

Company Guide

TSH Resources

Edition 1 Version 1 | Bloomberg: TSH MK | Reuters: TSHR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

23 Jun 2015

HOLD

Last Traded Price: RM2.25 (KLCI : 1,732.76)

Shariah Compliant: Yes

Price Target : 12-Month RM 2.35 (4% upside) (Prev RM2.60)

Where we differ: Our forecast CPO price is lower than consensus as we expect inventory to remain high in 2H15

Analyst

Marvin KHOR +603 2604 3911 marvinkhor@alliancedbs.com

Malaysian Research Team +603 2604 3333 general@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	1,071	1,074	1,140	1,226
EBITDA	235	250	269	298
Pre-tax Profit	168	183	200	227
Net Profit	124	133	144	163
Net Pft (Pre Ex.)	132	133	144	163
EPS (sen)	9.2	9.8	10.7	12.1
EPS Pre Ex. (sen)	9.8	9.8	10.7	12.1
EPS Gth (%)	(18)	7	9	13
EPS Gth Pre Ex (%)	3	0	9	13
Diluted EPS (sen)	9.2	9.8	10.7	12.1
Net DPS (sen)	2.5	2.5	2.7	3.0
BV Per Share (sen)	88.0	95.3	103.6	113.0
PE (X)	24.5	22.8	21.0	18.6
PE Pre Ex. (X)	22.9	22.8	21.0	18.6
P/Cash Flow (X)	25.5	17.5	15.5	14.2
EV/EBITDA (X)	17.5	17.0	16.2	15.0
Net Div Yield (%)	1.1	1.1	1.2	1.3
P/Book Value (X)	2.6	2.4	2.2	2.0
Net Debt/Equity (X)	0.8	0.8	0.8	0.8
ROAE (%)	11.0	10.7	10.8	11.2
Earnings Rev (%):		(6)	(11)	(10)
Consensus EPS (sen):		10.1	12.1	12.8
Other Broker Recs:		B: 2	S: 2	H: 8

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

DECENT VOLUME GROWTH PRICED IN

In consolidation mode. We expect TSH's Fresh Fruit Bunch (FFB) output to expand by 11.5% CAGR between CY14 and CY17F; persistent crude palm oil (CPO) price weakness, dry weather in Sabah, high leverage, and Indonesia's planned export levies are anticipated to weigh on near term earnings. And, unlike Indonesian refineries that are expected to benefit from CPO export levies, TSH' refining JV with Wilmar will continue to be hurt by the zero export tax regime as long as the benchmark CPO price remains below RM2,250.

Near-term M&A? The bulk of TSH's planted estates are in Indonesia, and the palm trees are relatively young at 7.6 years (average). Over the next three years, almost 8k ha is expected to mature – representing c.30% of its total mature area as at end CY14. While the flat CPO price outlook may not add much leverage to strong prospective volume growth, it gives TSH the opportunity to acquire cash-strapped estates in Indonesia.

Divestments are a prospect. To help fund its oil palm operations and reduce gearing, a possible avenue for TSH would be to divest some of its non-core assets such as Ekowood and the cocoa processing unit. The proceeds could then be employed to acquire more oil palm estates in Indonesia.

Valuation:

Our TP of RM2.35 is based on DCF valuation (WACC 8.7%; TG 3%). It was reduced from RM2.60 after we imputed lower forecast CPO prices, which resulted in lower FY15-17F earnings.

Key Risks to Our View:

TSH' share price is driven by CPO price expectations. Hence, a strong recovery in CPO prices (either data or regulatory-driven) could lift the share price to above our fair value, and vice versa. A severe El Nino could also affect TSH's productivity, cash generation, and ultimately share price performance.

At A Glance

Issued Capital (m shrs)	1,356
Mkt. Cap (RMm/US\$m)	3,050 / 817
Major Shareholders	
Aik Pen Tan (%)	12.1
Tunas Lestari Sdn Bhd (%)	6.3
Embun Yakin Sdn Bhd (%)	5.6
Free Float (%)	76.1
3m Avg. Daily Val (US\$m)	0.3

