

TSH Resources (TSH MK)

Unlocking MYR712m in value for its North Kalimantan land?

Not the usual straight forward deal, in our view

We are overall positive on its proposal to dispose 3,819 ha (or 9% of group planted; gross area to be disposed: 13,898 ha) oil palm planted area for IDR2.429tr (or MYR712m) cash; giving an estimated net disposal gain of MYR360m. However, there is no proposal to reward shareholders with one-off dividends. There is also no certainty the deal could be completed by 1Q23, given the onerous conditions precedent. Further clarification is required. Positively, if it materialises, TSH's proforma net gearing will dip to 5% (from 45% as at end-2021). We make no changes to our EPS forecasts. TSH remains a HOLD with unchanged TP of MYR1.60 on 20x FY23E PER peg, at -1SD 5Y mean. We prefer KLK MK (BUY, TP: MYR29.60).

Expecting MYR712m in total cash proceeds

Following the Heads of Agreement announced on 9 Dec 2021, TSH has now signed a conditional SPA with PT Kawasan Industri Kalimantan Indonesia (KIKI) and PT Kalimantan Industrial Park Indonesia (KIPI) for the proposed disposal by PT Bulungan Citra Agro Persada (BCAP), a 90%-owned subsidiary of TSH, of (1) 13,215 ha certified or converted lands for IDR2.309tr cash (or MYR677m), and (2) 683 ha uncertified land for IDR0.119tr cash (or MYR35m) - see details in Figs.1-1b. We estimate the estate's average age profile to be ~9 years old, yielding 19.4t/ha of FFB in 2020 (Fig.1c).

Disposal price of MYR186,352 per planted hectare

The disposal price of IDR2.428tr (or MYR712m) is a 141% premium to the market value assessed by an independent valuer - C H Williams Talhar & Wong. The proposed disposal price equates to MYR51,205 per gross ha or MYR186,352 per planted ha; a good price in our view for agricultural land. No other financial details were shared except for an estimated net disposal gain of MYR360m (MYR400m gross gain less minority interest's share of MYR40m) or 26.1sen/sh. We gather that the buyers' objectives and purposes are to convert the land to undertake industrial development.

Targets for completion by 1Q23

We understand the proposed disposal is subject to the fulfillment of several conditions precedent (including TSH shareholders' approval) which may be time consuming. Non-fulfilment allows the CSPA to be nullified.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	782	1,189	1,348	1,250	1,270
EBITDA	215	342	332	277	288
Core net profit	68	174	164	110	122
Core EPS (sen)	5.0	12.6	11.9	8.0	8.8
Core EPS growth (%)	197.6	153.8	(5.7)	(32.7)	10.6
Net DPS (sen)	1.5	3.0	3.6	2.4	2.7
Core P/E (x)	23.2	8.6	13.9	20.7	18.7
P/BV (x)	1.1	0.9	1.3	1.2	1.2
Net dividend yield (%)	1.3	2.8	2.2	1.5	1.6
ROAE (%)	4.3	10.9	9.6	6.1	6.5
ROAA (%)	2.1	5.4	4.9	3.3	3.6
EV/EBITDA (x)	13.4	7.2	9.9	11.4	10.6
Net gearing (%) (incl perps)	72.0	45.0	41.5	32.5	24.4
Consensus net profit	-	-	193	154	156
MKE vs. Consensus (%)	-	-	(15.1)	(28.3)	(21.6)

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HOLD

Share Price	MYR 1.65
12m Price Target	MYR 1.60 (-1%)
Previous Price Target	MYR 1.60

Company Description

TSH Resources engages in the oil palm cultivation and forest plantation.

