

Ta Ann Holdings Berhad

(5012 | TAH MK) Main | Plantation

Earnings within Expectations

KEY INVESTMENT HIGHLIGHTS

- **Within Expectations**
- **Timber products; profit merely RM8.3m (-70%yoy)**
- **Oil Palm; lower CPO price realized**
- **Earnings forecast; Maintain**
- **Maintain NEUTRAL with unchanged TP of RM3.27**

Earnings within estimates. 1HFY23's core PATMI came-in within ours but below consensus forecast at 55% and 45%, amounted RM87.3m (-56.8%yoy), in tandem with revenue declined at RM735.8m (-35.6%yoy) on the back of dampened demand of timber products and oil palm. In addition, operating profit were suppressed to RM111.0m (-58.7%yoy) with a margin down by +8.4 ppt to 15.1% on higher cost of production.

Timber products. The segment profit was merely at RM8.3m (-85.7%qoq, -69.1%yoy) as opposed RM27.0m in prior year, mainly attributable to lower plywood product average selling price realized (-21%yoy) compounded by lower sales volume (-42%yoy) respectively. Although topline's 1HFY23 was down by -32.3%, profit margin wise, it remains stable 17.6% (+6.8ppt), thanks to the higher profit in the 1QFY23. Additionally, we found that price for the Malaysian logs and plywood continues its downward trend to the average of USD217/m³ (-3.5%qoq, -5.5%yoy) and 398.1cents/sheet (-3.5%qoq, -5.5%yoy) respectively, following softer demand on weak economic activity in China during the period under review.

Oil palm. Similarly, the Oil palm sales were down to RM76.6m (+54.0%qoq, -42.9%yoy) during the quarter, in tandem with lower CPO (-43%yoy) and FFB (-45%yoy) average price realized. However, profitability remained steadfast at RM210.6m (>100%qoq, +42%yoy) banking on higher CPO output that have surged to 68,227 Mt (+21.1%qoq, +11.6%yoy) thanks to the better FFB evacuation activities.

Earnings estimate. Maintain. The management indicate the plywood overall demand should stay stable and the market is expected to improve in the 2HFY23, in contrast we anticipate demand to continue hit by tight spending activity owing to the high interest environment. In fact, July's Malaysia logs and plywood price remains choppy at USD211.1 (-3.1%yoy) and 387.1cent/sheet (-3.1%yoy) respectively.

Maintain NEUTRAL. We expect to see profit margin erosion because of the consolidation in year-to-date average CPO prices of RM3,900/Mt; this is made worse by profit instability from the timber segment as the inflationary pressure posts a challenging demand for its plywood products. Hence, we maintain our **NEUTRAL** call with an unchanged **target price of RM3.27** based on a PER of 9.0x anchored (nearly 2 years historical average of mean) to FY23F EPS of 36.4 sen.

Maintain NEUTRAL

Unchanged Target Price: RM3.27

RETURN STATISTICS

Price @ 30 th Aug 2023 (RM)	3.63
Expected share price return (%)	-9.87
Expected dividend yield (%)	+6.89
Expected total return (%)	-2.98

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.4	-0.8
3 months	8.7	3.8
12 months	-7.4	-3.6

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	1,481.0	1,246.9	1,152.7
Operating profit	222.2	174.6	172.9
PBT	206.1	159.4	158.7
Core Net Profit	160.1	127.6	120.0
EPS (sen)	36.4	29.0	27.2
DPS (sen)	25.0	15.0	10.0
Dividend yield (%)	6.9%	4.1%	2.8%

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	440.46
Estimated free float (%)	40.45
Market Capitalisation (RM'm)	1,598.88
52-wk price range	RM3.03 – RM4.27
3-mth average daily volume (m)	0.28
3-mth average daily value (RM'm)	0.98
Top Shareholders (%)	
MOUNTEX SDN BHD	21.26
Haji Sepawi Amar Abdul Hamed	7.52
EPF	4.97

