

29 March 2019

Southern Acids (M) Berhad Land Acquisition in Indonesia

SAB announced the acquisition of two parcels of leasehold land with a total area of 3,570 square meters in Riau province, Indonesia for IDR6.52m (RM1.83m). Immaterial impact to earnings and balance sheet. No change to FY19-20E CNP of RM21.5m-26.1m. Maintain UNDERPERFORM with unchanged TP of RM2.50.

Smallish land acquisition in Riau Province. Southern Acids (M) Berhad (SAB) announced that its 63%-owned indirect subsidiary, PT. Mustika Agro Sari (PTMAS) has entered into sales and purchase agreements, with Mr. Herry Amin, a director of PTMAS with 5% shareholdings in PTMAS, for two parcels of leasehold land, which holds the "Building Rights on Land" ("Hak Guna Bangunan") for a total area of 3,570 square meters in Riau province, Indonesia. The cost of acquisition is IDR6.5b or RM1.86m (≈RM48.40 psf), which will be 100% funded via internally generated funds; the consideration is in line with the appraisal by the valuer Ecovis International.

Office for its Indonesia operation? We were not surprised with the announcement given that the smallish two parcels land acquired is for an office complex and future expansion, which is part of their annual capex for business operations. While there is not much information from management on the use of office complex, we reckon that it would be for their Indonesian operation. As for the balance sheet impact, there is a minimal impact on its substantial cash reserves of RM188.9m as of 31 December 2018.

No change to FY19-20E CNP of RM21.5m-26.1m. We maintain our earnings expectations as we expect immaterial impact to the group earnings. The said acquisition will form part of our assumed annual capex of RM26.1m-RM17.6m for FY19-20E.

Maintain UNDERPERFORM with unchanged TP of RM2.50 based on Sum-of-Parts valuation based on average of FY19-20E EPS of 17.4 sen. In our Sum-of-Parts (SoP) valuation, we maintain our average Fwd. PER of 13.5x, applying a 25% discount to upstream segment to reflect the challenging near-term cost environment. Meanwhile, we maintain the oleochemical segment at 11.0x Fwd. PER (average of small-mid cap planters), ascribing 40% discount to the Fwd. PER to account for its challenging business prospect. For healthcare division, we maintain our assumptions with unchanged 18.0x PER as well as our conglomerate discount of 15% to arrive at our SoP TP of RM2.50. Our TP implies a Fwd. PER of 15.9x, which is -0.5SD of 3-year average which is considered generous given their volatile earnings delivery.

Risks to our call include: (i) higher-than-expected CPO prices, (ii) lower-than-expected cost of production, and (iii) higher-than-expected CPO output.

UNDERPERFORM ↔

Price: RM3.80
Target Price: RM2.50 ↔

Expected Capital Gain: -RM1.30 -34.2%
Expected Divd. Yield: RM0.02 +0.5%
Expected Total Return: -RM1.28 -33.7%

KLCI Index 1,641.33

Stock Information

Bloomberg Ticker	SA MK Equity
Bursa Code	5134
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	136.9
Market Cap (RM m)	520.3
Par value per share (RM)	1.00
52-week range (H)	4.10
52-week range (L)	3.58
Free Float	47%
Beta	0.8
3-mth avg daily vol:	5,498

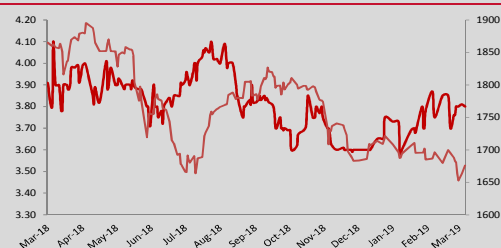
Major Shareholders

Southern Palm Industry	31.3%
Lembaga Tabung Haji	13.1%
Southern Realty (Malaya)	8.4%

Summary Earnings Table

FY Mar (RM m)	2018A	2019E	2020E
Turnover	763.2	663.5	691.6
EBIT	49.1	36.9	38.8
PBT	49.4	41.5	43.6
Net Profit (NP)	30.7	21.5	26.1
Core NP	36.8	21.5	26.1
Consensus (NP)	N.A	29.2	27.4
Earnings Revision	N.A	N.A	N.A
Core EPS (sen)	26.9	15.7	19.0
Core EPS growth (%)	-15%	-42%	21%
NDPS (sen)	5.0	2.0	2.0
NTA per Share (RM)	4.28	4.42	4.59
Price to NTA (x)	0.9	0.9	0.8
PER (x)	14.4	24.2	19.9
Debt-to-Equity ratio(x)	N.Cash	N.Cash	N.Cash
Return on Asset (%)	5.1	2.9	3.4
Return on Equity (%)	6.3	3.6	4.2
Net Div. Yield (%)	1.3	0.5	0.5

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.8%	5.6%	-2.8%
Relative (%)	2.4%	8.5%	9.2%

