

27 August 2014 | 1HFY14 Results Review

TSH Resources

Anticipating weaker quarters ahead

Maintain NEUTRAL

Revised Target Price (TP): RM3.61
(from RM3.84)

INVESTMENT HIGHLIGHTS

- TSH's 1HFY14 earnings surpassed expectations, surging +136%yoy to RM87.6m.
- The surge in earnings is attributable to higher FFB and CPO productions and higher average CPO price realized.
- However, lower CPO price in the next 6-18 months is expected to take a toll on TSH as there is a high correlation between TSH's earnings and CPO price.
- Maintain NEUTRAL with revised TP of RM3.61 per share.

Earnings beat estimates. TSH Resources' (TSH) cumulative 6MFY14 earnings of RM87.6m were ahead of ours and consensus expectations, representing 54% and 57% of full year forecasts respectively.

Higher productions contributed to the surge in earnings. The surge in earnings is mainly attributable to the increase in FFB and CPO productions and higher palm product prices. For 1HFY14, FFB and CPO productions increased by +27.5%yoy and +18.3%yoy respectively as more young areas graduate into matured areas. Additionally, we note that higher average CPO price in 1HFY14 also lifted earnings.


Margin improvement. Apart from higher production numbers and better CPO price, the continuous measures taken to improve unit production and operational efficiencies also helped to enhance plantation segment profit margin by +10.9ppt.

Performance of wood product manufacturing & other business segments remained depressed. Profit from wood manufacturing and other segments declined -76.3%yoy and -11.9%yoy respectively. This was mainly due to lower export and also lower sales revenue. This however, would not significantly affect TSH's earnings moving forward as the contributions from these segments are minimal.

Unexciting CPO price outlook may compromise margin. For the past few months, CPO price has been declining. We do not foresee any significant catalyst to drive CPO price higher in the near term. As the correlation between TSH's earnings and CPO price is relatively strong at 50% (refer Figure 2), we are expecting weak prices to affect TSH's performance in the 2HFY14. Therefore, we are revising our FY15 earnings forecast downward by -6.0% to RM162m.

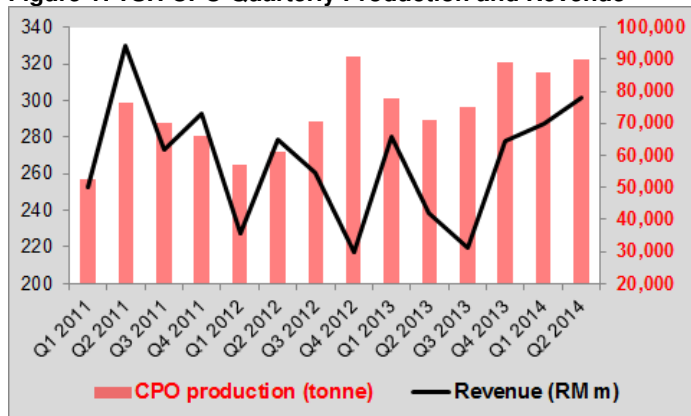
RETURN STATS	
Price (26 Aug 2014)	RM3.22
Target Price	RM3.61
Expected Share Price Return	+12.1%
Expected Dividend Yield	+1.2%
Expected Total Return	+13.3%

STOCK INFO	
KLCI	1861.82
Bursa / Bloomberg	9059/ TSH MK
Board / Sector	Main/ Plantation
Syariah Compliant	Yes
Issued shares (mil)	896.9
Par Value (RM)	0.50
Market cap. (RM'm)	2,888.2
Price over NA	2.62
52-wk price Range	RM2.22 – RM4.00
Beta (against KLCI)	0.68
3-mth Avg Daily Vol	1.01m
3-mth Avg Daily Value	RM3.56m
Major Shareholders (%)	
Tan Aik Pen	12.04
Tunas Lestari Sdn Bhd	6.35
Embun Yakin Sdn Bhd	5.63
Key terms:	
CPO – Crude palm oil	
FFB – Fresh fruit bunches	

Maintain NEUTRAL. Given this lackluster backdrop, we are reiterating our **NEUTRAL** call on TSH Resources with a revised target price of **RM3.61*** per share. Our valuation is derived from PER15 of 20x, which is a 0.5 standard deviation premium to its average quarterly rolling PER over the past three years. 

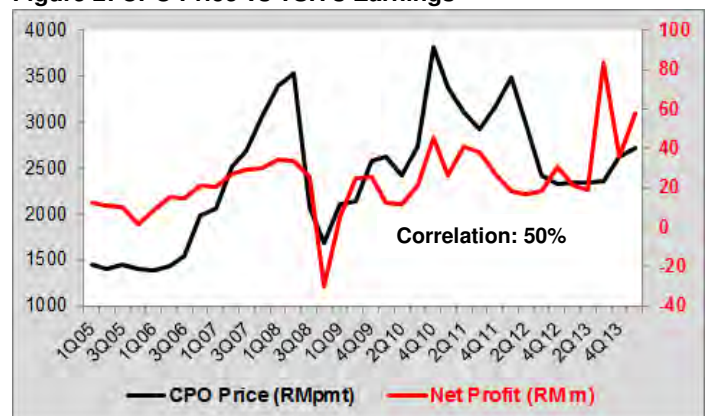
* Recall that on 11 August 2014, TSH proposed a 1-for-2 bonus issue of up to 452m new TSH shares of RM0.50 each. The proposed bonus issue will increase its enlarged issued and paid-up capital from 903.8m to 1,345m. This will consequently result in an EPS dilution from 18sen to 12sen (based on our FY15 earning forecast). Hence our target price ex-bonus will be **RM2.39** per share.

