

Sime Darby Plantation (SDPL MK)

1Q22 results within expectations

Expect higher output & forward sales ASP in 2H22

1Q22 core PATMI came in within our/ consensus expectations. Core results would have been higher if not for MYR68m FV loss on commodities contracts recorded in 1Q22. Seasonally higher output and higher forward sales ASPs locked-in could help weather cost pressures (ie higher fertiliser costs and wages) in 2H. SDPL remains a HOLD with unchanged RNAV-TP of MYR4.97 on 0.45x RNAV peg. We prefer KLK MK (BUY, CP: 26.90, TP: 30.70).

1Q: Better upstream and downstream performances

SDPL posted a 1Q22 headline PATMI of MYR718m (+28% YoY, +53% QoQ). Adjusted for land disposal gain (+47m), and unrealised FX loss (-71m), SDPL posted a 1Q22 core PATMI of MYR725m (+57% YoY, +10% QoQ) which met 26% /28% of ours/consensus full-year estimates. Upstream EBIT of MYR839m (+55% YoY, -12% QoQ) were boosted by higher CPO ASP (+40% YoY, +7% QoQ) which more than compensate the lower FFB output (-13% YoY, -10% QoQ). Fertiliser application was behind schedule in 1Q22. Meanwhile, downstream EBIT of MYR132m (+23% YoY, -54% QoQ) rose on the back of higher revenue (+27% YoY, -15% QoQ) despite marginally lower margins of 3.3% (-0.1-ppts YoY, -2.8-ppts QoQ).

Accelerated its forward sales for May-Dec 2022

SDPL has cut its 2022 FFB growth guidance to between -5% and 0% YoY (previously single-digit growth; MIBG Research: +1.9% YoY), mainly due to labour shortages in Malaysia. As for remaining forward sales in 2022, SDPL guides that it has sold forward 50% of its Peninsular Malaysia output (ASP of ~MYR4,700/t) and 40% of PNG output (ASP of ~MYR6,300/t) for May to Dec 2022. By our estimate, they represent 30% of group output at an ASP of ~MYR5,460/t.

Rising cost pressures covered by higher ASPs & output

The recent minimum wage hike in Malaysia is expected to increase SDPL's yearly cost by up to MYR90m p.a. Coupled with higher fertilizer cost locked in recently (till 1H23's requirements), SDPL expects its FY22E cost to customer (per tonne) to be lower than its 1Q22's group blended cost achieved of MYR2,300/t (FY21: MYR1,860/t; MIBG's FY22E assumption: MYR2,272/t). We make no changes to our earnings forecast.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	13,081	18,695	18,765	18,501	18,844
EBITDA	2,856	5,064	5,670	4,046	3,880
Core net profit	999	2,384	2,840	1,733	1,582
Core EPS (sen)	14.5	34.5	41.1	25.1	22.9
Core EPS growth (%)	1,022.4	137.5	19.2	(39.0)	(8.7)
Net DPS (sen)	11.6	20.3	24.6	15.0	13.7
Core P/E (x)	34.4	10.9	12.6	20.7	22.6
P/BV (x)	2.5	1.7	2.2	2.1	2.0
Net dividend yield (%)	2.3	5.4	4.8	2.9	2.6
ROAE (%)	8.8	15.6	18.0	10.4	9.1
ROAA (%)	3.5	8.1	9.2	5.5	5.0
EV/EBITDA (x)	14.5	6.4	7.3	10.0	10.3
Net gearing (%) (incl perps)	40.4	32.8	25.9	21.0	18.5
Consensus net profit	-	-	2,517	1,769	1,640
MKE vs. Consensus (%)	-	-	12.8	(2.0)	(3.5)

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HOLD

Share Price	MYR 5.18
12m Price Target	MYR 4.97 (+1%)
Previous Price Target	MYR 4.97

Company Description

SDPL is an integrated plantation company with the largest oil palm planted area, and largest CPO and CSPO producer in the world.

