

# Jaya Tiasa (JT MK)

Industrial - Building Materials

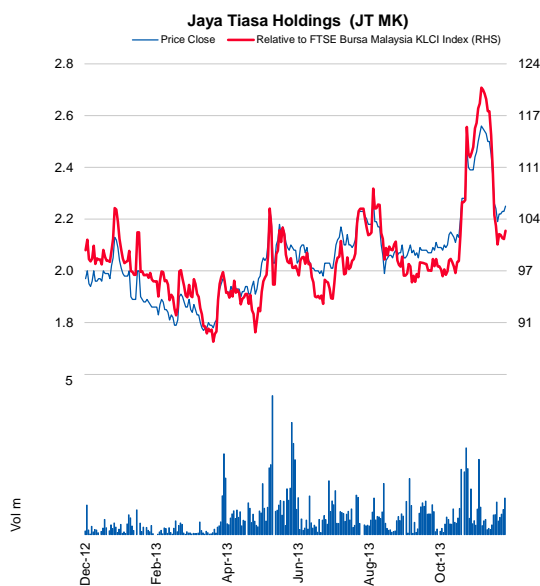
Market Cap: USD677m

**Buy** (from Neutral)

Target Price: MYR2.56

Price: MYR2.25

## CPO Price Assumptions Raised

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	1.38m/0.43m
Cons. Upside (%)	-11.6
Upside (%)	13.7
52-wk Price low/high (MYR)	1.77 - 2.56
Free float (%)	14
Shareholders (%)	
Tiong Family	28.4
Genuine Chain Ltd	12.5
Asanas SB	10.4

### Shariah compliant

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Following our recent CPO price upgrade, we raise our earnings projections for JT by 10.2% for FY06/14 and 14.6% for FY06/15. We lift our SOP-based FV to MYR2.56 (from MYR2.20) and upgrade the stock to a BUY. We believe JT's plantation division will lead its medium-term growth, as higher CPO prices and strong FFB production growth will boost earnings contribution to c. 45% in FY15 (from 6-7% in FY13).

- ◆ **Upgrading CPO price assumptions.** We have upgraded our in-house CPO price assumptions for CY14 and CY15 to MYR2,700 and MYR2,900 per tonne respectively from MYR2,600 previously. We maintain our price assumption for CY13 at MYR2,400/tonne.
- ◆ **Four main factors driving the upgrade.** These are: i) a stronger global economy, which means food demand will continue to grow, ii) Indonesia's lacklustre production growth on the double impact of dry weather in 2012 and 2013, iii) mandatory biodiesel implementation in the world's two biggest palm oil producing countries, and iv) production cost to remain flattish-to-lower on significantly cheaper fertilisers following the potash cartel breakup in mid-2013.
- ◆ **Raising forecasts.** We have raised our forecasts for JT following the 10.2% price hike for FY06/14 and 14.6% for FY06/15. Our CPO price assumptions are: MYR2,550/tonne for FY14 (from MYR2,375) and MYR2,800/tonne for FY14 (from MYR2,600).
- ◆ **Upgrade to BUY.** Post-earnings revision, we lift our SOP-based FV to MYR2.56 (from MYR2.20), based on an unchanged CY14 target P/E of 16x on its plantation division and 12x on its timber division. We believe JT's plantation division will be its main growth driver in the medium term as higher CPO prices and strong FFB production growth will boost earnings contribution from the plantation division to approximately 45% in FY15 (from 6-7% in FY13).

Forecasts and Valuations	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover (MYRm)	894	1,015	1,054	1,236	1,389
Reported net profit (MYRm)	159	131	23	133	238
Recurring net profit (MYRm)	152	141	23	133	238
Recurring net profit growth (%)	230.2	(7.3)	(83.5)	470.2	79.2
Recurring EPS (MYR)	0.18	0.17	0.02	0.14	0.24
DPS (MYR)	0.01	0.01	0.01	0.04	0.08
Recurring P/E (x)	12.3	13.3	94.2	16.5	9.2
P/B (x)	1.48	1.35	1.28	1.21	1.10
P/CF (x)	8.9	9.2	10.8	10.8	7.0
Dividend Yield (%)	0.6	0.5	0.3	1.9	3.4
EV/EBITDA (x)	8.6	8.9	19.8	9.2	6.2
Return on average equity (%)	13.3	9.9	1.5	7.5	12.5
Net debt to equity (%)	58.2	61.1	38.5	36.4	28.6
Our vs consensus EPS (%)				(22.2)	39.4