Figure 1: TSH CPO Quarterly Production and Revenue



Source: Bloomberg, MIDFR

Figure 2: CPO Price vs TSH's Earnings



INVESTMENT STATISTICS

FYE 31 Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	1,134.20	984.76	1,017.84	1,256.10	1,308.78
EBIT (RM'm)	167.36	99.21	158.20	215.55	213.59
Pre-tax Profit (RM'm)	161.92	100.00	164.49	224.17	222.14
Net Profit (RM'm)	118.46	77.03	150.96	163.42	161.94
EPS (sen)	14.73	9.34	17.64	18.22	18.05
EPS growth (%)	-28.43	-36.56	88.80	3.26	-0.91
PER (x)	21.86	34.46	18.25	17.67	17.84
Dividend / share(sen)	3.50	2.50	3.50	3.00	4.00
Dividend Yield (%)	1.09	0.78	1.09	0.93	1.24

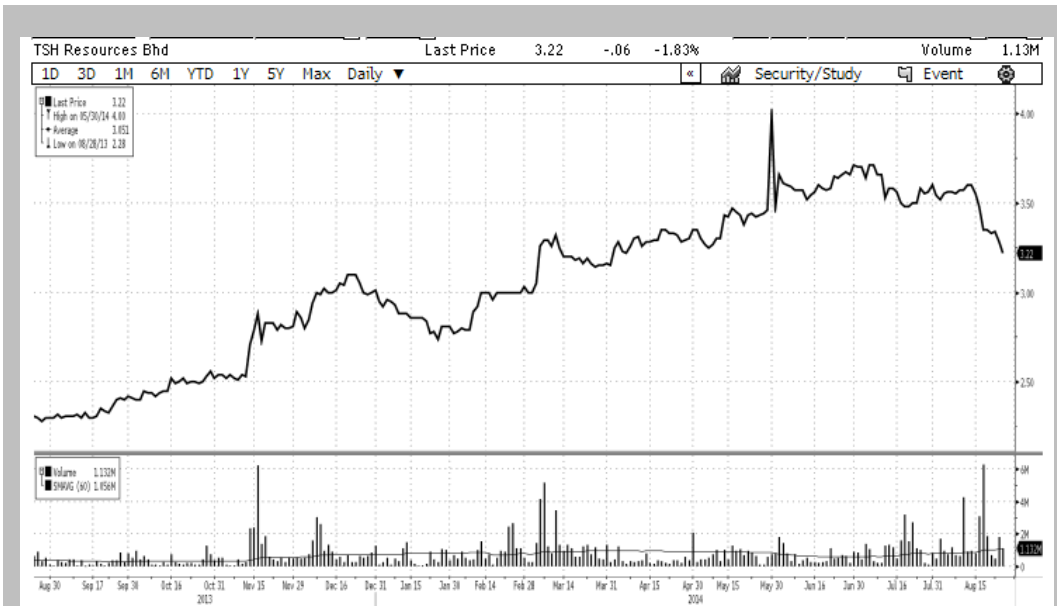
Source: Company, Forecasts by MIDFR

Results Summary

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	2Q14	YoY (%)	QoQ (%)	1H14	1H13	YoY (%)	
Revenue	301.8	26.2	5.1	588.9	519.8	13.3	
Operating profit	48.6	105.1	-32.1	120.0	47.6	152.3	
Finance cost	-3.6	-29.2	-159.9	-9.7	-10.2	-5.3	
Pre-tax profit	43.5	77.2	-40.3	116.5	50.8	129.4	
Tax	-5.6	4.5	62.3	-20.6	-10.7	91.9	
Net Profit	35.4	105.1	-32.2	87.6	37.2	135.5	
EPS (sen)	3.9	90.3	-32.3	9.8	4.5	118.8	
		+/- ppts	+/- ppts			+/- ppts	
Op margin (%)	16.1	6.2	-8.8	20.4	9.2	11.2	
Tax rate (%)	13.0	-11.1	-7.6	17.7	21.1	-3.4	Lower tax rate due to the tax incentives in respect of Pioneer and Bionexus status
Segmental Revenue							
Plantation	273.1	34.8	6.4	529.9	454.9	16.5	Higher FFB production and better average selling prices realised
Wood Manufacturing	10.5	-19.5	6.3	20.4	26.1	-21.9	Lower demand from the European market
Others	18.2	-21.0	-11.0	38.7	37.8	2.5	
Segmental Results							
Plantation	50.7	77.8	-33.5	127.0	59.2	114.5	Improvement in unit production cost and operational efficiencies
Wood Manufacturing	-0.09	-111.6	-120.1	0.4	1.5	-76.3	
Others	3.44	16.0	32.8	6.0	6.8	-11.9	Lower sales volume
Margins (%)							
		+/- ppts	+/- ppts			+/- ppts	
Plantation	18.6	4.5	-11.1	24.0	13.0	10.9	
Wood Manufacturing	-0.9	-6.9	-5.5	1.8	5.9	-4.1	
Others	18.9	1.1	6.2	15.6	18.1	-2.5	
Plantation Statistics							
	2Q14	YoY (%)	QoQ (%)	1H14	1H13	YoY	
FFB Output	415,663	-26.2	-42.7	319,417	250,588	27.5	More young plantation areas come into maturity
CPO Output	89,854	26.6	4.6	175,781	148,558	18.3	Increase in mill production capacity
PK Output	19,138	23.6	1.0	38,087	33,126	15.0	

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.