

## Sarawak Oil Palms (SOP MK)

# Still a prime beneficiary of high palm oil spot prices

### Strong 1Q results may not be repeated

1Q22 results exceeded our/consensus expectations. Besides benefitting from higher palm oil products prices, 1Q results was also boosted by other operating income of MYR37m that is unlikely to be recurring. 1Q22 may have been SOP's best quarterly results for FY22E as we expect lower CPO ASP in 2H coupled with rising cost pressures (ie higher minimum wage and fertiliser cost), but mitigated by seasonally higher output. We maintain our HOLD with unchanged TP of MYR6.52 on 13x FY23E PER, its 5Y mean. We prefer KLK MK (BUY, CP: 26.42, TP: 30.70).

### 1Q22 palm oil price achieved mirrors spot prices

1Q22 core PATMI of MYR191m (+157% YoY, -12% QoQ) met 40%/48% our/street full-year forecasts. 1Q22 strong performance was boosted by high palm oil products ASP achieved of MYR6,308/t (+62% YoY, +15% QoQ) and PK ASP of MYR5,128/t (+78% YoY, +20% QoQ) which more than offset weaker FFB output (-14% YoY, -20% QoQ). SOP continues to enjoy palm oil prices that mirror spot prices due to its limited forward sales in 2022. We understand its downstream margin was positive in 1Q22. And we gather SOP has applied <25% of its full-year fertilising requirement in 1Q22. It has yet to secure its fertiliser requirements for 2H.

### Labour shortage poses risk to FY22E output growth

Due to continued labour shortages, 1Q22 FFB output fell YoY and met just 21% of our full-year forecast (Figs.2-3). Without foreign workers returning soon, it is hard to envisage a significant improvement in FFB output for FY22E. Hence, we are keeping our -5% YoY FFB output growth for FY22E.

### 1-for-2 bonus issues pending approval

Its final DPS proposed for FY21 of 6sen (ex-date: 29 June; payable 15 July) missed our expectation as FY21's total DPS of 10sen (FY20: 6sen) merely equates to 11% payout ratio. This was despite record profits for FY21 and SOP being in a net cash position. Positively, SOP has proposed 1 bonus share for every 2 existing shares (subject to shareholders' approval on 23 June) to improve its share price liquidity.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,759	4,433	4,880	3,881	3,740
EBITDA	489	908	895	573	542
Core net profit	197	504	483	286	270
Core EPS (sen)	34.5	88.3	84.5	50.1	47.3
Core EPS growth (%)	139.3	155.6	(4.2)	(40.7)	(5.7)
Net DPS (sen)	6.0	10.0	16.9	15.0	14.2
Core P/E (x)	11.6	4.0	7.1	12.0	12.7
P/BV (x)	1.0	0.7	1.1	1.0	1.0
Net dividend yield (%)	1.5	2.9	2.8	2.5	2.4
ROAE (%)	8.8	19.7	16.1	8.7	7.8
ROAA (%)	4.7	11.3	9.9	5.5	5.0
EV/EBITDA (x)	5.3	2.3	3.5	4.8	4.7
Net gearing (%) (incl perps)	6.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	361	259	356
MKE vs. Consensus (%)	-	-	33.9	10.8	(24.1)

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# HOLD

Share Price	MYR 6.00
12m Price Target	MYR 6.52 (+11%)
Previous Price Target	MYR 6.52

### Company Description

Sarawak Oil Palms is a Sarawak-based integrated palm oil producer with refinery and biodiesel plants in Malaysia.

