	40.1	45.8
Debtors turnover (days)	21	25	27	27	27
Stock turnover (days)	81	75	60	60	60
Creditors turnover (days)	58	63	59	59	59

Source: Company, AmInvestment Bank estimates

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