



THREE-A RESOURCES BERHAD

Outperform

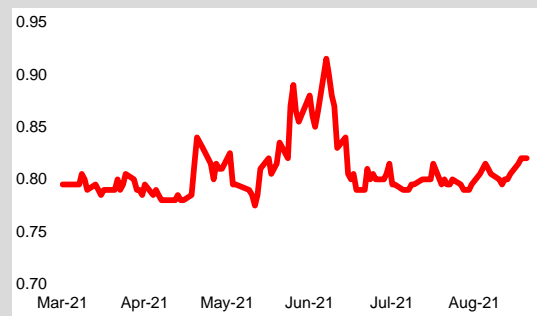
DESCRIPTION

An investment holding company involved in the manufacturing of food and beverage ingredients including caramel colour, vinegar, soya protein sauce, glucose syrup & high maltose syrup, caramel powder and maltodextrin.

12-Month Target Price RM1.35
Current Price RM0.82
Expected Share Price Return (%) 64.6%

Market Main
Sector Industrial Products
Bursa Code 0012
Bloomberg Ticker TARE MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 0.77 – 1.03
3-Month Average Vol ('000) 661.8

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	3.1	1.9	2.5
Relative Returns	-2.1	1.1	2.0

KEY STOCK DATA

Market Capitalisation (RMm) 402.0
No. of Shares (m) 490.2

MAJOR SHAREHOLDERS

	%
Fang Chew Hean Holdings Sdn Bhd	20.6
Fang Chew Ham	17.6
Wilmar International Limited	15.7

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Above Expectations

Three-A Resources (3A) net profit for 2QFY21 surged by 89.2% YoY to RM12.7m, attributable to the increase in quantities of products sold and higher average selling prices. Cumulative 1HFY21 net profit came in at RM26m, and was above our expectations, accounting for 78% of our full-year forecast. The discrepancy in our forecast was mainly due to the stronger-than-expected sales and better-than-expected operating margins. We are adjusting our FY21-23 earnings upwards by an average of 27% as we raise our sales and operating margins assumptions. Going forward, we continue to favour 3A as we are expecting a gradual reopening in the economy which should bode well for 3A as it translates into higher demand for F&B products. Our **Outperform** call on 3A is retained, with a higher TP of RM1.35 (from RM1.06) based on a 15x FY22F EPS.

§ **2QFY21 revenue grew by 22.7% YoY to RM131.2m** mainly due to the increase in sales volume and higher average selling prices. Sales in Malaysia increased by 38% YoY, likely attributable to the low base effect whilst being supported by the higher average selling price.

§ **2QFY21 pretax profit (PBT) jumped by 77.2% YoY to RM17.1m**, as PBT margin grew by 4% to 13%. We mainly attribute the stronger performance to the better economies of scale from the higher sales volume and the higher selling prices which enables the group to pass on the increase in raw material cost. Note that sugar prices have increased by c.24% YTD (Figure 2).

§ **Future outlook.** Going forward, the group plans to mitigate the cost pressure by continuing with its automation plans to improve production plant efficiency and achieve savings in operational and manpower cost. In addition, 3A remains committed to invest in R&D initiatives to expand its product range to meet the constantly evolving customers' requirements.

KEY FORECAST TABLE

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F	3-year CAGR
Revenue	436.1	436.2	492.1	516.5	541.8	7.5%
Gross Profit	75.9	76.8	94.5	98.1	101.9	9.8%
Pre-tax Profit	40.3	40.7	55.6	58.5	61.3	14.6%
Net Profit	29.4	30.2	42.2	44.5	46.6	15.6%
EPS (Sen)	6.0	6.2	8.6	9.1	9.5	15.6%
P/E (x)	13.7	13.3	9.5	9.0	8.6	
DPS (Sen)	2.0	2.2	2.2	2.5	2.5	
Dividend Yield (%)	2.4	2.7	2.7	3.0	3.0	