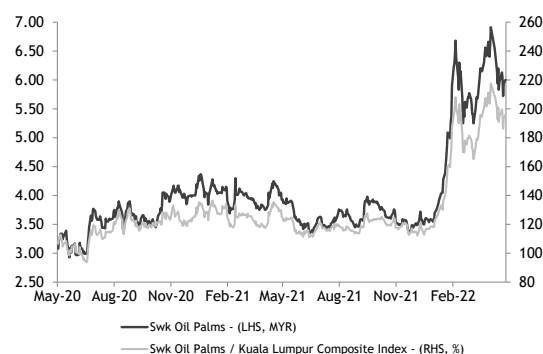
### Statistics

52w high/low (MYR)	6.91/3.35
3m avg turnover (USDm)	2.2
Free float (%)	17.6
Issued shares (m)	582
Market capitalisation	MYR3.5B USD796M

### Major shareholders:

Shin Yang Group of Cos.	46.4%
State of Sarawak	28.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	14	50
Relative to index (%)	(3)	17	51

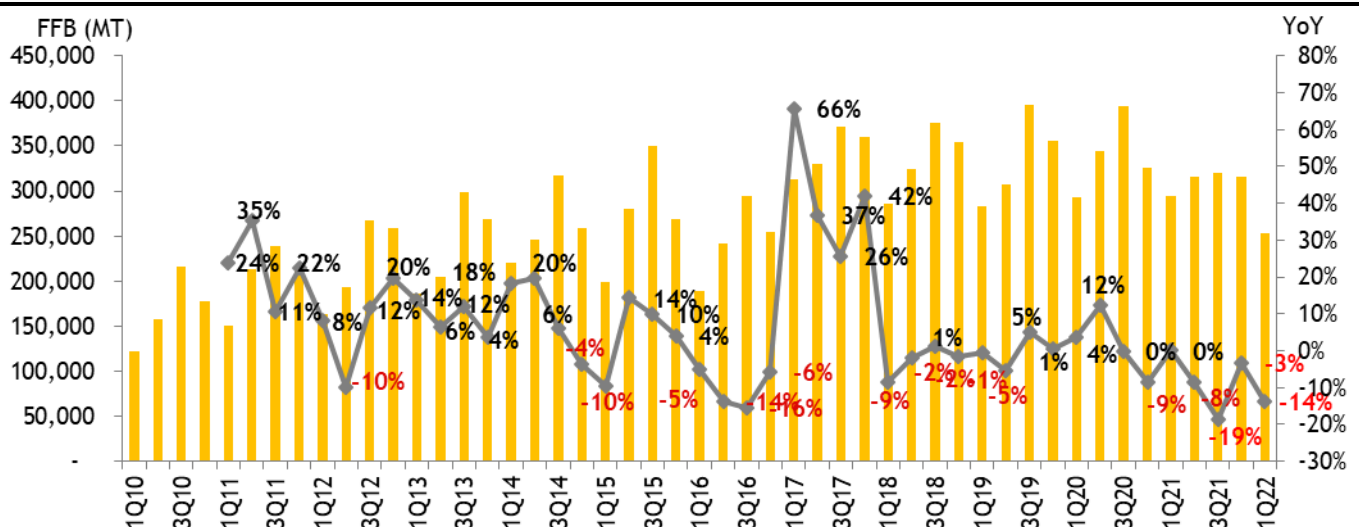
Source: FactSet

Fig 1: SOP - Summary results table

(MYR m)	1Q22	1Q21	%YoY	4Q21	%QoQ
Revenue	1,434.6	788.3	82.0	1,394.1	2.9
EBIT	272.4	119.8	127.4	281.7	(3.3)
Net interest	(2.7)	(6.2)	(57.0)	(1.5)	76.3
Share of Associates	(1.1)	(0.5)	117.1	(1.2)	(4.1)
<b>Pre-tax profit</b>	<b>268.6</b>	<b>113.0</b>	<b>137.6</b>	<b>279.0</b>	<b>(3.7)</b>
Tax	(62.9)	(26.4)	137.9	(62.6)	0.5
Minority Interests	(10.7)	(7.6)	42.3	(8.1)	32.7
<b>PATMI</b>	<b>195.0</b>	<b>79.1</b>	<b>146.6</b>	<b>208.3</b>	<b>(6.4)</b>
<b>Core PATMI**</b>	<b>190.9</b>	<b>74.2</b>	<b>157.3</b>	<b>216.2</b>	<b>(11.7)</b>
<b>**Adjusted for:</b>					
Net unrealised FX (gain)/loss	(0.5)	0.7	NA	0.0	NA
Net FV (gain)/loss on biological assets	(3.6)	(5.6)	(35.7)	7.9	NA
			<b>+/- ppt</b>		<b>+/- ppt</b>
EBIT margin (%)	19.0	15.2	3.8	20.2	(1.2)
<b>Operational</b>					
FFB production (t)	253,543	293,781	(13.7)	315,481	(19.6)
CPO (t)	78,242	86,921	(10.0)	71,255	9.8
PK (t)	17,726	18,445	(3.9)	22,498	(21.2)
Palm oil products ASP (MYR/t)	6,308	3,885	62.4	5,468	15.4
PK ASP (MYR/t)	5,128	2,889	77.5	4,272	20.0