ICB Industry : Consumer Goods / Food Producers

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

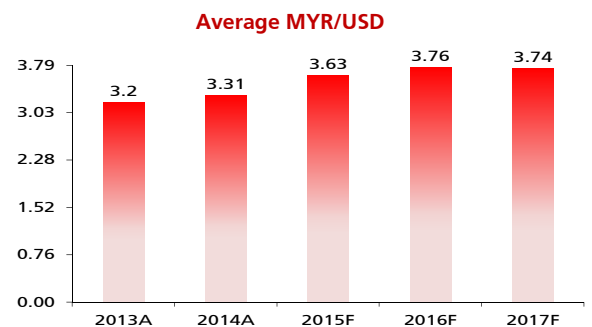
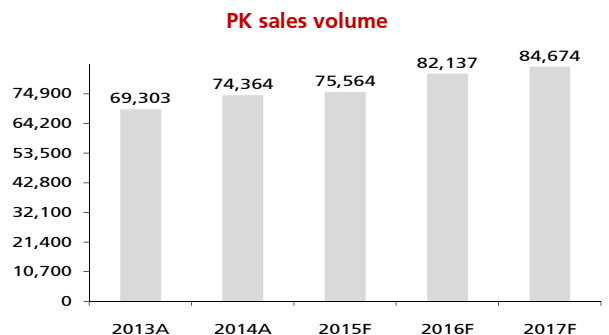
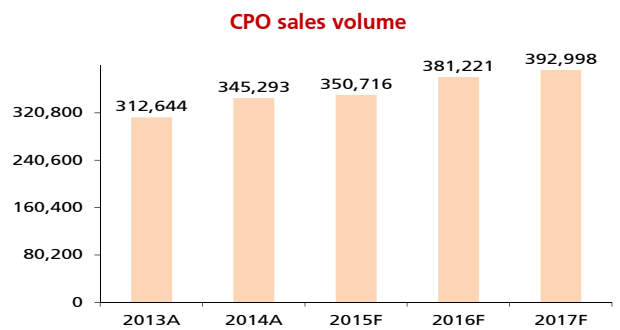
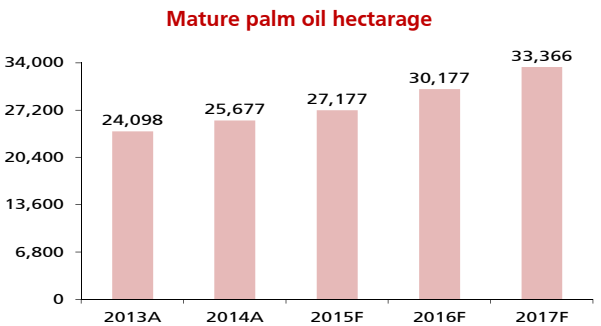
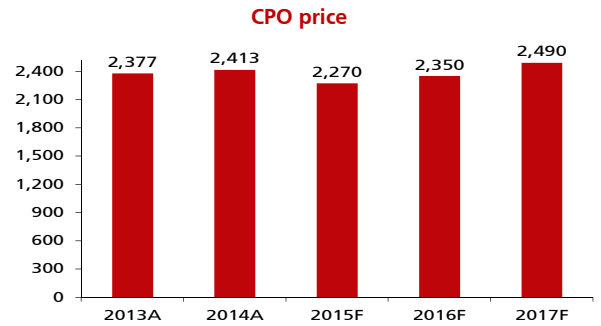
CPO prices. As a commodity producer, TSH is a price-taker. Movements in international CPO prices would directly impact the group’s profitability. We recently trimmed forecast CPO price to account for: (1) record soybean harvest (soybean oil is a substitute); and (2) waning discretionary biodiesel demand following the drop in crude oil price since end 2014. We now expect CPO prices (FOB Pasir Gudang) to average US\$626/MT (RM2,270) this year and US\$632 (RM2,370) next year – representing a change of -15% and +1% y-o-y, respectively.

Size of mature plantations. Due to its aggressive planting over the past few years, TSH is expected to see a steady climb in mature hectareage, which currently make up 62% of 25.7k ha of total planted area. Of these, about half or 12.9k ha are trees below 7 years of age. We expect the mature planted area to grow by 30% over the next three years to 33.4k ha, and total planted area to grow by 29% to 53.3k ha – if it keeps to c.4k ha/year planting schedule. All these bode well for its internal FFB output, which we expect to register double-digit CAGR.

Production volume. TSH has six palm oil mills: three in Sabah, one in Sumatra, and two in Kalimantan. The Sabah mills currently process the bulk of FFB from external sources, and so its overall CPO production trend also depends on FFB production at nearby plantations. TSH’s oil extraction rate has been decent, averaging 21% in Sabah and 21.5% in Indonesia. Currently, about 60% of its overall CPO production is from Sabah, but that ratio will drop as FFB production at its Indonesian plantations pick up.

