

TSH RESOURCES

Results Update

TRADING BUY

Current Price	RM 1.41
Target Price	RM 1.52
Consensus Price	RM 1.37

Stock Return Information

KLCI	1,573.89
Expected share price return (%)	7.8
Expected dividend return (%)	2.5
Expected total return (%)	10.3

Key Statistics

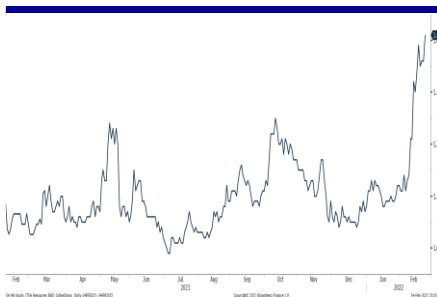
Shariah Compliant	YES
Bloomberg Ticker	TSH MK
Masa Ticker / Stock Code	TSH/5286
Shares Issued (m)	1,380.2
Market Capitalisation (RM'm)	1,366.4
52 Week Hi/Lo Price (RM)	1.45/0.98
Avg Trading Volume (3-mth)	3,307,133
Est Free Float (%)	41.9
YTD Returns (%)	30.6
Beta (x)	1.38

Share Price Performance (%)

Price change	Absolute	Relative
1 mth	28.18	23.88
3 mth	24.78	21.07
12 mth	33.02	

Major Shareholders (%)

TAN AIK PENG	18.2
EPF	4.9



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Strong Palm Price Boosting Bottomline

We switch our call on TSH to **TRADING BUY**, from Buy as its share price has appreciated above our previous TP. We raise our TP to **RM1.52 (+RM0.16)** on TSH, based on a higher target valuation of 1.2x, from 1.1x, to its CY22 P/B. The higher valuation peg is warranted given the strong CPO price outlook. TSH's investment merits are: 1) young palm age profile of 10.9 years, and 2) healthier cash flow as gearing is lowered. Risks to our call are: 1) weaker global palm oil demand, 2) minimum wage hike in Indonesia raising production cost, and 3) increases in tax levies or new direct taxes.

Beating expectation CY21 core profit (excluding net changes in biological asset valuation) came in at RM166.8m - accounts for 117% and 105% of our earnings and consensus estimates. The outperformance was mainly due to higher-than-expected contribution from its JV operation (refinery operation, 50:50 JV with Wilmar).

Y-o-Y: TSH's 4QCY21 core profit increased 64.6% Y-o-Y to RM63.4m, boosted by higher CPO & PK ASPs, and higher contribution from an associate and JV, offsetting losses from its cocoa operation due to lower cocoa butter ratio processing as cocoa butter consumption was adversely affected by lower demand.

Q-o-Q: Core profit increased 18.4% Q-o-Q, driven higher by the same attributes above, offsetting lower FFB production.

CY21: TSH's CY21 PATAMI rose 189% Y-o-Y to RM166.8m from RM79.5m Y-o-Y, helped by the reasons above. FFB production rose marginally by 1.4% due to biological stress in the Kalimantan region. Net gearing has eased to 47x in CY21 from 76.5x in CY20, leading to a stronger and more flexible balance sheet.

Associate: TSH holds a 21.9% stake in **Innoprise Bhd**, a plantation company with young palm age profile in Sabah. The stock price has doubled, and TSH's cost of investment is RM82m, sitting on an unrealised stock gain of RM127m or 15 sen/share.

Table 1: Investment Highlights & Earnings Forecasts

CYE Dec (RM m)	CY19	CY20	CY21	CY22(F)	CY23(F)
Revenue	838.9	781.7	1,188.9	1,391.4	1,351.9
EBITDA	211.1	273.8	399.2	495.5	463.5
EBITDA Margin (%)	25.2	35.0	33.6	35.6	34.3
PATAMI	44.3	79.5	169.0	193.1	171.1
PATAMI Margin (%)	5.3	10.2	14.2	13.9	12.7
EPS (sen)	3.2	5.8	12.2	14.0	12.4
Earnings Growth (%)	10.4	79.5	112.6	14.3	(11.4)
PER (x)	44.0	24.5	11.5	10.1	11.4
DPS (sen)	1.0	1.5	3.0	3.5	3.0
Dividend Yield (%)	0.7	1.1	2.1	2.5	2.1
ROE (%)	3.1	5.5	10.3	10.4	8.4
Net Gearing Ratio (%)	86.8	76.5	47.4	27.8	17.1
Book Value (RM)	1.00	1.02	1.15	1.30	1.43
Price/Book (x)	1.4	1.4	1.2	1.1	1.0
Key Assumption					
FFB production (mt)	893,579	906,175	918,886	995,000	1,040,000
CPO ASP (RM/mt)	1,995	2,478	3,570	3,984	3,780

Source: Inter-pacific Research

Outlook: CPO prices will remain lofty in 1H2022 on tight inventories despite expectation of increasing workers in Malaysia's palm estates as palm oil production is exiting seasonal softness. The Ramadhan festive season is also expected to keep inventories tight. Elsewhere, Indonesia has imposed a rule where a mandatory portion of palm oil is to be sold domestically which will sustain the tightness in the export market and will also bode well for Malaysia's CPO exports. The Indonesian government intervention on palm oil price control is prevalent as Indonesian estate owners such as TSH is likely to see price upside capped by the increasing regulation.