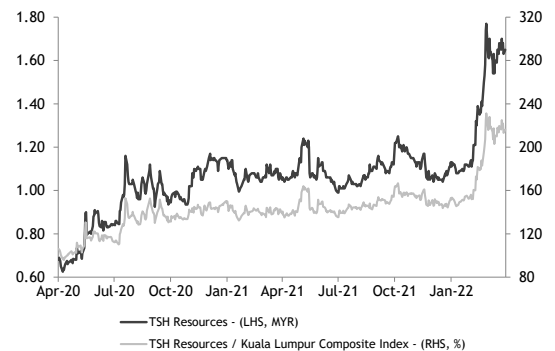
Statistics

52w high/low (MYR)	1.77/0.99
3m avg turnover (USDm)	2.6
Free float (%)	34.2
Issued shares (m)	1,382
Market capitalisation	MYR2.3B USD541M

Major shareholders:

TAN AIK PEN	18.7%
Tunas Lestari Sdn. Bhd.	4.9%
Embung Yakini Sdn. Bhd.	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	49	53
Relative to index (%)	(7)	43	51

Source: FactSet

Fig. 1: A summary of the disposal consideration under the CSPA

Buyers	Sale Land	<----Land area---->		
		Hectares	Disposal Consideration	
			Rp	RM
KIKI	KIKI Land	3,829.27	669,203,225,200	196,076,545
KIPI	KIPI Land and the Converted Land	9,385.63	1,640,232,698,800	480,588,181
KIKI and KIPI, respectively	Uncertified Land	683.36	119,423,993,600	34,991,230
Total		13,898.26	2,428,859,917,600	711,655,956

Source: TSH

Fig. 1a: Details of Certified and Converted land (excluding Uncertified land)

Description	Certified Land and Converted Land		
	Tanah Kuning Hectares	Mangkupadi Hectares	Total Hectares
Total planted area	2,169.30	1,649.59	3,818.89
Unplanted area	1,072.98	7,691.28	8,764.26
Unplantable area	508.08	12.00	520.08
Nursery	27.88	7.00	34.88
Estate building site	13.97	4.97	18.94
Roads	30.71	13.24	43.95
Drains	6.35	7.55	13.90
Total area	3,829.27	9,385.63	13,214.90

The 683.36 hectares Uncertified Land is vacant and under shrubs and bushes.

Source: TSH

Fig. 1b: Details of Certified and Converted land (cont.)

	Certified Land		Converted Land
	KIKI Land	KIPI Land	
Location	Tanah Kuning Village, Tanjung Palas District, Bulungan Regency, North Kalimantan, Indonesia	Mangkupadi Village, Tanjung Palas District, Bulungan Regency, North Kalimantan, Indonesia	Mangkupadi Village, Tanjung Palas District, Bulungan Regency, North Kalimantan, Indonesia
Land title	1)HGU No. 32 2)HGU No. 33	1)HGU No. 35 2)HGU No. 37 3)HGU No. 38	1)HGB No. 00001 2)HGB No. 00002
Land area	3,829.27 hectares	7,894.17 hectares	1,491.46 hectares
Tenure of leasehold land	: Expiring on 3 October 2046	: Expiring on 3 October 2046	: Expiring on 3 October 2046
Registered owner	: BCAP	: BCAP	: BCAP
Category of land use	: Agriculture	: Agriculture	: Development
Existing use	: Oil palm plantation	: Oil palm plantation	: Pending development
Encumbrances	: Nil	: Nil	: Nil

