

Company Focus

TSH Resources

Bloomberg: TSH MK | Reuters: TSHR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

21 May 2015

BUY RM2.25 KLCI : 1,810.11

Price Target : 12-Month RM 2.60

Shariah Compliant : Yes

Reason for Report : 1Q15 results

Potential Catalyst: Upturn in CPO prices

Where we differ: Higher FY earnings premised on production growth

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Result Summary

FY Dec (RM m)	1Q 2015	1Q 2014	4Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	206.0	287.1	244.0	(28.2)	(15.6)
Gross Profit	71.5	98.3	82.1	(27.2)	(12.9)
Opg Profit	33.1	71.5	33.8	(53.7)	(1.9)
EBITDA	35.4	79.0	37.2	(55.1)	(4.6)
Core Net Profit	30.1	52.2	27.6	(42.3)	9.1
Other Data					
Gross Margin (%)	34.7	34.2	33.7		
Opg Margin (%)	16.1	24.9	13.8		
Net Margin (%)	3.1	24.1	7.4		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	1,080	1,270	1,392	1,434
Operating Profit	186	225	260	287
EBITDA	237	279	317	348
Net Pft (Pre Ex.)	134	140	163	180
EPS (sen)	9.3	10.4	12.1	13.4
EPS Pre Ex. (sen)	10.0	10.4	12.1	13.4
EPS Gth (%)	(17)	12	16	11
EPS Gth Pre Ex (%)	5	5	16	11
Net DPS (sen)	2.5	2.6	3.0	3.4
BV Per Share (sen)	89.0	96.9	106.4	116.8
PE (X)	24.1	21.6	18.6	16.8
PE Pre Ex. (X)	22.6	21.6	18.6	16.8
EV/EBITDA (X)	17.4	15.3	13.9	12.8
Net Div Yield (%)	1.1	1.2	1.3	1.5
P/Book Value (X)	2.5	2.3	2.1	1.9
Net Debt/Equity (X)	0.7	0.8	0.8	0.7
ROAE (%)	11.1	11.2	11.9	12.0

At A Glance

Issued Capital (m shrs)	1,356
Mkt. Cap (RMm/US\$m)	3,050 / 844
Avg. Daily Vol. ('000)	547

ICB Industry : Consumer Goods

ICB Sector: Food Producers

Principal Business: TSH is a upstream planter, owning over 100k ha of plantation land in Sabah and Kalimantan and 6 palm oil mills. It also has a 50:50 JV refinery with Wilmar International. Noncore businesses include palm waste integration, wood flooring (Ekowood Bhd) and cocoa.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Double whammy

- 1Q15 results missed expectations as both low CPO production and prices hurt topline
- Seasonally low yielding period exacerbated by the dry spells in 2014 and early-2015
- Young tree age profile is a boon to growth, but we are wary of the potential El Nino impact on 2015 production; Indonesian export levy is another concern
- Earnings unchanged for now; maintain BUY and RM2.60 TP

Highlights

Impact from harsh weather persists

- Excluding RM23.6m of unrealised forex losses, core 1Q15 earnings of RM30.1m was below our/consensus forecasts. Topline fell 28% y-o-y and 16% q-o-q to RM206m as CPO production fell to c.62kMT (-28% y-o-y, -24% q-o-q), plus average CPO price was lower at RM2,201/MT compared to RM2,543/MT in 1Q14. The impact flowed down as operating profit fell to RM33.1m (-54% y-o-y, -2% q-o-q). The drop from 4Q14 was not as severe as operating costs were reduced by c.10%.
- The weather effects were felt by TSH's own plantations as FFB harvests fell 9% y-o-y and q-o-q to c.143k MT.

USD borrowings a risk

- TSH has USD119m in USD-denominated borrowings, which translated to RM440.8m or c.38% of its overall borrowings at end-1Q15. Further depreciation of the Ringgit against the US dollar would raise its gearing and increase financing costs. Its net gearing had risen from 76% at end-2014 to 81% at end-1Q15.

Outlook

Potential headwinds from export levy implementation

- As close to 40% of TSH's CPO production and c.86% of its planted hectareage is in Indonesia, it would be materially affected by the USD50/MT levy to be implemented on CPO exports. Nonetheless, the Indonesian government has stated that proceeds of the levy would go into a fund to spur biodiesel production, which can boost CPO demand and thus lift prices over the longer run.

Young tree profile will help production growth

- The soft 1Q15 production figures, as well as the El Nino weather phenomenon may restrict 2015 production growth. However TSH's young tree age profile (c.69% is

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young or immature) bodes well for the long term, and we expect FFB yields to recover over the next few quarters.

Room for long-term expansion

- TSH has a sizeable unplanted landbank of 64k ha in Indonesia (68k ha total) to support continuous aggressive new planting. Current total planted area is c.41k ha.

Valuation

Our TP of RM2.60 (DCF-based, WACC 8.7%; TG 3%) is maintained for now.

Risks

Volatility in CPO prices and USD exchange rate

- Continued depressed CPO prices would hurt earnings, especially for primarily upstream planters. Additionally, low crude oil prices might affect CPO demand for biofuel. Finally, CPO prices in Ringgit terms are also directly affected by the currency's strength relative to the US dollar.

Setback in expansion plans

- Our forecasts are based on assumed hectarage for new planting and replanting. Any setback to these plans would negatively affect our valuation through slower volume growth.

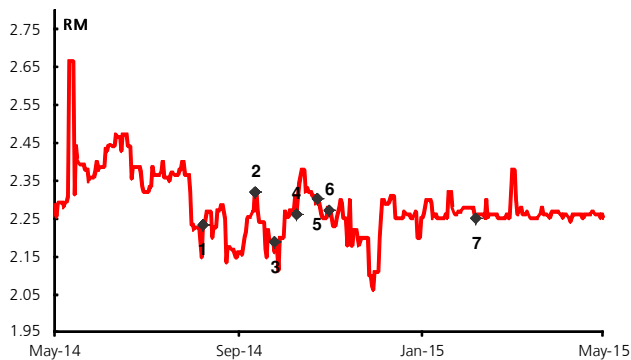
Market sentiment

- Changes in funds flow towards or out of emerging markets would affect valuation of plantation counters.

Extreme changes in the weather

- Sudden and significant changes in rainfall and humidity in the case of a strong El Nino event (prolonged dryness) can affect FFB yields.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	27 Aug 14	2.23	2.67	Buy
2:	01 Oct 14	2.32	2.67	Buy
3:	14 Oct 14	2.19	2.67	Buy
4:	28 Oct 14	2.26	2.55	Buy
5:	11 Nov 14	2.30	2.55	Buy
6:	19 Nov 14	2.27	2.55	Buy
7:	25 Feb 15	2.25	2.60	Buy

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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