

TSH Resources Berhad

(9059 | TSH MK) Main | Plantation

Low Contribution from Associate and JV

KEY INVESTMENT HIGHLIGHTS

- **Below Expectations**
- **Plantation profit remains challenging**
- **Others segment contribution remains loss**
- **Revised earnings projection for FY23-25F**
- **Maintain NEUTRAL with a revised TP of RM0.97**

Earnings weaken. 1H23's reported PATAMI came-in below ours and consensus forecast at 35% and 36%, amounted to RM44.7m (-66.9%yoy), as revenue declined -33.5% to RM506.9m on the back of lower ASP for CPO and PK in the palm product segment, compounded by lower operating profit for both segments aside from reduced associate contribution amounted to RM77.6m (-49.3%yoy) and RM3.8m (-70.7%yoy) respectively.

Palm products segment. TSH's plantation segment operating profit declined to RM36.6m (-10.7%mom, -49.3%yoy) during the quarter, as lower average selling prices realised of CPO came in at RM3,493/Mt (-1.7%mom, -31.2%yoy) and PK of RM1,785/Mt of (+0.8%mom, -45.7%yoy). It failed to mitigate the impacts of dismal production of FFB of 222,119 mt on combination of normalization of CPO prices and high Indonesia Export Levy and Duty on CPO. While its margin now narrowed to 14.3% (-6.5ppt) owing to the high manuring cost followed higher locked-in fertiliser price in later part 2H22.

Others segment contribution remains loss. In 2QFY23, its others segment continued to register higher operating loss of -RM2.0m (2Q22; -RM1.7m). 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 at RM10.6m and reported PATAMI was also went down to RM15.3m (-82.9%yoy) in 2QFY23 as opposed to RM89.2m in prior year. We revised our FY23 earnings estimates by -28% to RM92.3m, as we reckon the production cost to remain elevated driven by weak FFB production growth (due to inexperienced newly hired harvesters and El-Nino impacts, in which will resulting lower OER ahead). However, we expect manuring cost to ease and as such revised our FY24/FY25 earnings estimate up by +1%/+31% to RM110.7m/RM126.8m respectively.

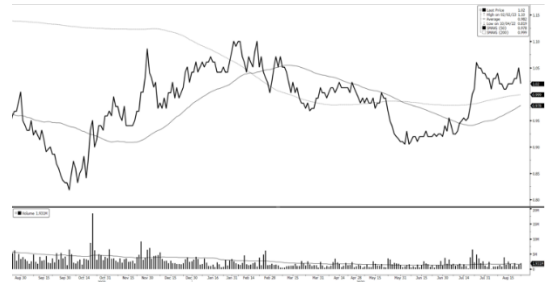
Maintain NEUTRAL. We are witnessing margin compression in the company's outlook because of the moderation year-to-date average CPO prices of RM3,900/Mt combined with the high fertilizer cost environment it operates in amid high Indonesia Export Levy and Duty on CPO. Therefore, we are maintaining our **NEUTRAL** call with a **revised TP of RM0.97** (previously RM1.01) based on PER of 14.5x nearly 5y avg mean by pegging FY23F EPS of 6.7sen.

Maintain NEUTRAL
Revised Target Price: RM0.97
 (previously RM1.01)

RETURN STATISTICS

Price @ 23 rd Aug 2023 (RM)	1.02
Expected share price return (%)	-4.98
Expected dividend yield (%)	1.96
Expected total return (%)	-3.02

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	-0.9
3 months	10.9	2.5
12 months	-3.8	-0.9

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	1,064.6	1,081.7	1,087.0
EBITDA	270.3	295.6	319.8
Profit Before Tax	148.5	178.5	204.2
Core PATAMI	92.3	110.7	126.8
Core EPS	6.7	8.0	9.2
DPS	2.0	2.0	2.0
Dividend Yield	2.0	2.0	2.0

KEY STATISTICS

FBM KLCI	1,440.11
Issue shares (m)	1380.17
Estimated free float (%)	45.16
Market Capitalisation (RM'm)	1,407.78
52-wk price range	RM0.9 - RM1.20
3-mth average daily volume (m)	17
3-mth average daily value (RM'm)	1.7
Top Shareholders (%)	
Tan Aik Pen	24.8
Tan Aik Yona	5.2
Embun Yakin Sdn Bhd	4.2

