

25 February 2022

Agriculture | Plantation

## TSH Resources (TSH MK)

**Neutral** (Maintained)

### CPO Prices Capped By Indonesian Discount

Target Price (Return): MYR1.40 (-1%)  
Price (Market Cap): MYR1.41 (USD463m)  
ESG score: 2.22 (out of 4)  
Avg Daily Turnover (MYR/USD) 4.12m/0.98m

- **Maintain NEUTRAL, with new MYR1.40 TP from MYR1.35, 1% downside.** TSH Resources' FY21 results were in line with our, but above consensus. While the company should benefit from higher CPO prices, its largely Indonesian exposure would cap its advantage vs other purer Malaysian players, given the tax structure. Valuation is fair at current levels, trading at 8-9x FY22F-23F, in line with its peers of 6-10x.
- **FY21 core earnings were in line with our, but above Street forecasts,** at 103% and 149%. CPO prices rose by 45% YoY while FFB output rose 1.4% YoY. TSH declared net DPS of 3 sen, which implies a net payout of 18% and net yield of 2%.
- **FFB output rose 1.4% YoY in FY21,** with Sabah pulling down overall output growth (-8.9% YoY). In contrast, its Indonesia estates recorded positive growth of 2.6% during the same period. In January, we saw a 4.6% MoM improvement in production, albeit, still down 16.9% YoY, as Indonesia is starting to pick up again. For FY22, management is targeting FFB output recovery of 7-11% YoY, as FFB yields rise on improving age profile. We are imputing FFB growth of 7.5% for FY22F and 4-5% for FY23F-24F.
- **TSH's refining JV reported strong profits this quarter (+120% YoY),** bringing FY21 JV earnings up by 49% YoY. This came on the back of stronger refining margins resulting from more volatile CPO prices. These contributions should maintain going forward, and as such, we raise our associate and JV contribution assumptions slightly.
- **Costs to spike in FY22F.** In FY21, unit costs are estimated at around MYR1,400-1500/tonne (including kernel credit), with TSH managing to apply the bulk of its fertiliser application requirement for the year. For FY22F, it has contracted its 1H requirements at prices of +>100% YoY. As such, we estimate the company's FY22F CPO production cost/tonne to rise c.30% YoY.
- **Maintain NEUTRAL, with a slightly higher TP of MYR1.40.** We tweak earnings up by 2-5% YoY for FY22F-24F, post adjustment for higher JV contributions and updating FY21 numbers. We apply an unchanged 9x FY22F P/E or -1SD from its historical mean. Our TP includes a 16% ESG discount, as TSH's ESG score of 2.2 is below the 3.0 country median based on RHB's methodology. We believe at 8-9x FY22-23F P/E, valuation is fair, trading in line with its midcap peers of 6-10x.

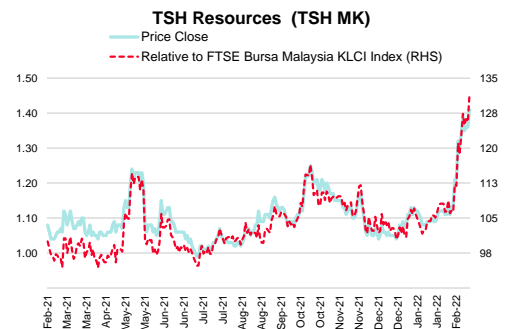
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	30.6	28.2	24.8	30.6	33.0
Relative	30.2	24.8	21.4	29.3	32.0
52-wk Price low/high (MYR)	0.99 – 1.41				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	926	1,189	1,285	1,252	1,246
Recurring net profit (MYRm)	85	228	255	219	210
Recurring net profit growth (%)	198.3	168.0	11.6	(14.0)	(4.2)
Recurring P/E (x)	22.84	8.52	7.64	8.88	9.27
P/B (x)	1.3	1.2	1.1	1.0	0.9
P/CF (x)	8.30	4.94	5.05	6.47	6.84
Dividend Yield (%)	1.1	2.1	4.3	3.5	3.5
EV/EBITDA (x)	12.78	7.54	5.79	6.15	5.94
Return on average equity (%)	5.1	7.9	14.8	11.6	10.3
Net debt to equity (%)	72.0	46.0	28.1	17.1	8.5

Source: Company data, RHB

#### Overall ESG Score: 2.22 (out of 4)

##### E: MODERATE

TSH has reported a reduction in greenhouse gas (GHG) emissions intensity since 2017, however data only covers RSPO-certified units. Additionally, average water usage per MT of FFB processed has similarly reduced and TSH possess a biomass plant that is connected to the national grid, thereby reducing carbon footprint.

