

## Sarawak Oil Palms (SOP MK)

# Buys out 40% MI stake in SOP Sabaju for MYR46m cash

### Immaterial bottom line impact for now

We are positive on SOP's proposed acquisition to buy out 40% minority interest (MI) in SOP Sabaju for MYR46m cash. Despite it being a RPT transaction, the price is fair at MYR44,600/ha, at 15.6x historical PER and will likely be immediate EPS accretive to SOP; albeit immaterial to the bottom line. Trading at just 10x FY21 PER, we maintain our BUY and TP of MYR5.59 on 14x 2021 PER peg, its historical 5Y mean.

### SOP Sabaju has relatively young trees

SOP has proposed to acquire the remaining 40% minority interest (MI) in SOP Plantations (Sabaju) SB ("SOP Sabaju") from Shin Yang Holding SB (a related party) for MYR45.88m cash. SOP Sabaju owns oil palm plantations with a total area of 5,105.65 ha (planted: 3,590.82 ha) located about 45km east of Bintulu, Sarawak. The average oil palm age profile is 11 years, with plantings done between 2010 and 2016. We estimate its FY20 FFB yield at 20.24t/ha; above SOP's group average of 16.6t/ha. For FY20, SOP Sabaju recorded PBT/ PAT of MYR9.74m/7.35m respectively.

### Long term positive and acquiring at a fair price

CH Williams, an independent market valuer, valued SOP Sabaju at MYR190.29m. By our estimate, the transaction values SOP Sabaju at an adjusted EV of MYR160m, or a 16% discount to CH William's assessed market value. At our adjusted EV, SOP Sabaju is valued at MYR44,600/ha (see Fig.1 for comparisons). In terms of PER, it is transacted at 15.6x historical PER. We believe the acquisition price is fair given (1) improving CPO price outlook in 2021, (2) potential FFB output growth for SOP Sabaju, and (3) a general lack of growth opportunities via greenfield development which makes this acquisition long term positive.

### Acquisition to be completed by end-2Q21

The acquisition is expected to be immediately EPS accretive. However, compared to SOP's total planted area of 81,885 ha, SOP Sabaju's incremental contribution is likely to be immaterial. The acquisition does not require shareholders' approval and is expected to be completed by end-2Q21. SOP will fund this acquisition via internally generated funds and/or borrowings given its low net gearing of just 6.6%.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,916	2,759	2,758	2,754	2,785
EBITDA	308	489	499	502	518
Core net profit	82	197	228	233	247
Core EPS (sen)	14.4	34.5	40.0	40.8	43.3
Core EPS growth (%)	21.1	139.3	15.7	2.2	5.9
Net DPS (sen)	5.0	10.6	12.0	12.3	13.0
Core P/E (x)	28.4	11.6	10.1	9.9	9.4
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	1.2	2.7	3.0	3.0	3.2
ROAE (%)	4.1	8.8	9.3	8.9	8.9
ROAA (%)	2.0	4.7	5.3	5.2	5.3
EV/EBITDA (x)	9.3	5.3	4.8	4.4	3.9
Net gearing (%) (incl perps)	17.6	6.6	net cash	net cash	net cash
Consensus net profit	-	-	244	222	218
MKE vs. Consensus (%)	-	-	(6.3)	5.0	13.3

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# BUY

Share Price	MYR 4.05
12m Price Target	MYR 5.59 (+39%)
Previous Price Target	MYR 5.59

### Company Description

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

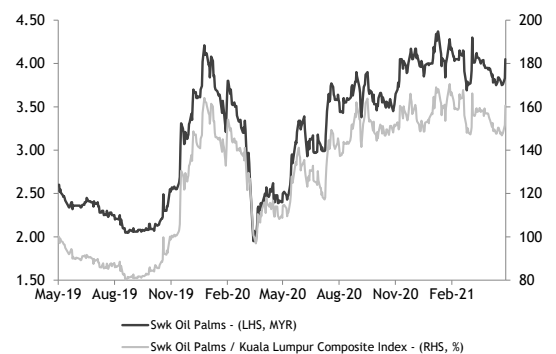
### Statistics

52w high/low (MYR)	4.37/2.40
3m avg turnover (USDm)	0.2
Free float (%)	18.2
Issued shares (m)	571
Market capitalisation	MYR2.3B
	USD561M

### Major shareholders:

Shin Yang Group of Cos.	28.5%
State of Sarawak	28.1%
Agape International Pte Ltd.	9.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(3)	69
Relative to index (%)	2	(3)	46