Regulations. Tariff and non-tariff regulations are common in the agricultural commodities sector, and palm oil is no exception. Any changes in export/import tariffs, as well as various taxes and levies, would affect trade flows and prices. The USD50/MT export levy by Indonesia due to be implemented in Aug 2015 will impact TSH’s Indonesian operations.

Seasonal demand. As a major vegetable oil with 36% global market share, palm oil is an important food staple. The next largest is soybean oil with 27% market share. These two vegetable oils are direct substitutes (suggesting high price elasticity of demand), although certain vegetable oils are more suitable than others for certain applications. Demand for palm oil is dominant in Asia, where local festivities result in seasonal demand during different months of the year. Ramadan month, Chinese New Year, and Divali are typically high-demand periods in Asia.



Source: Company, AllianceDBS

Balance Sheet:

High gearing due to aggressive planting. TSH's net gearing is over 0.8x, primarily due to aggressive planting over the past few years. About 40% of its borrowings are in USD, but that is primarily a natural hedge to its USD-denominated CPO sales. We expect mild increases in TSH's overall financing if it sticks to its planting schedule.

Share Price Drivers:

Muted FY15 growth to be a speedbump. Due to the low CPO price environment, weather-driven output, and the implementation of export levies, we anticipate pedestrian earnings growth for TSH in the near term, which could lead to muted share price performance.

Look for signs of output and earnings recovery. We expect TSH to see organic production growth over the next few years due to the young age profile for its estates, which should translate into earnings growth given favourable CPO prices. The stock may be rerated once macro issues such as weather and excess supply of soybeans dissipate, and valuations become more palatable.

Key Risks:

Volatility in CPO prices and USD exchange rate. Continued depressed CPO prices would hurt earnings, especially upstream planters. Additionally, low crude oil prices might affect CPO demand for biofuel. Finally, CPO prices in Ringgit would also be directly affected by the currency's strength relative to the US dollar.

Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. A setback to these plans could hurt our valuation through slower volume growth.

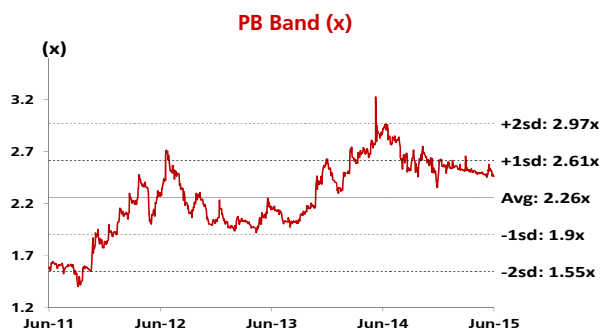
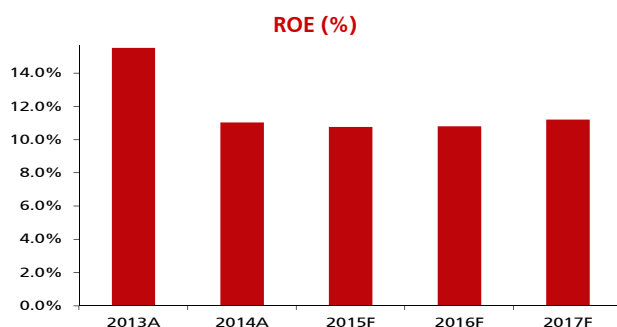
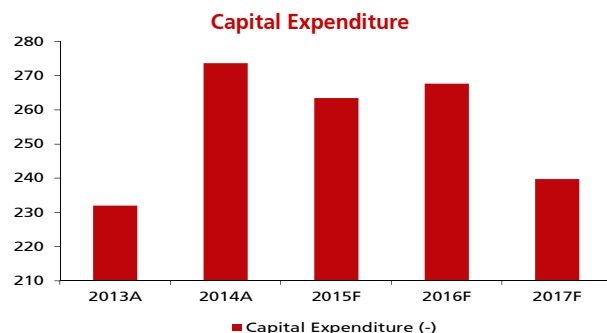
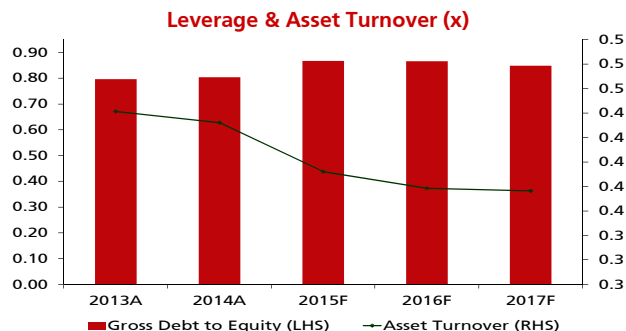
Market sentiment. Changes in funds flow towards or out of emerging markets would affect valuation of plantation counters.