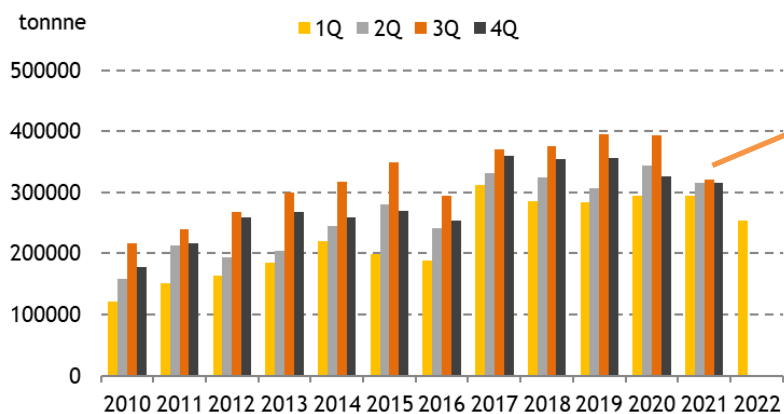
Source: Company, Maybank IBG Research

Fig 2: SOP's quarterly FFB output &amp; YoY growth



Source: Company

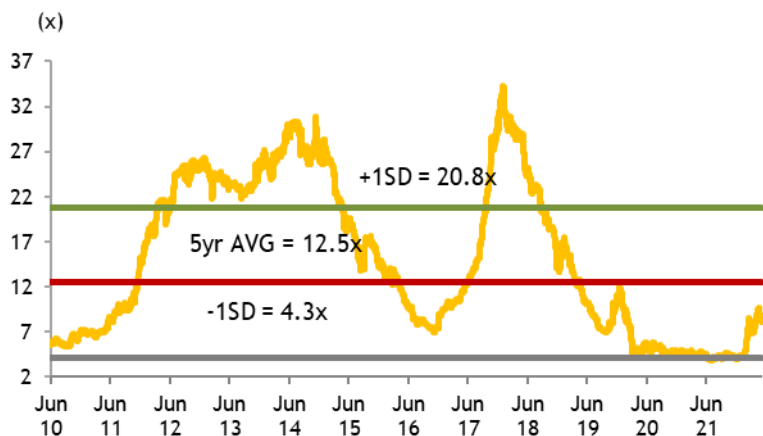
**Fig 3: SOP's historical quarterly output trend**



Weak production in 2021 was mainly due to labour shortage and heavy rainfall in Sarawak

