TSH Resources Berhad

(9059 | TSH MK) Main | Plantation

Impacted by the moderation CPO prices

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM1.01**

KEY INVESTMENT HIGHLIGHTS

- **Below Expectations**
- **Plantation segment decelerated further**
- **Others segment contribution remains loss**
- **Maintain NEUTRAL with an unchanged TP of RM1.01**

RETURN STATISTICS	
Price @ 22nd May 2023 (RM)	1.02
Expected share price return (%)	-0.78
Expected dividend yield (%)	1.96
Expected total return (%)	**+1.18**

Earnings weaken. 1QFY23 reported PATAMI came-in within ours and consensus forecast at 21%, amounted RM29.4m (-35.0%mom, -69.5%yoy), as revenue declined -25.8% to RM250.3m dragged by lower ASP of CPO and PK in the palm product segment, compounded by lower operating profit for both segments and reduced JV contribution amounted RM41.0m (-21.0%momy, -36.8myoy) and -RM6.1m respectively.

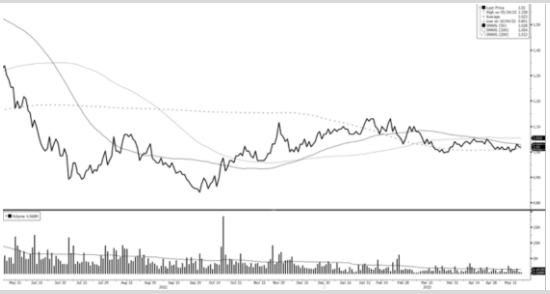
Palm products segment. TSH's plantation segment profit decelerated to RM50.5m (-13.5%mom, -33.7%yoy) during the quarter, as low ASP of CPO price of RM3,555/Mt (-25.6%yoy) and PK price of RM1,770/Mt of (+55.2%yoy) failed to offset the production of FFB of 199,334mt on combination of normalization of CPO prices and high Indonesia Export Levy and Duty on CPO.

Others segment contribution remains loss. In 1QFY23, its others segment continued net losses of -RM3.3m. This was mainly due to low revenue as a result of low demand for wood products and closure of bio-mass power plant for maintenance.

Earnings estimates. Since core PATAMI came in only RM2.0m after we take out gain on disposal and reported PATAMI was also decelerated to RM29.4m (-35.0%mom, -69.5%yoy) in 1QFY23 as opposed to RM96.5m in prior year. We slash our FY23/FY24 earnings estimates by -9%/-28%, as we reckon the production cost to remain elevated due to still elevated fertilizer price movement as opposed pre-pandemic level amid weak FFB production catch-up.

Maintain NEUTRAL. We are witnessing margin compression in the company's outlook as a result of the moderation year-to-date average CPO prices of RM4,100/Mt combined with the high fertilizer cost environment it operates in amid high Indonesia Export Levy and Duty on CPO. We are maintaining our **NEUTRAL** call with unchanged TP of RM1.01 based on PER of 11x nearly 2y avg mean by pegging FY23F EPS of 9.2sen.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.9	-1.7
3 months	0.0	-2.1
12 months	-28.7	-22.5

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	1,216.6	1,161.6	1,123.7
EBITDA	307.5	275.9	256.1
Profit Before Tax	201.7	171.8	149.6
Core PATAMI	**127.4**	**109.7**	**96.6**
Core EPS	9.2	7.9	7.0
DPS	2.0	2.0	2.0
Dividend Yield	1.9%	1.9%	1.9%

KEY STATISTICS

FBM KLCI	1,419.00
Issue shares (m)	1380.17
Estimated free float (%)	45.16
Market Capitalisation (RM'm)	1,407.78
52-wk price range	RM0.9 - RM1.49
3-mth average daily volume (m)	1.5
3-mth average daily value (RM'm)	1.5
Top Shareholders (%)	
Tan Aik Pen	24.8
Tan Aik Yong	5.2
Embun Yakin Sdn Bhd	4.2

