

# Jaya Tiasa (JT MK)

Agriculture - Timber

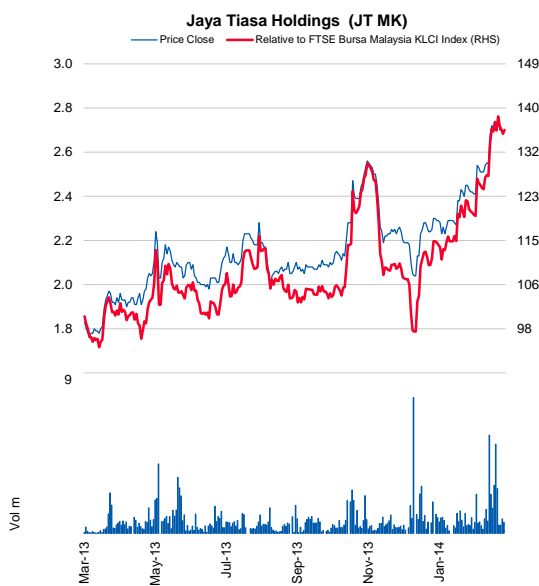
Market Cap: USD797m

**Buy** (Maintained)

Target Price: MYR2.95

Price: MYR2.70

## Set To Thrive On Myanmar Export Ban

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	2.59m/0.79m
Cons. Upside (%)	-26.3
Upside (%)	9.4
52-wk Price low/high (MYR)	1.77 - 2.75
Free float (%)	14

Shareholders (%)	
Tiong Family	28.4
Genuine Chain Ltd	12.5
Asanas SB	10.4

Shariah compliant

Hoe Lee Leng +603 9207 7605

[hoe.lee.leng@rhbgroup.com](mailto:hoe.lee.leng@rhbgroup.com)

As Myanmar's ban on log exports will take effect from 1 April 2014, we expect tropical log prices to start rising again from 2H2014, after the existing log inventory held at importing countries declines. We raise our FY14-15 earnings forecasts for Jaya Tiasa by 4-10%, and nudge up our SOP-based FV to MYR2.95 (from MYR2.80). Maintain BUY, as we expect higher CPO and log prices to boost earnings.

- ◆ **Still positive.** We continue to be positive on the prospects of the timber sector, on the back of the upcoming ban on log exports by Myanmar as well as relatively stable demand from India and Japan. The main earnings drivers are rising log prices, the weakening MYR vs USD (which will benefit export-derived revenue) and the rise in CPO prices.
- ◆ **Myanmar's log export ban to make significant impact.** Starting from 1 April, Myanmar will ban all log exports in a bid to eradicate wood log smuggling and conserve its forests. Myanmar is the fifth-largest tropical log producer and the third-biggest exporter in Asia-Pacific, while Malaysia is the third-largest producer and the largest exporter of tropical logs in the region. We expect the ban to result in tropical log prices starting to go up again from 2H2014, after the existing log inventory held at importing countries decreases.
- ◆ **Lifting forecasts.** We raise our earnings forecasts to take into account the 5-7% higher log price assumptions for 2014 and 2015 of USD250-270 per cu m vs USD240-260 previously, as well as higher forecast MYR/USD exchange rate of MYR3.20/USD for CY14 (from MYR3.15/USD) and MYR3.15/USD for CY15 (from MYR3.10/USD), based on RHBRI's latest house view. As a result, our FY14-15 earnings forecasts for Jaya Tiasa are higher by 4-10%.
- ◆ **Still a BUY.** With stronger earnings from its plantation unit, a stable-to-improving outlook for the timber industry, as well as the added benefit of the recent softening of the MYR/USD rate, we maintain our BUY rating on Jaya Tiasa. We also raise our FV to MYR2.95 (from MYR2.80), based on unchanged target P/E's of 12.0x CY14 for the timber division and 16.0x CY14 for the plantation division.

