

TSH Resources Berhad

(9059 | TSH MK) Plantation | Plantation

Higher contribution from its palm products segment

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings fell by -35.3% to RM8.4m after excluding foreign exchange gain of RM9.5m**
- **FY19 normalised earnings of RM37.7m (-23.8%yoy) is below our but within consensus expectations**
- **The lower FY19 earnings were mainly attributable to lower crude palm oil (CPO) price (-4.3%yoy)**
- **Nonetheless, elevated CPO price and resilient FFB output in FY20 are expected to drive the group's earnings momentum**
- **Maintain NEUTRAL with an unchanged TP of RM1.27**

Below expectation. TSH Resources Bhd's (TSH)'s 4QFY19 declined by -35.3%yoy to RM8.4m, mainly due to the higher effective tax rate (>+100%yoy) as a result of deferred tax assets not recognized for certain subsidiaries coupled with non-deductibility of certain expenses for taxation purpose. Meanwhile, the group's FY19 normalised earnings fell by -23.8%yoy to RM37.7m. This result was below our expectation but exceed consensus', accounting for 75.2% and 96.5% of the full year FY19 earnings respectively. However, we opine the elevated CPO price in CY20 is expected to support earnings momentum moving forward.

Unable to fully benefit from high CPO prices in 4QCY19. The weaker-than-expected group's 4QFY19 results was predominantly due to CPO price at about RM2,250/mt. This price was lower than the average spot price of about RM2,600/mt in the same quarter due to the group's earlier forward selling exercises. Meanwhile, TSH's average CPO price for FY19 also declined marginally by -4.3%yoy to RM1,995/mt, primarily caused by the sustained low CPO price in the first nine months of CY19. This led to the group's palm products segment profit to fall by -22.0%yoy to RM95.3m.

Expecting resilient FFB production in FY20. The group's FY19 FFB production grew by +4.2%yoy to 893,738mt. However, this was insufficient to overcome the decline in CPO price as mentioned above. Nonetheless, we believe that the group's FFB production to remain resilient) in FY20 due to consistent application of fertilizer and upkeep, thus contributing to better earnings ahead. This is in spite of the lagged effects of adverse weather condition which might adversely impact the FFB yield of oil palm plantation.

Operating profits from other segments more than halves. In 4QFY19, the operating profit was more than halves by -50.5% to RM4.5m, plagued by lower profit contribution from both wood and cocoa division. Nonetheless, the group's FY19's operating profit from the other segment businesses at RM30m was largely in line with operating profit registered in FY18.

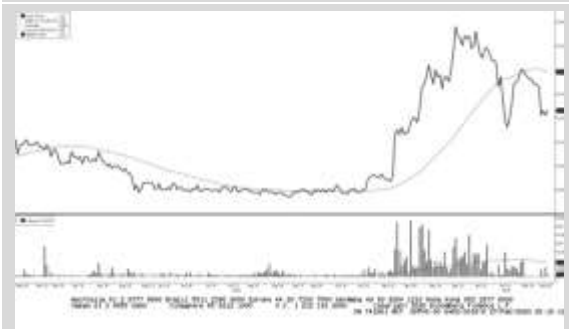
Maintain NEUTRAL

Unchanged Target Price: RM1.27

RETURN STATISTICS

Price @ 27 th Feb 2020 (RM)	1.23
Expected share price return (%)	+3.2
Expected dividend yield (%)	+1.6
Expected total return (%)	+4.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-14.0	-10.1
3 months	-20.1	+13.7
12 months	+9.8	+25.0


KEY STATISTICS

FBM KLCI	1,505.59
Syariah compliant	Yes
Issue shares (m)	1,381.80
Estimated free float (%)	36.84
Market Capitalisation (RM'm)	1,697.61
52-wk price range (RM)_	0.86 – 1.59
Beta vs FBM KLCI (x)	0.84
Monthly velocity (%)	11.02
Monthly volatility (%)	16.90
3-mth average daily volume (m)	0.89
3-mth average daily value (RM'm)	1.23
Top Shareholders (%)	
Tan Aik Pen	14.14
Employees Provident Fund Board	7.38
URURHARTA JAMAAH SDN BHD	4.45

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

Earnings estimates. We are maintaining our earnings forecasts for FY20 and FY21 as well as introducing our new set of forecasts for FY22.