Source: Company

**Fig 4: SOP's 12M forward PER**



Sources: Bloomberg, Maybank IBG Research

### Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Sarawak Oil Palms (SOP). Key risks to the palm oil sector and SOP 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 and Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	9.5	4.2	7.1	12.0	12.7
Core P/E (x)	11.6	4.0	7.1	12.0	12.7
P/BV (x)	1.0	0.7	1.1	1.0	1.0
P/NTA (x)	1.0	0.7	1.1	1.0	1.0
Net dividend yield (%)	1.5	2.9	2.8	2.5	2.4
FCF yield (%)	13.3	11.0	16.3	13.2	10.1
EV/EBITDA (x)	5.3	2.3	3.5	4.8	4.7
EV/EBIT (x)	7.7	2.9	4.4	7.0	6.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,759.4	4,433.0	4,880.1	3,880.6	3,740.1
EBITDA	488.9	907.7	894.6	572.8	541.5
Depreciation	(153.7)	(175.3)	(178.6)	(174.6)	(175.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	335.2	732.4	716.0	398.2	365.9
Net interest income / (exp)	(20.9)	(15.6)	(12.0)	(2.0)	7.6
Associates & JV	(14.0)	(2.8)	0.0	2.0	2.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	300.3	714.1	704.0	398.2	375.5
Income tax	(82.0)	(171.0)	(190.1)	(95.1)	(89.6)
Minorities	(16.1)	(31.8)	(30.8)	(16.7)	(15.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	202.2	511.2	483.1	286.4	270.1
Core net profit	197.1	504.4	483.1	286.4	270.1
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	947.1	1,030.7	1,485.9	1,845.9	2,103.1
Accounts receivable	214.7	333.4	367.1	291.9	281.3
Inventory	276.8	511.2	532.7	438.1	421.9
Property, Plant & Equip (net)	2,569.8	2,567.3	2,518.7	2,474.0	2,428.3
Intangible assets	168.3	168.3	168.3	168.3	168.3
Investment in Associates & JVs	23.3	22.3	22.3	24.3	26.3
Other assets	57.9	31.7	31.7	31.7	31.7
<b>Total assets</b>	<b>4,257.8</b>	<b>4,664.8</b>	<b>5,126.5</b>	<b>5,274.0</b>	<b>5,460.9</b>
ST interest bearing debt	392.3	690.9	690.9	690.9	690.9
Accounts payable	210.3	299.6	351.3	288.9	278.2
LT interest bearing debt	719.5	328.6	328.6	328.6	328.6
Other liabilities	435.0	406.0	406.0	406.0	406.0
<b>Total Liabilities</b>	<b>1,756.8</b>	<b>1,724.9</b>	<b>1,776.6</b>	<b>1,714.2</b>	<b>1,703.5</b>
Shareholders Equity	2,376.7	2,803.1	3,189.5	3,390.0	3,579.1
Minority Interest	124.3	136.8	160.4	169.8	178.3
<b>Total shareholder equity</b>	<b>2,501.0</b>	<b>2,939.9</b>	<b>3,349.9</b>	<b>3,559.9</b>	<b>3,757.4</b>
<b>Total liabilities and equity</b>	<b>4,257.8</b>	<b>4,664.8</b>	<b>5,126.5</b>	<b>5,274.0</b>	<b>5,460.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	300.3	714.1	704.0	398.2	375.5
Depreciation & amortisation	153.7	175.3	178.6	174.6	175.7
Adj net interest (income)/exp	20.9	15.6	32.6	34.7	36.7
Change in working capital	(35.4)	(273.0)	(24.0)	74.7	(28.2)
Cash taxes paid	(60.6)	(125.2)	(190.1)	(95.1)	(89.6)
Other operating cash flow	37.5	(32.5)	0.0	0.0	0.0
Cash flow from operations	409.5	461.5	689.1	583.2	475.6
Capex	(105.1)	(190.0)	(130.0)	(130.0)	(130.0)
Free cash flow	304.4	219.7	559.1	453.2	345.6
Dividends paid	(28.5)	(57.2)	(96.6)	(85.9)	(81.0)
Equity raised / (purchased)	0.0	1.8	0.0	0.0	0.0
Change in Debt	(129.6)	(184.9)	0.0	0.0	0.0
Other invest/financing cash flow	(3.5)	(59.1)	(7.3)	(7.3)	(7.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	142.8	(27.8)	455.2	360.0	257.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(5.4)	60.6	10.1	(20.5)	(3.6)
EBITDA growth	58.5	85.7	(1.4)	(36.0)	(5.5)
EBIT growth	111.6	118.5	(2.2)	(44.4)	(8.1)
Pretax growth	136.2	137.8	(1.4)	(43.4)	(5.7)
Reported net profit growth	125.1	152.8	(5.5)	(40.7)	(5.7)
Core net profit growth	139.3	155.9	(4.2)	(40.7)	(5.7)
<b>Profitability ratios (%)</b>					
EBITDA margin	17.7	20.5	18.3	14.8	14.5
EBIT margin	12.1	16.5	14.7	10.3	9.8
Pretax profit margin	10.9	16.1	14.4	10.3	10.0
Payout ratio	16.9	11.2	20.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.3	11.5	9.9	7.4	7.2
Revenue/Assets (x)	0.6	1.0	1.0	0.7	0.7
Assets/Equity (x)	1.8	1.7	1.6	1.6	1.5
ROAE (%)	8.8	19.7	16.1	8.7	7.8
ROAA (%)	4.7	11.3	9.9	5.5	5.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	36.6	38.2	44.9	50.2	45.7
Days receivable outstanding	27.5	22.3	25.8	30.6	27.6
Days inventory outstanding	46.6	45.2	50.6	57.8	53.3
Days payables outstanding	37.4	29.2	31.6	38.1	35.1
Dividend cover (x)	5.9	8.9	5.0	3.3	3.3
Current ratio (x)	2.2	1.9	2.3	2.6	2.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.7	2.9	3.1	3.2
Net gearing (%) (incl perps)	6.6	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	6.6	net cash	net cash	net cash	net cash
Net interest cover (x)	16.0	47.1	59.6	nm	na
Debt/EBITDA (x)	2.3	1.1	1.1	1.8	1.9
Capex/revenue (%)	3.8	4.3	2.7	3.4	3.5
Net debt/ (net cash)	164.7	(11.1)	(466.4)	(826.4)	(1,083.6)

