

Subur Tiasa Holdings

Recommendation: **BUY**

Stock Code: **6904**

Bloomberg: **STH MK**

Price: **MYR1.93**

12-Month Target Price: **MYR2.30**

Date: **March 22, 2010**

Board: Main

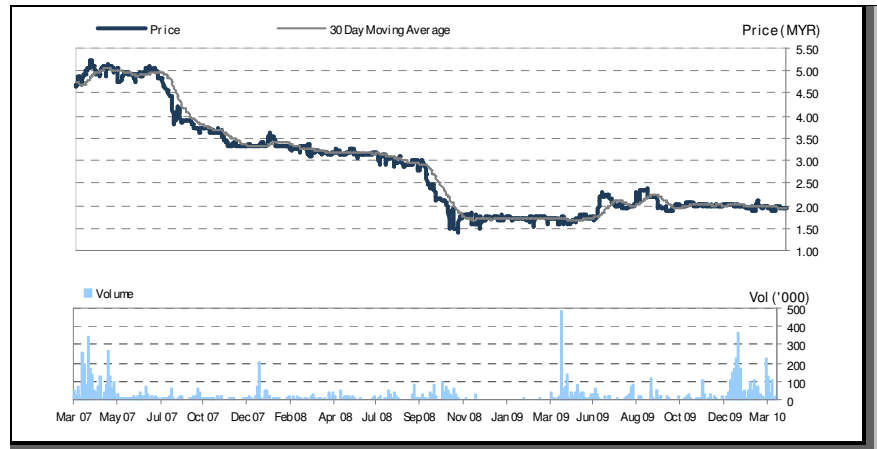
Sector: Industrial Products

GICS: Materials/Forest Products

Market Value - Total: MYR363.2 mln

Summary: Subur Tiasa Holdings Berhad (Subur Tiasa) is an investment holding company. The group is involved in the (i) extraction and trading of logs, (ii) manufacturing and export of plywood, veneer, particleboard and sawn timber and (iii) others such as forest plantation and cultivation of oil palm.

Analyst: Wee Sieng Lee, CPA



Results Review & Earnings Outlook

- For 2QFY10 (Jul), Subur Tiasa recorded a 61.3% YoY increase in revenue to MYR184.3 mln and a 24.8x increase in net profit to MYR6.3 mln. Although the reported financial results were significantly better YoY, they were within our expectations, as we had projected a substantial turnaround in the group's performance in FY10.
- During 2QFY10, the group's logging and manufacturing (plywood, sawn timber and particleboard) divisions reported revenue of MYR81.6 mln (+105.7% YoY) and MYR100.9 mln (+51.2% YoY) respectively. Its logging division performed credibly in 2QFY10, recording an operating profit of MYR4.6 mln in 2QFY10 as compared to an operating loss of MYR4.8 mln in 2QFY09.
- Looking forward, we expect the demand for Subur Tiasa's timber products to improve gradually with a better economic outlook in the Asia-Pacific region (the group's key market). Although plywood pricing is expected to remain weak with a slow recovery in the Japanese housing market, the price of round logs should improve with continued strong demand from India and China. Subur Tiasa will also benefit from its maturing 5,000ha Mukah oil palm plantation. The group produced 4,268 tons of oil palm FFBs in 2QFY10 and its FFB production is expected to increase in FY11 as more acreage matures.
- In view of the in-line results, we maintain our FY10 and FY11 earnings forecasts.

Key Stock Statistics

FY Jul.	2009	2010E
Reported EPS (sen)	9.4	14.2
PER (x)	20.4	13.6
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	2.79	3.01
Book Value/Share (MYR)	3.09	3.19
No. of Outstanding Shares (mln)	188.2	
52-week Share Price Range (MYR)	1.57 - 2.37	
Major Shareholders:	%	
Tiong Toh Siong Holdings Sdn Bhd	46.2	
Kinta Hijau Sdn Bhd	9.0	
Raya Abadi Sdn Bhd	8.9	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We reiterate our Buy recommendation on Subur Tiasa with an unchanged 12-month target price of MYR2.30. As expected, Subur Tiasa has reported a significant improvement in 2QFY10 as compared to 2QFY09. We continue to like Subur Tiasa for the following: (i) it has diversified geographical markets for its timber products and is less dependent on the persistent weak Japanese housing market, compared with large Malaysian timber companies; (ii) its logging division is expected to continue performing well with firm round log prices and robust demand from India; and (iii) its 5,000ha palm oil plantation is maturing and expected to be another earnings pillar.
- We derive our 12-month target price based on a price-earnings ratio (PER) valuation method. We have ascribed a PER of 13x (unchanged) to the group's CY10 earnings and included a projected dividend of 4 sen to derive our 12-month target price. In determining the appropriate PER, we have considered the group's historical PER trading range and its listed peers' traded PERs. We have also factored in specific characteristics of Subur Tiasa such as diversified geographical markets, particleboard manufacturing and oil palm plantation.
- Risks to our recommendation and target price include: (i) weaker-than-expected demand and average selling price of round logs and plywood, (ii) higher-than-expected operating costs such as energy, transportation and glue, and (iii) unfavorable foreign exchange rates (such as USD/MYR) may dampen its forward margins and earnings.

Per Share Data

FY Jul.	2007	2008	2009	2010E
Book Value (MYR)	2.90	3.01	3.09	3.19
Cash Flow (sen)	66.9	48.6	47.8	55.9
Reported Earnings (sen)	37.9	13.1	9.4	14.2
Dividend (sen)	2.9	3.0	4.0	4.0
Payout Ratio (%)	5.2	16.0	31.8	21.1
PER (x)	5.1	14.7	20.4	13.6
P/Cash Flow (x)	2.9	4.0	4.0	3.4
P/Book Value (x)	0.7	0.6	0.6	0.6
Dividend Yield (%)	1.5	1.6	2.1	2.1
ROE (%)	14.2	4.4	3.1	4.5
Net Gearing (%)	0.0	10.8	16.0	14.5

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

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FY Jul. / MYR mln	2Q10	2Q09	% Change
Reported Revenue	184.3	114.2	61.3
Reported Operating Profit	9.3	1.9	>100
Depreciation & Amortization	-17.2	-18.3	-6.5
Net Interest Income / (Expense)	-0.7	-1.5	-53.0
Reported Pre-tax Profit	8.3	0.1	>100
Reported Net Profit	6.3	0.3	>100
Reported Operating Margin (%)	5.0	1.7	-
Reported Pre-tax Margin (%)	4.5	0.1	-
Reported Net Margin (%)	3.4	0.2	-

Source: Company data

Profit & Loss

FY Jul. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	604.0	598.4	679.2	704.3
Reported Operating Profit	33.9	31.1	42.3	58.5
Depreciation & Amortization	-67.0	-72.4	-78.6	-83.1
Net Interest Income / (Expense)	-2.2	-4.4	-5.2	-5.7
Reported Pre-tax Profit	30.0	25.3	35.7	51.3
Effective Tax Rate (%)	17.3	29.6	25.0	25.0
Reported Net Profit	24.8	17.8	26.7	38.5
Reported Operating Margin (%)	5.6	5.2	6.2	8.3
Reported Pre-tax Margin (%)	5.0	4.2	5.2	7.3
Reported Net Margin (%)	4.1	3.0	3.9	5.5

Source: Company data, S&P Equity Research

Required Disclosures

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
1-Oct-09	Buy	2.30
30-Jun-09	Hold	2.10
2-Jan-09	Hold	1.80
3-Oct-08	Hold	2.40
30-Jun-08	Hold	3.30