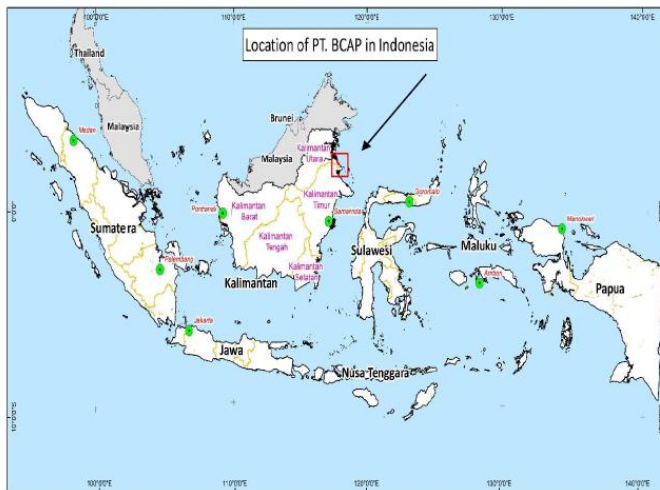
Source: TSH

Fig. 1c: Other information of the Certified and Converted land

i) Age profile and planted area	: Years of planting	Hectarage
	2007 – 2011	880
	2012 - 2015	2,939
ii) FFB production in metric tonnes	: Year	FFB annual production
	2018	67,868
	2019	79,572
	2020	74,244

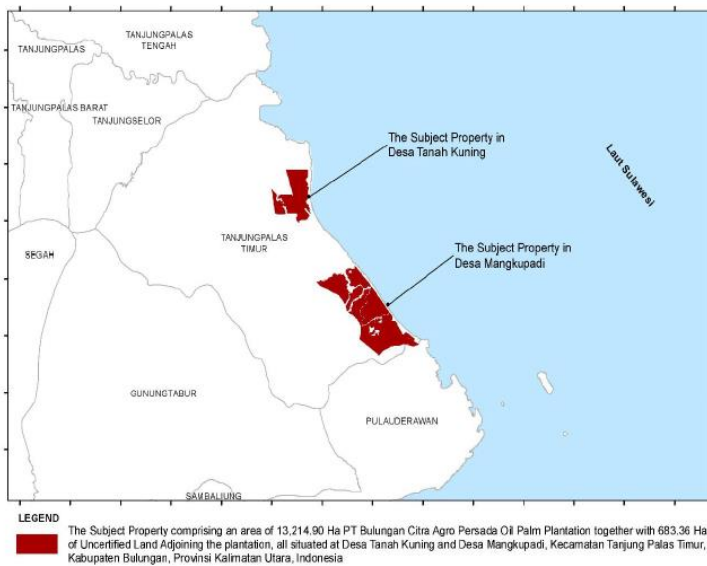
Source: TSH

Fig.2a: Approximate location map of the land for disposal



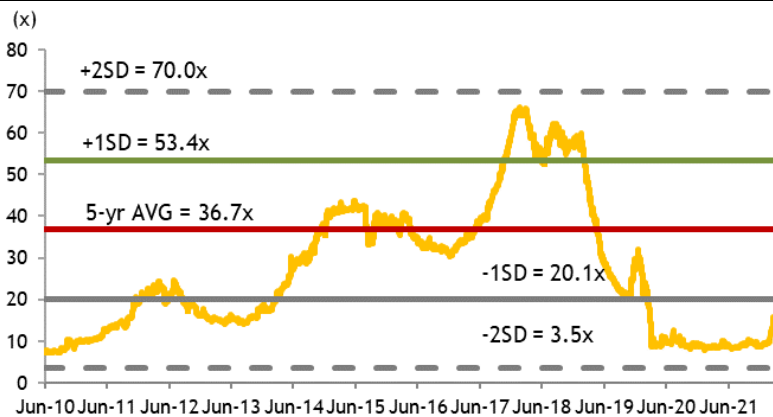
Source: TSH

Fig.2b: Approximate location map of the land for disposal (cont.)