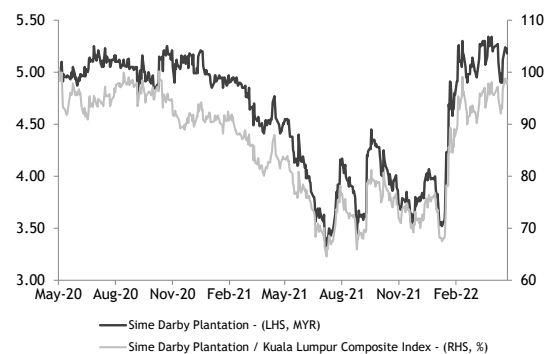
Statistics

52w high/low (MYR)	5.21/3.30
3m avg turnover (USDm)	4.5
Free float (%)	48.0
Issued shares (m)	6,916
Market capitalisation	MYR27.4B USD6.6B

Major shareholders:

Permodalan Nasional Berhad (total)	57.0%
EPF	14.9%
KWAP	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	6	16
Relative to index (%)	(0)	9	18

Source: FactSet

Abbreviation

ASP = Average selling price
EBIT = Earnings before interest and taxes
ID = Indonesia
MY = Malaysia
PATMI = Profit after tax and minority interests

Fig 1: SDPL Summary Results Table

FYE Dec (MYR m)	Quarterly			4Q21	%QoQ
	1Q22	1Q21	%YoY		
Revenue	4,381	3,673	19	5,550	(21)
Core EBIT	982	663	48	1,253	(22)
Non-recurring	47	124	(62)	(196)	NA
EBIT	1,029	787	31	1,057	(3)
Net Interest	(17)	(12)	42	(23)	(26)
Share of associate/ JV	31	1	3,000	23	35
Pre-tax profit	1,043	776	34	1,057	(1)
Tax	(263)	(165)	59	(519)	(49)
Discontinuing operations	NA	NA	NA	NA	NA
Perpetual Sukuk	(31)	(31)	0.0	(31)	0.0
Minority Interests	(31)	(18)	72	(39)	(21)
PATMI	718	562	28	468	53
Core PATMI	725	462	57	660	10
Segmental	1Q22	1Q21	%YoY	4Q21	%QoQ
Upstream Malaysia	1,090	798	37	1,171	(7)
Upstream Indonesia	556	584	(5)	802	(31)
Upstream PNG	458	597	(23)	1,056	(57)
Upstream Liberia	NA	NA	NA	NA	NA
Upstream (Total)	2,104	1,979	6	3,029	(31)
Downstream	4,012	3,167	27	4,729	(15)
Others	164	83	98	117	40
Inter-seg Elimination	(1,899)	(1,556)	22	(2,325)	(18)
Total revenue	4,381	3,673	19	5,550	(21)
Upstream Malaysia	224	120	87	145	54
Upstream Indonesia	153	190	(19)	400	(62)
Upstream PNG	462	233	98	413	12
Upstream Liberia	NA	NA	NA	NA	NA
Upstream (Total)	839	543	55	958	(12)
Downstream	132	107	23	287	(54)
Others	11	13	(15)	8	38
Core EBIT	982	663	48	1,253	(22)
EBIT margin (%)			+/- ppt		+/- ppt
EBIT margin - Upstream (Total)	39.9	27.4	12.4	31.6	8.2
EBIT margin - Downstream	3.3	3.4	(0.1)	6.1	(2.8)
Overall	22.4	18.1	4.4	22.6	(0.2)
Operational					
FFB production (t)	1,910,060	2,207,000	(13)	2,123,665	(10)
CPO (t)	495,810	572,000	(13)	552,219	(10)
PK (t)	113,094	133,000	(15)	127,429	(11)
CPO ASP (MYR/t)	4,465	3,185	40	4,179	7

