

## Ta Ann Holdings Berhad

(5012 | TAH MK) Main | Plantation

### Earnings Above Expectations

#### KEY INVESTMENT HIGHLIGHTS

- Above expectations
- Timber products; profit merely RM8.0m (-51%yoy)
- Oil Palm; lower CPO price realized
- Earnings forecast upgrade
- Upgrade to **BUY** from **NEUTRAL** with a revised TP of **RM4.25**

**Earnings above estimates.** 9MFY23's core profit came-in above ours but within consensus forecast at 86% and 77% respectively, amounted to RM138.2m (-51.7%yoy), following a decline of the revenue which now stood at RM1.23b (-29.5%yoy) due dampened demand of timber products and lower CPO price effects. In addition, operating profits were squeezed to RM208.8m (-50.8%yoy) with a margin down by -7.4pts ppt to 17.0% on higher cost of production.

**Timber products.** The segment profit continued to be small at RM8.0m (-1.5%qoq, -68.2%yoy) as opposed to RM25.8m in prior year, no thanks to the weaker average selling price of plywood products that decelerated by -21%yoy. Overall, the 9MFY23 bottom-line performance weakened to RM33.5m (-55.6%ytd), and apparently, profit margin was also dropped to 14.2% (-9.8pts). The Malaysian logs and plywood continue its downward trajectory at the average of USD206/m<sup>3</sup> (-5.0%qoq, -5.0%yoy) and 377.9cents/sheet (-5.0%qoq, -4.3%yoy) respectively, following softer demand from Japanese housing market during the period under review.

**Oil palm.** Similarly, the Oil palm sales relatively flat at RM396.1m (+29.1%qoq, -19.8%yoy) during the quarter, in tandem with consolidation of CPO (-32%yoy) and FFB (-32%yoy) average price realized. Nonetheless, profitability remained intact at RM94.7m (+90.6%qoq, -29.3%yoy) riding on higher CPO output that surged to 1.2m Mt (+85.6%qoq, +5.9%yoy) on favorable weather conditions.

**Earnings estimate.** We adjust our earnings estimates higher by +14%/+63%/85% to RM182.9m/RM208.2m/RM221.6m for FY23-25, as we cut down our cost of production. The setback for Ta Ann remains in its timber subsegment, as the plywood overall demand to remains weak onwards, as we cross-checked with Japanese Housing starts, the new units still hovering c. 68,000 which is below pre-pandemic that averaged 80,000 units. Note that, Ta Ann exported c. 97% of its plywood products to Japan.

**Upgrade to BUY.** We upgrade our Ta Ann to **BUY** call with a revised target price of RM4.25 (previously RM3.27) based on a PER of 9.0x anchored (nearly 2 years historical average of mean) to FY24F EPS of 47.3 sen. Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to EL-Nino) would provide trading opportunity in the stock.

### Upgrade to BUY

(Previously NEUTRAL)

### Revised Target Price: RM4.25

(Previously RM3.27)

#### RETURN STATISTICS

Price @ 28 <sup>th</sup> Nov 2023 (RM)	3.51
Expected share price return (%)	+21.20
Expected dividend yield (%)	+7.12
<b>Expected total return (%)</b>	<b>+28.32</b>

#### 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	347.4	368.5	405.8
PBT	331.3	353.4	391.6
Core Net Profit	182.9	208.2	221.6
EPS (sen)	41.5	47.3	50.3
DPS (sen)	25.0	20.0	15.0
Dividend yield (%)	7.1%	5.7%	4.3%

#### KEY STATISTICS

FBM KLCI	1,448.02
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

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**Ta Ann: 3Q23 RESULTS SUMMARY**