Source: TSH

Fig.3: TSH's 12M forward PER



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for TSH Resources. Key risks to the palm oil sector and TSH are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Malaysian and Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	22.5	8.9	13.9	20.7	18.7
Core P/E (x)	23.2	8.6	13.9	20.7	18.7
P/BV (x)	1.1	0.9	1.3	1.2	1.2
P/NTA (x)	1.1	0.9	1.3	1.3	1.2
Net dividend yield (%)	1.3	2.8	2.2	1.5	1.6
FCF yield (%)	11.5	23.4	2.3	7.8	7.8
EV/EBITDA (x)	13.4	7.2	9.9	11.4	10.6
EV/EBIT (x)	26.4	10.7	14.9	19.0	17.0
INCOME STATEMENT (MYR m)					
Revenue	781.7	1,188.9	1,347.7	1,250.0	1,270.0
EBITDA	214.9	342.4	331.8	277.3	288.3
Depreciation	(105.5)	(111.2)	(111.1)	(110.1)	(109.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	109.4	231.2	220.6	167.2	179.2
Net interest income / (exp)	(35.3)	(32.4)	(21.0)	(24.0)	(17.2)
Associates & JV	32.0	54.9	47.0	25.0	25.0
Exceptionals	1.6	0.0	0.0	0.0	0.0
Pretax profit	107.7	253.7	246.6	168.3	187.0
Income tax	(34.8)	(52.1)	(51.6)	(37.0)	(41.9)
Minorities	(11.4)	(32.6)	(31.2)	(21.0)	(23.2)
Discontinued operations	17.6	0.0	0.0	0.0	0.0
Reported net profit	61.5	169.0	163.8	110.3	121.9
Core net profit	68.5	173.8	163.8	110.3	121.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	163.1	297.2	250.4	345.6	435.8
Accounts receivable	68.2	49.2	110.8	102.7	104.4
Inventory	122.9	143.6	201.6	186.2	189.8
Property, Plant & Equip (net)	2,118.6	2,300.4	2,239.2	2,179.1	2,120.0
Intangible assets	54.2	51.6	51.6	51.6	51.6
Investment in Associates & JVs	157.1	171.5	218.5	243.5	268.5
Other assets	481.8	279.8	279.8	279.8	279.8
Total assets	3,166.0	3,293.3	3,352.0	3,388.6	3,449.9
ST interest bearing debt	690.4	522.3	497.3	472.3	447.3
Accounts payable	75.0	188.4	151.2	139.7	142.3
LT interest bearing debt	623.7	591.7	566.7	541.7	516.7
Other liabilities	179.0	178.0	178.0	178.0	178.0
Total Liabilities	1,568.0	1,479.9	1,392.7	1,331.1	1,283.8
Shareholders Equity	1,453.1	1,641.2	1,755.9	1,833.0	1,918.4
Minority Interest	144.9	172.3	203.5	224.5	247.7
Total shareholder equity	1,598.0	1,813.5	1,959.3	2,057.5	2,166.1
Total liabilities and equity	3,166.0	3,293.3	3,352.0	3,388.6	3,449.9
CASH FLOW (MYR m)					
Pretax profit	107.7	253.7	246.6	168.3	187.0
Depreciation & amortisation	105.5	111.2	111.1	110.1	109.1
Adj net interest (income)/exp	(35.3)	(32.4)	(21.0)	(24.0)	(17.2)
Change in working capital	5.0	58.2	(156.8)	11.9	(2.5)
Cash taxes paid	(16.8)	(33.0)	(51.6)	(37.0)	(41.9)
Other operating cash flow	70.2	35.8	(26.0)	(1.0)	(7.8)
Cash flow from operations	236.1	393.6	102.3	228.3	226.8
Capex	(53.9)	(44.0)	(50.0)	(50.0)	(50.0)
Free cash flow	182.3	349.5	52.3	178.3	176.8
Dividends paid	(13.8)	(20.7)	(49.1)	(33.1)	(36.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(113.0)	(215.9)	(50.0)	(50.0)	(50.0)
Other invest/financing cash flow	29.6	51.0	0.0	0.0	0.0
Effect of exch rate changes	(1.6)	(2.5)	0.0	0.0	0.0
Net cash flow	83.4	161.5	(46.8)	95.2	90.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.8)	52.1	13.4	(7.2)	1.6
EBITDA growth	14.8	59.3	(3.1)	(16.4)	4.0
EBIT growth	25.9	111.3	(4.6)	(24.2)	7.2
Pretax growth	45.9	135.7	(2.8)	(31.8)	11.2
Reported net profit growth	39.6	174.9	(3.1)	(32.7)	10.6
Core net profit growth	197.6	153.7	(5.7)	(32.7)	10.6
Profitability ratios (%)					
EBITDA margin	27.5	28.8	24.6	22.2	22.7
EBIT margin	14.0	19.4	16.4	13.4	14.1
Pretax profit margin	13.8	21.3	18.3	13.5	14.7
Payout ratio	33.7	24.5	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	7.9	14.2	12.2	8.8	9.6
Revenue/Assets (x)	0.2	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.2	2.0	1.9	1.8	1.8
ROAE (%)	4.3	10.9	9.6	6.1	6.5
ROAA (%)	2.1	5.4	4.9	3.3	3.6
Liquidity & Efficiency					
Cash conversion cycle	71.4	18.5	22.5	51.3	48.9
Days receivable outstanding	30.2	17.8	21.4	30.7	29.4
Days inventory outstanding	101.6	59.1	67.5	82.2	78.2
Days payables outstanding	60.4	58.4	66.4	61.6	58.6
Dividend cover (x)	3.0	4.1	3.3	3.3	3.3
Current ratio (x)	1.0	0.9	1.1	1.2	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	2.4	2.5	2.7
Net gearing (%) (incl perps)	72.0	45.0	41.5	32.5	24.4
Net gearing (%) (excl. perps)	72.0	45.0	41.5	32.5	24.4
Net interest cover (x)	3.1	7.1	10.5	7.0	10.4
Debt/EBITDA (x)	6.1	3.3	3.2	3.7	3.3
Capex/revenue (%)	6.9	3.7	3.7	4.0	3.9
Net debt/ (net cash)	1,151.0	816.7	813.5	668.3	528.1

