Ta Ann Holdings Berhad

(5012 | TAH MK) Plantation | Plantation

***Downgrade to* NEUTRAL**

Earnings on the risk of consolidation CPO prices

***Revised* Target Price: RM3.79**

(Previously RM5.25)

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings meet expectations**
- **The plantation profit still up 35%ytd on higher ASP of CPO realized**
- **FY22/23/24's earnings estimates were tweak lower in consideration of new average CPO TP price**
- **Downgrade NEUTRAL with revised TP of RM3.79**

Below expectation. In 3QFY22, Ta Ann posted a top-line of RM594.9m (-9.1%qoq, +22%yoy) inline with elevated selling prices of CPO, FFB and plywood products. Additionally, the normalized earnings came in at RM92.4m (-16%qoq, +23%yoy) an approximately RM276.8m in 9MFY22, which was within our forecast at 79%. Its biological assets merely RM5.2m as opposed RM26.1m owing to the wet weather impact.

Plantation. Oil palm contribution remains favorable during the quarter in-line with high MPOB prices were traded avg c. RM5,245/mt, as revenue rose +35%ytd to RM1.4b in consequence of higher selling prices of CPO (+33%) and FFB (+26%) realized. As a result, PBT also showed some gain to RM374.7m, an increase of +45%ytd despite lower sales volume registered due to weak harvesting activities.

Timber segment. Its revenue rose +38% to-date to RM313.8m on encouraging demand and higher ASP (+40%) for plywood products amidst recovery economic activities. We expect the contribution from this segment to continue stable, on the back of easing border restrictions in most countries especially in China and Europe.

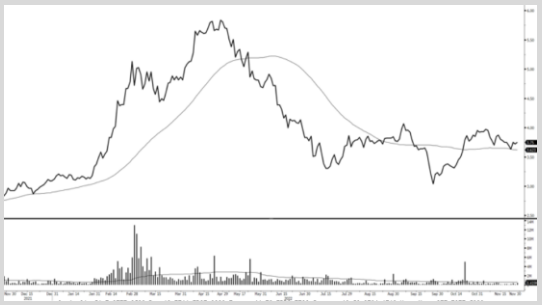
Dividend. A 10 sen fourth interim DPS was declared, implying 10.7% of dividend yield.

Earnings forecast. We cut our FY22-FY24 earnings estimates by -9%/-32%/-33% following our anticipation of its weak production catch up due unfavorable weather and acute harvester as well as on possible margin squeeze due to high operational cost ahead, since fertilizer cost remains high at 40% of production cost.

Recommendation. We are witnessing margin compression in the company's outlook as a result of the moderation year-to-date average CPO prices of RM5,245/Mt combined with the high fertilizer cost environment it operates in, which is made worse by earnings instability (due to the fact that its plantation contributes about 83%). We thus reduce our rating to a **NEUTRAL** call with a **revised target price of RM3.79** (down from RM5.25) based on a PER of 10.5x anchored (almost 2 years average of mean) to FY23F EPS of 36.1 sen.

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	3.75
Expected share price return (%)	+0.95
Expected dividend yield (%)	+6.67
Expected total return (%)	+7.62

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.6	-4.6
3 months	16.1	-4.0
12 months	16.8	19.6

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	440.46
Estimated free float (%)	35.43
Market Capitalisation (RM'm)	1,651.73
52-wk price range (RM)	RM3.03 - RM6.75
Beta vs FBM KLCI (x)	1.25
Monthly velocity (%)	10.49
Monthly volatility (%)	45.93
3-mth average daily volume (m)	0.59
3-mth average daily value (RM'm)	2.18
Top Shareholders (%)	
MOUNTEX SDN BHD	21.26
Wahab Haji Dolah	12.63
Haji Sepawi Amar Abdul Hamed	7.52

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INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	2020	2021	2022F	2023F	2024F
Revenue	**1,217.8**	**1,894.4**	**2,046.7**	**1,481.0**	**1,246.9**
EBIT	128.7	477.5	515.9	373.3	314.3
PBT	134.5	465.4	470.7	340.6	286.8
PATANCI	63.3	314.4	320.5	160.1	127.9
Normalised PATANCI	**73.2**	**307.6**	**320.5**	**160.1**	**127.9**
Normalised EPS (sen)	16.5	69.3	72.2	36.1	28.8
Normalised EPS Growth (%)	44.1	320.2	4.2	-50.0	-20.1
PER (x)	22.7	5.4	5.2	10.4	13.0
Dividend Per Share (sen)	15.0	30.0	40.0	25.0	15.0
Dividend yield (%)	4.0	8.0	10.7	6.7	4.0

Source: Company, MIDFR

TA ANN HOLDINGS BERHAD: 3QFY22 RESULTS SUMMARY

FYE 31st Dec (All in RM'm, unless otherwise stated)	Quarterly					Cumulative		
	3Q21	2Q22	3Q22	% QoQ	% YoY	9MFY22	9MFY21	% YoY
Revenue	486.9	654.2	594.9	-9.1	22.2	1,736.8	1,282.8	35.4
EBITDA	150.7	197.8	181.6	-8.2	20.5	518.0	348.3	48.7
EBIT	128.2	176.7	161.7	-8.5	26.1	454.9	285.1	59.6
PBT	126.0	175.5	161.0	-8.3	27.8	451.2	277.5	62.6
PATANCI	77.2	112.3	96.3	-14.3	24.7	284.7	171.6	65.9
Normalized PATANCI	75.0	109.9	92.4	-16.0	23.2	276.8	166.4	66.4
Normalized EPS (sen)	16.9	25.0	21.0	-16.0	24.2	62.8	37.5	67.7
				+/- ppts				
EBITDA margin (%)	30.9	30.2	30.5	0.3	-0.4	29.8	27.2	29.8
EBIT margin (%)	26.3	27.0	27.2	0.2	0.8	26.2	22.2	14.6
Normalised PATAMI margin (%)	15.4	16.8	15.5	-1.3	0.1	15.9	13.0	10.2
Effective tax rate (%)	20.7	23.4	23.9	0.5	3.2	22.5	21.7	-8.0

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology