



AmInvestment Bank

## Company report

## TSH RESOURCES

(TSH.MK, TSH.KL)

12 Jan 2021

Sale of estates to KLK to affect FFB output growth

BUY

(Maintained)

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Rationale for report: Company Update

Price RM1.13  
Fair Value RM1.35  
52-week High/Low RM1.57/RM0.56

## Key Changes

Fair value   
EPS

YE to Dec	FY19	FY20E	FY21F	FY22F
Revenue (RMmil)	838.9	944.2	974.5	1016.6
Net profit (RMmil)	44.3	83.4	85.5	98.9
EPS (sen)	3.2	6.0	6.2	7.2
EPS growth (%)	9.6	88.3	2.5	15.6
Consensus net (RMmil)	39.1	71.4	88.7	90.1
DPS (sen)	1.0	1.5	2.0	2.5
PE (x)	35.2	18.7	18.2	15.8
EV/EBITDA (x)	14.9	13.7	13.5	12.0
Div yield (%)	0.9	1.3	1.8	2.2
ROE (%)	3.1	5.6	5.5	6.1
Net gearing (%)	90.8	83.6	79.4	74.6

## Stock and Financial Data

Shares Outstanding (million) 1,380.2  
Market Cap (RMmil) 1,559.6  
Book value (RM/share) 1.04  
P/BV (x) 1.1  
ROE (%) 3.1  
Net Gearing (%) 90.8

Major Shareholders Tan Family (60% to 70%)  
EPF (7.6%)

Free Float (%) 30  
Avg Daily Value (RMmil) 4.3

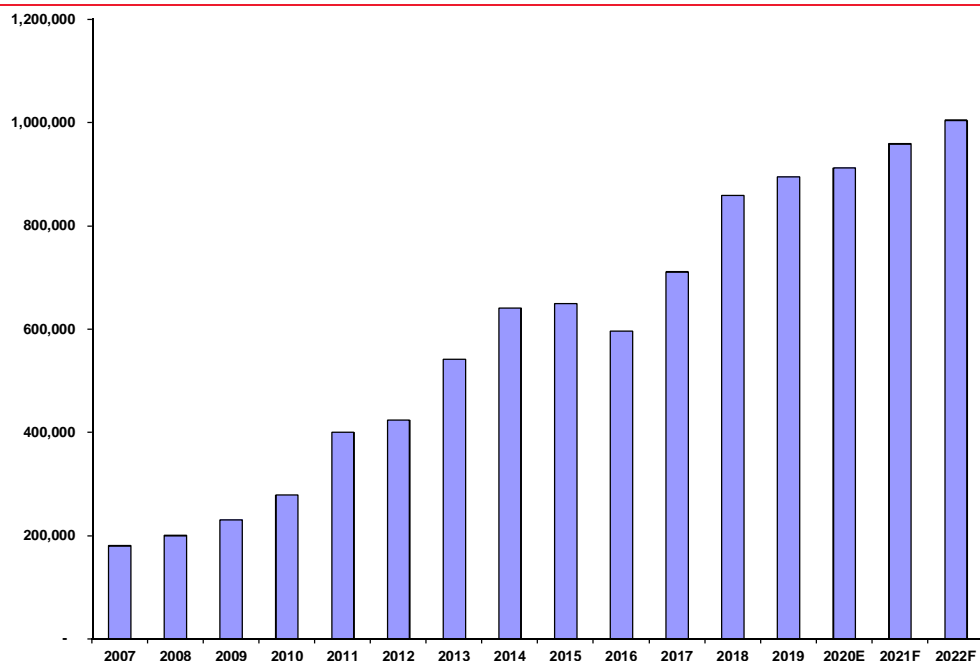
Price performance	3mth	6mth	12mth
Absolute (%)	+0.2	+35.7	-22.7
Relative (%)	+11.7	+33.9	-23.7



## Investment Highlights

- We maintain BUY on TSH Resources with a higher fair value of RM1.35/share. Although we have raised TSH's FY21F net profit by 27.6%, we have reduced our PE assumption to 22x from 25x.
- We have lowered the PE used to derive TSH's fair value due to the group's high exposure to Indonesia. There is risk of higher taxes and levy in Indonesia, which would result in lower selling price compared with Malaysia. More than 80% of TSH's FFB production are from Indonesia.
- We have increased TSH's FY20E net profit by 28.7% as TSH's 4QFY20 palm earnings are expected to be healthy following the surge in CPO prices.
- We have raised TSH's FY21F core net profit by 27.6%. This is to account for lower interest expense and stronger palm EBIT margin of 15% (FY20E: 15%) as our previous assumption of 12% was too conservative.
- Also, TSH's reported net profit in FY21F may be higher than the core number due to the one-off gain of RM38.8mil from the RM517.6mil disposal of 10,816ha of planted land in East Kalimantan to KL Kepong (KLK). The proposed disposal has not been completed yet.
- If TSH completes the disposal of the oil palm estates to KLK in 1QFY21, we believe that TSH's FFB output would fall by 7% in FY21F.
- This may reduce TSH's FY21F net profit marginally as the loss of earnings from the estates cannot be compensated by higher interest income. The estates, which would be sold off, recorded a net profit of RM8.1mil in 9MFY20 (9MFY19: RM1.1mil). We have not accounted for the disposal of the oil palm estates to KLK in TSH's earnings forecast yet.
- Currently, we assume that TSH's FFB production would inch up by 5.0% in FY21F on the back of an increase in mature areas of 2,000ha. We think that the group's FFB yield would remain flat at 23.0 tonnes/ha in FY21F.
- On a negative note, we forecast EBIT of the "Others" division (mainly biomass and cocoa earnings) to decline by 10% in FY21F. We believe that cocoa earnings would be affected by weak selling prices and sales volume in FY21F.

