FBM KLCI 1684.97 ▼ 17.02 KLCI FUTURES 1684.00 ▼ 21.50 STI 3090.40 ▼ 2.98 RM/USD 4.1880 CPO RM1966.00 ▼ 6.00 OIL US$60.77 ▲ 0.29 GOLD US$1223.60 ▲ 1.20

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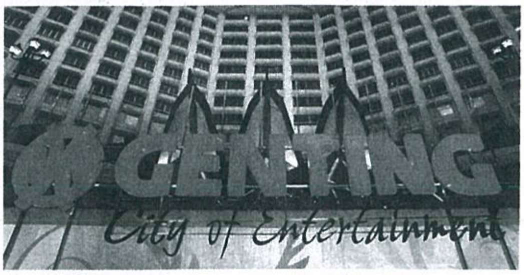

Genting Malaysia dealt a bad hand again 4 HOME BUSINESS

High cost structure seen hurting TH Plantations

TH Plantations Bhd (Nov 27, 59.5 sen)

Maintain hold with an unchanged target price (TP) of 74 sen: TH Plantations Bhd's cumulative nine months of 2018 (9M18) results were below expectations, dragged by lower-than-expected crude palm oil (CPO) average selling price (ASP) and output, and higher-than-expected interest expenses. We now forecast a core net loss of RM29 million for financial year 2018 estimate (FY18E). Despite a 30% upside to our unchanged TP of 74 sen based on 0.5 times trailing price over net tangible asset, pegged at minus-two standard deviation of five-year mean, we maintained our "hold" call in the absence of catalysts. Rerating catalysts include monetising assets, deleveraging, and/or serious cost-cutting measures. TH Plantations now trades at an adjusted enterprise value/planted hectare of RM30,000 near its replacement cost.

The CPO price was below production cost. The third quarter of 2018 (3Q18) headline results fell into the red, with a net loss of RM20 million versus 3QFY17 headline net profit of RM15 million. Adjusted for fair value of biological assets, 3QFY18 core net loss doubled quarter-on-quarter to RM13 million (3QFY17 core net profit: RM23 million), bringing 9MFY18 core net loss to RM19 million (9MFY17 core net profit: RM51 million). 9MFY18 was badly hit by a lower CPO ASP achieved at RM2,229 per tonne (-18% year-on-year [y-o-y]), lower-than-expected fresh fruit bunch (FFB) output (+4% y-o-y versus Maybank Kim Eng Group's estimate of +9%), and higher-than-expected interest expense. We estimate TH Plantations' 9M18 all-in cost of production at RM2,366 per tonne (+11% y-o-y).

9MFY18 FFB production (+4% y-o-y) met just 68% of our full-year, below historical trends. Thus, we cut FY18 to FY20E FFB output

Key risks to the palm oil sector and TH Plantations are weather anomalies resulting in a poorer-than-expected output growth, among others. **The Edge file photo**

growth forecast by -5%/-4%/-4%, implying a +4% y-o-y growth for FY18 from +9% y-o-y previously, while keeping our FY19 to FY20 growth forecasts at +5% and +2% respectively.

We cut our FY18 to FY20E earnings estimates by 184%/81%/46% by imputing lower CPO ASPs (FY18 to FY20E: -11%/-6%/-4%; RM2,170 per tonne for FY18, RM2,350 per tonne for FY19 and RM2,500 per tonne for FY20), a lower FFB production and higher interest expenses for FY18. We now expect a core net loss in FY18.

There are several risk factors for our earnings estimates, TP and rating for TH Plantations. Key risks to the palm oil sector and TH Plantations are weather anomalies resulting in a poorer-than-expected output growth, lower-than-expected CPO price achieved, negative policies imposed by import countries, unfriendly policies imposed by the Malaysian and Indonesian governments on upstream or downstream segments, sharply lower crude oil prices making demand for palm biodiesel unviable, and weaker competing oil prices (such as soybean and rapeseed). — *Maybank IB Research, Nov 27*