TSH Resources: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly							
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	Ytd
Income Statement								
Revenue	424.4	250.3	256.6	2.5	-39.5	761.8	506.9	-33.5
Operating profit	88.3	41.0	36.6	-10.7	-58.6	153.2	77.6	-49.3
Finance costs	-7.2	-5.4	-5.5	3.0	-22.8	-16.1	-10.9	-32.4
Core PBT	98.8	30.8	34.5	11.9	-65.1	165.5	65.3	-60.6
Tax expense	-9.3	-16.3	-10.9	-33.0	17.4	-18.5	-27.2	47.5
PATMI	57.3	29.4	10.6	-64.1	-81.6	153.8	40.0	-74.0
Core PATMI	89.2	2.0	15.3	>100	-82.9	134.9	44.7	-66.9
				-/+ppt				
OP margin (%)	20.8	16.4	14.3	-2.1	-6.5	20.1	15.3	-4.8
PBT margin (%)	19.0	21.7	10.7	-10.9	-8.2	25.8	16.1	-9.6
Core PATAMI margin (%)	21.0	0.8	5.9	5.1	-15.1	17.7	8.8	-8.9

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly							
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	Ytd%
Revenue								
Total Revenue	424.4	250.3	256.6	2.5	-39.5	761.8	506.9	-33.5
Palm Product	396.7	233.1	240.5	3.2	-39.4	708.9	473.6	-33.2
Others	27.8	17.2	16.1	-6.5	-42.1	52.8	33.2	-37.1
Operating Profit								
Operating profit	88.3	41.0	36.6	-10.7	-58.6	153.2	77.6	-49.3
Palm Product	96.1	50.5	51.4	1.7	-46.5	172.3	101.9	-40.9
Others	-1.7	-3.3	-2.0	NM	NM	-6.0	-5.2	NM
Operating Profit margin %				-/+ppt				
Operating profit margin %	20.8	16.4	14.3	-2.1	-6.5	20.1	15.3	-4.8
Palm Product margin %	24.2	21.7	21.4	-0.3	-2.9	24.3	21.5	-2.8
Others margin %	-6.2	-19.0	-12.3	6.7	-6.1	-11.4	-15.8	-4.3

Source: TSH Resources, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,188.9	1,306.0	1,064.6	1,081.7	1,087.0
EBITDA	350.3	640.4	270.3	295.6	319.8
EBIT	240.3	539.6	174.4	199.2	222.8
Finance cost	-41.1	-32.4	-45.9	-43.7	-45.6
Associate & JVs	54.9	50.1	20.0	23.0	27.0
Profit before tax	254.1	557.3	148.5	178.5	204.2
Tax	-52.1	-32.3	-36.0	-43.5	-49.6
PATAMI	169.4	456.4	92.3	110.7	126.8
Core PATAMI	183.7	186.4	92.3	110.7	126.8
Core EPS (sen)	13.3	13.5	6.7	8.0	9.2

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	2,479.5	2,506.1	2,535.3
Biological assets	17.3	13.5	13.5	13.5	13.5
Inventories	143.6	132.9	212.9	216.3	217.4
Trade & other receivables	63.0	39.7	71.0	72.1	72.5
Current assets	705.9	788.9	722.1	804.8	903.1
Total Assets	3,308.0	3,223.4	3,201.6	3,310.8	3,438.5
Loans & borrowings	521.8	394.3	394.3	394.3	394.3
Trade & other payables	204.7	142.2	118.3	120.2	120.8
Current liabilities	792.5	557.2	533.3	535.2	535.8
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	3,201.6	3,310.8	3,438.5

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	254.084	557.297	148.480	178.481	204.247
Cash flow from operations	393.4	207.7	32.4	205.7	224.5
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	-178.0	78.1	96.9
Net cash/(debt) b/f	156.5	292.8	376.2	198.2	276.3
Net cash/(debt) c/f	292.8	376.2	198.2	276.3	373.2

Key Metrics	2021A	2022A	2023E	2024F	2025F
P/E (x)	7.7	7.6	15.3	12.7	11.1
DPS (sen)	3.0	8.0	2.0	2.0	2.0
Dividend yield (%)	2.9	7.8	2.0	2.0	2.0

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin (%)	29.5	49.0	25.4	27.3	29.4
EBIT margin (%)	20.2	41.3	16.4	18.4	20.5
PBT margin (%)	21.4	42.7	13.9	16.5	18.8
Core PATMI margin (%)	15.5	14.3	8.7	10.2	11.7

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 <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.

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