

05 April 2022

TSH Resources Berhad

Selling Kalimantan Land for RM712m

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Hot on the heels of the sales of 3,001 Ha of old oil palm estate plus mill in Sabah for RM248m cash last week, TSH has now entered into a conditional agreement to sell 13,898 Ha of largely undeveloped oil palm land in NE Kalimantan for RM712m cash. The plan is to utilise the proceeds to pare down debts as well as to accelerate development of yet to be planted landbank in Indonesia which could nearly double the current planted area of 38k Ha. However, the divestment of this NE Kalimantan land is expected to complete only in early FY23 as the land status needs to be changed first. Accordingly, there are some risks that the sale may fall through or delayed further. Consequently, we are maintaining FY22-23E Core EPS and TP of RM2.08. **OUTPERFORM**.

TSH first announced it had entered into a non-binding Head of Agreement (HOA) for this deal on 12 December 2021. There are some minor differences (HOA involved 13,215 Ha for RM679m vs. 13,898 Ha for RM712 m cash in this agreement) but the key factor here is that this is now an agreement even if with various conditions to fulfil before the agreement can be concluded.

Rationale: The intention of selling less strategic assets to pare down debts as well as to accelerate the development of new planting makes sense. In the case of the 3,001 Ha of Sabah land sold for RM248m, much of the estate is matured area with oil palm trees at (or near) 25 years of age. For this NE Kalimantan land, only 3,819 Ha have been planted, thus over 70% remains undeveloped. Management has indicated it plans to pay off RM550m of debts once this sale is concluded. Based on our estimate, TSH should turn net cash after this deal as strong FY22-23 cashflows are also anticipated.

Sales price: CH William Talhar & Wong's Sabah office valued the 13,898 Ha at RM296m using a combination of DCF and Comparison Method. Meanwhile audited NBV as at 31 Dec 2020 stood at RM271m. As such, the divestment is expected to result in pro-forma gain of RM400m. The agreed selling price of RM51.2K per Ha is also above market price of around RM45K per Ha for agriculture land in Kalimantan. Altogether, having paid for agriculture or *Hak Guna Usaha* land earlier and now selling it with some development land (*Hak Guna Bangunan*) premium imputed into the price, TSH has come out well.

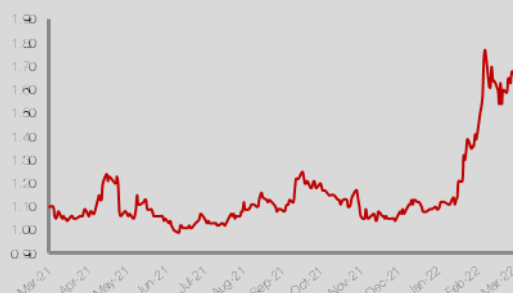
Impact to earnings: We are expecting the agreement to conclude only in 1HFY23 but expect neutral impact on FY23 Core EPS as the loss of some CPO earnings will be offset by lower interest expenses following de-gearing. However, if CPO price falls below RM4,000 per MT, the disposal could be EPS accretive.

Maintain OUTPERFORM and TP of RM2.08 based on FY22E PER of 11x, after reflecting flattish CNP over FY22-23 and improving but still weaker balance sheet. Nevertheless, TSH is fast re-capitalising thanks to strong CPO prices as well as asset divestment to develop 25-30K Ha of new oil palm planting which will nearly double the current planted area. **Risks to our call include:** (i) adverse weather, (ii) revision in Indonesia's biodiesel levy and export tax structure, and (iii) volatile CPO prices.

