

# TSH Resources Berhad

(9059 | TSH MK) Plantation | Plantation

**Upgrade to BUY**  
(previously NEUTRAL)

**Revised Target Price: RM1.20**  
(previously RM1.27)

## Well-positioned to ride on the CPO price recovery

### KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings rose by +158.6%yoy to RM24.8m after excluding forex losses of -RM26.5m**
- **The higher earnings was mainly attributable to higher CPO price of RM2,599/mt (+36.0%yoy)**
- **The group's resilient FFB yield has bucked the industry trend thus far due to its discipline in fertiliser application**
- **Expecting tepid performance from its downstream and cocoa business segments**
- **Upgrade to BUY with a revised TP of RM1.20**

**Above expectation.** TSH Resources Bhd's (TSH)'s 1QFY20 rose by +158.6%yoy to RM24.8m, primarily attributable to the higher CPO price and resilient FFB production. This was above our and consensus' expectations, accounting for 34.7% and 36.9% of the full year FY20 earnings respectively. Note, the higher normalised earnings were mainly achieved after excluding unrealised forex loss of about -RM26.5m.

**Palm products segment remains the main driver.** The group's 1QFY20 revenue increased by +24.0%yoy to RM257.4m. This was mainly attributable to higher CPO price of RM2,599/mt (+63.0%yoy) and higher FFB production (+1.6%yoy). This led to the group's palm products segment's profit to jump to RM55.8m in 1QFY20 from RM17.5m in 1QFY19.

**Expecting resilient FFB production in FY20.** The group's 1QFY20 FFB production grew by +1.6%yoy to 207,727mt. We anticipate that the group's FFB production growth will outperformed the industry average. This is in view of consistent application of fertilizer and upkeep, thus contributing to better earnings ahead. This will partially make up for the lagged effects of adverse weather condition which will usually have adverse impact on the FFB yield. Based on preliminary finding, we gather that FFB production for the month of April 2020 remain elevated at 12.5%yoy, which was mainly supported by its Indonesian estate.

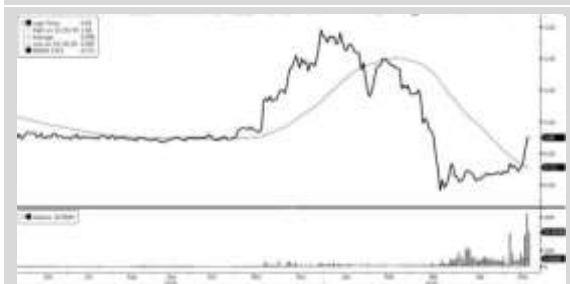
**Performance of the downstream and cocoa segment to remain tepid.** In 1QFY20, the operating profit declined by -30.6% to RM6.8m, plagued by lower profit contribution from the bio-integration division as its production was impacted by the disruption in supply of raw material.. Moving forward, we are of the view that the others segment including the downstream and cocoa businesses to be performing at a moderated pace given the Covid-19 pandemic leading to possible lower demand.

**Earnings estimates. We are inputting higher FFB production and revising** lower CPO price assumption. As a result, our FY20/21/22 earnings estimates have revised slightly downward to to RM68.5m, RM84.6m, and RM107.0m respectively. Note that we are factoring FY20/21/22 CPO price assumption of RM2,300/mt, RM2,450/mt, and RM2,550/mt respectively.

### RETURN STATISTICS

Price @ 22 <sup>th</sup> May 2020 (RM)	0.90
Expected share price return (%)	+33.3
Expected dividend yield (%)	+2.2
<b>Expected total return (%)</b>	<b>+35.5</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	+36.4	+29.8
3 months	+37.4	-28.6
12 months	-6.2	+3.5

### KEY STATISTICS

FBM KLCI	1,452.11
Syariah compliant	Yes
Issue shares (m)	1,381.80
Estimated free float (%)	36.7
Market Capitalisation (RM'm)	1,242.16
52-wk price range (RM)	RM0.56 - RM1.59
Beta vs FBM KLCI (x)	1.39
Monthly velocity (%)	11.02
Monthly volatility (%)	16.9
3-mth average daily volume (m)	4.35
3-mth average daily value (RM'm)	3.14
Top Shareholders (%)	
Tan Aik Pen	14.14
Employees Provident Fund Board	7.52
URURHARTA JAMAAH SDN BHD	4.45