Source: Company data, RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
Total turnover	894	1,015	1,054	1,236	1,389
Cost of sales	(605)	(700)	(869)	(892)	(901)
<b>Gross profit</b>	<b>289</b>	<b>315</b>	<b>185</b>	<b>344</b>	<b>487</b>
Gen & admin expenses	(61)	(75)	(53)	(68)	(76)
Selling expenses	(67)	(85)	(97)	(74)	(83)
Other operating costs	61	64	20	3	13
<b>Operating profit</b>	<b>222</b>	<b>218</b>	<b>56</b>	<b>204</b>	<b>340</b>
Operating EBITDA	305	307	145	313	453
Depreciation of fixed assets	(66)	(71)	(72)	(92)	(96)
Amortisation of intangible assets	(17)	(18)	(17)	(17)	(17)
<b>Operating EBIT</b>	<b>222</b>	<b>218</b>	<b>56</b>	<b>204</b>	<b>340</b>
Interest income	0	0	-	0	0
Interest expense	(18)	(26)	(24)	(25)	(25)
Exceptional income - net	8	(14)	-	-	-
<b>Pre-tax profit</b>	<b>212</b>	<b>179</b>	<b>32</b>	<b>180</b>	<b>316</b>
Taxation	(52)	(46)	(8)	(45)	(76)
Minority interests	(1)	(2)	(1)	(3)	(3)
<b>Profit after tax &amp; minorities</b>	<b>159</b>	<b>131</b>	<b>23</b>	<b>133</b>	<b>238</b>
<b>Reported net profit</b>	<b>159</b>	<b>131</b>	<b>23</b>	<b>133</b>	<b>238</b>
<b>Recurring net profit</b>	<b>152</b>	<b>141</b>	<b>23</b>	<b>133</b>	<b>238</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
<b>Operating profit</b>	<b>222</b>	<b>218</b>	<b>56</b>	<b>204</b>	<b>340</b>
<b>Depreciation &amp; amortisation</b>	<b>83</b>	<b>89</b>	<b>89</b>	<b>109</b>	<b>112</b>
<b>Change in working capital</b>	<b>(38)</b>	<b>(10)</b>	<b>106</b>	<b>(30)</b>	<b>(24)</b>
Other operating cash flow	(8)	(12)	-	-	-
<b>Operating cash flow</b>	<b>259</b>	<b>285</b>	<b>251</b>	<b>283</b>	<b>429</b>
Interest received	0	0	0	5	0
Interest paid	(38)	(41)	(43)	(41)	(41)
Tax paid	(10)	(39)	(4)	(45)	(76)
<b>Cash flow from operations</b>	<b>211</b>	<b>204</b>	<b>204</b>	<b>202</b>	<b>312</b>
Capex	(173)	(261)	(296)	(170)	(170)
Other new investments	(0)	0	(125)	-	-
Other investing cash flow	6	6	4	-	-
<b>Cash flow from investing activities</b>	<b>(167)</b>	<b>(255)</b>	<b>(416)</b>	<b>(170)</b>	<b>(170)</b>
Dividends paid	(5)	(10)	(37)	(30)	(53)
Proceeds from issue of shares	-	-	338	-	-
Increase in debt	(38)	58	(76)	-	-
Other financing cash flow	0	-	(11)	(5)	-
<b>Cash flow from financing activities</b>	<b>(43)</b>	<b>47</b>	<b>214</b>	<b>(35)</b>	<b>(53)</b>
Cash at beginning of period	40	44	31	32	30
<b>Total cash generated</b>	<b>0</b>	<b>(4)</b>	<b>1</b>	<b>(3)</b>	<b>89</b>
Forex effects	2	(7)	(0)	-	-
<b>Implied cash at end of period</b>	<b>43</b>	<b>31</b>	<b>32</b>	<b>30</b>	<b>119</b>

