

Ta Ann (TAH MK)

On track

BUY for its undemanding valuation and high div. yield

We make no changes to our FY23E earnings as we anticipate earnings to play catch up in 2H driven by seasonally higher CPO output and lower costs. We continue to like TAH for its undemanding single-digit PER valuation and attractive DY of >7% (based on 60% DPR). Excluding its net cash of MYR223m (as at end-June; ie. 14% of its market cap), TAH trades at 7x FY23E PER. Its capex requirement is merely c.MYR70m for FY23. BUY with an unchanged TP of MYR3.75 on 9x FY23E PER, -0.5SD of its 5Y mean.

2H23: Earnings to play catch up

We met TAH last week post its 2Q23 results release. We believe TAH is on track to meet our FY23E core PATMI despite its 1H core PATMI of MYR71m (-62% YoY) having met just 39% of our full-year estimates. Key earnings growth in 2H will emanate from its oil palm division on seasonally higher output and lower cost. As TAH has not done much forward sales in 2H23, its CPO ASP in the near term will broadly mirror the spot market.

Oil palm plantation: Key earnings driver in 2H23

1H FFB output (-8% YoY) met 39% of our full-year forecast; at the lower end of historical ranges of 38% to 45%. TAH targets to deliver FFB output of 0.70mt-0.75mt for FY23E (1H23: 0.27mt) which implies a much stronger HoH output in 2H23. For 1H23, we estimate its unit cost at MYR2,314/t (+1% YoY) as TAH has applied c.50% of full-year fertiliser plan in 1H. The anticipated higher output and falling global fertiliser prices since end-2022 are likely to bring down unit cost in 2H. TAH anticipates its unit cost of output to average MYR2,200/t for FY23E, inline with MIBG's estimates.

Timber division: To chug along in 2H23

There are early signs that the plywood market has bottomed as demand for plywood in Japan has picked up momentum in early part of Q3 while prices remained stable QoQ. As for logs, 2Q's prices were impacted by a slowdown in demand from China which resulted in increased competition at TAH's main market - India. We anticipate log prices to make a meaningful recovery only when China's market improves.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,894	2,187	1,662	1,566	1,538
EBITDA	511	604	355	350	363
Core net profit	287	348	184	177	184
Core EPS (sen)	65.2	79.1	41.7	40.1	41.9
Core EPS growth (%)	317.2	21.2	(47.3)	(3.8)	4.4
Net DPS (sen)	30.0	40.0	25.0	24.1	25.1
Core P/E (x)	5.4	4.8	8.3	8.6	8.3
P/BV (x)	1.0	1.0	0.8	0.8	0.8
Net dividend yield (%)	8.5	10.6	7.2	7.0	7.3
ROAE (%)	20.6	18.7	10.3	9.5	9.5
ROAA (%)	10.9	12.6	6.5	6.1	6.4
EV/EBITDA (x)	3.2	2.7	3.7	3.5	3.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	181	199	185
MIBG vs. Consensus (%)	-	-	1.6	(11.2)	(0.1)

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BUY

Share Price	MYR 3.46
12m Price Target	MYR 3.75 (+15%)
Previous Price Target	MYR 3.75

Company Description

Ta Ann Holdings is involved in oil palm plantations, logs harvesting and plywood manufacturing.

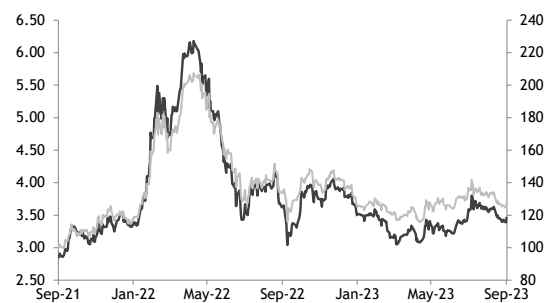
Statistics

52w high/low (MYR)	4.06/3.04
3m avg turnover (USDm)	0.2
Free float (%)	48.5
Issued shares (m)	445
Market capitalisation	MYR1.5B USD328M

Major shareholders:

Mountex Sdn. Bhd.	21.2%
BIN DOLAH WAHAB	9.3%
BIN SEPAWI ABDUL HAMED	7.4%

Price Performance



— Ta Ann - (LHS, MYR) — Ta Ann / Kuala Lumpur Composite Index - (RHS, %)