##### S: MODERATE

TSH commits to respect land tenure rights, in relation to FPIC, and human rights through their policies. In 2019, the company recorded zero fatalities and loss time injury frequency rate of 10.08.

##### G: GOOD

50% of TSH's board members are independent, but only 20% of them are female. While disclosure on director remuneration which includes salaries and bonuses are stated, it wasn't on named basis. TSH has an in-house investor relations team and holds investor briefings regularly, embodying good transparency and disclosure practices.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	0.06	0.17	0.18	0.16	0.15
Agriculture	DPS	0.02	0.03	0.06	0.05	0.05
<b>TSH Resources</b>	BVPS	1.05	1.19	1.31	1.42	1.52
TSH MK	Return on average equity (%)	5.1	7.9	14.8	11.6	10.3
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
We apply a PE target of 9x on 2022F P/E earnings. Our TP implies an EV/ha of USD12,000/ha, in line with the peers' range of USD10,000-15,000/ha.	Recurring P/E (x)	22.84	8.52	7.64	8.88	9.27
	P/B (x)	1.3	1.2	1.1	1.0	0.9
	FCF Yield (%)	9.2	17.9	16.8	12.2	11.4
	Dividend Yield (%)	1.1	2.1	4.3	3.5	3.5
	EV/EBITDA (x)	12.78	7.54	5.79	6.15	5.94
	EV/EBIT (x)	23.03	10.87	7.29	8.02	7.88
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. CPO price movement;	Total turnover	926	1,189	1,285	1,252	1,246
ii. FFB production output;	Gross profit	283	475	557	499	484
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	237	364	433	380	368
	Depreciation and amortisation	(105)	(111)	(89)	(89)	(91)
	Operating profit	132	253	344	291	277
	Net interest	(34)	(41)	(18)	(13)	(8)
	Pre-tax profit	124	207	381	328	314
	Taxation	(40)	(52)	(91)	(79)	(75)
	Reported net profit	73	123	255	219	210
	Recurring net profit	85	228	255	219	210
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. CPO price movement;	Change in working capital	28	(73)	62	13	0
ii. Weather risks;	Cash flow from operations	235	394	386	301	284
iii. Demand and supply dynamics of the global vegetable oil industry	Capex	(56)	(46)	(58)	(63)	(62)
	Cash flow from investing activities	(6)	7	(33)	(38)	(37)
	Dividends paid	(14)	(21)	(83)	(69)	(69)
	Cash flow from financing activities	(174)	(278)	(284)	(170)	(170)
	Cash at beginning of period	126	163	280	349	442
	Net change in cash	54	122	69	93	77
	Ending balance cash	177	288	349	442	519
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
TSH Resources is involved in oil palm plantations in Sabah and Indonesia. It also has a 50% stake in a joint venture refinery with Wilmar International.	Total cash and equivalents	163	280	349	442	519
	Tangible fixed assets	2,099	2,300	2,272	2,249	2,223
	Total investments	158	172	202	227	247
	Total assets	3,172	3,293	3,376	3,473	3,546
	Short-term debt	691	522	424	426	429
	Total long-term debt	623	592	492	392	292
	Total liabilities	1,574	1,480	1,355	1,273	1,177
	Total equity	1,598	1,813	2,020	2,200	2,370
	Total liabilities & equity	3,172	3,293	3,376	3,473	3,546
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	10.4	28.4	8.1	(2.6)	(0.5)
	Recurrent EPS growth (%)	198.5	168.0	11.6	(14.0)	(4.2)
	Gross margin (%)	30.6	40.0	43.3	39.8	38.8
	Operating EBITDA margin (%)	25.6	30.7	33.7	30.3	29.5
	Net profit margin (%)	7.9	10.3	19.8	17.5	16.9
	Dividend payout ratio (%)	28.3	33.7	32.5	31.5	32.9
	Capex/sales (%)	6.1	3.9	4.5	5.0	5.0
	Interest cover (x)	2.75	6.16	10.64	9.80	10.59

Source: Company data, RHB

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Figure 1: Quarterly results review