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.

Weather. Changes in rainfall pattern (e.g. caused by El Nino or La Nina) would affect FFB yields in later quarters.

COMPANY BACKGROUND

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



Source: Company, AllianceDBS

TSH Resources

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
CPO price	2,377	2,413	2,270	2,350	2,490
Mature palm oil hectareage	24,098	25,677	27,177	30,177	33,366
CPO sales volume	312,644	345,293	350,716	381,221	392,998
PK sales volume	69,303	74,364	75,564	82,137	84,674
Average MYR/USD	3.20	3.31	3.63	3.76	3.74

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (RM m)					
Oil Palm Plantation	902	967	973	1,039	1,125
Wood Products	51	43	46	44	42
Cocoa	65	61	55	57	59
Total	1,018	1,071	1,074	1,140	1,226
EBIT (RM m)					
Oil Palm Plantation	156	194	202	220	248
Wood Products	(3)	(6)	(5)	(4)	(4)
Cocoa	6	3	3	3	3
Total	159	191	200	219	247
EBIT Margins (%)					
Oil Palm Plantation	17.4	20.1	20.7	21.2	22.1
Wood Products	(6.8)	(14.2)	(9.9)	(9.6)	(9.3)
Cocoa	9.9	5.0	5.0	5.0	5.0
Total	15.7	17.8	18.6	19.2	20.2

Income Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	1,018	1,071	1,074	1,140	1,226
Cost of Goods Sold	(715)	(712)	(704)	(748)	(793)
Gross Profit	303	359	371	393	433
Other Opng (Exp)/Inc	(168)	(175)	(173)	(179)	(194)
Operating Profit	135	184	198	214	239
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	24	7	2	6	8
Net Interest (Exp)/Inc	(18)	(15)	(17)	(19)	(21)
Exceptional Gain/(Loss)	23	(8)	0	0	0
Pre-tax Profit	164	168	183	200	227
Tax	(8)	(32)	(35)	(40)	(46)
Minority Interest	(6)	(11)	(15)	(16)	(18)
Preference Dividend	0	0	0	0	0
Net Profit	151	124	133	144	163
Net Profit before Except.	128	132	133	144	163
EBITDA	185	235	250	269	298
Growth					
Revenue Gth (%)	3.4	5.2	0.3	6.1	7.6
EBITDA Gth (%)	18.7	27.2	6.7	7.5	10.6
Opg Profit Gth (%)	21.4	36.1	7.4	8.0	12.0
Net Profit Gth (Pre-ex) (%)	43.4	3.2	0.2	9.0	12.9
Margins & Ratio					
Gross Margins (%)	29.8	33.6	34.5	34.4	35.3
Opg Profit Margin (%)	13.3	17.2	18.4	18.7	19.5
Net Profit Margin (%)	14.8	11.6	12.3	12.7	13.3
ROAE (%)	15.5	11.0	10.7	10.8	11.2
ROA (%)	6.5	5.0	4.8	4.8	5.0
ROCE (%)	6.0	6.4	6.1	6.0	6.2
Div Payout Ratio (%)	20.8	27.2	25.0	25.0	25.0
Net Interest Cover (x)	7.6	12.3	11.7	11.2	11.6

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RM m)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	287	302	247	244	206
Cost of Goods Sold	(189)	(199)	(156)	(162)	(134)
Gross Profit	98	103	91	82	72
Other Oper. (Exp)/Inc	(27)	(54)	(53)	(48)	(39)
Operating Profit	71	49	38	34	32
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	8	(1)	(1)	3	2
Net Interest (Exp)/Inc	(6)	(4)	(3)	(3)	(3)
Exceptional Gain/(Loss)	17	(12)	(4)	(10)	(24)
Pre-tax Profit	90	31	30	25	8
Tax	(15)	(6)	(7)	(5)	(2)
Minority Interest	(6)	(3)	(2)	(2)	0
Net Profit	69	23	21	18	6
Net profit bef Except.	52	35	24	28	29
EBITDA	79	47	37	37	35

Growth

Revenue Gth (%)	3.2	5.1	(18.2)	(1.2)	(15.6)
EBITDA Gth (%)	86.3	(40.3)	(22.6)	1.8	(6.5)
Opg Profit Gth (%)	98.2	(32.1)	(22.3)	(10.5)	(4.0)
Net Profit Gth (Pre-ex) (%)	59.8	(32.2)	(31.4)	13.5	6.7

