

COMPANY UPDATE

Hap Seng Plantations (HAPL MK)

One Of The Best Performers Among Plantation Stocks

HAPL's share price has increased 78% ytd, one of the best performers in the plantation sector. It is still our top pick, supported by its high leverage on the high CPO prices currently. We estimate 1Q22 net profit at RM70m (1Q21: RM23m, 4Q21: RM75m). HAPL continues to benefit from high spot prices and better premium for RSPO-certified CPO. Maintain BUY with a higher target price of RM4.00 factoring in higher CPO selling prices.

WHAT'S NEW

- **1Q22 preview.** Hap Seng Plantations (HAPL) will be releasing its 1Q22 results on 25 May 22. We reckon that the net profit for 1Q22 may be around RM70m (1Q21: RM23m, 4Q21: RM75m). The lower qoq profit is mainly due to a significant drop of 17.6% qoq for its FFB production. Having said that, this was well cushioned by the high CPO prices with the local CPO price in Sabah at about RM5,928/tonne (+16% qoq, + 53% yoy) in 1Q22.
- **Key takeaways from recent meeting with management:**
 - Cost of production continues to rise.** The management is expecting the cost of production to continue rising mainly due to higher labour cost, fertiliser cost and fuel cost. HAPL had just also completed the 2H22 fertiliser tender, where the management guided that the fertiliser cost had increased by at least 50% yoy (can even hit up to 100% yoy). The labour cost (labour cost contributed about 30% of 2021 cost of production) is also expected to be higher in 2022 to retain the labour in the estates and the impact from the increment of minimum wage of RM1,500. The impact from the higher fuel and electricity cost is expected to be marginal as HAPL has its own renewable energy plant which contributed about 50% of its energy requirement.
 - Narrowing discount between Malaysia's and Sabah's CPO prices.** In the past, Sabah's CPO price was always at about 10% discount to Malaysia's average CPO price. However, the discount had been narrowing recently with the strong demand for Malaysian palm oil, thanks to Indonesia's frequent changes in policies. Based on MPOB data, Sabah's average CPO price in March is at RM6,726/tonne vs Malaysia's average CPO price in March at RM6,867/tonne.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	468	671	960	773	632
EBITDA	173	350	437	299	202
Operating profit	85	263	354	217	121
Net profit (rep./act.)	69	200	289	175	102
Net profit (adj.)	69	200	289	175	102
EPS (sen)	8.6	25.1	33.7	21.9	12.7
PE (x)	37.3	12.8	9.5	14.6	25.2
P/B (x)	1.5	1.4	1.2	1.1	1.1
EV/EBITDA (x)	13.9	6.9	5.5	8.0	11.9
Dividend yield (%)	2.2	5.3	6.8	4.1	2.4
Net margin (%)	14.7	29.9	28.1	22.7	16.1
Net debt/(cash) to equity (%)	(3.7)	(6.4)	(7.4)	(12.5)	(15.9)
Interest cover (x)	n.a.	291.8	n.a.	n.a.	n.a.
ROE (%)	4.1	11.1	13.5	8.1	4.5
Consensus net profit	-	-	213	149	125
UOBKH/Consensus (x)	-	-	1.26	1.18	0.81

Source: Hap Seng Plantations, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.20
Target Price	RM4.00
Upside	+25.0%
(Previous TP)	RM3.15)

COMPANY DESCRIPTION

Pure upstream plantation company with a total landbank of 40,279 ha.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	HAPL MK
Shares issued (m):	799.7
Market cap (RMm):	2,559.0
Market cap (US\$m):	588.4
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

52-week high/low	RM3.35/RM1.78			
1mth	3mth	6mth	1yr	YTD
16.8	48.8	53.1	66.7	62.4

Major Shareholders

	%
Hap Seng Consolidated	74.9
EPF	8.3
FY22 NAV/Share (RM)	2.64
FY22 Net Cash/Share (RM)	0.20

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Selling policy and pricing.** As we have always highlighted, HAPL sells 100% of its products at spot markets which enabled it to capture the current high prices since 2021. On top of that, the management had also highlighted that the premium for Roundtable Sustainable Palm Oil (RSPO) had increased over the last two years with higher demand for sustainable raw materials and hence HAPL is a direct beneficiary of this. HAPL's CPO net ASP is always slightly higher than its Sabah peers' by about 10-15%, thanks to the RSPO premium.
- Negligible impact from prosperity tax.** Management guided that the impact from the prosperity tax would be about RM2m (<2% of earnings), based on the assumption of an average CPO price of RM3,500/tonne for 2022.
- Higher FFB production growth for 2022.** Management has guided production growth of 17% yoy for 2022 on the back of delayed production recovery as well as better harvesting and evacuation processes thanks to the more favourable weather. The FFB production for 1Q22 came in at -17% qoq and +5% yoy. The lower qoq production was mainly due to wet weather. Having said that, there is nothing major which would disrupt its replanting activities for 2022. We remain conservative, only factoring in FFB production growth of 10% yoy for 2022.

EARNINGS REVISION/RISK

- Adjusted earnings forecasts.** With HAPL's CPO net ASP always tagged to Malaysia's CPO spot prices and its RSPO premium, we have revised our CPO ASPs for HAPL higher to RM5,200/tonne and RM4,000/tonne (from RM4,200/tonne and RM3,000/tonne) for 2022-23. We have also factored in higher cost of production with the rising fertiliser and labour costs.
- We revise net profit forecasts for 2022/23F, increasing 26/50% to RM289m and RM176m respectively. For 2024F, our net profit forecast is at RM102m.**

VALUATION/RECOMMENDATION

- Maintain BUY with higher target price of RM4.00 (previous: RM3.15),** based on 11x 2022F PE, or -2SD to its five-year mean, on the back of higher CPO net ASP.