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>	241.1	309.1	328.4	6.2	36.2	926.0	1,188.9	28.4	Lower mainly due to lower CPO sales volume but offset by higher CPO prices
<b>EBITDA</b>	72.4	120.2	96.6	(19.6)	33.4	244.9	406.0	65.8	
<i>EBITDA margin (%)</i>	30.0	38.9	29.4			26.4	34.2		Due to higher CPO prices
Depreciation	(25.5)	(27.2)	(27.6)	(1.2)	(8.0)	(105.6)	(111.2)	(5.3)	
<b>EBIT</b>	46.9	93.0	69.1	(25.7)	47.1	139.3	294.8	111.7	
<i>EBIT margin (%)</i>	19.5	30.1	21.0			15.0	24.8		
El/Others	(2.5)	(31.9)	(8.5)	73.3	(241.1)	(5.7)	(59.3)	(939.9)	Unrealised FX loss of MYR10.2m, inventories written down MYR14.5m, inventories written off of MYR1.8m and loss on commodity futures contracts of MYR44.0m. This was offset by fair value gain on commodity futures contract MYR2.8m and gain from FV adjustment of FFB of MYR4.5m.
<b>Pretax profit</b>	48.3	65.7	84.3	28.3	74.7	130.1	253.7	95.0	Filtered down from EBIT and El gain
<i>Pretax margin (%)</i>	20.0	21.3	25.7			14.1	21.3		
Tax	(14.1)	(11.9)	(11.1)	6.8	21.1	(39.6)	(52.1)	(31.4)	
<i>Effective tax rate (%)</i>	(29.2)	(18.1)	(13.2)			(30.5)	(20.5)		
Minority interest	(1.2)	(8.7)	(9.8)	(12.2)	(693.0)	(11.4)	(32.6)	(186.7)	
<b>Net profit</b>	33.0	45.1	63.4	40.7	92.5	79.1	169.0	113.7	Filtered down from PBT and higher effective tax rates
<b>Core net profit</b>	35.4	76.9	71.9	(6.5)	102.9	84.8	228.3	169.2	In line with our estimates, but exceeded consensus
<i>Net profit margin (%)</i>	14.7	24.9	21.9			9.2	19.2		
<b>Operational stats (tonnes)</b>									
FFB Production	255,008	239,223	196,425	(17.9)	(23.0)	906,174	918,887	1.4	
CPO production	60,335	65,729	56,098	(14.7)	(7.0)	257,236	253,874	(1.3)	
Realised CPO price	2,779	3,586	4,347	21.2	56.4	2,453	3,570	45.5	

Source: Company data, RHB

Figure 2: TSH's key assumptions

	FY20	FY21	FY22F	FY23F	FY24F
FFB produced, tonnes	906,174	918,887	988,103	1,034,538	1,075,296
% change	1.4%	1.4%	7.5%	4.7%	3.9%
Percentage of production from Indonesia	89.4%	90.5%	89.6%	89.1%	89.5%
CPO price assumption (Malaysia), MYR/tonne	2,782	3,570	4,300	3,600	3,500

Note: \*Actual production

Source: Company data, RHB

## Recommendation Chart

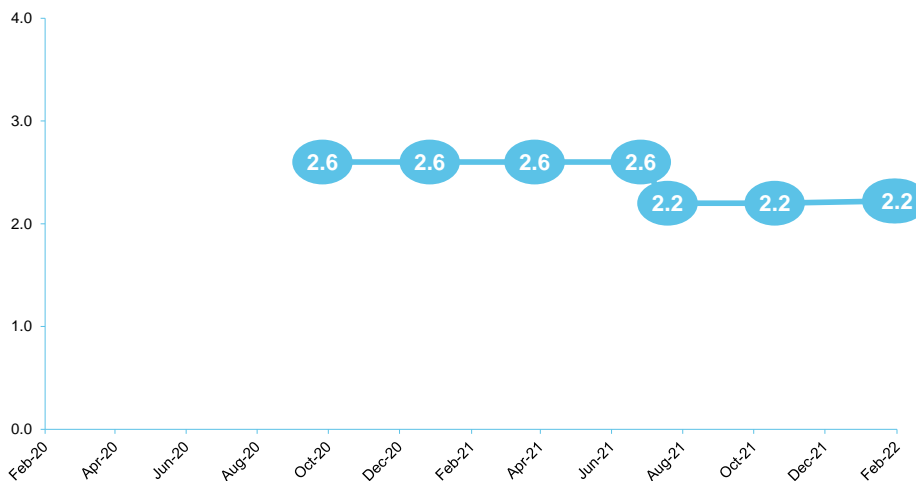


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-21	Neutral	1.35	1.35
2021-06-22	Buy	1.20	1.06
2021-05-19	Neutral	1.30	1.20
2021-02-26	Buy	1.30	1.06
2021-02-26	Buy	na	1.06
2020-07-26	Buy	1.25	1.16
2020-05-21	Buy	1.05	0.90
2020-03-23	Buy	0.75	0.59
2020-02-28	Neutral	1.35	1.18

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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