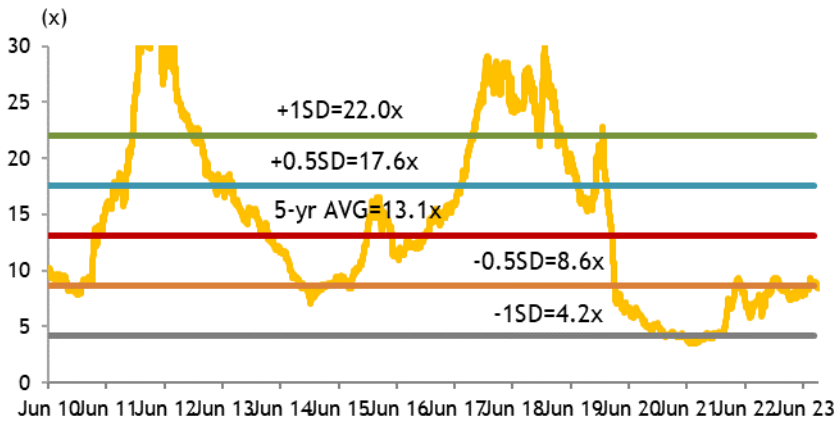
	-1M	-3M	-12M
Absolute (%)	(4)	6	(5)
Relative to index (%)	(5)	1	(5)

Source: FactSet

Abbreviation

ASP = Average selling price
CPO = Crude palm oil
DPR = Dividend payout ratio
DY = Dividend yield
EBIT = Earnings before interest and taxes
PATMI = Profit after tax and minority interests
QoQ = Quarter-on-Quarter
TP = Target price
YoY = Year-on-Year

Ta Ann 12M forward PER



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Ta Ann. Key risks to Ta Ann are: (i) weather anomalies resulting in poorer-than-expected oil palm output growth and timber extraction; (ii) lower-than-expected CPO, timber and plywood prices achieved; (iii) negative log/plywood export policies by the Sarawak state government; (iv) negative policies imposed by import countries for palm oil, log and plywood; (v) sharply lower crude oil prices, which makes palm biodiesel demand not viable; and (vi) weaker competing oil prices (like soybean and rapeseed) for its oil palm division.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	4.1	6.0	8.3	8.6	8.3
Core P/E (x)	5.4	4.8	8.3	8.6	8.3
P/BV (x)	1.0	1.0	0.8	0.8	0.8
P/NTA (x)	1.0	1.0	0.9	0.8	0.8
Net dividend yield (%)	8.5	10.6	7.2	7.0	7.3
FCF yield (%)	28.9	24.4	22.2	15.6	16.4
EV/EBITDA (x)	3.2	2.7	3.7	3.5	3.1
EV/EBIT (x)	3.9	3.2	4.9	4.7	4.2
INCOME STATEMENT (MYR m)					
Revenue	1,894.4	2,187.4	1,662.4	1,565.9	1,538.3
EBITDA	511.5	604.5	355.5	350.1	362.8
Depreciation	(88.2)	(89.4)	(90.0)	(90.0)	(90.0)
EBIT	423.3	515.1	265.5	260.1	272.8
Net interest income / (exp)	(12.1)	(2.5)	0.6	6.6	11.1
Associates & JV	54.2	41.1	28.8	21.4	19.1
Exceptionals	27.2	(25.4)	0.0	0.0	0.0
Pretax profit	492.6	528.2	294.9	288.1	303.0
Income tax	(100.2)	(133.4)	(64.9)	(65.1)	(69.3)
Minorities	(78.0)	(80.0)	(46.3)	(46.4)	(49.4)
Reported net profit	314.4	314.9	183.7	176.6	184.4
Core net profit	287.2	348.3	183.7	176.6	184.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	454.9	523.6	657.7	695.3	741.6
Accounts receivable	64.6	59.7	45.3	42.7	41.9
Inventory	132.4	149.5	126.8	118.5	114.7
Property, Plant & Equip (net)	1,582.2	1,553.6	1,533.6	1,513.6	1,493.5
Intangible assets	86.9	86.0	86.0	86.0	86.0
Investment in Associates & JVs	266.7	283.9	283.9	283.9	283.9
Other assets	162.2	136.7	136.7	136.7	136.7
Total assets	2,750.0	2,793.1	2,870.1	2,876.7	2,898.5
ST interest bearing debt	233.9	224.8	178.0	131.2	84.3
Accounts payable	249.7	208.2	257.2	240.4	232.7
LT interest bearing debt	153.9	69.4	22.6	(24.2)	(71.0)
Other liabilities	336.0	342.0	342.0	342.0	342.0
Total Liabilities	973.8	844.4	799.7	689.3	587.9
Shareholders Equity	1,610.3	1,752.2	1,825.7	1,896.4	1,970.1
Minority Interest	165.8	196.5	244.7	291.1	340.5
Total shareholder equity	1,776.1	1,948.7	2,070.4	2,187.5	2,310.6
Total liabilities and equity	2,750.0	2,793.1	2,870.1	2,876.7	2,898.5
CASH FLOW (MYR m)					
Pretax profit	492.6	528.2	294.9	288.1	303.0
Depreciation & amortisation	88.2	89.4	90.0	90.0	90.0
Adj net interest (income)/exp	(7.3)	(6.3)	0.6	6.6	11.1
Change in working capital	55.1	(13.6)	86.0	(5.9)	(3.2)
Cash taxes paid	(58.1)	(96.1)	(64.9)	(65.1)	(69.3)
Other operating cash flow	7.3	6.3	(0.6)	(6.6)	(11.1)
Cash flow from operations	498.7	487.4	407.9	307.1	320.6
Capex	(52.4)	(80.6)	(70.0)	(70.0)	(70.0)
Free cash flow	446.3	406.8	337.9	237.2	250.6
Dividends paid	(110.1)	(220.2)	(110.2)	(106.0)	(110.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(128.3)	(108.3)	(93.6)	(93.6)	(93.6)
Other invest/financing cash flow	(24.1)	(9.6)	0.0	0.0	0.0
Net cash flow	183.8	68.7	134.1	37.6	46.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	55.6	15.5	(24.0)	(5.8)	(1.8)
EBITDA growth	132.5	18.2	(41.2)	(1.5)	3.6
EBIT growth	228.9	21.7	(48.5)	(2.0)	4.9
Pretax growth	323.9	7.2	(44.2)	(2.3)	5.2
Reported net profit growth	597.3	0.2	(41.7)	(3.8)	4.4
Core net profit growth	317.2	21.2	(47.3)	(3.8)	4.4
Profitability ratios (%)					
EBITDA margin	27.0	27.6	21.4	22.4	23.6
EBIT margin	22.3	23.5	16.0	16.6	17.7
Pretax profit margin	26.0	24.1	17.7	18.4	19.7
Payout ratio	42.0	55.9	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	16.6	14.4	11.1	11.3	12.0
Revenue/Assets (x)	0.7	0.8	0.6	0.5	0.5
Assets/Equity (x)	1.7	1.6	1.6	1.5	1.5
ROAE (%)	20.6	18.7	10.3	9.5	9.5
ROAA (%)	10.9	12.6	6.5	6.1	6.4
Liquidity & Efficiency					
Cash conversion cycle	(7.5)	(11.2)	(15.8)	(28.7)	(28.2)
Days receivable outstanding	11.4	10.2	11.4	10.1	9.9
Days inventory outstanding	39.6	34.4	39.7	37.7	37.1
Days payables outstanding	58.5	55.8	66.9	76.6	75.2
Dividend cover (x)	2.4	1.8	1.7	1.7	1.7
Current ratio (x)	1.5	1.8	2.0	2.4	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	3.3	3.6	4.2	4.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	34.9	nm	na	na	na
Debt/EBITDA (x)	0.8	0.5	0.6	0.3	0.0
Capex/revenue (%)	2.8	3.7	4.2	4.5	4.5
Net debt/ (net cash)	(67.1)	(229.4)	(457.2)	(588.3)	(728.3)

