

23 August 2019

TSH Resources Berhad

Neutral Near-term Outlook

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2Q19 CNP* came in within expectations at RM8.9m (-52% YoY; -36% QoQ), bringing 1H19 CNP to RM22.8m (-10% YoY), forming 47%/50% of consensus/our full-year estimates. 1H19 FFB output of 406k MT is also broadly within our full-year projection of 964k MT at 42% considering the seasonally stronger 2H. No dividend was declared, as expected. No changes in FY19-20E CNP of RM45.7-66.3m. Maintain MP with TP of RM0.900.

Within expectations. TSH's 2Q19 Core Net Profit (CNP*) came in within expectations at RM8.9m (-52% YoY; -36% QoQ). This brought 1H19 CNP to RM22.8m (-10% YoY), accounting for 47% of consensus full-year estimate and 50% of ours. 1H19 FFB output of 406k MT is also broadly within our full-year projection of 964k MT at 42% considering the seasonally stronger 2H with 1H production making up 42-46% of full-year output in the past 3 years. No dividend was declared during the quarter, as expected.

YoY, despite 3% FFB growth, 1H19 CNP fell 10% to RM22.8m as the average CPO price declined 17% to RM1,906/MT. This was cushioned by a 76% surge in "Others" segment EBIT due to higher cocoa and bio-integration profits. **QoQ**, 2Q19 CNP tumbled 36% as the average CPO price edged 1% lower to RM1,901/MT and FFB output dipped 2% on seasonality (shorter working month in June due to Eid al-Fitr). This was exacerbated by a significantly higher effective tax rate of 45.4% vs. 17.2% last quarter due to the presence of non-deductible expenses.

Neutral near-term outlook. Despite the recent recovery in CPO prices, we believe further upside is capped by burgeoning stockpiles in 4QCY19 and India's probe into Malaysian exports of refined palm oil (which, in a grey sky scenario, could lead to protectionism and lower palm oil imports from India). Its sturdy FFB growth prospects (FY19E: +12%) are also countervailed by potentially higher overhead/maintenance costs as additional planted areas (c.4k ha) come into maturity.

No changes to FY19-20E CNP of RM45.7-66.3m as earnings came within our expectation.

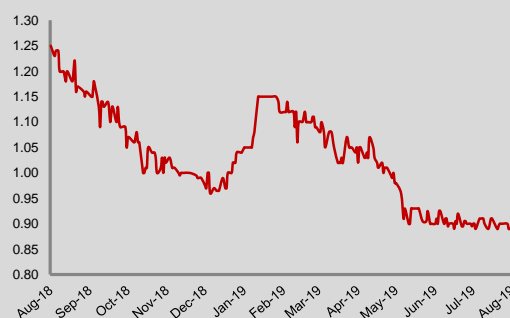
Maintain MARKET PERFORM with an unchanged Target Price of RM0.900 based on CY20E PBV of 0.76x, reflecting -2.0SD valuation basis. The target price implies 18.8x CY20E PER, at 25% discount to large-cap planters' average of 25.0x, which we believe is fair for a mid-cap planter. TSH's near-term outlook appears neutral as its FFB growth prospects of 12% for FY19 is negated by unexciting CPO price outlook and potentially higher overhead/maintenance costs going forward.

Risks to our call include sharp rises/falls in CPO prices and labour/fertiliser/transportation costs.

MARKET PERFORM ↔

Price : **RM0.895**
Target Price : **RM0.900** ↔

Share Price Performance



KLCI 1,602.47
YTD KLCI chg -5.2%
YTD stock price chg -9.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TSH MK Equity
Market Cap (RM m)	1,235.3
Shares Outstanding	1,380.2
52-week range (H)	1.24
52-week range (L)	0.87
3-mth avg daily vol:	90,955
Free Float	75%
Beta	0.5

Major Shareholders

Aik Pen Tan	12.3%
Employees Provident	7.0%
Tunas Lestari Sdn Bhd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	906.3	1077.5	1206.9
EBIT	127.6	99.4	136.5
PBT	81.3	83.0	120.5
Net Profit (NP)	40.1	45.7	66.3
Core NP	49.8	45.7	66.3
Consensus (CNP)	N.A.	48.4	67.9
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	3.58	3.31	4.80
Core EPS grwth (%)	-51%	-8%	45%
NDPS (sen)	1.0	0.8	1.2
NTA/Share (RM)	1.04	1.07	1.12
Core PER	25.0	27.1	18.7
Price/NTA (x)	0.86	0.83	0.80
Net Gearing (x)	0.98	1.00	0.97
Dividend Yield (%)	1.1%	0.9%	1.3%

* 2Q19 CNP excludes forex loss of RM3.3m, PP&E disposal gain of RM0.5m and PPE written off of RM0.02m.

