

PP14767/09/2012(030761)

TSH Resources Berhad

“Expecting Substantial Growth beyond FY16”

We made a visit to TSH Berhad (TSH) recently and came back feeling optimistic on the prospect of the group after being advised part of the high yielding material (Wakuba) in commercial planting that will start to contribute to the group's earnings from 2H16 onwards. We opine that the generally young palm trees under TSH's portfolio coupled with huge parcel of unplanted land are the key earnings drivers in the next 5-10 years. We value TSH using SOP method with a target price of RM2.13, assigning 3-year average PER of 21.8x for the plantation segment pegged to FY17 net profit of RM182 million. The stock is now a BUY.

- **Small but experienced.** To compare with bigger guys like Sime Darby and IOI Corporation, TSH is about 10 times smaller in terms of land bank after merely owning 109,345 ha of land in both Malaysia and Indonesia. However, having the business run by experienced Management for more than 40 years, TSH managed to record average net profit growth of 22% in 2010-2014, save for the unprecedented double whammy in 2015 when CPO collapsed to near RM1,800/tonne coupled with adverse weather conditions that sent annual growth of Fresh Fruit Brunch (FFB) to 7-year low. Today, TSH is accepted as a member of the Roundtable on Sustainable Palm Oil (RSPO) while it continues to pursue for Indonesian Sustainable Palm Oil (ISPO).
- **Huge growth lies in young trees.** Out of 42,816 ha total planted area, 27,145 ha or 63% of the trees are aged 7 years and below. Most of these young trees are planted in Indonesia such as Kalimantan and Padang. While El Nino effect fades away and likely to be replaced by La Nina, we expect to see >20% FFB growth in 2017 and onwards. Note that, 69% of its trees in Sabah are mature with declining yield and hence, sales turnover will be

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BUY (TP: RM2.13)

Current Price (RM)	RM1.86
New Target Price (RM)	RM2.13
Previous Target Price (RM)	RM1.95
Previous Recommend.	HOLD
Upside To Target Price	14.5%
Dividend Yield	1%

Stock Code

Bloomberg	TSH MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	1,355.7	
Market Cap (RM mn)	2,521.7	
YTD Chg In Share Price	-5.1%	
Beta (x)	0.76	
52-week Hi/Lo (RM)	RM2.21	RM1.73
3M Average Volume (000'shrs)	303.9	
Estimated Free Float	32.9%	

Major Shareholders

Tan Aik Pen	12.4%
Tunas Lestari Sdn Bhd	6.3%
Embun Yakin Sdn Bhd	5.6%

dependent on Indonesian site performance in the coming years.

- **Tissue culturing of elite palms.** To boost the sales of CPO, TSH has spent more than 10 years in research and development to formulate high quality oil palm ramets with high FFB yield and OER from tissue culturing of superior oil palm materials. We understand that the group has started the commercial planting of such high yielding material “Wakuba” in 2H13 which will see about 5% of the total planted area maturing next year with Wakuba ramets. From the 2 ha trial plot study, Wakuba specie can achieve as high as 26% OER and FFB yield of 36-38 MT/ha, compared to normal rate of 21% and 25 MT/ha, respectively.
- **Production costs set to decline.** While CPO yield increases amid more young trees entering early maturity, the CPO production cost per unit is subsequently expected to decline in the next few years. We reckon the production costs in Indonesia region will stay near RM1,100/MT if not lower while Sabah region continues to maintain below RM1,000/MT.
- **Growth sustains amid slowdown in new planting.** The management guided that less than 1,000 ha new planting for FY16 and only expects 2,000-3,000 ha for FY17-18. This is within our expectation as the group is reducing its capex and aiming to pare down its high debt gearing. With >50% young trees coming to maturity in near term coupled with more favourable CPO prices moving forward, we are sanguine about the growth of the group’s earnings amid lower new planting activity in recent years.
- **Outlook.** Most of the growth of TSH would be generated by huge parcel of unplanted land in Indonesia amounting to >66,000 ha or 61% of the total land bank. The remaining 39% are mostly aged below 15 years old (83% of total planted area) which are the key drivers for FFB production as well as CPO revenue. Hence we reckon that would be enough to keep TSH busy for the coming years amid more palm oil trees entering maturity.

In the wake of recovery in CPO prices, we are optimistic on the performance of upstream players including TSH and expect much space of growth in its top-line. Together with anticipated declining production costs (due to improving yields and more mature trees) in next 3-5 years, we expect the bottom-line of TSH to recover and even charting a new record in the foreseeable future.