Target Price. We are maintaining our target price of **RM1.27** which is derived by pegging its FY20EPS of 5.18sen to target PER of 24.5x. Note that the target PER is one standard deviation below of the group's 2-year historical average.

Maintain Neutral. In view of the expected elevated CPO price in CY20, we remain buoyant on the group's earnings outlook moving forward, particularly from its palm division. Note that the palm products segment accounts for approximately 86% of the group's total revenue and will remain as the key earnings contributor. The group's FFB production also likely remain consistent as it continues to maintain its commitment in diligently carrying out the fertiliser application, which will inadvertently lead to a better FFB yield. These would translates into positive developments to the group's earnings momentum in the upcoming quarters. Nonetheless, the ongoing COVID-19 outbreak and tough geopolitical fronts might possibly dampen demand and hence putting a downward pressure on CPO price. On another note, we are of the view that the current valuation of the stock is stretched. It is currently trading at a PER of 38.9x which is almost 1 S.D. above its two-year historical average of PER of 32.7x. All factors considered, we are maintaining our **NEUTRAL** recommendation. 

INVESTMENT STATISTICS

FYE 31 st Dec	FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	906.3	838.9	1,142.2	1,278.2	1,323.2
EBIT	117.5	111.1	154.2	172.6	178.6
PBT	81.7	73.8	119.4	151.1	161.7
PATANCI	40.5	44.0	71.6	97.4	108.0
Normalised PATANCI	49.6	37.7	71.6	97.4	109.0
Normalised EPS (sen)	3.59	2.73	5.18	7.06	7.90
Net DPS (sen)	1.00	1.00	2.00	2.00	2.50
Net Dvd Yield (%)	0.8	0.8	1.6	1.6	2.0
Core PER	31.0	33.9	23.7	17.5	15.6
NTA/share (RM)	1.13	1.16	1.21	1.12	1.12
P/NTA	1.08	1.06	1.02	1.10	1.10
ROE (%)	2.7	3.3	4.5	6.6	7.3
ROA (%)	1.2	1.4	1.9	2.9	3.2

Source: Company, MIDFR

TSH RESOURCES BHD: 4QFY19 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	FYE 31 st Dec	4Q19	% YoY	% QoQ	FY19	FY18
Revenue	241.5	9.0	18.5	838.9	906.4	-7.4
EBITDA	64.0	60.9	16.9	211.4	199.0	6.2
Depreciation and amortisation	-25.8	40.9	15.7	-100.3	-81.5	23.1
EBIT	38.2	78.0	17.8	111.1	117.5	-5.5
Finance costs	-12.9	16.7	-2.1	-53.1	-44.0	20.7
Finance income	6.8	372.0	482.2	15.9	8.2	93.6
Share of results of associates	2.2	303.5	112.1	2.1	2.2	-7.9
Share of results of joint ventures	-1.3	-163.0	-119.0	17.2	5.0	243.6
PBT	32.0	171.4	57.3	73.8	81.7	-9.6
Taxation	-13.4	-367.4	83.8	-28.1	-29.7	-5.5
MI	-0.3	-80.7	-84.4	-1.7	-11.5	-85.6
PATAMI	18.4	19.5	62.0	44.0	40.5	8.8
Normalised PATAMI	8.4	-35.3	-49.4	37.7	49.6	-23.8
Normalised EPS (sen)	0.6	-35.3	-49.4	2.7	3.6	-23.8
		+/- ppts	+/- ppts			
EBITDA margin (%)	26.5	8.5	-0.4	25.2	22.0	14.8
EBIT margin (%)	15.8	6.1	-0.1	13.2	13.0	2.1
Normalised PATAMI margin (%)	3.5	-2.4	-4.7	4.5	5.5	-17.7
Effective tax rate (%)	41.7	84.1	6.0	38.1	36.4	4.6

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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