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Results Highlights								
FYE Dec	2Q	1Q	QoQ %	2Q	YoY%	1H	1H	YoY%
	FY19	FY19		FY18		FY19	FY18	
Revenue	186.1	207.6	(10%)	232.9	(20%)	393.7	459.1	(14%)
EBIT	19.7	22.7	(13%)	40.9	(52%)	42.5	66.2	(36%)
Pretax Profit	10.2	16.5	(38%)	17.4	(42%)	26.7	45.8	(42%)
Taxation	(4.6)	(2.8)	63%	(9.0)	(49%)	(7.5)	(18.7)	(60%)
MI	0.5	(0.2)	(434%)	(4.4)	(111%)	0.4	(5.1)	(107%)
Net Profit	6.0	13.5	(55%)	4.1	47%	19.6	21.9	(11%)
Core Net Profit	8.9	13.9	(36%)	18.5	(52%)	22.8	25.3	(10%)
Core EPS (sen)	0.64	1.00	(36%)	1.34	(52%)	1.6	1.8	(10%)
EBIT %	10.6%	11.0%		17.5%		10.8%	14.4%	
PBT %	5.5%	8.0%		7.5%		6.8%	10.0%	
Tax %	45.4%	17.2%		51.5%		27.9%	40.8%	
FFB Volume (mt)	201,018	204,555	(2%)	220,483	(9%)	405,573	393,342	3%
CPO (RM / mt)	1,901	1,911	(1%)	2,283	(17%)	1,906	2,299	(17%)

Source: Company, Kenanga Research

Segmental Breakdown								
Segmental Rev:	2Q	1Q	QoQ %	2Q	YoY%	1H	1H	YoY%
	FY19	FY19		FY18		FY19	FY18	
Segmental Rev:								
Palm Product	157.0	180.8	(13%)	200.1	(22%)	337.8	394.3	(14%)
Others	29.1	26.7	9%	32.8	(11%)	55.8	64.8	(14%)
Group Rev	186.1	207.6	(10%)	232.9	(20%)	393.7	459.1	(14%)
EBIT:								
Palm Product	14.2	17.5	(19%)	38.8	(63%)	31.8	67.0	(53%)
Others	9.2	9.8	(6%)	7.1	30%	19.0	10.8	76%
Group EBIT	23.5	27.3	(14%)	45.8	(49%)	50.8	77.8	(35%)

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	0.880	445.7	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.8	13.9	9.5	0.6	0.6	4.4%	4.5%	0.850	MP
FGV HOLDINGS BHD	1.07	3,903.5	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	9.80	8,792.5	Y	12/2019	2.4%	6.2%	40.6%	39.1%	55.2	42.8	33.4	1.9	2.0	4.8%	1.3%	9.00	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	1.48	1,303.3	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	85.0	47.0	0.8	0.8	0.9%	0.7%	1.40	UP
IOI CORPORATION BHD	4.32	27,149.7	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	35.7	28.8	28.2	2.9	2.8	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.62	25,154.5	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.2	37.8	29.9	2.5	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	4.72	32,495.2	Y	12/2019	71.7%	11.1%	88.6%	154.0%	277.6	118.0	47.2	2.4	2.4	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.80	520.3	Y	03/2020	5.1%	15.5%	-41.1%	20.2%	14.1	24.0	20.0	0.9	0.9	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.16	951.4	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	11.6	15.0	11.2	0.7	0.7	4.7%	3.7%	2.40	MP
TSH RESOURCES BHD	0.895	1,235.3	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	25.0	27.1	18.7	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.10	1,069.4	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	111.8	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.1%	10.7%	-37.2%	5.6%	52.5	53.6	35.1	1.3	1.3	3.1%	1.5%		

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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