

30 August 2018 | 2QFY18 Results Review

Ta Ann Holdings Berhad

Improved prospect from timber division

INVESTMENT HIGHLIGHTS

- **1HFY18 Core Net Income is deemed to be within expectations**
- **Timber division returned to profitability in 2Q**
- **Lacklustre performance from plantation division**
- **Earnings estimates maintained**
- **Upgrade to NEUTRAL with TP of RM2.76**


1HFY18 Core Net Income is deemed to be within expectations.

Ta Ann 1HFY18 core net income (CNI) of RM17.2m is deemed to be within expectations. Although it makes up only 27%/22% of our/consensus full year earnings estimates, we are expecting a much stronger 2H earnings. The volume for export logs should increase as the Company has been allowed to raise the timber export quota to 40% (from 20%) for Kapit Forest Management Unit (which is recently certified). As expected, no dividend was announced.

Timber division returned to profitability in 2Q. Timber division performance improved significantly in 2Q with PBT of RM3.0m (against 1Q Loss Before Tax of RM7.2m). We gather that export log prices volume jumped 34%qoq with better prices (+2%qoq to USD 367 per m³). Plywood price also increased by 6%qoq to USD 553 per m³. The outlook for timber division is better in 2H due to higher export volume expected from its Kapit Forest Management Unit.

Lacklustre performance from plantation division as its 1HFY18 PBT declined -70%yoy to RM29.4m. This is caused by lower CPO price by -18%yoy while FFB volume declined -7%yoy.

Earnings estimates maintained. FY18/FY19 CNI are maintained at RM64.6m/RM81.8m.

Upgrade to NEUTRAL with TP of RM2.76. We have increased our Forward PER valuation to 15.0x (from 12.5x) as we upgrade our valuation to Mean level (from -0.5 Standard Deviation). This is caused by the improved outlook from its timber division. However, the outlook for its plantation division remains unexciting due to low CPO price currently. Hence our NEUTRAL recommendation for the stock. 

Upgrade to NEUTRAL
(Previously SELL)
Adjusted Target Price (TP): RM2.76
(Previously RM2.35)

RETURN STATS	
Price (29 Aug 2018)	RM2.60
Target Price	RM2.76
Expected Share Price Return	+6.2%
Expected Dividend Yield	+2.1%
Expected Total Return	+8.3%
STOCK INFO	
KLCI	1820.64
Bursa / Bloomberg	5012 / TAH MK
Board / Sector	Main / Industrial
Syariah Compliant	Yes
Issued shares (mil)	444.64
Market cap. (RM'm)	1,156.08
Price over NA	0.84
52-wk price Range	RM2.46 - RM3.75
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	0.21m
3-mth Avg Daily Value	RM0.56m
Major Shareholders	
Mountex Sdn Bhd	21.06%
Wahab Bin Haji Dolah	9.81%
EPF	6.87%

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	1,047	1,147	1,173	990	1,004
EBIT	255	195	221	103	126
PBT	234	176	197	88	111
Net Income	188.2	125.6	119.3	64.6	81.8
Core Net Income	169.9	117.0	119.7	64.6	81.8
EPS (sen)	42.34	28.24	26.82	14.53	18.40
Core EPS (sen)	38.21	26.32	26.93	14.53	18.40
Net DPS (sen)	20.00	10.00	10.00	5.52	6.99
Net Dvd Yield	7.7%	3.8%	3.8%	2.1%	2.7%
Core PER	6.8	9.9	9.7	17.9	14.1
NTA/share (RM)	2.62	2.83	2.80	2.94	3.06
P/NTA	0.99	0.92	0.93	0.88	0.85
ROE	15.9%	9.9%	8.9%	4.6%	5.6%
ROA	9.5%	6.1%	5.1%	3.0%	3.7%

Source: Company, MIDF Research Estimate

DAILY PRICE CHART



Alan Lim, CFA
03-2173 8464

Source: Bloomberg

TAANN: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	6MFY18	%YoY	
Revenue	234.9	-12%	9%	449.7	-21%	Lower revenue in both plantation and timber divisions.
EBIT	29.0	-55%	280%	36.6	-71%	
PBT	22.6	-61%	896%	24.9	-78%	Plantation segment PBT declined 70% yoy to RM29.4m. This is caused by lower CPO price by 18% yoy while FFB volume declined 7% yoy. Timber division was profitable in 2Q but 1H result was still in Loss Before Tax of RM4.2m.
Net Income	16.1	-52%	280%	20.3	-72%	
Core Net Income	12.5	-61%	164%	17.2	-75%	Ta Ann 1HFY18 core net income (CNI) of RM17.2m is deemed to be within expectations. Although it makes up only 27%/22% of ours/ consensus full year earnings estimates, we are expecting a stronger 2H earnings. The volume for export logs should increase as the Company has been allowed to raise the timber export quota to 40% (from 20%) for Kapit FMU (which is recently certified).
EPS (sen)	3.62	-52%	281%	4.57	-72%	
Core EPS (sen)	2.82	-61%	165%	3.88	-75%	
Net DPS (sen)	0.0	-100%	NA	5.0	-50%	
FFB Volume ('000 MT)	164	-6%	20%	300	-7%	
CPO Price (RM/MT)	2279	-17%	-4%	2325	-18%	
Export Logs (US\$/m3)	367	32%	2%	365	40%	
Plywood (US\$/m3)	553	23%	6%	537	22%	
EBIT Margin	12.3%	NA	NA	8.1%	NA	
PBT Margin	9.6%	NA	NA	5.5%	NA	

Source: Company, MIDF Research Forecast

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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 <i>rise</i> 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 <i>fall</i> 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.