Source: Company data, RHB estimates

## Financial Exhibits

<b>Balance Sheet (MYRm)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
Total cash and equivalents	43	31	157	155	243
Inventories	124	198	148	153	154
Accounts receivable	207	198	143	200	224
Other current assets	16	27	49	49	49
<b>Total current assets</b>	<b>390</b>	<b>454</b>	<b>497</b>	<b>555</b>	<b>670</b>
Total investments	3	-	-	-	-
Tangible fixed assets	1,806	2,053	2,299	2,394	2,484
Intangible assets	134	116	98	81	65
Total other assets	15	13	24	24	24
Total non-current assets	1,958	2,182	2,421	2,499	2,573
<b>Total assets</b>	<b>2,348</b>	<b>2,636</b>	<b>2,918</b>	<b>3,054</b>	<b>3,243</b>
Short-term debt	263	380	408	408	408
Accounts payable	191	231	261	292	294
Other current liabilities	11	8	6	6	6
<b>Total current liabilities</b>	<b>465</b>	<b>620</b>	<b>676</b>	<b>707</b>	<b>709</b>
Total long-term debt	523	508	411	411	411
Other liabilities	81	104	108	108	108
<b>Total non-current liabilities</b>	<b>604</b>	<b>612</b>	<b>519</b>	<b>519</b>	<b>519</b>
<b>Total liabilities</b>	<b>1,070</b>	<b>1,232</b>	<b>1,195</b>	<b>1,226</b>	<b>1,229</b>
Share capital	283	283	974	974	974
Retained earnings reserve	747	882	753	856	1,040
Other reserves	239	229	(16)	(16)	(16)
<b>Shareholders' equity</b>	<b>1,269</b>	<b>1,393</b>	<b>1,711</b>	<b>1,813</b>	<b>1,997</b>
Minority interests	9	11	12	14	17
Other equity	(0)	0	(0)	(0)	(0)
<b>Total equity</b>	<b>1,278</b>	<b>1,404</b>	<b>1,723</b>	<b>1,828</b>	<b>2,014</b>
<b>Total liabilities &amp; equity</b>	<b>2,348</b>	<b>2,636</b>	<b>2,918</b>	<b>3,054</b>	<b>3,243</b>

Source: Company data, RHB estimates

<b>Key Ratios (MYR)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
Revenue growth (%)	16.6	13.4	3.9	17.3	12.3
Operating profit growth (%)	183.2	(1.5)	(74.4)	265.2	66.4
Net profit growth (%)	232.8	(17.4)	(82.3)	470.2	79.2
EPS growth (%)	232.6	(17.5)	(84.8)	470.2	79.2
Bv per share growth (%)	12.4	9.6	5.2	6.0	10.2
Operating margin (%)	24.8	21.5	5.3	16.5	24.5
Net profit margin (%)	17.7	12.9	2.2	10.7	17.1
Return on average assets (%)	7.0	5.3	0.8	4.4	7.5
Return on average equity (%)	13.3	9.9	1.5	7.5	12.5
Net debt to equity (%)	58.2	61.1	38.5	36.4	28.6
DPS	0.01	0.01	0.01	0.04	0.08
Recurrent cash flow per share	0.25	0.24	0.21	0.21	0.32

Source: Company data, RHB estimates

**Figure 1: Forecast assumptions**

<b>FYE June</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14F</b>	<b>FY15F</b>
Plywood sales volume (000 m3)	210	193	210	210
Log sales volume (000 cu m)	655	547	556	556
FFB production (000 tonnes)	605	664	831	1002
Plywood price (USD/cu m)	620	560	550	560
Log price (USD/cu m)	185	178	250	250
CPO price (MYR/t)	3150	2368	2550	2800
MYR vs. USD	3.00	3.10	3.10	3.15