OUTPERFORM ↔

Price: RM1.65
Target Price: RM2.08 ↔

Share Price Performance



KLCI 1,598.92
YTD KLCI chg 1.9%
YTD stock price chg 52.8%

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | TSH MK EQUITY |
| Market Cap (RM m) | 2,277.3 |
| Shares Outstanding | 1,380.2 |
| 52-week range (H) | 1.79 |
| 52-week range (L) | 0.98 |
| 3-mth avg daily vol: | 7,441,006 |
| Free Float | 41% |
| Beta | 1.1 |

Major Shareholders

| | |
|-----------------------|-------|
| Tan Aik Pen | 19.1% |
| Tunas Lestari Sdn Bhd | 4.9% |
| Embun Yakin Sdn Bhd | 4.9% |

Summary Earnings Table

| FYE Dec (RM m) | 2021A | 2022E | 2023E |
|------------------------|--------------|--------------|--------------|
| Turnover | 1,189 | 1,730 | 1,607 |
| EBIT | 253.0 | 431.6 | 400.7 |
| PBT | 253.7 | 456.3 | 419.2 |
| Net Profit (NP) | 169.0 | 261.7 | 272.5 |
| Core NP | 217.2 | 261.7 | 272.5 |
| Consensus (CNP) | 159.3 | 178.0 | 153.6 |
| Earnings Revision | N.A. | N.A. | N.A. |
| Core EPS (sen) | 15.7 | 18.9 | 19.7 |
| Core EPS grwth (%) | 159.5 | 20.5 | 4.1 |
| NDPS (sen) | 3.0 | 4.0 | 5.0 |
| NTA/Share (RM) | 1.23 | 1.40 | 1.56 |
| Core PER (x) | 10.5 | 8.7 | 8.4 |
| Price/NTA (x) | 1.34 | 1.18 | 1.06 |
| Net Gearing (x) | 0.74 | 0.39 | 0.23 |
| Dividend Yield (%) | 1.8 | 2.4 | 3.0 |