Source: Company; Maybank IBG Research

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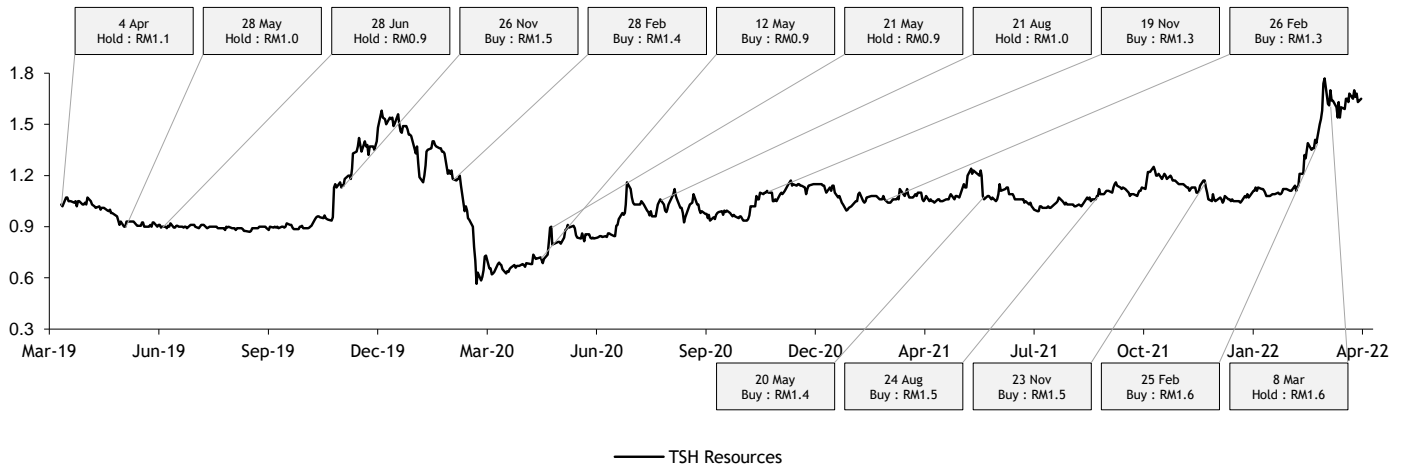
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