Nor Nazirah

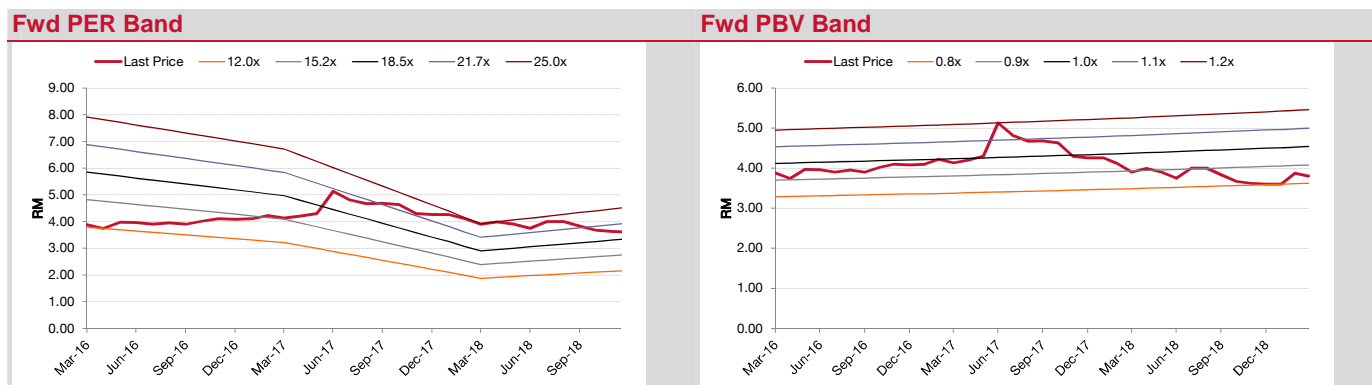
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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	503.4	740.1	763.2	664.7	691.6	Growth (%)					
EBITDA	43.3	84.3	63.9	53.3	55.4	Revenue	(6.2)	47.0	3.1	(12.9)	4.0
Depreciation	11.9	13.7	14.8	16.3	16.8	EBITDA	(9.7)	94.7	(24.2)	(16.6)	4.0
Operating Profit	31.4	31.7	49.1	36.9	38.6	Operating Profit	(19.1)	125.1	(30.5)	(24.8)	4.4
Interest Exp	-	0.1	0.1	0.1	0.1	Pre-tax Income	(15.5)	100.0	(33.1)	(15.8)	4.3
PBT	43.7	36.9	49.4	41.5	43.3	Core Net Income	(3.3)	50.9	(15.1)	(41.7)	21.5
Taxation	9.6	11.0	14.2	10.0	10.4	Profitability (%)					
Minority Interest	6.6	1.1	4.5	10.1	6.8	EBITDA Margin	8.6	11.4	8.4	8.0	8.0
Net Profit	27.5	24.9	30.7	21.5	26.1	Operating Margin	6.2	9.5	6.4	5.6	5.6
Core Net Profit	29.8	28.8	36.8	21.5	26.1	PBT Margin	7.3	10.0	6.5	6.3	6.3
Balance Sheet						Core Net Margin	5.7	5.9	4.8	3.2	3.8
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	Effective Tax Rate	29.7	22.3	28.8	24.0	24.0
Fixed Assets	134.9	132.2	149.2	159.0	159.7	ROE	5.6	7.6	6.3	3.6	4.2
Land for property dev	141.9	141.9	141.9	141.9	141.9	ROA	4.6	6.1	5.1	2.9	3.4
Biological assets	13.3	19.4	22.3	22.3	22.3	DuPont Analysis					
Intangibles	-	-	-	-	-	Net Margin (%)	5.7	5.9	4.8	3.2	3.8
Other FA	47.6	51.4	64.1	64.1	64.1	Assets Turnover (x)	0.8	1.0	1.1	0.9	0.9
Inventories	53.1	62.0	0.9	74.5	78.8	Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
Receivables	52.0	36.9	65.0	60.5	60.9	ROE (%)	5.6	7.6	6.3	3.6	4.2
Other CA	7.6	18.5	27.2	27.2	27.2	Leverage					
Cash	154.4	164.0	174.3	180.3	202.8	Debt/Asset (x)	0.13	0.09	0.05	0.08	0.08
Total Assets	604.9	626.4	644.9	729.7	757.7	Debt/Equity (x)	0.16	0.11	0.06	0.10	0.10
Payables	52.3	55.3	65.5	60.8	65.3	Net Cash/(Debt)	163	164	174	180	202
ST Borrowings	-	0.3	0.2	0.3	0.3	Net Debt/Equity (x)	N. Cash	N. Cash	N. Cash	N. Cash	N. Cash
Other ST Liability	3.4	0.3	1.3	1.3	1.3	Valuations					
LT Borrowings	-	0.5	0.1	0.3	0.3	EPS (sen)	18.2	35.5	22.4	15.7	19.1
Other LT Liability	10.1	11.4	11.6	11.6	11.6	Core EPS (sen)	21.0	31.7	26.9	15.7	19.1
Minorities Int.	45.7	44.6	50.6	50.6	50.6	NDPS (sen)	5.0	5.0	5.0	2.0	2.0
Net Assets	493.4	513.9	515.6	604.9	628.3	BVPS (RM)	3.8	4.16	4.28	4.41	4.59
Share Capital	136.9	136.9	171.3	171.3	171.3	PER (x)	20.9	10.7	17.0	24.2	19.9
Other Reserves	356.5	377.0	414.9	433.7	457.0	Core PER (x)	18.1	12.0	14.4	24.2	19.9
Equity	493.4	513.9	586.2	604.9	628.3	Net Div. Yield (%)	1.3	1.3	1.3	0.5	0.5
Cashflow Statement						P/BV (x)	1.0	0.9	0.9	0.9	0.8
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	EV/EBITDA (x)	8.2	4.2	5.4	6.4	5.7
Operating CF	45.1	28.9	55.1	46.9	43.9						
Investing CF	(39.0)	(14.3)	(27.9)	(21.8)	(13.0)						
Financing CF	(7.9)	(8.9)	(6.8)	(2.8)	(2.8)						
Change In Cash	(1.8)	5.7	20.4	22.3	28.1						
Free CF	6.1	14.6	27.2	25.1	30.9						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PE/RNAV discount	Net Income (RM'm)
Oleochemicals	11x PER on CY19E earnings	40% discount to Plantation small mid-caps valuation	(16)	11.0	-1.5
Hospital	18x PER on CY19E earnings	Small cap healthcare average valuation	326	18.0	18.1
Plantation	13.5x PER on CY19E earnings	25% discount to Plantation small caps valuation	97	13.5	7.2
Sum-Of-Parts (RM m)			406		
Conglomerate discount			15%		
Adj. Sum-Of-Parts (RM m)			345		
No of shares (m)			137		
TP (RM)			2.50		