Forecasts and Valuations	Jun-11	Jun-12	Jun-13	Jun-14F	Jun-15F
Total turnover (MYRm)	894	1,015	1,054	1,158	1,403
Reported net profit (MYRm)	159	131	23	131	291
Recurring net profit (MYRm)	152	141	23	131	291
Recurring net profit growth (%)	230.2	(7.3)	(83.5)	464.2	122.1
Recurring EPS (MYR)	0.18	0.17	0.02	0.13	0.30
DPS (MYR)	0.01	0.01	0.01	0.04	0.09
Recurring P/E (x)	15	16	113	20	9
P/B (x)	1.77	1.62	1.54	1.45	1.29
P/CF (x)	10.7	11.0	12.9	13.9	7.6
Dividend Yield (%)	0.5	0.4	0.3	1.6	3.5
EV/EBITDA (x)	9.8	10.2	22.9	11.1	6.2
Return on average equity (%)	13.3	9.9	1.5	7.4	15.1
Net debt to equity (%)	58.2	61.1	38.5	37.1	27.6
Our vs consensus EPS (%)				3.6	42.5

Source: Company data, RHB estimates

**Figure 1: SOP valuation**

	Earnings Base	P/E (x)	Total
Timber division	CY14	12	1508.0
Plantation	CY14	16	1369.2
<b>RNAV</b>			<b>2877.2</b>
Outstanding shares			974.1
<b>SOP-derived FV</b>			<b>2.95</b>

Source: RHB estimates

**Figure 2: Forecast assumptions**

FYE June	FY12	FY13	FY14F	FY15F
Plywood sales volume (000 m3)	210	193	210	210
Log sales volume (000 cu m)	655	547	516	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	210	260
CPO price (MYR/t)	3150	2368	2550	2800
MYR vs. USD	3.00	3.10	3.20	3.15

Source: 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	1,158	1,403
Cost of sales	(605)	(700)	(869)	(829)	(851)
<b>Gross profit</b>	<b>289</b>	<b>315</b>	<b>185</b>	<b>329</b>	<b>552</b>
Gen & admin expenses	(61)	(75)	(53)	(64)	(77)
Selling expenses	(67)	(85)	(97)	(69)	(84)
Other operating costs	61	64	20	7	26
<b>Operating profit</b>	<b>222</b>	<b>218</b>	<b>56</b>	<b>203</b>	<b>416</b>
Operating EBITDA	305	307	145	300	517
Depreciation of fixed assets	(66)	(71)	(72)	(80)	(84)
Amortisation of intangible assets	(17)	(18)	(17)	(17)	(17)
<b>Operating EBIT</b>	<b>222</b>	<b>218</b>	<b>56</b>	<b>203</b>	<b>416</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>178</b>	<b>392</b>
Taxation	(52)	(46)	(8)	(45)	(98)
Minority interests	(1)	(2)	(1)	(3)	(3)
<b>Profit after tax &amp; minorities</b>	<b>159</b>	<b>131</b>	<b>23</b>	<b>131</b>	<b>291</b>
<b>Reported net profit</b>	<b>159</b>	<b>131</b>	<b>23</b>	<b>131</b>	<b>291</b>
<b>Recurring net profit</b>	<b>152</b>	<b>141</b>	<b>23</b>	<b>131</b>	<b>291</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>203</b>	<b>416</b>
<b>Depreciation &amp; amortisation</b>	<b>83</b>	<b>89</b>	<b>89</b>	<b>97</b>	<b>101</b>
<b>Change in working capital</b>	<b>(38)</b>	<b>(10)</b>	<b>106</b>	<b>(30)</b>	<b>(33)</b>
Other operating cash flow	(8)	(12)	-	-	-
<b>Operating cash flow</b>	<b>259</b>	<b>285</b>	<b>251</b>	<b>269</b>	<b>484</b>
Interest received	0	0	0	5	0
Interest paid	(38)	(41)	(43)	(41)	(41)
Tax paid	(10)	(39)	(4)	(45)	(98)
<b>Cash flow from operations</b>	<b>211</b>	<b>204</b>	<b>204</b>	<b>189</b>	<b>345</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)	(66)
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>(66)</b>
Cash at beginning of period	40	44	31	32	17
<b>Total cash generated</b>	<b>0</b>	<b>(4)</b>	<b>1</b>	<b>(16)</b>	<b>110</b>
Forex effects	2	(7)	(0)	-	-
<b>Implied cash at end of period</b>	<b>43</b>	<b>31</b>	<b>32</b>	<b>16</b>	<b>127</b>