Source: Company; Maybank IBG Research

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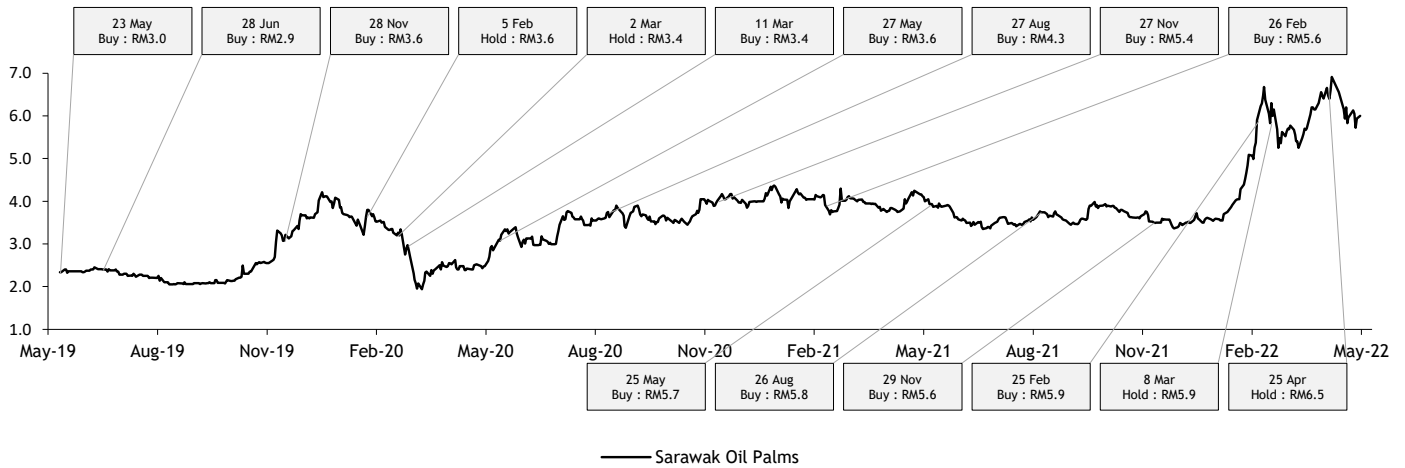
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Historical recommendations and target price: Sarawak Oil Palms (SOP MK)



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