Ta Ann: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	YoY%
Income Statement								
Revenue	487.8	350.7	385.2	9.8	-21.0	1,141.9	735.8	-35.6
Operating profit	100.4	53.6	57.4	7.1	-42.8	268.8	111.0	-58.7
Finance costs	-2.9	-2.8	-2.6	NM	NM	-5.8	-5.5	NM
PBT	114.8	55.8	59.2	6.1	-48.5	290.3	115.0	-60.4
Tax expense	-22.2	-13.0	-16.0	NM	NM	-63.3	-29.0	NM
PATAMI	104.6	39.3	43.0	9.4	-58.9	196.6	82.2	-58.2
Core PATAMI	107.4	41.8	45.5	9.1	-57.6	201.9	87.3	-56.8
				-/+ppt				
OP margin (%)	20.6	15.3	14.9	-0.4	-5.7	23.5	15.1	-8.4
PBT margin (%)	23.5	15.9	15.4	-0.5	-8.2	25.4	15.6	-9.8
Core PATAMI margin (%)	22.0	11.9	11.8	-0.1	-10.2	17.7	11.9	-5.8
Effective tax rate (%)	-19.4	-23.2	-27.1	-3.9	-7.8	-21.8	-25.2	-3.4

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	YoY%
Revenue								
Timber products	115.1	1,160.8	76.6	-93.4	-33.4	213.2	143.1	-32.9
Oil palm	537.2	199.3	306.9	54.0	-42.9	926.7	590.4	-36.3
Others	1.8	128.4	1.7	-98.7	-7.3	2.0	2.3	14.3
Pre-Tax								
Timber products	27.0	58.5	8.3	-85.7	-69.1	23.2	25.2	8.8
Oil palm	148.3	-122.3	210.6	>100	42.0	26.0	88.3	>100
Others	0.2	7.2	-5.8	NM	NM	7.4	1.4	-80.6
Pre-Tax margin %				-/+ppt				
Timber products	23.5	5.0	10.9	5.9	-12.6	10.9	17.6	6.8
Oil palm	27.6	-61.4	68.6	130.0	41.0	2.8	15.0	12.2
Others	8.4	5.6	-340.1	NM	NM	368.5	62.6	NM
Pre-Tax Stats.								
% Timber products	15.4	-103.3	3.9	>100	-74.6	41.0	21.9	-46.5
% Oil palm	84.5	216.0	98.8	-54.3	16.9	45.9	76.8	67.2

Source: Ta Ann, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,894.1	2,187.4	1,481.0	1,246.9	1,152.7
Operating Profit	416.2	498.5	222.2	174.6	172.9
PBT	493.7	524.3	206.1	159.4	158.7
PATAMI	317.5	320.5	160.1	127.6	120.0
Core PATAMI	286.3	343.7	160.1	127.6	120.0
Core EPS (sen)	65.0	78.0	36.4	29.0	27.2
PER (x)	5.6x	4.7x	10.0x	12.5x	13.3x
DPS (sen)	35.0	40.0	25.0	15.0	10.0
Dividend yield (%)	9.6%	11.0%	6.9%	4.1%	2.8%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	734.1	707.8	700.6	675.8	649.1
ROU assets	197.2	195.2	210.2	225.2	240.2
Non-current assets	1,956.9	1,930.4	1,938.1	1,928.4	1,916.6
Inventories	131.2	146.8	92.3	77.7	71.8
Receivables	53.0	44.6	28.4	23.9	22.1
Current assets	784.8	859.6	590.8	590.2	617.5
Total Assets	2,741.8	2,790.0	2,528.9	2,518.6	2,534.2
Long-term debt	147.1	66.5	176.1	137.1	99.1
Non-current liabilities	430.5	367.9	477.5	438.5	400.5
Payables	163.3	162.3	100.2	84.4	78.0
Current liabilities	534.8	473.3	243.7	210.8	188.5
Share capital	444.8	444.8	444.8	444.8	444.8
Reserves	1,168.9	1,312.9	1,363.0	1,424.4	1,500.4
Equity	1,776.5	1,948.8	1,807.8	1,869.3	1,945.2
Total Equity & Liabilities	2,741.8	2,790.0	2,528.9	2,518.6	2,534.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	493.7	524.3	206.1	159.4	158.7
Cash flow from operations	516.1	484.5	87.1	153.5	168.3
Cash flow from investing	-53.3	-42.6	-54.0	-54.0	-54.0
Cash flow from financing	-279.2	-373.2	-168.1	-122.1	-98.0
Net cash flow	183.6	68.7	-135.1	-22.6	16.2
Net cash/(debt) b/f	271.4	454.9	523.6	388.6	366.0
Net cash/(debt) c/f	454.9	523.6	388.6	366.0	382.2

Source: Company, MIDFR

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
OP margin	22.0%	22.8%	15.0%	14.0%	15.0%
PBT margin	26.1%	24.0%	13.9%	12.8%	13.8%
PATAMI margin	16.8%	14.7%	10.8%	10.2%	10.4%
Core PATAMI margin	15.1%	15.7%	10.8%	10.2%	10.4%

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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