

Outthink. Outperform.

Disappointing start to the year

Ta Ann's 1Q16 core net profit of RM14.3m was below expectations. Given the weak results, we cut our 2016-18E core EPS by 12-19%, after incorporating lower log and plywood average price assumptions. Nevertheless, we continue to like Ta Ann for its rising plantation earnings prospects and attractive dividend yields of 5%. Maintain BUY rating but with a lower target price of RM5.30.

1Q16 results below expectations

Ta Ann's 1Q16 core net profit fell by 45.5% yoy to RM14.3m on lower revenue of RM218.5m (-1.6% yoy). The 1Q16 core net profit was below expectations, accounting for only 8% of our previous 2016 estimate, and 9% of the street's. The EBITDA margin also weakened to 21.6% from 25.1% in 1Q15. The variance was mainly due to the lower-than-expected contribution from the timber division. Notably, Ta Ann has declared an interim DPS of 5 sen (1Q15: 10 sen).

Looking for log demand from India to return

Ta Ann's log prices have started to decline since late 2015 to about US\$221-236/m³ from a high of US\$289/m³ in 3Q15. The high log prices and depreciation of the INR against the US\$ had pushed away Indian buyers, the largest log customers, to source for lower-cost logs in PNG and the Solomon Islands. However, we believe that the decline in log prices would attract Indian buyers to Sarawak again.

Maintain BUY rating but target price lowered to RM5.30

Given the weaker-than-expected 1Q16 performance, we are cutting our 2016-18 core EPS estimates by 12-19%, mainly adjusting for: 1) lower average log price assumptions by about 20-21% for 2016-18E to US\$225-230/m³; 2) lower average plywood price assumptions by about 4% for 2016-18E to US\$470-480/m³; and 3) a higher OER rate of 21-22% for 2016-18E from 20%. We maintain our BUY rating on Ta Ann but with a lower SOTP-derived 12-month target price of RM5.30. This is based on 10x our 2016E EPS for its timber division, 15x for its plantation division, and 1x for BV for its forest plantation. We continue to like Ta Ann for: 1) the rising plantation earnings given the increasing matured plantation areas, FFB and CPO production; and 2) its 5.1% 2016E dividend yield.

Key risks are: 1) disruptions in log and palm oil harvesting due to extreme weather conditions; 2) a sharp drop in ASPs for timber and palm oil products; and 3) major losses at the Tasmanian plant.

Earnings & Valuation Summary

| FYE 31 Dec | 2014 | 2015 | 2016E | 2017E | 2018E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 1,020.7 | 1,046.8 | 1,067.0 | 1,127.8 | 1,198.9 |
| EBITDA (RMm) | 264.6 | 363.4 | 274.0 | 293.2 | 318.2 |
| Pretax profit (RMm) | 168.5 | 233.6 | 190.4 | 211.5 | 238.1 |
| Net profit (RMm) | 122.5 | 185.9 | 138.4 | 153.7 | 173.1 |
| EPS (sen) | 33.1 | 50.2 | 37.4 | 41.5 | 46.7 |
| PER (x) | 11.8 | 7.8 | 10.4 | 9.4 | 8.3 |
| Core net profit (RMm) | 114.3 | 169.8 | 138.4 | 153.7 | 173.1 |
| Core EPS (sen) | 30.8 | 45.8 | 37.4 | 41.5 | 46.7 |
| Core EPS growth (%) | 14.7 | 48.6 | (18.5) | 11.1 | 12.6 |
| Core PER (x) | 12.6 | 8.5 | 10.4 | 9.4 | 8.3 |
| Net DPS (sen) | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Dividend Yield (%) | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| EV/EBITDA (x) | 6.2 | 4.1 | 5.1 | 4.5 | 3.8 |
| Chg in EPS (%) | | | -19.4 | -17.3 | -12.0 |
| Affin/Consensus (x) | | | 0.8 | 0.9 | 0.9 |

Source: Company, Affin Hwang estimates, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Ta Ann

TAH MK
Sector: Timber

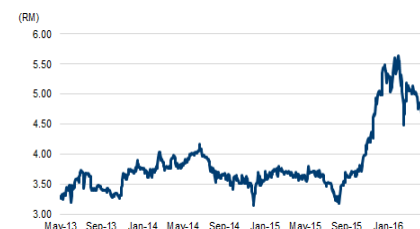
RM3.89 @ 19 May 2016

BUY (maintain)

Upside 36.2%

Price Target: RM5.30

Previous Target: RM6.22



Price Performance

| | 1M | 3M | 12M |
|-------------|--------|--------|--------|
| Absolute | -19.0% | -30.2% | +1.8% |
| Rel to KLCI | -15.1% | -28.4% | +12.8% |

Stock Data

| | |
|-------------------------------|---------------|
| Issued shares (m) | 370.5 |
| Mkt cap (RMm)/(US\$m) | 1,441.4/353.4 |
| Avg daily vol - 6mth (m) | 1.1 |
| 52-wk range (RM) | 3.20-5.75 |
| Est free float | 35.4% |
| BV per share (RM) | 3.2 |
| P/BV (x) | 1.2 |
| Net cash/ (debt) (RMm) (1Q16) | (124.4) |
| ROE (2016E) | 10.8% |
| Derivatives | Nil |
| Shariah Compliant | Yes |

Key Shareholders

| | |
|-------------------------|-------|
| Mountex | 21.1% |
| Wahab Haji Dolah | 10.3% |
| Amar Abdul Hamed Sepawi | 8.1% |

Source: Affin Hwang, Bloomberg

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| FYE 31 Dec (RMm) | 1Q16 | QoQ % chg | YoY % chg | Comments |
|--------------------------|-------------|-----------------|----------------|--|
| Revenue | 218.5 | (18.7) | (1.6) | Lower yoy due to a 17.7% decline in the revenue contribution from the timber division to RM118.7m, partially offset by a 28% increase in the revenue contribution from the palm oil division to RM99.7m. |
| Op costs | (171.4) | (11.8) | 3.0 | |
| EBITDA | 47.1 | (36.8) | (15.5) | |
| <i>EBITDA margin (%)</i> | <i>21.6</i> | <i>-6.2ppt</i> | <i>-3.5ppt</i> | EBITDA margins weakened yoy due to lower contribution from the timber division. |
| Depn and amort | (24.6) | 10.7 | 23.8 | |
| EBIT | 22.5 | (57.0) | (37.3) | |
| Int expense | (5.1) | (4.9) | 2.1 | |
| Int and other inc | 1.9 | (43.6) | 2.4 | |
| Forex gain (losses) | (1.7) | (160.9) | (273.3) | |
| EI | (0.1) | (100.6) | (34.4) | |
| Pretax | 17.6 | (72.1) | (47.7) | |
| Tax | (5.6) | >100 | (35.4) | |
| <i>Tax rate (%)</i> | <i>32.1</i> | <i>+31.4ppt</i> | <i>+6.1ppt</i> | |
| MI | 0.6 | (112.2) | (72.9) | |
| Net profit | 12.5 | (78.4) | (53.7) | |
| EPS (sen) | 3.4 | (78.4) | (53.7) | |
| Core net profit | 14.3 | (68.4) | (45.5) | Accounting for only 8% of our previous 2016 estimate, and 9% of the street figure. |

Source: Affin Hwang, company data

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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