

Ta Ann Holdings Berhad

(5012 | TAH MK) Plantation | Plantation

Dim outlook for the timber segment

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings rose to RM11.6m as the group benefitted from higher cpo price**
- **Note that 1QFY20 average CPO price ascended by +34.0%yoy to RM2,587/mt**
- **Nonetheless, this was still below ours and consensus expectation as the timber segment underperformed**
- **Outlook for the timber segment to remains tepid throughout FY20 due to potential lower ASP and demand destruction**
- **Maintain NEUTRAL with a revised TP of RM2.44**

Earnings dragged by the lower contribution from the timber business. Ta Ann's 1QFY20 normalised earnings surged by +66.3%yoy to RM11.6m. Note that the normalised earnings exclude the fair value changes of biological assets. This came below ours and consensus' expectations, accounting for 12.2% and 10.7% of the respective full year FY20 earnings estimates. The increase in earnings was primarily due to the average higher CPO price. While the group's first quarter results historically tend to be weaker, we expect 1QFY20 to perform stronger due to higher CPO price. The underperformance was largely stemming from its lacklustre profit contribution of its timber segment where we had expected a much stronger growth.

Resilient EBIT margin. The earnings momentum in the group's 1QFY20 was mainly attributable to the increase in average ASP for CPO by +34.0%yoy to about RM2,587/mt respectively. Thus, the profit before tax (PBT) of the oil palm segment expanded by >100%yoy (*refer to table 1*) to RM12.9m in 1QFY20 from RM4.2m in the corresponding period of the prior year. This was in spite of the marginal decline in FFB production by -3.5%yoy to about 137.0k mt, which we consider as relatively resilient as compared to industry peers. In addition, it was also partially moderated by the weakening financial performance at its timber segment. As such, EBIT margin expanded marginally by +1.1ppts yoy to 10.4%.

Covid-19 to dampen its timber segment performance. We are now less optimistic on the outlook of the timber division in view of expected lower ASP of wood-based products and sales volume in FY20. The weakening economic indicators and potential intermittent lockdowns could potentially reduce the demand and ASP of its timber products especially from its major export markets such as India and Japan. Competition emanating from Indonesia's plywood products could also serve as another dampening factor. Thus, we expect the group to be more attentive in churning out production out of its additional 130,000ha of forests which expected to be certified as at the end of 1QFY20. Moving forward, we opine that this could potentially put a dent in the group's earnings growth momentum.

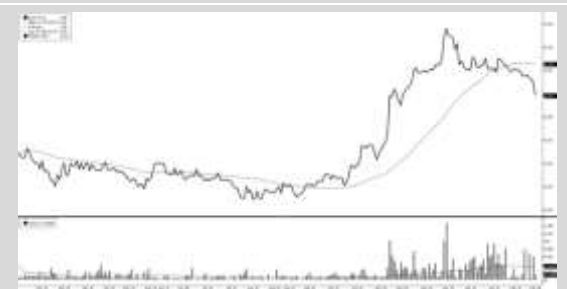
Maintain NEUTRAL

Revised Target Price: RM2.44
(previously RM3.06)

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	2.38
Expected share price return (%)	+2.5
Expected dividend yield (%)	+4.2
Expected total return (%)	+6.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+9.2	+2.3
3 months	+15.0	-19.6
12 months	+4.8	+15.6

KEY STATISTICS

FBM KLCI	1,473.25
Syariah compliant	Yes
Issue shares (m)	436.51
Estimated free float (%)	51.59
Market Capitalisation (RM'm)	1,048.30
52-wk price range	RM1.81 - RM3.56
Beta vs FBM KLCI (x)	1.24
Monthly velocity (%)	11.02
Monthly volatility (%)	34.32
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	0.43
Top Shareholders (%)	
MOUNTEX SDN BHD	21.26
Wahab Haji Dolah Bin	12.9
Haji Dolah Sa'Id Bin	9.59

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Earnings estimates. We are revising our earnings estimates downward for FY20/21/22 to RM77.2m, RM93.0m, and RM108.8m respectively in view of our lower ASP and sales volume of the group's timber products as well as lower CPO price assumption. Note that we are factoring FY20/21/22 CPO price assumption of RM2,300/mt, RM2,450/mt, and RM2,550/mt respectively.