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| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------|--------|--------|-------|-------|
| FY Dec (RM m) | 2019A | 2020A | 2021A | 2022E | 2023E | FY Dec | 2019A | 2020A | 2021A | 2022E | 2023E |
| Revenue | 719 | 926 | 1189 | 1730 | 1607 | Growth (%) | | | | | |
| EBITDA | 182 | 249 | 451 | 541 | 509 | Revenue | (20.7) | 28.8 | 28.4 | 45.5 | (7.1) |
| Depreciation | 99 | 106 | 103 | 109 | 109 | EBITDA | (9.9) | 37.1 | 80.7 | 20.0 | (5.8) |
| Operating Profit | 83 | 144 | 253 | 432 | 401 | Operating Profit | (35.4) | 73.7 | 75.9 | 70.6 | (7.2) |
| Interest Expense | -45 | -48 | -41 | -33 | -34 | Pre-tax Income | (35.4) | 73.7 | 75.9 | 70.6 | (7.2) |
| Interest Income | 0 | 0 | 0 | 2 | 2 | Core Net Income | (20.0) | 112.6 | 159.5 | 20.5 | 4.1 |
| Associate | 2 | 8 | 19 | 20 | 18 | | | | | | |
| Jointly Ctrl Entity | 17 | 24 | 36 | 36 | 32 | Profitability (%) | | | | | |
| PBT | 62 | 130 | 254 | 456 | 419 | EBITDA Margin | 25.3 | 26.9 | 37.9 | 31.3 | 31.7 |
| Taxation | -21 | -40 | -52 | -148 | -99 | Operating Margin | 11.5 | 15.5 | 21.3 | 24.9 | 24.9 |
| Minority Interest | 1 | -11 | -33 | -46 | -48 | PBT Margin | 8.7 | 14.1 | 21.3 | 26.4 | 26.1 |
| Net Profit | 43 | 79 | 169 | 262 | 273 | Core Net Margin | 6.0 | 8.6 | 14.2 | 15.1 | 17.0 |
| Core Net Profit | 39 | 84 | 217 | 262 | 273 | Effective Tax Rate | 33.4 | 30.6 | 20.5 | 32.5 | 23.5 |
| Balance Sheet | | | | | | ROA | 1.2 | 1.3 | 2.4 | 4.8 | 7.5 |
| FY Dec (RM m) | 2019A | 2020A | 2021A | 2022E | 2023E | ROE | 2.7 | 5.7 | 13.5 | 14.3 | 13.3 |
| Fixed Assets | 1946 | 1940 | 1933 | 1919 | 1907 | DuPont Analysis | | | | | |
| Biological Assets | 419 | 437 | 456 | 474 | 493 | Core Net Margin (%) | 5.5 | 9.0 | 18.3 | 15.1 | 17.0 |
| Intangible Assets | 56 | 56 | 56 | 56 | 56 | Assets Turnover (x) | 0.2 | 0.3 | 0.3 | 0.5 | 0.4 |
| Other FA | 453 | 426 | 441 | 100 | 100 | Leverage Factor (x) | 2.3 | 2.3 | 2.2 | 1.9 | 1.8 |
| Inventories | 172 | 194 | 250 | 363 | 337 | ROE (%) | 2.7 | 5.7 | 13.5 | 14.3 | 13.3 |
| Receivables | 63 | 74 | 95 | 138 | 129 | | | | | | |
| Other CA | 35 | 35 | 35 | 35 | 35 | Leverage | | | | | |
| Cash | 126 | 139 | 246 | 402 | 659 | Debt/Asset (x) | 0.44 | 0.43 | 0.41 | 0.32 | 0.31 |
| Total Assets | 3271 | 3302 | 3511 | 3489 | 3716 | Debt/Equity (x) | 0.91 | 0.88 | 0.81 | 0.56 | 0.51 |
| | | | | | | Net Cash/(Debt) | (1310) | (1277) | (1189) | (712) | (475) |
| Payables | 97 | 125 | 161 | 234 | 217 | Net Debt/Equity (x) | 0.91 | 0.87 | 0.74 | 0.39 | 0.23 |
| ST Borrowings | 663 | 663 | 663 | 522 | 522 | | | | | | |
| Other ST Liability | 3 | 3 | 3 | 3 | 3 | Valuations | | | | | |
| LT Borrowings | 773 | 753 | 773 | 592 | 612 | EPS (sen) | 3.10 | 5.75 | 12.23 | 18.94 | 19.72 |
| Other LT Liability | 150 | 150 | 150 | 150 | 150 | Core EPS (sen) | 2.85 | 6.06 | 15.72 | 18.94 | 19.72 |
| Minorities Int. | 137 | 143 | 149 | 155 | 161 | NDPS (sen) | 1.0 | 1.5 | 3.0 | 4.0 | 5.0 |
| Net Assets | 1448 | 1465 | 1613 | 1833 | 2050 | NTA (RM) | 1.10 | 1.12 | 1.23 | 1.40 | 1.56 |
| | | | | | | PER (x) | 53.2 | 28.7 | 13.5 | 8.7 | 8.4 |
| Share Capital | 741 | 741 | 741 | 741 | 741 | Core PER (x) | 57.9 | 27.2 | 10.5 | 8.7 | 8.4 |
| Retained Earnings | 889 | 954 | 1103 | 1323 | 1540 | Net Div. Yield (%) | 0.6 | 0.9 | 1.8 | 2.4 | 3.0 |
| Other Reserves | -230 | -230 | -230 | -230 | -230 | P/NTA (x) | 1.50 | 1.47 | 1.34 | 1.18 | 1.06 |
| Equity | 1438 | 1465 | 1613 | 1833 | 2050 | EV/EBITDA (x) | 19.7 | 14.3 | 7.7 | 5.5 | 5.4 |
| Cashflow Statement | | | | | | | | | | | |
| FY Dec (RM m) | 2019A | 2020A | 2021A | 2022E | 2023E | | | | | | |
| Operating CF | 168 | 207 | 259 | 328 | 443 | | | | | | |
| Investing CF | -75 | -132 | -132 | -132 | -132 | | | | | | |
| Financing CF | -82 | -53 | -20 | -40 | -54 | | | | | | |
| Change In Cash | 11 | 22 | 107 | 156 | 257 | | | | | | |
| Free CF | 92 | 75 | 127 | 196 | 311 | | | | | | |