Sources: Company, Maybank IBG Research

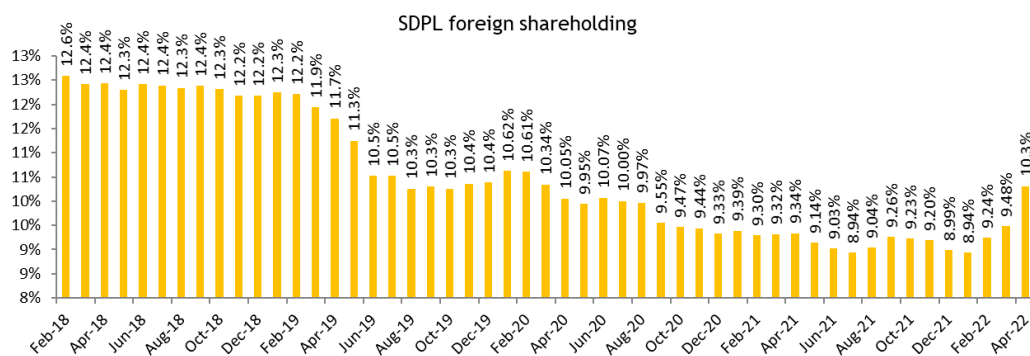
Fig 2: SDPL - Revised Net Asset Value (RNAV)

FYE Dec	Status	Size Hectare	Estimated Market price MYR psf	Estimated Market Value MYR 'm	Remarks MYR per hectare (equivalent)
Selangor	Freehold	36,153*	5.00	19,449	537,966
Malacca	Freehold	14,779*	2.00	3,180	215,186
Negeri Sembilan	Freehold	36,020*	2.00	7,751	215,186
Johor	Freehold	54,518*	1.50	8,799	161,390
Pahang	Freehold	9,336*	1.00	1,004	107,593
Perak	Freehold	37,155*	1.50	5,996	161,390
Kedah	Freehold	18,885*	1.00	2,032	107,593
Value of estates with property development potential				48,212	
	** Adj EBIT FY12/23	Adj EBIT less tax	Target multiple		
Plantation (MYR 'm)	1,744	1,326	25x	33,143	
Downstream (MYR 'm)	256	195	12x	2,337	
Associate/ JV company (BV)				393	
Cash				1,314	As at 31 Dec 2022
Debt				(6,248)	As at 31 Dec 2022
Perpetual Sukuk				(2,231)	As at 31 Dec 2022
Minority Interest				(477)	As at 31 Dec 2022
Total RNAV (MYR 'm)				76,443	
No of shares ('m)				6,916	
RNAV per share				11.05	
At 0.45x RNAV				4.97	