Margins

Gross Margins (%)	34.2	34.0	36.7	33.7	34.7
Opg Profit Margins (%)	24.9	16.1	15.3	13.8	15.7
Net Profit Margins (%)	24.1	7.7	8.4	7.4	2.8

Balance Sheet (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	1,451	1,740	1,957	2,173	2,359
Invt in Associates & JVs	140	147	149	155	163
Other LT Assets	261	285	281	277	272
Cash & ST Invt	143	59	116	118	151
Inventory	207	191	203	216	229
Debtors	154	146	165	175	189
Other Current Assets	11	22	22	22	22
Total Assets	2,368	2,590	2,892	3,135	3,384
ST Debt	406	569	569	569	569
Creditor	138	121	128	136	144
Other Current Liab	11	16	16	16	16
LT Debt	518	467	648	755	851
Other LT Liabilities	134	128	128	128	128
Shareholder's Equity	1,061	1,183	1,282	1,394	1,521
Minority Interests	100	106	121	137	155
Total Cap. & Liab.	2,368	2,590	2,892	3,135	3,384
Non-Cash Wkg. Capital	224	221	246	261	279
Net Cash/(Debt)	(781)	(976)	(1,101)	(1,207)	(1,269)
Debtors Turn (avg days)	56.8	51.1	52.9	54.5	54.2
Creditors Turn (avg days)	74.8	71.5	69.8	69.6	69.6
Inventory Turn (avg days)	118.4	109.9	110.4	110.4	110.4
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	0.9	0.6	0.7	0.7	0.8
Quick Ratio (x)	0.5	0.3	0.4	0.4	0.5
Net Debt/Equity (X)	0.7	0.8	0.8	0.8	0.8
Net Debt/Equity ex MI (X)	0.7	0.8	0.9	0.9	0.8
Capex to Debt (%)	25.1	26.4	21.6	20.2	16.9
Z-Score (X)	2.5	2.3	2.1	2.1	2.0

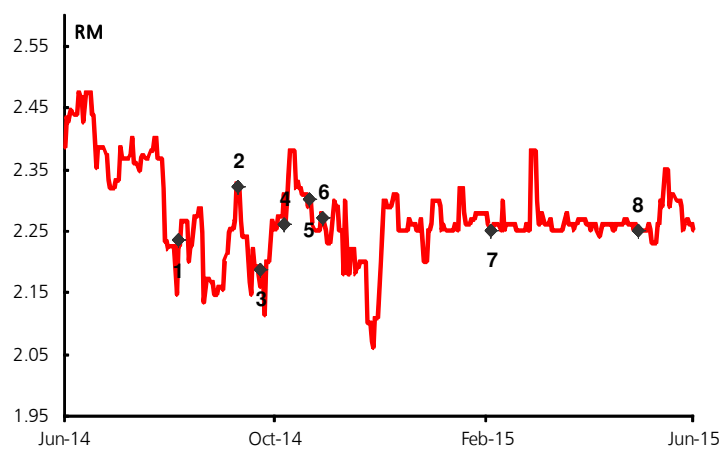
Source: Company, AllianceDBS

Cash Flow Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	142	176	183	200	227
Dep. & Amort.	49	51	53	56	59
Tax Paid	(8)	(32)	(35)	(40)	(46)
Assoc. & JV Inc/(loss)	(24)	(7)	(2)	(6)	(8)
Chg in Wkg.Cap.	28	8	(25)	(15)	(18)
Other Operating CF	(125)	(76)	0	0	0
Net Operating CF	62	119	173	196	213
Capital Exp.(net)	(232)	(274)	(263)	(268)	(240)
Other Invts.(net)	(104)	89	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	194	8	0	0	0
Net Investing CF	(142)	(177)	(263)	(268)	(240)
Div Paid	(21)	(31)	(34)	(33)	(36)
Chg in Gross Debt	(52)	98	182	107	96
Capital Issues	45	0	0	0	0
Other Financing CF	92	(4)	0	0	0
Net Financing CF	65	63	148	74	60
Currency Adjustments	0	0	0	0	0
Chg in Cash	(15)	5	58	2	33
Opg CFPS (sen)	2.5	8.2	14.7	15.6	17.2
Free CFPS (sen)	(12.6)	(11.5)	(6.7)	(5.3)	(2.0)

Source: Company, AllianceDBS

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
8:	21 May 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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd (“ADBSR”), a subsidiary of Alliance Investment Bank Berhad (“AIBB”) and an associate of DBS Vickers Securities Holdings Pte Ltd (“DBSVH”). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR’s affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc (“DBSVUSA”), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com