Source: Kenanga Research

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Peer Comparison

| Name | Last Price | Market Cap | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div. Yld. (%) | Target Price (RM) | Rating |
|-------------------------------|------------|------------|-------------------|-------------|----------------|------------|----------------------|------------|-------------------------|------------|------------|---------|------------|------------|-------------------|-------------------|--------|
| | (RM) | (RM'm) | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | |
| STOCKS UNDER COVERAGE | | | | | | | | | | | | | | | | | |
| FGV HOLDINGS BHD | 1.95 | 7,113.9 | Y | 12/2022 | 19.4% | -4.5% | 109.8% | -31.1% | 28.8 | 13.7 | 19.9 | 1.7 | 1.6 | 11.9% | 4.4% | 2.30 | MP |
| GENTING PLANTATIONS BHD | 8.62 | 7,733.8 | Y | 12/2022 | 23.2% | -9.2% | 73.7% | -11.9% | 32.4 | 18.7 | 21.2 | 1.6 | 1.5 | 8.3% | 3.4% | 10.00 | OP |
| HAP SENG PLANTATIONS HOLDINGS | 2.64 | 2,111.2 | Y | 12/2022 | 60.8% | -18.4% | 174.6% | -25.3% | 30.5 | 11.1 | 17.4 | 1.2 | 1.2 | 10.8% | 5.3% | 2.65 | OP |
| IOI CORP BHD | 4.18 | 25,970.2 | Y | 06/2022 | 13.5% | -8.4% | 20.6% | -14.1% | 31.1 | 20.2 | 23.5 | 2.6 | 2.4 | 12.4% | 2.3% | 4.65 | MP |
| KUALA LUMPUR KEPONG BHD | 25.86 | 27,881.1 | Y | 09/2022 | 19.4% | -4.0% | 20.3% | -10.1% | 16.6 | 19.5 | 21.1 | 2.4 | 2.2 | 16.1% | 2.1% | 30.00 | OP |
| PPB GROUP BHD | 17.04 | 24,241.1 | Y | 12/2022 | 18.4% | 11.1% | 3.7% | 5.2% | 18.5 | 17.9 | 17.0 | 1.1 | 1.0 | 6.1% | 2.3% | 18.90 | MP |
| SIME DARBY PLANTATION BHD | 5.08 | 35,131.8 | Y | 12/2022 | 39.5% | -8.0% | 194.3% | -35.7% | 42.2 | 14.4 | 22.4 | 2.6 | 2.4 | 17.2% | 4.1% | 5.25 | MP |
| TA ANN HOLDINGS BHD | 5.32 | 2,343.3 | Y | 12/2022 | 44.8% | -19.0% | 305.5% | -42.9% | 37.0 | 9.1 | 16.0 | 1.7 | 1.5 | 17.4% | 5.6% | 6.00 | MP |
| TSH RESOURCES BHD | 1.65 | 2,277.3 | Y | 12/2022 | 45.5% | -7.1% | 20.5% | 4.1% | 10.5 | 8.7 | 8.4 | 1.5 | 1.3 | 14.9% | 2.4% | 2.08 | OP |
| UNITED MALACCA BHD | 5.52 | 1,157.9 | Y | 04/2022 | 20.4% | -5.6% | 219.7% | -36.5% | 40.8 | 18.3 | 24.7 | 0.9 | 0.8 | 7.4% | 2.7% | 5.90 | MP |
| Simple Average | | | | | 30.5% | -7.3% | 114.3% | -19.8% | 29.4 | 12.0 | 16.3 | 1.3 | 1.2 | 12.3% | 3.6% | | |

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|--|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

Sector Recommendations***

| | |
|-------------|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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