

Ta Ann Holdings Berhad

(5012 | TAH MK) Plantation | Plantation

Further strengthening its timber division

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings fell -39.6%yoy to RM16.5m**
- **FY19 normalised earnings of RM50.4m (-31.9%yoy) came in below ours and consensus' expectations**
- **Palm division's earnings to be buoyed by elevated CPO price**
- **Timber business expected to play a more prominent role to the group's earnings in view of the higher export log quota**
- **Maintain NEUTRAL with an unchanged TP of RM3.06**

Below expectations. Ta Ann's 4QFY19 normalised earnings decreased by -39.6%yoy to RM16.5m. This led to the FY19 normalised earnings of RM50.4m (-31.9%yoy) which came in below ours and consensus' expectations, accounting for 83.5% of the respective full year FY19 earnings estimates. Note that the normalised earnings include the fair value changes of biological assets. The lower earnings results were primarily due to the lower-than-expected ASP for export logs, plywood products, FFB and CPO.

Lower ASP negatively impacted FY19 earnings. The fall in the group's FY19 earnings was mainly attributable to the drop in average ASP for export logs, plywood products and CPO by -29.0%yoy, -4.0%yoy and -8.0%yoy to USD220/m³, USD530/m³ and RM2,052/mt respectively. Despite the higher sales volume achieved for export logs and CPO by +120.0%yoy and +23.0%yoy to 94,495m³ and 251,649mt respectively, it still wasn't sufficient to mitigate the faster pace of decline in ASP. As a result, this led to lower earnings.

Expect better FY20 financial performance. In view of the elevated CPO price in FY20, we opine that this is expected to lead to a strong recovery of earnings from its palm oil division. This is primarily due to the expected lower inventory stockpiles amidst a tighter production in both Malaysia and Indonesia. We also believe that the outlook of the group's timber division to be promising in FY20 as driven by the expected higher ASP of wood-based products and sales volume in FY20. This is predominantly predicated on the additional 130,000ha of forests to be certified at end 1QFY20 and favourable policies which will help increase the ASP and sales volume in FY20. Moving forward, we are of the view that these developments would bode well with the earnings momentum of the group.

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

Maintain NEUTRAL

Unchanged Target Price: RM3.06

RETURN STATISTICS

Price @ 28 th Feb 2020 (RM)	2.98
Expected share price return (%)	+2.7
Expected dividend yield (%)	+3.4
Expected total return (%)	+6.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.2	-2.8
3 months	-14.9	+9.8
12 months	+20.2	+38.4

KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	Yes
Issue shares (m)	440.97
Estimated free float (%)	52.46
Market Capitalisation (RM'm)	1,312.58
52-wk price range	RM 2.00 – RM3.56
Beta vs FBM KLCI (x)	0.75
Monthly velocity (%)	11.02
Monthly volatility (%)	34.32
3-mth average daily volume (m)	0.34
3-mth average daily value (RM'm)	1.12
Top Shareholders (%)	
MOUNTEX SDN BHD	21.26
Wahab Haji Dolah Bin	12.90
Haji Dolah Sa'Id Bin	9.43

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Table 1: PBT Breakdown (RM'm)

Segment	FY19	FY18	Variance (%)	Remarks
Timber products	6.3	5.1	+23.5	Higher sales volume for export logs
Oil Palm	81.1	115.6	-30.0	Lower average CPO and FFB selling price

Source: Company, MIDFR

Dividend. The group has declared a first interim single-tier dividend of 5.0sen per share for FY19 in which to be payable on 13 April 2020 and this represented a dividend pay-out ratio of about 58.0%. Note that this was 50% lower than both previous year and our forecast of 10.0sen per share for FY19. Moving forward, we maintain our dividend forecasts in view of the more favourable business environment that will support earnings momentum in FY20.

Target price. We are maintaining our target price of **RM3.06** by pegging its FY20EPS of 21.41sen to target PER of 14.3x which is about 1.0x SD above the group's 2-year historical average.

Maintain NEUTRAL. We remain optimistic about the outlook of the group's in FY20, premised on the favourable business environments in its timber and palm oil divisions. The profit contribution from the timber segment is expected to achieve stronger growth as driven by expected higher ASP and sales volume of wood-based products. Note that the group is expected to achieve certification for additional 130.0kha of forest which will further strengthen the group's market position in the timber industry. Moving forward, we are of the view the elevated CPO price in FY20 will contribute to the better earnings of its oil palm segment. In addition, the higher export logs quota is expected to continue to support the group's profitability. Nonetheless, the weaker demand outlook for palm oil due to the COVID-19 outbreak and ongoing trade spat with India remains as key concerns 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	144.6	165.6	167.6
PBT	120.4	86.7	129.0	151.0	158.0
PATAMI	81.3	50.4	95.2	111.8	117.0
Normalised PATAMI	74.0	50.4	95.2	111.8	117.0
EPS (sen)	74.0	11.4	21.4	25.2	26.4
Core EPS (sen)	16.7	11.4	21.4	25.2	26.4
Net DPS (sen)	10.00	5.00	10.00	10.00	10.00
Net Dvd Yield (%)	3.4	1.7	3.4	3.4	3.4
Core PER	16.7	21.9	13.9	11.9	11.3
NTA/share (RM)	2.93	2.97	3.08	3.24	3.39
P/NTA	1.02	1.00	0.97	0.92	0.88
ROE (%)	5.8	4.3	6.5	7.3	7.3
ROA (%)	3.7	2.8	4.2	4.8	3.1

Source: Company, MIDFR

TA ANN HOLDINGS BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4QFY19	% YoY	% QoQ	FY19	FY18	%YoY
Revenue	281.7	17.9	5.2	944.6	967.2	-2.3
EBITDA	40.6	-15.2	-46.1	194.3	204.9	-5.2
Depreciation and amortisation	-24.5	0.8	9.9	-95.2	-95.6	-0.4
EBIT	16.1	-31.8	-69.7	99.1	109.4	-9.4
Finance costs	-5.9	-10.1	-11.1	-22.9	-25.5	-10.1
Finance income	1.0	-41.3	65.0	2.8	5.5	-49.0
Share of results of equity-accounted investee, net of tax	4.1	n.m	161.2	7.7	31.0	n.m
PBT	15.2	-67.1	-68.7	86.7	120.4	-28.0
Taxation	-4.4	-42.9	-71.9	-28.6	-24.9	14.8
MI	-6.6	27.1	-19.3	-16.1	-12.5	29.3
PAT	4.2	-87.4	-83.0	42.0	83.0	-49.4
Normalised PAT	16.5	-39.6	-29.2	50.4	74.0	-31.9
Normalised EPS (sen)	3.7	-39.6	-29.2	11.4	16.7	-31.9
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	14.4	-5.6	-13.7	0.0	0.0	0.0
EBIT margin (%)	5.7	-4.2	-14.1	10.5	11.3	-0.8
Normalised PATAMI margin (%)	5.8	-5.6	-2.8	5.3	7.7	-2.3
Effective tax rate (%)	28.7	12.2	-3.3	33.0	20.7	12.3

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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.