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TSH Resources: 1Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Revenue	337.3	283.4	250.3	*-11.7%*	*-25.8%*
Operating profit	64.9	51.9	41.0	*-21.0%*	*-36.8%*
Finance costs	-8.9	-5.3	-5.4	*1.9%*	*-40.1%*
Core PBT	66.7	56.8	30.8	*-45.8%*	*-53.8%*
Tax expense	-9.1	-14.3	-16.3	*13.8%*	*78.1%*
PATAMI	96.5	45.3	29.4	*-35.0%*	*-69.5%*
Core PATAMI	45.7	15.2	2.0	*-86.8%*	*-95.6%*
OP margin (%)	3.3%	3.7%	6.3%		
PBT margin (%)	2.5%	2.7%	5.5%		
Core PATAMI margin (%)	1.7%	1.5%	3.9%		
Effective tax rate (%)	-30.6%	-3.6%	-29.9%		

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly				
Revenue	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Total Revenue	337.3	283.4	250.3	*-11.7%*	*-25.8%*
Palm Product	312.3	258.7	233.1	*-9.9%*	*-25.3%*
Others	25.1	24.7	17.2	*-30.4%*	*-31.5%*
Operating Profit	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Operating profit	64.9	51.9	41.0	*-21.0%*	*-36.8%*
Palm Product	76.2	58.4	50.5	*-13.5%*	*-33.7%*
Others	-4.3	-0.7	-3.3	*NM*	*NM*

Source: TSH Resources, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,188.9	1,306.0	1,216.6	1,161.6	1,123.7
EBITDA	350.3	640.4	307.5	275.9	256.1
EBIT	240.3	539.6	211.6	179.5	159.2
Finance cost	-41.1	-32.4	-45.9	-43.7	-45.6
Associate & JVs	54.9	50.1	36.0	36.0	36.0
Profit before tax	254.1	557.3	201.7	171.8	149.6
Tax	-52.1	-32.3	-46.4	-38.0	-31.8
PATAMI	169.4	456.4	127.4	109.7	96.6
Core PATAMI	183.7	186.4	127.4	109.7	96.6

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	1,610.2	1,525.7	1,536.1	1,545.9	1,555.0
Right-of-use assets	288.9	255.1	248.7	242.5	236.4
Biological assets	400.8	364.8	363.7	362.5	361.3
Non-current assets	**2,602.2**	**2,434.5**	**2,506.3**	**2,540.8**	**2,576.0**
Biological assets	17.3	13.5	13.5	13.5	13.5
Inventories	143.6	132.9	243.3	232.3	224.7
Trade & other receivables	63.0	39.7	81.1	77.4	74.9
Current assets	**705.9**	**788.9**	**755.0**	**820.6**	**871.4**
Total Assets	**3,308.0**	**3,223.4**	**3,261.3**	**3,361.4**	**3,447.3**
Loans & borrowings	521.8	394.3	394.3	394.3	394.3
Trade & other payables	204.7	142.2	135.2	129.1	124.9
Current liabilities	792.5	557.2	550.2	544.1	539.9
Loans & borrowings	587.6	429.0	429.0	429.0	429.0
Retirement benefits	19.2	17.3	17.3	17.3	17.3
Non-current liabilities	702.0	534.2	534.2	534.2	534.2
Equity	**1,813.6**	**2,132.1**	**2,177.0**	**2,283.1**	**2,373.3**
Liabilities & equity	**3,308.0**	**3,223.4**	**3,261.3**	**3,361.4**	**3,447.3**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT					
Cash flow from operations	370.8	354.7	262.8	233.4	211.7
Cash flow from investing	7.0	623.2	-100.0	-100.0	-100.0
Cash flow from financing	-278.3	-743.5	-110.4	-27.6	-27.6
Net cash flow	122.1	87.4	-185.7	80.3	60.9
Net cash/(debt) b/f	156.5	292.8	376.2	190.5	270.8
Net cash/(debt) c/f	292.8	376.2	190.5	270.8	331.7

Key Metrics	2021A	2022A	2023E	2024F	2025F
P/E (x)	8.0	7.9	11.6	13.5	15.3
DPS (sen)	3.0	8.0	1.5	2.0	2.0
Dividend yield	2.8%	7.5%	1.4%	1.9%	1.9%
P/B (x)	0.9	0.8	1.0	0.74	0.71

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	29.5%	49.0%	25.3%	23.8%	22.8%
EBIT margin	20.2%	41.3%	17.4%	15.4%	14.2%
PBT margin	21.4%	42.7%	16.6%	14.8%	13.3%
Core PATMI margin	15.5%	14.3%	10.5%	9.4%	8.6%

Source: Bloomberg, 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