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	1.05	536.3	Y	12/2019	-30.8%	-10.0%	0.8%	-7.5%	10.6	10.5	11.4	0.7	0.6	7.4%	3.8%	0.850	UP
FGV HOLDINGS BHD	1.14	4,158.9	Y	12/2019	5.5%	2.1%	264.5%	153.9%	38.8	N.A.	54.6	0.7	0.9	1.5%	0.0%	1.150	MP
GENTING PLANTATIONS BHD	10.50	8,491.3	Y	12/2019	19.3%	12.5%	168.6%	17.7%	59.2	24.0	22.1	2.0	2.1	9.1%	2.3%	9.80	UP
HAP SENG PLANTATIONS HLDGS	1.72	1,375.5	Y	12/2019	-29.6%	12.1%	-78.2%	51.0%	10.3	47.3	31.3	0.7	0.8	1.6%	1.5%	1.95	MP
IJM PLANTATIONS BHD	1.60	1,408.9	Y	03/2019	-24.0%	26.1%	-128.1%	32.1%	20.0	N.A.	22.9	0.8	0.8	-1.1%	0.0%	1.50	UP
IOI CORP BHD	4.46	27,235.6	Y	06/2019	-1.9%	5.6%	10.7%	13.6%	30.0	27.1	23.9	3.1	2.9	10.9%	1.6%	4.45	MP
KUALA LUMPUR KEPONG BHD	24.66	26,262.1	Y	09/2019	2.6%	3.6%	28.8%	4.9%	29.4	22.9	21.8	2.3	2.2	9.8%	2.2%	25.70	MP
PPB GROUP BERHAD	18.08	25,720.6	Y	12/2019	7.5%	4.9%	27.3%	2.5%	27.2	21.4	20.9	1.2	1.2	5.8%	1.8%	16.60	UP
SIME DARBY PLANTATION BHD	5.02	34,560.6	Y	12/2019	100.6%	2.5%	498.5%	7.7%	154.5	25.8	24.0	2.6	2.5	9.9%	2.2%	5.00	MP
SOUTHERN ACIDS MALAYSIA BHD	3.80	520.3	Y	03/2019	5.1%	15.5%	-41.1%	20.2%	14.4	24.2	19.9	0.9	0.9	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.35	1,037.1	Y	12/2019	-25.5%	3.1%	9.6%	31.4%	12.7	11.6	8.8	0.8	0.8	6.7%	4.3%	2.50	MP
TSH RESOURCES BHD	1.08	1,491.2	Y	12/2019	35.7%	4.7%	76.7%	5.3%	30.1	17.0	16.1	1.0	1.0	5.9%	1.5%	1.30	OP
UNITED MALACCA BHD	5.45	1,142.8	Y	04/2019	-35.2%	25.8%	-173.3%	3292.9%	29.7	N.A.	1,333.7	0.7	0.7	3.5%	0.7%	5.00	UP
Simple Average					2.3%	8.4%	51.1%	278.9%	35.9	23.2	124.0	1.4	1.3	5.7%	1.7%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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