FYE Dec (RM'm)	Quarterly					Cumulative		
	3Q22	2Q23	3Q23	QoQ%	YoY%	9M22	9M23	YoY%
<b>Income Statement</b>								
Revenue	654.2	350.7	385.2	9.8	-41.1	1,736.8	1,225.0	-29.5
Operating profit	168.4	53.6	57.4	7.1	-65.9	424.9	208.8	-50.8
Finance costs	-2.9	-2.8	-2.6	NM	NM	-8.6	-7.4	NM
PBT	175.5	55.8	59.2	6.1	-66.3	451.2	218.3	-51.6
Tax expense	-41.1	-13.0	-16.0	NM	NM	-101.7	-53.2	NM
Net Profit	92.0	39.3	43.0	9.4	-53.3	298.1	147.4	-50.6
Core Profit	114.8	41.1	34.8	-15.1	-69.7	285.9	138.2	-51.7
				-/+ppt				
OP margin (%)	25.7	15.3	14.9	-0.4	-10.8	24.5	17.0	-7.4
PBT margin (%)	26.8	15.9	15.4	-0.5	-11.5	26.0	17.8	-8.2
Core PATAMI margin (%)	17.6	11.7	9.0	-2.7	-8.5	16.5	11.3	-5.2
Effective tax rate (%)	-23.4	-23.2	-27.1	-3.9	-3.7	-22.5	-24.4	-1.8

**SEGMENTAL BREAKDOWN**

FYE Dec (RM'm)	Quarterly					Cumulative		
	3Q22	2Q23	3Q23	QoQ%	YoY%	9M22	9M23	YoY%
<b>Revenue</b>								
Timber products	100.6	76.6	92.9	21.3	-7.6	313.8	236.0	-24.8
Oil palm	494.1	306.9	396.1	29.1	-19.8	1,420.8	986.5	-30.6
Others	0.2	1.7	0.2	-88.6	14.1	2.2	2.5	14.3
<b>Pre-Tax</b>								
Timber products	25.8	8.3	8.2	-1.5	-68.2	75.3	33.5	-55.6
Oil palm	134.0	49.7	94.7	90.6	-29.3	374.7	183.0	-51.2
Others	1.1	1.1	0.4	-68.9	-68.9	1.3	1.8	40.0
<b>Pre-Tax margin %</b>				-/+ppt				
Timber products	25.7	10.9	8.8	-2.1	-16.8	24.0	14.2	-9.8
Oil palm	27.1	16.2	23.9	7.7	-3.2	26.4	18.6	-7.8
Others	662.9	66.1	180.4	114.3	-482.5	58.6	71.8	13.2
<b>Pre-Tax Stats.</b>								
% Timber products	16.0	14.1	8.0	-43.6	-50.4	16.7	15.3	-8.1
% Oil palm	83.3	84.0	91.7	9.2	10.1	83.0	83.9	1.0

Source: Ta Ann Resources, 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	347.4	368.5	405.8
PBT	493.7	524.3	331.3	353.4	391.6
Net Profit	317.5	320.5	182.9	208.2	221.6
Core Profit	286.3	343.7	182.9	208.2	221.6
Core EPS (sen)	65.0	78.0	41.5	47.3	50.3
PER (x)	5.4x	4.5x	8.5x	7.4x	7.0x
DPS (sen)	35.0	40.0	25.0	20.0	15.0
Dividend yield (%)	10.0%	11.4%	7.1%	5.7%	4.3%

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	613.6	671.6	778.5
Total Assets	2,741.8	2,790.0	2,551.7	2,600.0	2,695.2
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	1,385.7	1,505.9	1,661.4
Equity	1,776.5	1,948.8	1,830.6	1,950.7	2,106.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	493.7	524.3	331.3	353.4	391.6
Cash flow from operations	516.1	484.5	184.3	308.6	344.4
Cash flow from investing	-53.3	-42.6	-54.0	-54.0	-54.0
Cash flow from financing	-279.2	-373.2	-168.1	-144.1	-120.1
Net cash flow	183.6	68.7	-37.8	110.5	170.3
Net cash/(debt) b/f	271.4	454.9	523.6	485.9	596.4
Net cash/(debt) c/f	454.9	523.6	485.9	596.4	766.7

Source: Company, MIDFR

Profitability Margins	2021A	2022A	2023E	2024F	2025F
OP margin	22.0%	22.8%	23.5%	29.6%	35.2%
PBT margin	26.1%	24.0%	22.4%	28.3%	34.0%
Net Profit margin	16.8%	14.7%	12.4%	16.7%	19.2%
Core Profit margin	15.1%	15.7%	12.4%	16.7%	19.2%

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#### 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