Table 1: PBT Breakdown (RM'm)

Segment	1Q20	1Q19	Variance (%)	Remarks
Timber products	7.7	8.2	-6.1	Lower ASP of timber products
Oil Palm	12.9	4.2	>100	Higher FFB production and higher ASP of CPO

Source: Company, MIDFR

Target price. We are rolling over our valuation base year to FY21 and derive a new target price of **RM2.44** (previously RM3.06) by pegging its FY21EPS of 20.9sen to target PER of 11.7x (previously 14.3x) which is circa the group's 5-year historical average. The lower PER is taking into consideration of the less promising outlook on its timber segment, namely the logging and plywood division. This is predicated on its major export markets like India and Japan respectively which are facing the Covid-19 outbreak and weakening economic activities at their respective countries.

Maintain NEUTRAL. We remain encouraged on the group's FY20 outlook, premised on the favourable CPO price environment and gradual easing of lockdowns. The profit contribution from the oil palm segment is expected to achieve better growth, driven by expected higher ASP and relatively resilient FFB production in FY20. On the contrary, we expect the group's timber segment to potentially experience tepid performance from the anticipated lower ASP and sales volume of its wood-based products from major importers such as India and Japan in the intermediate terms. This is based on the weakening economic indicators that could reduce development activities leading to reduced demand for its timber products. Moving forward, we believe that the well-being of the group will still be dependent on the Covid-19 situation and its effects on the economic activities in the short and medium terms. All in, we are maintaining our **NEUTRAL** recommendation on Ta Ann. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	967.2	944.6	1,080.2	1,189.1	1,297.2
EBIT	109.4	99.1	120.6	140.6	156.6
PBT	120.4	86.7	105.0	126.0	147.0
PATAMI	81.3	50.4	77.2	93.0	108.8
Normalised PATAMI	74.0	50.4	77.2	93.0	108.8
EPS (sen)	74.0	11.4	17.4	20.9	24.5
Core EPS (sen)	16.7	11.4	17.4	20.9	24.5
Net DPS (sen)	10.0	5.0	10.0	10.0	10.0
Net Dvd Yield (%)	3.4	1.7	4.2	4.2	4.2
Core PER (x)	16.7	21.9	17.2	14.3	12.2
NTA/share (RM)	2.93	2.97	3.04	3.15	3.28
P/NTA (x)	1.02	1.00	0.98	0.95	0.91
ROE (%)	5.8	4.3	5.3	6.2	7.0
ROA (%)	3.7	2.8	3.5	4.0	3.0

Source: Company, MIDFR

TA ANN HOLDINGS BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	4Q19	% YoY	% QoQ
Revenue	252.6	178.9	281.7	41.2	-10.3
EBITDA	49.5	39.2	40.6	26.4	22.1
Depreciation and amortisation	-23.3	-22.6	-24.5	2.8	-4.9
EBIT	26.2	16.5	16.1	58.6	63.2
Finance costs	-5.5	-6.6	-5.9	-17.6	-7.0
Finance income	0.5	1.0	1.0	-51.0	-49.6
Share of results of equity-accounted investee, net of tax	-0.7	1.4	4.1	n.m.	n.m.
PBT	20.6	12.3	15.2	67.5	35.4
Taxation	-6.4	-4.9	-4.4	31.5	47.2
MI	-1.0	0.6	-6.6	n.m.	n.m.
PAT	13.1	8.0	4.2	63.8	213.1
Normalised PAT	11.6	7.0	16.5	66.3	-29.4
Normalised EPS (sen)	2.6	1.6	3.7	66.3	-29.4
				+/- ppts	+/- ppts
EBITDA margin (%)	19.6	21.9	14.4	-2.3	5.2
EBIT margin (%)	10.4	9.2	5.7	1.1	4.7
Normalised PATAMI margin (%)	4.6	3.9	5.8	0.7	-1.2
Effective tax rate (%)	31.2	39.8	28.7	-8.6	2.5

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.