SHARE PRICE CATALYST

- Higher-than-expected CPO prices.
- Higher-than-expected production.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

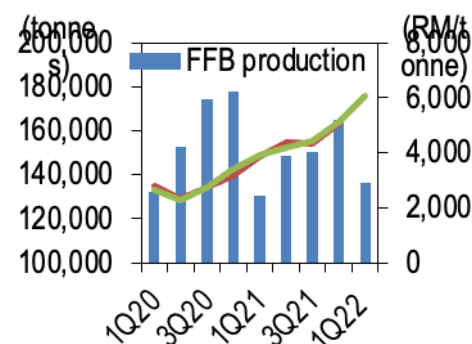
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> All internal estates are MSPO, RSPO and ISCC EU certified. 0.4% of the FFB purchased from 11 third-party (independent local outgrowers and smallholders) suppliers are RSPO or MSPO certified as three out of the 11 independent local outgrowers and smallholders have successfully obtained RSPO and MSPO accreditations, while one has obtained the MPSO certification as at Dec 20. These three external independent local outgrowers and smallholders have started to send their crops to the identity-preserved mill at BPOM in Aug 20. This will inevitably raise HAPL's sustainably-certified products in the near future. Seven out of 11 independent local outgrowers and smallholders indicated their willingness to participate in activities towards RSPO and MSPO certifications. Social <ul style="list-style-type: none"> Transparent communication and response to ongoing cases involving community. Implementation of programmes related to health, education, medical assistance, and other community enrichment acts. HAPL covers all costs for obtaining legal work permits in Malaysia with the exception of passports, which workers must obtain themselves. Each worker retains his or her own passport and the practice of requesting estate managers to hold workers' travel documents for safekeeping has been discontinued. Governance <ul style="list-style-type: none"> Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

CERTIFICATIONS

Certifications	Facilities
RSPO	All mills & 100% landbank
MSPO	All mills & 100% landbank
ISCC EU	All mills
HACCP	All mills
MS ISO/IEC 17025	Plantations Central Laboratory
HALAL	All mills
MeSTI	All mills

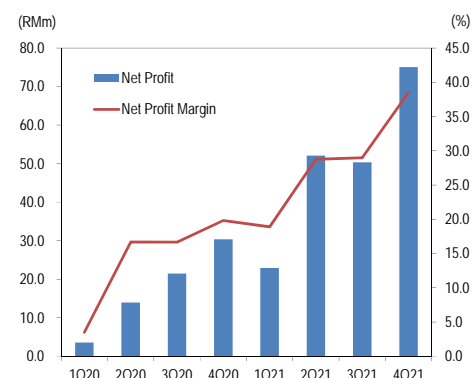
Source: HAPL

FFB PRODUCTION & CPO ASP



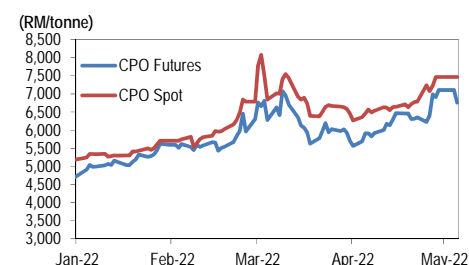
Source: HAPL, UOBKH

QUARTERLY PROFIT & PBT MARGINS



Source: HAPL, UOBKH

CPO SPOT & FUTURES PRICES



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	671	960	773	632
EBITDA	350	437	299	202
Deprec. & amort.	86	84	82	81
EBIT	263	354	217	121
Total other non-operating income	5	5	5	5
Associate contributions	0	1	2	3
Net interest income/(expense)	(1)	1	1	1
Pre-tax profit	290	361	225	130
Tax	(66)	(91)	(49)	(29)
Minorities	0	0	0	0
Net profit	200	269	175	102
Net profit (adj.)	200	269	175	102

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,711	1,683	1,658	1,635
Other LT assets	0	0	0	0
Cash/ST investment	121	156	277	361
Other current assets	538	749	796	772
Total assets	2,369	2,588	2,732	2,767
ST debt	0	0	0	0
Other current liabilities	64	101	84	71
LT debt	0	0	0	0
Other LT liabilities	422	379	422	422
Shareholders' equity	1,883	2,108	2,226	2,274
Minority interest	0	0	0	0
Total liabilities & equity	2,369	2,588	2,732	2,767

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	277	267	284	202
Pre-tax profit	263	354	217	121
Tax	(70)	(91)	(49)	(29)
Deprec. & amort.	86	84	82	81
Working capital changes	(1)	(85)	27	20
Other operating cashflows	(1)	6	7	8
Investing	(154)	(58)	(58)	(58)
Capex (growth)	(58)	(58)	(58)	(58)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(97)	0	0	0
Financing	(66)	(174)	(105)	(61)
Dividend payments	(56)	(174)	(105)	(61)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(10)	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	57	35	121	83
Beginning cash & cash equivalent	64	121	156	277
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	121	156	277	361

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	52.1	45.6	38.7	32.0
Pre-tax margin	43.3	37.6	29.1	20.6
Net margin	29.9	28.1	22.7	16.1
ROA	8.8	10.9	6.6	3.7
ROE	11.1	13.5	8.1	4.5
Growth				
Turnover	43.5	43.1	(19.5)	(18.2)
EBITDA	102.5	25.1	(31.6)	(32.4)
Pre-tax profit	167.8	24.3	(37.7)	(42.1)
Net profit	191.8	34.4	(34.9)	(42.1)
Net profit (adj.)	191.8	34.4	(34.9)	(42.1)
EPS	191.8	34.4	(34.9)	(42.1)
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(6.4)	(7.4)	(12.5)	(15.9)
Interest cover (x)	291.8	n.a.	n.a.	n.a.

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