

22 April 2021

Agriculture | Plantation

**TSH Resources (TSH MK)****Buy** (Maintained)**Imputing Higher CPO Prices; Keep BUY**

- **Maintain BUY and TP of MYR1.30, 23% upside with c.2% yield.** After imputing our revised CPO prices, we lift earnings by 6-24% for FY21-22F. Given our view that the risk for prices is on the downside from hereon, we advocate stocks that are expected to perform under a lower price environment. We like TSH for its undemanding valuation, which is at -1SD from the 5-year mean, and decent FFB growth prospects.
- **Tight 2021 supply and demand (S&D) numbers.** Based on Oil World's and the United States Department of Agriculture's (USDA) latest forecasts, S&D of oils and fats and CPO are expected to be relatively tight in 2021, although this is balanced somewhat by relatively muted demand. Oil World data shows the 17 oils & fats, and 10 oilseeds complex are expected to see declines in stock/usage ratios in 2021, with the eight vegetable oil complex flat YoY. The largest decline in stock/usage ratios in 2021 should come from the soybean, rapeseed and canola crops, which were affected by *La Nina* and exacerbated by China's large appetite for soybean stemming from its feedmeal requirements. These tight S&D dynamics will likely keep oilseed and vegetable oil prices elevated throughout 2021, at relatively high levels.
- **Oilseed prices likely to moderate in 2022, on increased planting.** For 2022, despite no official forecasts yet from Oil World or USDA, we believe soybean and other oilseed prices will moderate, along with CPO prices. This is from oilseeds seeing increased planting activities, to take advantage of current high prices. The US expects to plant up 5% more acreage in 2021, and may increase this in 2022. South American soybean planting will start in Nov-Dec 2021, with harvests in May-Jun 2022, and this is likely to also increase YoY. The USDA projects Brazil (largest producer) to plant up 5% more soybeans in 2021-2022. With improved supply, soybean prices will likely moderate in 2022F. For CPO, we also believe the stock/usage ratios will improve in 2022, estimating it to increase to 17% in 2022, from 16.2% in 2021F. This will keep CPO prices above the 20-year historical average of MYR2,500/tonne. However, given the rising stock/usage ratio trend, we believe CPO prices will be lower YoY in 2022F.
- **We are raising our 2021-2022F CPO prices to MYR3,200 and MYR2,800 per tonne** (from MYR2,650 and MYR2,600). With the increase in price forecast, we also lift TSH Resources' earnings by 6-24% for FY21-22F.
- **Maintain BUY, with an unchanged SOP-derived TP of MYR1.30**, after rolling forward our valuation base year to 2022, based on 16x FY22F P/E for its upstream division, and 0.5x P/BV for its other divisions. Our TP implies an EV/ha of USD12,000, in line with its peer range of USD10,000-15,000/ha. We believe valuations remain undemanding, as TSH is trading at 14x P/E, while FFB growth and earnings prospects remain solid.

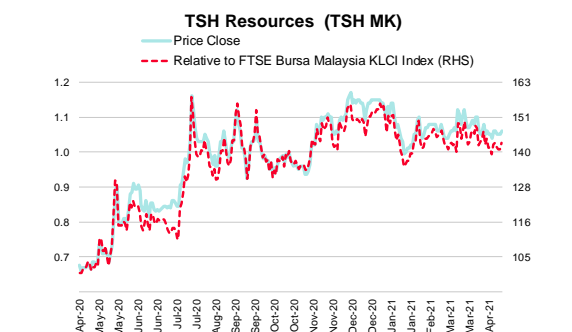
Target Price (Return): MYR1.30 (+23%)  
 Price: MYR1.06  
 Market Cap: USD355m  
 Avg Daily Turnover (MYR/USD): 2.18m/0.53m

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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(7.8)	(0.9)	(1.9)	8.2	60.6
Relative	(6.1)	0.7	(1.8)	2.8	46.9
52-wk Price low/high (MYR)				0.66	1.17



Source: Bloomberg

**Overall ESG Score: 2.6 (out of 4)****E: Good**

TSH has reported a reduction in greenhouse gas emissions intensity since 2017, but this data only covers Roundtable for Sustainable Palm Oil-certified units. Also, its average water usage per tonne of FFB processed has similarly decreased, and TSH possesses a biomass plant that is connected to the national grid, which reduces its carbon footprint.

**S: Good**

TSH is committed to respecting land tenure rights, in relation to free, prior and informed consent, and human rights through its policies. In 2019, the company recorded zero fatalities and a loss time injury frequency rate of 10.08.