Source: Company, PublicInvest Research estimates



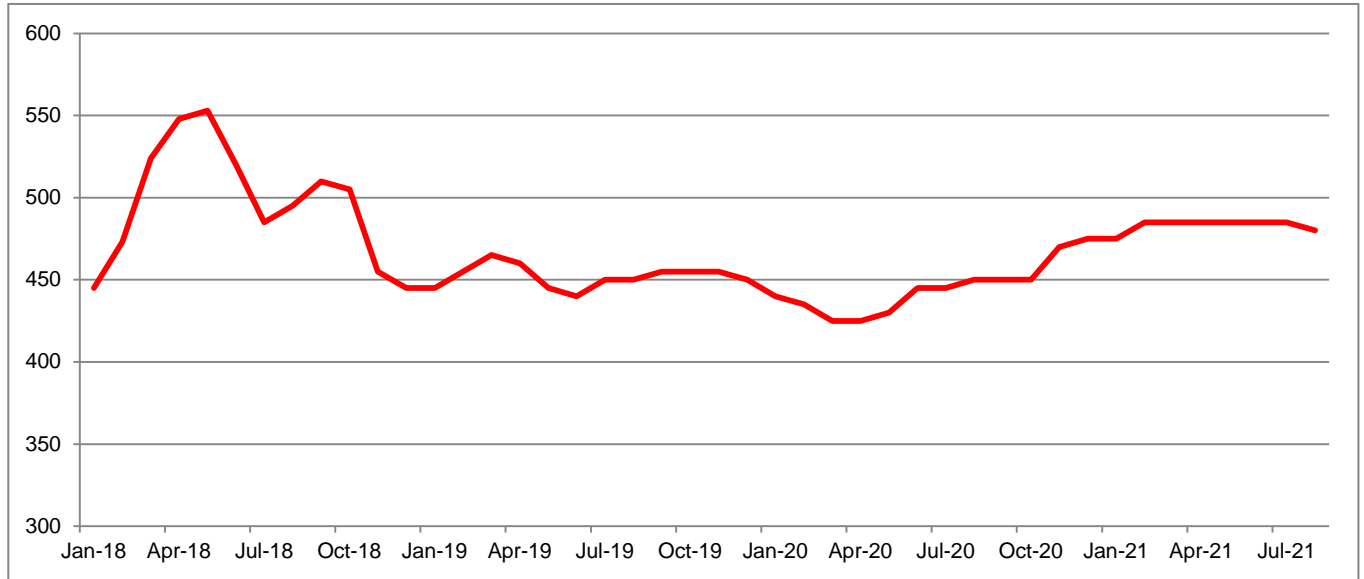
Table 1: Results Summary

<u>FYE Dec (RMm)</u>	<u>2Q21</u>	<u>2Q20</u>	<u>1Q21</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY21</u>	<u>YTD FY20</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	131.2	107.0	126.9	22.7	3.4	258.1	207.7	24.3	Mainly due to higher sales volume and higher average selling prices
Cost of Sales	-105.5	-88.3	-102.1	19.5	3.4	-207.6	-170.3	21.9	
Gross Profit	25.7	18.6	24.8	38.1	3.7	50.5	37.4	35.2	
Other operating income/ (expenses)	-8.6	-8.8	-7.3	-3.2	16.9	-15.9	-14.5	9.1	
Operating profit/ (loss)	17.2	9.8	17.5	75.3	-1.8	34.6	22.8	51.8	
Finance income/ (costs)	-0.1	-0.2	-0.1	-34.1	-14.5	-0.2	-0.4	-32.7	
Other income/ (expenses)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Profit/ (Loss) before tax	17.1	9.6	17.4	77.2	-1.7	34.4	22.5	53.1	
Taxation	-4.4	-2.9	-4.0	49.9	8.9	-8.4	-6.9	21.6	Higher effective tax rate mainly due to certain expenses not allowable for tax deduction
Net Profit	12.7	6.7	13.3	89.2	-4.9	26.0	15.5	67.2	
Non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PATAMI	12.7	6.7	13.3	89.2	-4.9	26.0	15.5	67.2	
Core PATAMI	12.7	6.7	13.3	89.2	-4.9	26.0	15.5	67.2	
Operating Margin (%)	13.1	9.2	13.8	42.9	-5.1	13.4	11.0	22.1	
Pre-tax Margin (%)	13.0	9.0	13.7	44.4	-5.0	13.3	10.8	23.2	
Net Margin (%)	9.6	6.3	10.5	54.2	-8.1	10.1	7.5	34.5	
Segment Revenue									
Malaysia	67.9	49.4	71.3	37.6	-4.7	139.2	103.6	34.3	
Singapore	16.3	10.2	11.9	59.6	37.7	28.2	20.9	35.2	
Other countries	47.0	47.4	43.7	-0.8	7.5	90.7	83.2	9.1	

Source: Company, PublicInvest Research



Figure 1: Global Tapioca Prices (USD/mt)



Source: Thai Tapioca Starch Association, PublicInvest Research

Figure 2: Sugar Price (USD/lb)



Source: Bloomberg, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	436.1	436.2	492.1	516.5	541.8
Operating Profit	41.2	41.3	53.4	56.1	58.8
Other Gains/(Losses)	0.0	0.0	2.8	2.8	2.8
Finance Costs	-0.9	-0.6	-0.6	-0.4	-0.3
Pre-tax Profit	40.3	40.7	55.6	58.5	61.3
Income Tax	-10.8	-10.5	-13.3	-14.0	-14.7
Effective Tax Rate (%)	-26.9	-25.9	-24.0	-24.0	-24.0
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	29.4	30.2	42.2	44.5	46.6

Growth

Revenue (%)	-0.4	0.0	12.8	5.0	4.9
Operating Profit (%)	16.5	0.4	29.2	5.0	4.9
Net Profit (%)	1.0	2.5	40.0	5.3	4.8

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	141.8	157.1	157.6	157.7	157.4
Cash and Cash Equivalents	44.2	26.6	43.6	61.6	81.9
Receivables	116.6	112.2	131.6	138.1	144.9
Other Assets	103.9	136.0	116.2	119.1	122.1
Total Assets	406.5	431.8	448.9	476.5	506.2
Payables	28.4	35.3	33.7	35.4	37.1
Borrowings	14.5	12.7	5.4	4.6	3.7
Deferred Tax	15.4	17.4	17.4	17.4	17.4
Other Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	58.3	65.4	56.5	57.4	58.2
Total Equity	348.2	366.5	392.4	419.2	448.0
Total Equity and Liabilities	406.5	431.8	448.9	476.5	506.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2019A	2020A	2021F	2022F	2023F
Book Value Per share (RM)	0.7	0.7	0.8	0.9	0.9
EPS (sen)	6.0	6.2	8.6	9.1	9.5
DPS (sen)	2.0	2.2	2.2	2.5	2.5
Payout Ratio (%)	33.4	35.8	25.5	27.6	26.3
ROA (%)	7.2	7.0	9.4	9.3	9.2
ROE (%)	8.4	8.2	10.8	10.6	10.4

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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