**Analyst**  
**Khoo Zhen Ye**  
khoo.zy@midf.com.my  
03-2772 1655

**Target Price.** We are rolling forward our valuation base year to FY21 and derive a new target price of **RM1.20** (previously RM1.27) which is derived by pegging its FY20EPS of 6.1sen to target PER of 19.7x (previously 24.5x). Note that the lower PER is -1SD below of the group's 2-year historical average and it is taking into account the weakening economic conditions brought by the Covid-19 pandemic.

**Upgrade to BUY.** We remain buoyant on the group's earnings outlook moving forward, particularly from its palm division, given that CPO price is currently trading healthily above the RM2,000/mt level. Note that the palm products segment accounts for approximately 86% of the group's total revenue. The group's FFB production is also expected to grow steadily as it continues to maintain its commitment in diligently carrying out the fertiliser application, which will inadvertently lead to a better FFB yield. This is in contrast to the general industry expectancy of a contraction in FFB production. Note that we are foreseeing the group's FFB yield to be outperforming the industry trend in CY20. These would translate into positive developments to the group's earnings momentum in the upcoming quarters. All factors considered, we are upgrading our recommendation on TSH to **BUY** from previously NEUTRAL. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	FY18A	FY19A	FY20E	FY21F	FY22F
<b>Revenue</b>	906.3	838.9	1,111.2	1,150.0	1,302.9
EBIT	117.5	111.1	150.0	155.2	175.9
PBT	81.7	73.8	115.2	133.8	158.9
PATANCI	40.5	44.0	68.5	84.6	106.0
<b>Normalised PATANCI</b>	<b>49.6</b>	<b>37.7</b>	<b>68.5</b>	<b>84.6</b>	<b>107.0</b>
Normalised EPS (sen)	3.6	2.7	5.0	6.1	7.7
Net DPS (sen)	1.00	1.00	2.00	2.00	2.50
Net Dvd Yield (%)	0.8	0.8	2.2	2.2	2.8
Core PER	31.0	33.9	18.2	14.7	11.6
NTA/share (RM)	1.13	1.16	1.21	1.12	1.12
P/NTA	1.08	1.06	0.74	0.80	0.80
ROE (%)	2.7	3.3	4.3	5.7	7.2
ROA (%)	1.2	1.4	1.9	2.5	3.2

Source: Company, MIDFR

**TSH RESOURCES BHD: 1QFY20 RESULTS SUMMARY**

FYE 31 <sup>st</sup> Dec (All in RM'm, unless otherwise stated)	Quarterly Results				
	1Q20	1Q19	4Q19	% YoY	% QoQ
<b>Revenue</b>	257.4	207.6	241.5	24.0	6.6
<b>EBITDA</b>	61.3	58.6	64.0	4.6	-4.2
Depreciation and amortisation	-24.4	-26.4	-25.8	-7.4	-5.3
<b>EBIT</b>	36.8	32.2	38.2	14.4	-3.5
Finance costs	-14.0	-13.5	-12.9	3.6	8.1
Finance income	-1.5	-2.2	6.8	-32.6	-121.7
Share of results of associates	1.7	-0.7	2.2	-334.6	-22.4
Share of results of joint ventures	2.2	4.0	-1.3	-44.5	-273.5
<b>PBT</b>	21.4	16.5	32.0	29.4	-33.2
Taxation	-13.4	-2.8	-13.4	373.1	0.5
MI	-5.7	-0.2	-0.3	>100	>100
PATAMI	2.3	13.5	18.4	-83.4	-87.8
<b>Normalised PATAMI</b>	24.8	9.6	8.4	158.6	195.3
Normalised EPS (sen)	1.8	0.7	0.6	158.6	195.3
				+/- pts	+/- pts
EBITDA margin (%)	23.8	28.2	26.5	-4.4	-2.7
EBIT margin (%)	14.3	15.5	15.8	-1.2	-1.5
Normalised PATAMI margin (%)	9.6	4.6	3.5	5.0	6.2
Effective tax rate (%)	62.8	17.2	41.7	45.6	21.1

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.