

29 August 2019

Ta Ann Holdings Berhad

Dragged By Plantation

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1H19 CNP of RM12.7m came in below our/consensus expectations at 20%/18%, due to: (i) lower-than-expected average CPO price, (ii) lower-than-expected selling prices for export logs and plywood, and (iii) higher effective tax rate. No dividend was announced, as expected. Lower FY19-20E CNP by 49-18% on lower selling prices of export logs and plywood, as well as a higher effective tax rate. Maintain MP with a lower TP of RM2.20 (from RM2.40).

1H19 below expectations. TAANN's 2Q19 Core Net Profit (CNP*) came in at RM4.8m, bringing 1H19 CNP to RM12.7m (-39% YoY; -40% QoQ), which is below both our/consensus' full-year forecast at 20%/18%. The deviation came from: (i) lower-than-expected average CPO prices at RM1,909/MT (vs. our CY19E: RM2,000/mt), (ii) lower-than-expected export logs and plywood prices, as well as (iii) higher-than-expected effective tax rate (ETR). Meanwhile, 1H19 FFB output accounted for 47% of full-year output. No dividend was declared, as expected.

Plantation remains the drag. YoY, 1H19 CNP declined (-39%) to RM12.7m attributed to: (i) decline in PBT from plantation division (-66%), as lower average CPO prices fell (-18%) to RM1,909/MT, masking 15% FFB output increase, and (ii) higher ETR of 37.7% (+13.7ppt). The drag in its plantation division was partially offset by its timber division, which turned around mainly due to a sharp increase in export logs volume (+160%), attributed to its Forest Management Units (FMU) certification, which increased export quota to 40% (from 20%). QoQ, 2Q19 CNP fell to RM4.8m (-40%), mainly due to: (i) lower average selling prices for its export logs (-4%), plywood (-4%) and CPO (-2%), and (ii) higher minority interest.

FFB production to pick up. We expect to see improvement in 2H19 plantation contribution, driven by seasonally higher FFB production, and as CPO average inches closer to our CY19 forecast of RM2,000/MT. Meanwhile, we gathered that the second phase of TAANN's Forest Management Unit (FMU) certification (Raplex and Pasin) over a total forest land of 196.2k ha is on-going, and is expected to be completed by 1H20. Upon completion, it will have a total forest land of 345.9k ha, allowing it to export 40% (previously 20%) of logs harvested under the certified concession area.

Lower FY19-20E CNP by 49-18% to RM33-71m as we reduce: (i) ASP for export logs (-17%) and plywood (-4%) to USD250/m³ and USD530/m³, respectively, and adjust the effective tax rate to 33% (from 30%).

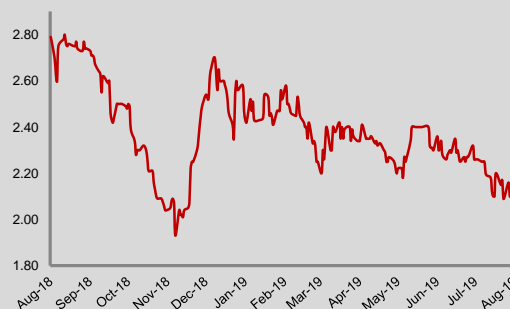
Maintain MARKET PERFORM with a lower Target Price of RM2.20 (from RM2.40) based on CY20E PER of 14.0x. Our Fwd. PER of 14x is based on -1.0SD, in line with planters under our coverage's range of (-2.0SD to 0.5SD). Note that among our smaller planters, TAANN is one of the more profitable ones even under a depressed CPO price outlook.

Risks to our call include: (i) lower/higher-than-expected CPO prices, (ii) further limits on log exports, (iii) weaker/stronger-than-expected FFB production.

MARKET PERFORM ↔

Price : RM2.16
Target Price : RM2.20 ↓

Share Price Performance



KLCI 1,589.82
YTD KLCI chg -6.0%
YTD stock price chg -20.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TAH MK Equity
Market Cap (RM m)	951.4
Shares Outstanding	440.5
52-week range (H)	2.80
52-week range (L)	1.93
3-mth avg daily vol:	68,895
Free Float	56%
Beta	0.7

Major Shareholders

Mountex Sdn Bhd	21.3%
Wahab Bin Haji Dolah	13.0%
Sa'id Bin Haji Dolah	9.5%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	962	887	1,034
EBIT	116	47	90
PBT	122	29	86
Net Profit (NP)	78	33	71
Core NP	83	33	71
Consensus (CNP)	n.a.	70	80
Earnings Revision	n.a.	-49%	-18%
Core EPS (sen)	18.6	7.3	15.9
Core EPS grwth (%)	-34	-61	117
NDPS (sen)	10.0	4.0	8.0
NTA per share (RM)	2.99	3.02	3.10
Core PER	0.7	0.7	0.7
Price to NTA (x)	11.6	29.5	13.6
Net Gearing (x)	0.32	0.09	0.07
Dividend Yield (%)	4.6	1.9	3.7

* 2Q19 CNP excludes PP&E disposal gain (RM0.09m), PP&E write-off (RM0.06m), and unrealised forex gain (RM0.34m).