Source: Company data, RHB estimates

## Financial Exhibits

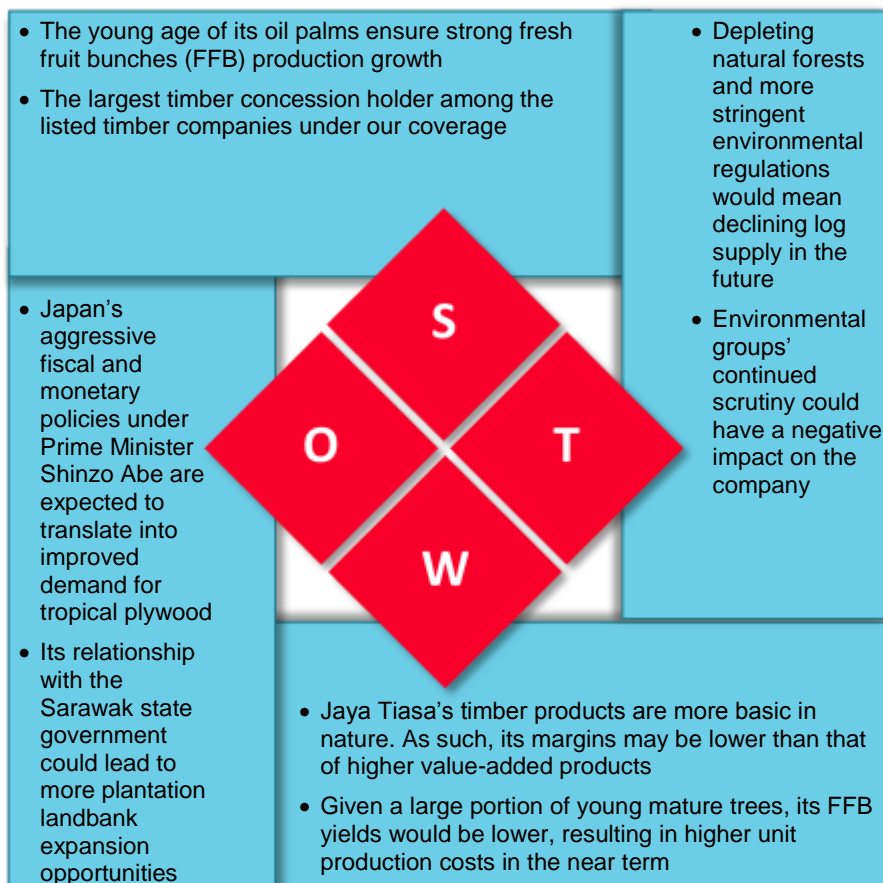
<b>Balance Sheet (MYRm)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
Total cash and equivalents	43	31	157	142	251
Inventories	124	198	148	142	146
Accounts receivable	207	198	143	187	226
Other current assets	16	27	49	49	49
<b>Total current assets</b>	<b>390</b>	<b>454</b>	<b>497</b>	<b>519</b>	<b>672</b>
Total investments	3	-	-	-	-
Tangible fixed assets	1,806	2,053	2,299	2,405	2,507
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	2,510	2,596
<b>Total assets</b>	<b>2,348</b>	<b>2,636</b>	<b>2,918</b>	<b>3,029</b>	<b>3,268</b>
Short-term debt	263	380	408	408	408
Accounts payable	191	231	261	268	279
Other current liabilities	11	8	6	6	6
<b>Total current liabilities</b>	<b>465</b>	<b>620</b>	<b>676</b>	<b>683</b>	<b>694</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>1,202</b>	<b>1,213</b>
Share capital	283	283	974	974	974
Retained earnings reserve	747	882	753	855	1,081
Other reserves	239	229	(16)	(16)	(16)
<b>Shareholders' equity</b>	<b>1,269</b>	<b>1,393</b>	<b>1,711</b>	<b>1,812</b>	<b>2,038</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>1,827</b>	<b>2,055</b>
<b>Total liabilities &amp; equity</b>	<b>2,348</b>	<b>2,636</b>	<b>2,918</b>	<b>3,029</b>	<b>3,268</b>