Source: Company, Maybank IBG Research; *Freehold land per annual report

** Annualised and adjusted to exclude EBIT of estates with property development potential to avoid double counting

Fig 3: SDPL's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Sime Darby Plantation (SDPL). Key risks to the palm oil sector and SDPL 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, Indonesian, Papua New Guinea and EU governments on upstream or downstream segments; (v) sharply lower crude oil prices which makes palm biodiesel demand not viable; (vi) weaker competing oil prices (like soybean and rapeseed); and (vii) sanctions by key customers following audit findings and assessment by *Impactt*.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	29.0	13.0	12.6	20.7	22.6
Core P/E (x)	34.4	10.9	12.6	20.7	22.6
P/BV (x)	2.5	1.7	2.2	2.1	2.0
P/NTA (x)	3.2	2.1	2.7	2.5	2.4
Net dividend yield (%)	2.3	5.4	4.8	2.9	2.6
FCF yield (%)	3.1	7.7	8.1	5.8	4.3
EV/EBITDA (x)	14.5	6.4	7.3	10.0	10.3
EV/EBIT (x)	25.3	8.6	9.6	15.4	16.8
INCOME STATEMENT (MYR m)					
Revenue	13,081.0	18,695.0	18,765.1	18,501.2	18,844.0
EBITDA	2,855.5	5,064.0	5,669.7	4,046.0	3,880.2
Depreciation	(1,224.5)	(1,329.0)	(1,355.2)	(1,423.2)	(1,491.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,631.0	3,735.0	4,314.4	2,622.8	2,389.1
Net interest income / (exp)	(99.0)	(74.0)	(69.3)	(42.4)	(20.4)
Associates & JV	4.0	35.0	15.0	15.0	15.0
Exceptionals	455.0	(94.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,991.0	3,602.0	4,260.1	2,595.5	2,383.7
Income tax	(466.0)	(1,109.0)	(1,188.6)	(670.9)	(615.9)
Minorities	(53.0)	(112.0)	(106.7)	(66.9)	(61.4)
Perpetual securities	(125.0)	(124.0)	(124.3)	(124.3)	(124.3)
Discontinued operations	(162.0)	0.0	0.0	0.0	0.0
Reported net profit	1,185.0	2,257.0	2,840.4	1,733.4	1,582.1
Core net profit	999.0	2,383.6	2,840.4	1,733.4	1,582.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	309.0	589.0	1,314.4	1,904.9	2,091.9
Accounts receivable	1,442.6	2,074.6	2,056.4	2,027.5	2,065.1
Inventory	1,569.0	2,466.0	2,406.0	2,099.6	2,403.6
Property, Plant & Equip (net)	17,283.0	17,211.0	17,365.8	17,452.6	17,471.4
Intangible assets	2,789.0	2,819.0	2,819.0	2,819.0	2,819.0
Investment in Associates & JVs	78.0	378.0	393.0	408.0	423.0
Other assets	4,849.4	4,800.4	4,800.4	4,800.4	4,800.4
Total assets	28,320.0	30,338.0	31,155.1	31,512.1	32,074.5
ST interest bearing debt	2,329.0	2,274.0	2,074.0	1,874.0	1,674.0
Accounts payable	609.2	1,228.2	1,069.4	933.2	1,068.3
LT interest bearing debt	4,561.0	4,174.0	4,174.0	4,174.0	4,174.0
Other liabilities	4,551.0	4,803.0	4,803.0	4,803.0	4,803.0
Total Liabilities	12,050.0	12,479.0	12,120.2	11,784.0	11,719.1
Shareholders Equity	13,655.0	15,191.0	16,327.2	17,020.5	17,653.4
Minority Interest	384.0	437.0	476.7	476.6	471.1
Total shareholder equity	14,039.0	15,628.0	16,803.9	17,497.2	18,124.4
Perpetual securities	2,231.0	2,231.0	2,231.0	2,231.0	2,231.0
Total liabilities and equity	28,320.0	30,338.0	31,155.1	31,512.1	32,074.5
CASH FLOW (MYR m)					
Pretax profit	1,991.0	3,602.0	4,260.1	2,595.5	2,383.7
Depreciation & amortisation	1,224.5	1,329.0	1,355.2	1,423.2	1,491.1
Adj net interest (income)/exp	99.0	74.0	69.3	42.4	20.4
Change in working capital	(241.0)	(855.0)	(80.8)	199.1	(206.4)
Cash taxes paid	(103.0)	(614.0)	(1,188.6)	(670.9)	(615.9)
Other operating cash flow	(503.5)	(72.0)	0.0	0.0	0.0
Cash flow from operations	2,431.0	3,439.0	4,400.3	3,574.2	3,057.9
Capex	(1,360.0)	(1,440.0)	(1,510.0)	(1,510.0)	(1,510.0)
Free cash flow	1,071.0	1,999.0	2,890.3	2,064.2	1,547.9
Dividends paid	(379.0)	(1,005.0)	(1,771.3)	(1,107.0)	(1,016.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,063.0)	(591.0)	(200.0)	(200.0)	(200.0)
Perpetual securities distribution	(125.0)	(124.0)	(124.3)	(124.3)	(124.3)
Other invest/financing cash flow	360.0	50.0	(69.3)	(42.4)	(20.4)
Effect of exch rate changes	14.0	27.0	0.0	0.0	0.0
Net cash flow	(136.0)	329.0	725.4	590.6	187.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.4	42.9	0.4	(1.4)	1.9
EBITDA growth	73.8	77.3	12.0	(28.6)	(4.1)
EBIT growth	273.2	129.0	15.5	(39.2)	(8.9)
Pretax growth	693.2	80.9	18.3	(39.1)	(8.2)
Reported net profit growth	nm	90.5	25.8	(39.0)	(8.7)
Core net profit growth	1,022.4	138.6	19.2	(39.0)	(8.7)
Profitability ratios (%)					
EBITDA margin	21.8	27.1	30.2	21.9	20.6
EBIT margin	12.5	20.0	23.0	14.2	12.7
Pretax profit margin	15.2	19.3	22.7	14.0	12.6
Payout ratio	67.2	62.1	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	9.1	12.1	15.1	9.4	8.4
Revenue/Assets (x)	0.5	0.6	0.6	0.6	0.6
Assets/Equity (x)	2.1	2.0	1.9	1.9	1.8
ROAE (%)	8.8	15.6	18.0	10.4	9.1
ROAA (%)	3.5	8.1	9.2	5.5	5.0
Liquidity & Efficiency					
Cash conversion cycle	87.4	76.2	87.1	92.6	85.3
Days receivable outstanding	36.9	33.9	39.6	39.7	39.1
Days inventory outstanding	80.3	77.7	89.9	95.2	83.2
Days payables outstanding	29.8	35.4	42.4	42.3	37.0
Dividend cover (x)	1.5	1.6	1.7	1.7	1.7
Current ratio (x)	1.1	1.4	1.6	1.8	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.4	2.6	2.7	2.7
Net gearing (%) (incl perps)	40.4	32.8	25.9	21.0	18.5
Net gearing (%) (excl. perps)	46.9	37.5	29.4	23.7	20.7
Net interest cover (x)	16.5	50.5	62.2	61.9	117.3
Debt/EBITDA (x)	2.4	1.3	1.1	1.5	1.5
Capex/revenue (%)	10.4	7.7	8.0	8.2	8.0
Net debt/ (net cash)	6,581.0	5,859.0	4,933.6	4,143.1	3,756.1