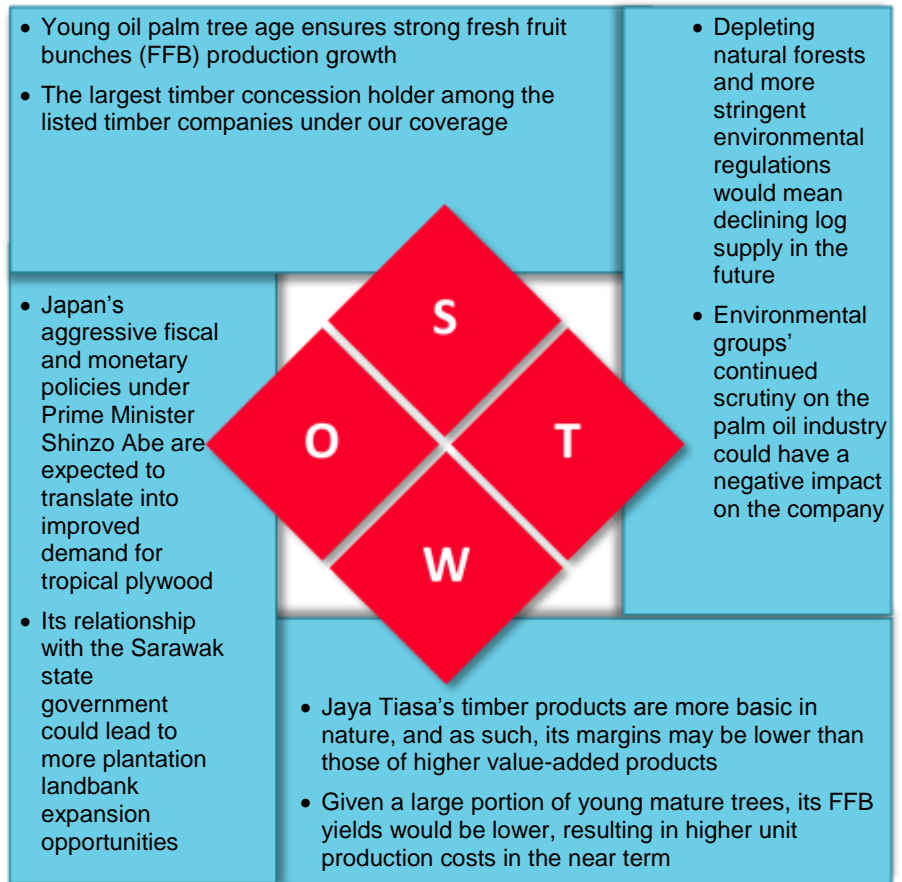
Source: RHB estimates

**Figure 2: SOP valuation**

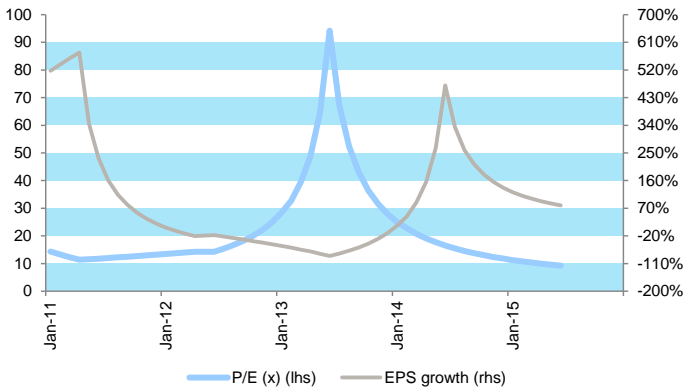
	<b>Earnings Base</b>	<b>PE (x)</b>	<b>Total</b>
Timber division	CY14	12	1408.9
Plantation	CY14	16	1082.6
<b>RNAV</b>			<b>2491.5</b>
Outstanding shares			974.1
<b>SOP-derived FV</b>			<b>2.56</b>

Source: RHB estimates

## SWOT Analysis

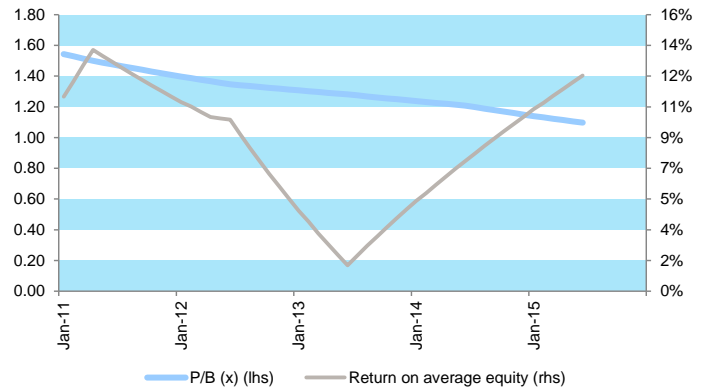


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

## Company Profile

Jaya Tiasa is involved in the manufacturing and distribution of plywood, logs and other timber products and is also involved in the cultivation of oil palms.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-29	Neutral	2.21	2.37
2013-08-28	Neutral	1.96	1.99
2013-08-19	Neutral	2.11	2.28
2013-05-23	Sell	1.00	2.03
2013-02-28	Sell	1.45	1.79
2012-11-29	Sell	1.65	1.98
2012-08-24	Neutral	2.65	2.49
2012-08-07	Neutral	2.95	2.68
2012-06-21	Neutral	3.02	2.95
2010-09-29	Buy	1.41	1.24

Source : RHB estimates, Bloomberg

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