EXHIBIT 1: FFB PRODUCTION (TONNES) (DISREGARDING SALE OF ESTATES TO KLK)



Source: Company, AmInvestment Bank

## MAINTAIN BUY WITH HIGHER FAIR VALUE OF RM1.35/SHARE

We maintain BUY on TSH Resources with a higher fair value of RM1.35/share. Our fair value for TSH is based on an FY21F PE of 22x.

We have raised TSH's FY20E net profit by 28.7%. We believe that TSH's 4QFY20 net profit would surge by more than 30% QoQ on the back of robust palm product prices. According to the MPOB, average spot CPO price was RM3,341/tonne in 4QFY20 vs. RM2,753/tonne in 3QFY20.

We have raised TSH's FY21F net profit by 27.6% to account for lower interest expense and higher palm EBIT margin. Due to a drop in interest rates, TSH's interest expense is estimated to decline by 14.6% in FY21F.

Our previous assumption of TSH's FY21F palm EBIT margin of 12% was too conservative (FY20E: 15%). Hence, we have raised it to 15%.

We believe that the group would be able to sustain its palm EBIT margin in FY21F as economies of scale from a higher volume of CPO production helped compensate for increased costs.

Currently, we forecast TSH's net gearing to be 79.4% as at end-FY21F. After the RM517.6mil disposal of 10,816ha of planted areas in East Kalimantan to KL Kepong (KLK), the group's net gearing may drop to 50% to 60%. The proposed disposal is expected to be completed in 1QFY21.

## UPDATES

### ❑ Sale of estates to KL Kepong would result in lower FFB output in FY21F

TSH's FFB production may fall by 7% to 10% in FY21F, depending on when the proposed disposal of the oil palm estates to KLK, is completed. We have not factored this into our earnings forecast for TSH.

The 10,816ha estates, which will be sold to KLK, accounted for about 25.7% of TSH's total planted areas of 42,109ha in FY19. The oil palm estates produced about 231,255 tonnes of FFB in FY19, which were 25.9% of group FFB output.

We believe that the loss of FFB production resulting from the proposed disposal would not be replaced.

TSH is expected to use RM513.1mil out of the disposal proceeds of RM517.6mil to repay borrowings instead of acquiring new oil palm estates. TSH's gross borrowings stood at RM1.36bil as at end-September 2020.

### ❑ No significant impact from heavy rains so far

Disregarding the sale of the oil palm estates to KLK, we estimate that TSH's FFB production would improve by 5.0% in FY21F (Exhibit 1). This is expected to be underpinned by an increase in mature areas of 2,000ha.

We understand that the group's harvesting activities have not been severely affected by the recent heavy rains. Although there were floods in low-lying areas in Sabah and heavy rains in Kalimantan, TSH has not been significantly affected.

We gather that TSH's FFB production in January and February 2021 would be weaker than December 2020. FFB output is expected to rebound from March 2021 onwards.

Indonesia is expected to account for more than 80% of TSH's FFB production in FY21F. We believe that most of the TSH's FFB output in Indonesia would come from Central and East Kalimantan.

#### □ Production cost per tonne may be flat in FY21F

We think that TSH's ex-mill CPO production cost per tonne would be flat at RM1,485/tonne in Sabah and RM1,740/tonne in FY21F.

We reckon that the increase in the costs of fertiliser and wages would be offset by higher volume of CPO production (disregarding the sale of estates to KLK) in FY21F.

We believe that cost of wages would rise as part of efforts to retain estate workers while according to an industry player, fertiliser costs may go up by 5% in FY21F.

We understand that there is a shortage of labour in Sabah although not as acute as in Peninsular Malaysia. Hence, TSH is training skilled workers to harvest FFB while other workers can also apply fertiliser as part of their job function.

#### □ Weaker cocoa earnings in FY21F

We forecast EBIT of TSH's "Others" division (mainly biomass and cocoa) to fall by 10.4% to RM22.3mil in FY21F dragged by weaker cocoa performance.