Source: Company; Maybank IBG Research

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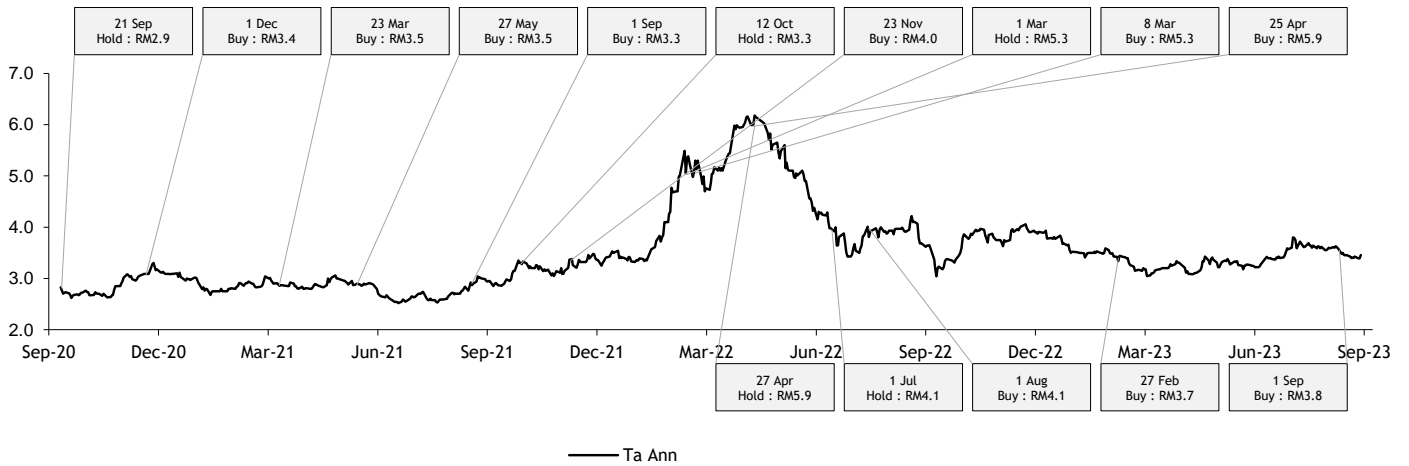
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