Source: Company data, RHB estimates

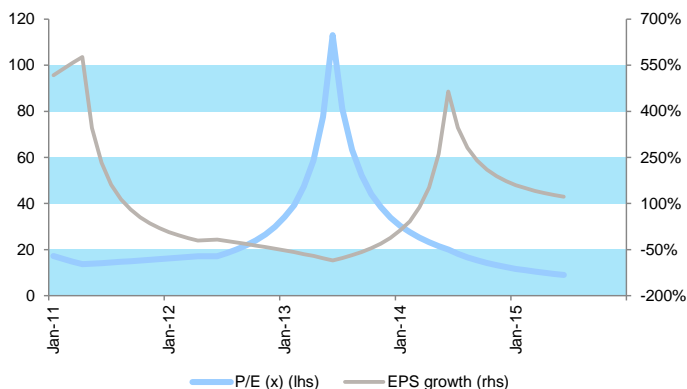
<b>Key Ratios (MYR)</b>	<b>Jun-11</b>	<b>Jun-12</b>	<b>Jun-13</b>	<b>Jun-14F</b>	<b>Jun-15F</b>
Revenue growth (%)	16.6	13.4	3.9	9.8	21.2
Operating profit growth (%)	183.2	(1.5)	(74.4)	261.9	105.4
Net profit growth (%)	232.8	(17.4)	(82.3)	464.2	122.1
EPS growth (%)	232.6	(17.5)	(84.8)	464.2	122.1
Bv per share growth (%)	12.4	9.6	5.2	5.9	12.5
Operating margin (%)	24.8	21.5	5.3	17.5	29.7
Net profit margin (%)	17.7	12.9	2.2	11.3	20.8
Return on average assets (%)	7.0	5.3	0.8	4.4	9.3
Return on average equity (%)	13.3	9.9	1.5	7.4	15.1
Net debt to equity (%)	58.2	61.1	38.5	37.1	27.6
DPS	0.01	0.01	0.01	0.04	0.09
Recurrent cash flow per share	0.25	0.24	0.21	0.19	0.35

Source: Company data, RHB estimates

## SWOT Analysis

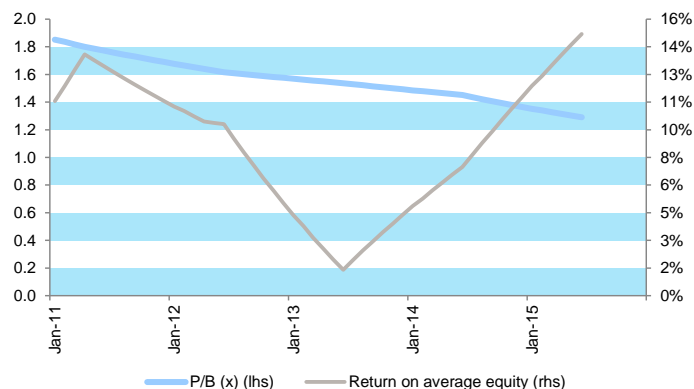


P/E (x) vs EPS growth



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
2014-02-26	Buy	2.80	2.51
2013-12-12	Buy	2.56	2.24
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

Source: RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months  
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