With Russia and Ukraine accounting for 15% of total global vegetable (sunflower) oil exports, sanctions or supply chain disruption within these two countries will lead to upward pressure on all global vegetable oil prices in the backdrop of the tight global vegetable oils inventory. Also, the escalating risk in the region translates to higher crude oil prices which has a positive correlation with palm oil prices.

Earnings revision: We raise our CY22 PAT by 93%, as we are in the view that a price correction would be unlikely in 1H2022. We also account for structural changes in Indonesia's CPO export and the Ukraine-Russia conflict.

Table 2: Quarterly Income Statement and Comparison

CYE Dec (RM m)	4QCY21	4QCY20	YoY chg (%)	3QCY21	QoQ chg (%)	FY21	FY20	YTD chg (%)
Revenue	328.4	195.2	68.2	309.1	6.2	1,199.9	926.0	29.6
PBT	84.3	45.7	84.3	65.7	28.3	253.7	130.2	94.8
PBT margin (%)	25.7	23.4	9.6	21.3	20.8	21.1	14.1	50.3
EBITDA	118.4	56.9	108.2	107.0	10.6	372.9	256.9	45.2
EBITDA margin (%)	36.1	29.1	23.8	34.6	1.4	31.1	27.7	12.0
Core Profit*	64.6	34.0	89.8	45.8	18.8	166.8	74.6	123.6
PATAMI	63.4	33.0	92.5	45.1	18.4	189.0	79.5	137.8
PATAMI margin (%)	19.3	16.9	14.5	14.6	4.7	15.8	8.6	83.5
EPS (sen)	4.6	2.4	92.5	3.3	1.3	13.7	5.8	137.8

Source: Company

*Net earnings before fair value changes in biological assets

Table 3: Palm Production

	4QCY21	4QCY20	YoY chg (%)	3QCY21	QoQ chg (%)	CY21	CY20	YTD chg (%)
FFB output ('000 mt)								
Sabah	24.5	22.5	9.0	22.1	11.0	87.6	96.3	(9.0)
Indonesia	171.9	232.5	(26.1)	217.2	(20.8)	831.3	809.9	2.6
Total	196.4	255.0	(23.0)	239.2	(17.9)	918.9	906.2	1.4
CPO price (RM/mt)	4,347	2,779	56.4	3,586	21.2	3,570	2,453	45.5

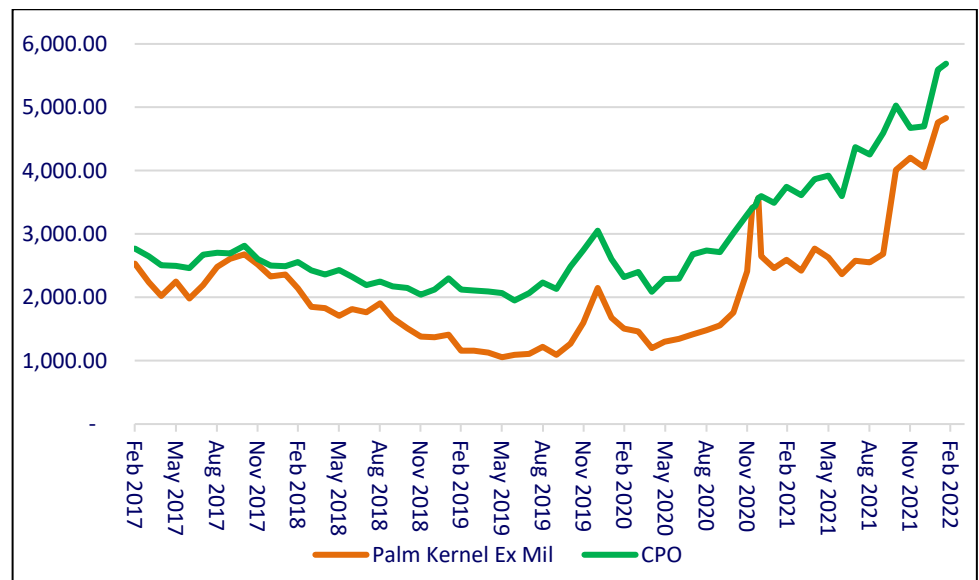
Source: Company

Table 4: Segment Profit

CYE Dec (RM m)	FY21	FY20	YoY chg (%)
Revenue			
Plantation	1094.4	814.4	34.4
Others	94.4	111.6	(15.4)
Total segment profit			
Share of profit of an associate	19.0	8.3	127.9
Share of profit of JCE	35.9	23.6	51.9
Foreign exchange gain/(loss)	1.6	2.9	(44.8)
Depreciation	111.2	105.6	5.3
Interest Income	8.6	12.4	(30.4)
Interest Expenses	41.1	47.8	(14.0)

Source: Company

Illustration 1: 3-month CPO future and palm kernel prices (RM/mt)



Source: Bloomberg

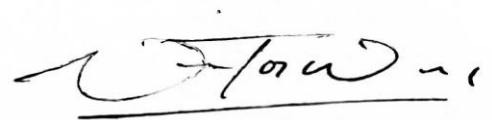
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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