TSH's cocoa division is expected to face erosion in EBIT margin in FY21F due to a high cost of raw materials and low selling prices. We have assumed an EBIT margin of 20% for the "Others" division in FY21F vs. 23.0% in FY20E.

Although the cost of raw materials has been increasing, selling prices have not gone up in tandem as demand is weak.

According to *Bloomberg*, cocoa price increased by 16.4% to US\$2,514/tonne on 5 January 2021 from US\$2,159/tonne on 1 July 2020.

On the other hand, selling price of cocoa butter (end product) shrank by 2.7% to €4,226/tonne on 5 January 2021 from €4,344/tonne on 1 July 2020.

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue	906.4	838.9	944.2	974.5	1,016.6
EBITDA	183.9	192.2	205.1	206.8	230.0
Depreciation	(73.7)	(100.3)	(68.1)	(77.1)	(86.1)
Operating income (EBIT)	110.3	91.9	137.0	129.7	143.9
Other income & associates	7.3	19.2	21.3	23.4	25.8
Net interest	(35.9)	(37.1)	(35.7)	(27.5)	(24.3)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>81.7</b>	<b>74.0</b>	<b>122.6</b>	<b>125.7</b>	<b>145.4</b>
Taxation	(29.7)	(28.4)	(31.9)	(32.7)	(37.8)
Minorities/pref dividends	(11.5)	(1.3)	(7.4)	(7.5)	(8.7)
<b>Net profit</b>	<b>40.5</b>	<b>44.3</b>	<b>83.4</b>	<b>85.5</b>	<b>98.9</b>
Core net profit	50.2	39.2	83.4	85.5	98.9
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
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
<b>Total non-current assets</b>	<b>2,818.8</b>	<b>2,881.4</b>	<b>2,901.7</b>	<b>2,948.0</b>	<b>2,987.7</b>
Cash & equivalent	108.0	125.9	196.8	232.9	279.6
Stock	200.0	172.4	155.2	160.2	167.1
Trade debtors	52.4	56.8	69.8	72.1	75.2
Other current assets	38.2	28.7	28.7	28.7	28.7
<b>Total current assets</b>	<b>398.6</b>	<b>383.7</b>	<b>450.5</b>	<b>493.8</b>	<b>550.6</b>
Trade creditors	99.1	100.2	97.6	101.9	104.9
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
<b>Total current liabilities</b>	<b>765.1</b>	<b>637.1</b>	<b>645.3</b>	<b>660.4</b>	<b>674.6</b>
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
<b>Total long-term liabilities</b>	<b>947.7</b>	<b>1053.3</b>	<b>1062.3</b>	<b>1071.3</b>	<b>1080.4</b>
<b>Shareholders' funds</b>	<b>1373.1</b>	<b>1439.0</b>	<b>1501.7</b>	<b>1559.5</b>	<b>1623.9</b>
Minority interests	131.5	135.7	143.1	150.6	159.4
BV/share (RM)	0.99	1.04	1.09	1.13	1.18
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Pretax profit	81.7	74.0	122.6	125.7	145.4
Depreciation	81.3	99.2	68.1	77.1	86.1
Net change in working capital	(17.6)	(29.6)	(81.6)	(81.6)	(87.1)
Others	27.5	38.6	26.9	15.6	9.6
<b>Cash flow from operations</b>	<b>172.9</b>	<b>182.2</b>	<b>136.0</b>	<b>136.8</b>	<b>154.0</b>
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
<b>Cash flow from investing</b>	<b>(132.3)</b>	<b>(77.2)</b>	<b>(67.1)</b>	<b>(100.0)</b>	<b>(100.0)</b>
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
<b>Cash flow from financing</b>	<b>(66.6)</b>	<b>(89.3)</b>	<b>5.9</b>	<b>(0.7)</b>	<b>(7.3)</b>
<b>Net cash flow</b>	<b>(26.0)</b>	<b>15.7</b>	<b>74.8</b>	<b>36.1</b>	<b>46.7</b>
<b>Net cash/(debt) b/f</b>	<b>127.9</b>	<b>99.8</b>	<b>122.0</b>	<b>196.8</b>	<b>232.9</b>
<b>Forex</b>	<b>(2.0)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) c/f</b>	<b>99.9</b>	<b>115.6</b>	<b>196.8</b>	<b>232.9</b>	<b>279.6</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Revenue growth (%)	-15.6	-7.5	12.5	3.2	4.3
EBITDA growth (%)	-28.3	4.5	6.7	0.9	11.2
Pretax margins (%)	9.0	8.8	13.0	12.9	14.3
Net profit margins (%)	4.5	5.3	8.8	8.8	9.7
Interest cover (x)	5.1	5.2	5.7	7.5	9.5
Effective tax rate (%)	-36.4	-38.3	-26.0	-26.0	-26.0
Net dividend payout (%)	34.2	31.2	24.8	32.3	34.9
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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