**G: Good**

50% of TSH's board members are independent, but only 20% of are female. While there is disclosure on director remuneration – which includes salaries and bonuses – it was not on a 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 capitalization of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	839	926	1,241	1,172	1,169
Recurring net profit (MYRm)	29	85	112	100	95
Recurring net profit growth (%)	(46.2)	197.0	31.9	(10.9)	(4.3)
Recurring P/E (x)	51.27	17.25	13.08	14.69	15.34
P/B (x)	1.0	1.0	1.0	0.9	0.9
P/CF (x)	8.04	6.20	8.68	6.22	6.51
Dividend Yield (%)	0.9	1.4	1.9	1.9	1.9
EV/EBITDA (x)	14.37	11.44	8.89	9.14	8.88
Return on average equity (%)	4.3	4.3	7.5	6.3	5.8
Net debt to equity (%)	82.9	72.0	64.0	53.4	44.5

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Malaysia	Recurring EPS	0.02	0.06	0.08	0.07	0.07
Agriculture	DPS	0.01	0.02	0.02	0.02	0.02
<b>TSH Resources</b>	BVPS	1.04	1.05	1.11	1.17	1.22
TSH MK	Return on average equity (%)	4.3	4.3	7.5	6.3	5.8
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Our SOP valuation comprises:	Recurring P/E (x)	51.27	17.25	13.08	14.69	15.34
i. 16x 2022F P/E for its upstream division;	P/B (x)	1.0	1.0	1.0	0.9	0.9
ii. 0.5x 2022F P/BV for its other divisions.	FCF Yield (%)	5.6	12.2	6.1	10.9	10.2
	Dividend Yield (%)	0.9	1.4	1.9	1.9	1.9
Our TP implies an EV/ha of USD12,000/ha, in line with the peer range of USD10,000-15,000/ha.	EV/EBITDA (x)	14.37	11.44	8.89	9.14	8.88
	EV/EBIT (x)	29.88	21.34	14.06	15.35	15.26
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Increase in CPO prices;	Total turnover	839	926	1,241	1,172	1,169
ii. Higher FFB production output;	Gross profit	257	344	442	414	410
iii. Competitiveness of its downstream processing division vs that of peers.	EBITDA	191	228	289	269	266
	Depreciation and amortisation	(99)	(106)	(106)	(109)	(111)
	Operating profit	92	122	183	160	155
	Net interest	(37)	(35)	(35)	(31)	(27)
	Pre-tax profit	90	113	173	154	148
	Taxation	(28)	(40)	(42)	(37)	(35)
	Reported net profit	60	62	112	100	95
	Recurring net profit	29	85	112	100	95
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Decline in CPO prices;	Change in working capital	2	17	(69)	9	1
ii. Weather risks;	Cash flow from operations	182	236	168	235	225
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(100)	(58)	(79)	(75)	(75)
	Cash flow from investing activities	(77)	(24)	(79)	(75)	(75)
	Dividends paid	(14)	(14)	(28)	(28)	(28)
	Cash flow from financing activities	(89)	(174)	(128)	(128)	(128)
	Cash at beginning of period	108	126	163	125	157
	Net change in cash	16	37	(39)	32	22
	Ending balance cash	125	162	125	157	179
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</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	126	163	125	157	179
	Tangible fixed assets	2,592	2,119	2,092	2,058	2,022
	Total investments	159	157	157	157	157
	Total assets	3,265	3,166	3,213	3,197	3,183
	Short-term debt	536	690	690	690	690
	Total long-term debt	896	624	524	424	324
	Total liabilities	1,690	1,568	1,511	1,405	1,307
	Total equity	1,575	1,598	1,702	1,791	1,876
	Total liabilities & equity	3,265	3,166	3,213	3,197	3,183
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(7.5)	10.4	34.0	(5.5)	(0.3)
	Recurrent EPS growth (%)	(46.9)	197.2	31.9	(10.9)	(4.3)
	Gross margin (%)	30.6	37.2	35.6	35.3	35.1
	Operating EBITDA margin (%)	22.8	24.6	23.3	23.0	22.8
	Net profit margin (%)	7.2	6.7	9.0	8.5	8.2
	Dividend payout ratio (%)	23.0	33.5	24.7	27.7	29.0
	Capex/sales (%)	11.9	6.2	6.4	6.4	6.4
	Interest cover (x)	1.74	2.55	4.30	4.11	4.36

Source: Company data, RHB

Figure 1: TSH's key assumptions

	FY19	FY20	FY21F	FY22F	FY23F
FFB produced, tonnes	893,739	906,174	947,268	983,764	1,021,404
% change	4.3%	1.4%	4.5%	3.9%	3.8%
Percentage of production from Indonesia	89.8%	89.4%	89.7%	90.1%	90.2%
CPO price assumption (Malaysia), MYR/tonne	2,478	2,600	3,200	2,800	2,700

Source: Company data, RHB

Figure 2: TSH's SOP valuation

Division	Valuation methodology	Per share value, MYR
Plantation	16x Dec-22F earnings	1.05
Other divisions	0.5x Book	0.25
<b>TP</b>		<b>1.30</b>

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-01-20	Neutral	1.55	1.49
2019-11-26	Neutral	1.25	1.13
2019-09-30	Sell	0.75	0.90
2019-08-23	Sell	0.70	0.90

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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