- **Valuation.** Using SOP Valuation, we assign 18.0x PER for the palm oil segment, which is in line with selected peers that have similar market cap and upstream-centric. We upgrade our call on TSH from a **HOLD** to a **BUY** with a new target price of RM2.13 underpinned by i) huge portion of young trees in portfolio that has huge growth potential, ii) high yielding ramets of Wakuba to boost CPO and FBB yields in foreseeable future, iii) expecting more substantial recovery of CPO prices in FY17 onwards as the market responds to lower inventory level due to El Nino effect.

Exhibit 1: SOP valuation

Segments	Valuation basis	Multiples	Value (RM'm)
Plantation	FY17 PER	18x	4,144
Wood	FY17 PER	5x	12
Less: Net debt	1Q FY16		-1,315
SOP value			2,841
Share outstanding (m)	1Q FY16		1,345
Target Price (RM)			2.11

Source: M&A Securities

Exhibit 2: Tree age profile (in hectareage)

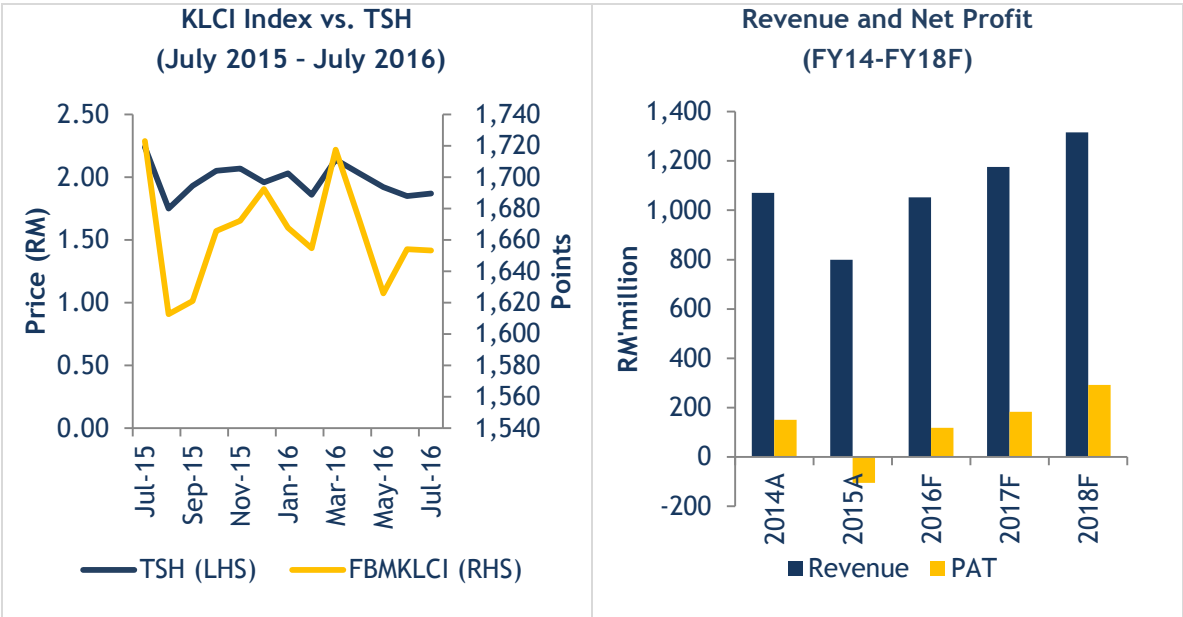
	Immature	4-7 years	8-15 years	>16 years	Total
Malaysia	1,844	18	83	4,175	6,120
%	30.1%	0.3%	1.4%	68.2%	100%
Indonesia	11,580	13,703	8367	3046	36,696
%	31.6%	37.3%	22.8%	8.3%	100%
Group	13,424	13,721	8,450	7,221	42,816
%	31.4%	32.0%	19.7%	16.9%	100%

Source: Company, M&A Securities

Exhibit 3: Financial Summary

YE: December (RM million)	2014A	2015A	2016F	2017F	2018F
Revenue	1,071	800	1,053	1,176	1,315
EBITDA	247	-21	147	192	267
EBIT	196	-81	82	122	192
Finance cost	-15	-16	-25	-27	-28
PBT	187	-86	148	228	366
Tax	-37	-19	-30	-46	-73
PAT	150	-105	119	183	293
Minority interest	11	0	0	0	0
EPS (sen)	10	-8	9	14	22
PATMI	139	-106	118	182	292
PBT margin	18%	-11%	14%	19%	28%
PAT margin	14%	-13%	11%	16%	22%

Source: Company, M&A Securities



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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