Source: Company; Maybank IBG Research

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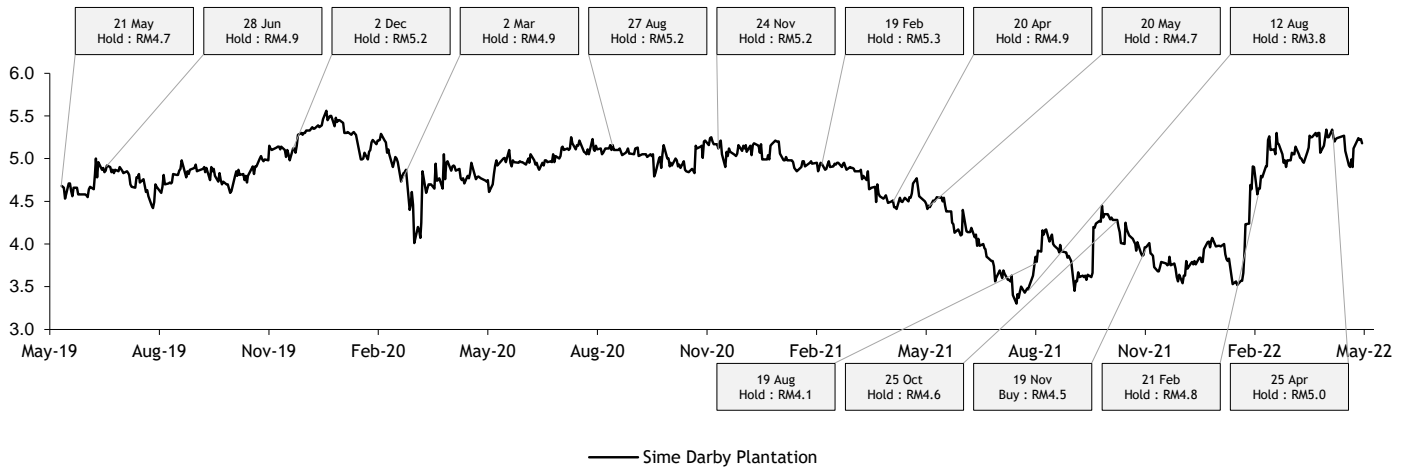
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