29 August 2019

Results Highlights								
FYE Dec	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Revenue	216.0	178.9	21%	234.9	-8%	394.9	449.7	-12%
EBIT	14.3	17.5	-19%	29.0	-51%	31.8	36.6	-13%
Profit Before Tax	10.7	12.3	-12%	23.4	-54%	23.0	25.6	-10%
Taxation	(3.8)	(4.9)	-22%	(6.1)	-38%	(8.7)	(6.1)	41%
MI	(1.9)	0.6	nm	(3.0)	-38%	(1.2)	(1.1)	13%
Net Profit	5.1	8.1	-36%	16.8	-69%	13.2	21.0	-37%
Core Net Profit	4.8	7.9	-40%	15.7	-70%	12.7	20.9	-39%
EPS (sen)	1.2	1.8	-36%	3.6	-68%	3.0	4.6	-34%
Adj. DPS (sen)	0.0	0.0	nm	0.0	nm	0.0	5.0	-100%
EBIT Margin	6.6%	9.8%		12.3%		8.1%	8.1%	
PBT Margin	5.0%	6.9%		9.9%		5.8%	5.7%	
Effective Tax Rate	35.3%	39.8%		26.0%		37.7%	24.0%	
CPO (RM / mt)	1,887	1,931	-2%	2,279	-17%	1,909	2,332	-18%
Export Logs (US\$/m3)	242	252	-4%	367	-34%	247	364	-32%
Plywood (US\$/m3)	543	566	-4%	553	-2%	555	539	3%
FFB Volume (MT)	170,863	143,374	19%	168,078	2%	314,237	306,470	3%
CPO Volume (MT)	57,040	43,788	30%	49,127	16%	100,828	87,753	15%
Export Logs Volume (m3)	19,789	15,472	28%	7,771	155%	35,261	13,556	160%
Plywood Volume (m3)	23,759	18,261	30%	27,534	-14%	42,020	58,949	-29%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Segmental Rev:								
Timber	81.5	66.8	22%	86.5	-6%	148.4	173.9	-15%
Plantation	134.4	111.9	20%	148.3	-9%	246.4	275.6	-11%
Reforestation	0.0	0.1	-95%	0.1	-95%	0.1	0.2	-53%
Property	0.0	0.1	-10%	0.0	nm	0.1	0.0	nm
Group Rev	216.0	178.9	21%	234.9	-8%	394.9	449.7	-12%
PBT:								
Timber	5.0	8.2	-40%	3.0	67%	13.2	(4.2)	nm
Plantation	5.9	4.2	43%	19.8	-70%	10.1	29.4	-66%
Reforestation	(0.2)	(0.1)	73%	(0.2)	-19%	(0.3)	(0.3)	-7%
Property	(0.0)	(0.0)	-46%	0.0	nm	(0.1)	(0.0)	26%
Group PBT	10.7	12.3	-12%	22.6	-53%	23.0	24.9	-8%

Source: Company, Kenanga Research

29 August 2019

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	0.840	425.4	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.4	13.2	9.1	0.6	0.6	4.4%	4.8%	0.850	MP
FGV HOLDINGS BHD	0.950	3,465.7	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.9	0.9	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.4	53.9	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.43	1,259.2	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	142.0	51.1	0.7	0.7	0.5%	0.4%	1.40	MP
IOI CORPORATION BHD	4.22	26,521.2	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	34.9	28.1	27.5	2.9	2.7	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.48	25,005.4	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.0	37.6	29.8	2.4	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	23.0	22.1	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.86	33,459.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	285.9	121.5	48.6	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.61	494.3	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.5	21.5	18.0	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.16	951.4	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.5	13.6	0.7	0.7	2.4%	1.9%	2.20	MP
TSH RESOURCES BHD	0.890	1,228.4	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.8	26.9	18.5	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.2%	10.1%	-39.8%	20.0%	54.8	61.1	36.1	1.3	1.3	3.1%	1.4%		

Source: Bloomberg, Kenanga Research

29 August 2019

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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