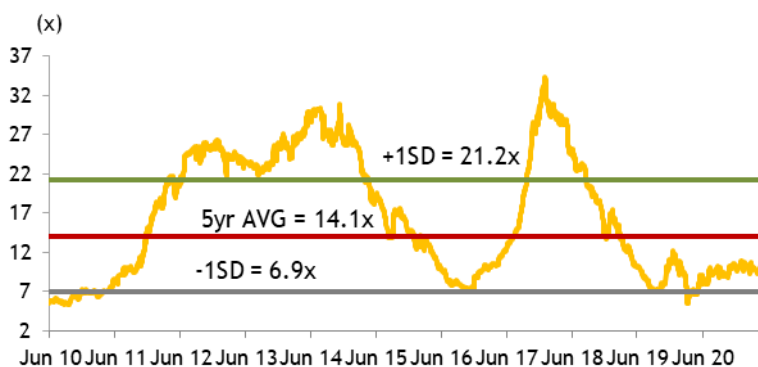
Source: FactSet

Fig 1: Recent oil palm estate transactions in Sarawak

Date announced	Acquirer	Seller	Location	Total area Ha	Planted area Ha	Tenure	Purchase cost per planted area MYR /ha	Purchase cost per planted area USD /ha	Planted age profile Years	Latest FFB yield at acq'n t/ha
30.4.21	Sarawak Oil Palms	Shin Yang Holdings SB's (40% equity stake in SOP Sabaju)	Bintulu, Sarawak	5,106	3,591	Leasehold	44,604	10,911	11	20.2
4.6.20	Muzana Plantation JV SB	Rimbunan Sawit	Sarawak	2,819	-	Leasehold (expiring 2067)	18,801**	4,394**	9	<10
22.1.20	WTK	Rimbunan Sawit	Sarawak	4,698	3,390	Leasehold (exp. 2061)	25,071	6,167	7	na
6.12.19	Tamaco Plantation	TH Plantations	Sarawak	6,514	4,278	Leasehold (exp. 2065-66)	39,738	9,555	8	16.2
11.1.18	Ta Ann	Ceramat Ceria SB (30.4% equity stake in Swk Plantation)	Sarawak	48,086	34,837	Leasehold (exp. 2043-74)	21,679	5,437	12	9.2
22.2.17	Subur Tiasa	Rimbunan Sawit	Samarahan, Sarawak (LPF*)	15,017	5,775	Leasehold (exp. 2029)	25,972	5,832	7	9.6
22.2.17	Rimbunan Sawit	Several individuals & corporates	Miri, Sarawak	1,504	1,014	Leasehold (60yrs)	39,413	8,850	4	2.8
24.10.16	Ta Ann	Several individuals & corporates	Sampdai, Lundu, near Kuching	5,280	5,090	Leasehold (60yrs)	59,000	14,137	3.0	na
17.10.16	Puncak Niaga	Shin Yang Holdings SB	Murum, Sarawak	46,674	9,767	NA	45,675	10,834	na	na
4.7.16	Sarawak Oil Palms	Shin Yang Group	Kapit, Sarawak	47,000	23,798	NA	34,000	8,507	-7.0	na

Source: Bursa, Maybank-KE; \*LPF = Licensed for Planted Forest whereby upon expiry of the licensed period for oil palm planting (in 2029), it shall be planted with trees other than palm oil; \*\* Based on total area as planted area are not disclosed

Fig 2: SOP's 12M forward PER



Sources: Bloomberg, Maybank KE

## 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	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	15.9	9.5	10.1	9.9	9.4
Core P/E (x)	28.4	11.6	10.1	9.9	9.4
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/NTA (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	1.2	2.7	3.0	3.0	3.2
FCF yield (%)	13.9	13.3	11.6	11.7	12.2
EV/EBITDA (x)	9.3	5.3	4.8	4.4	3.9
EV/EBIT (x)	18.1	7.7	6.9	6.3	5.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,915.5	2,759.4	2,757.9	2,754.4	2,785.3
EBITDA	308.3	488.9	499.4	502.2	517.9
Depreciation	(149.9)	(153.7)	(147.7)	(148.6)	(149.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	158.4	335.2	351.8	353.6	368.3
Net interest income / (exp)	(30.9)	(20.9)	(15.8)	(13.0)	(10.2)
Associates & JV	(0.4)	(14.0)	(2.0)	0.0	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	127.2	300.3	334.0	340.6	360.1
Income tax	(35.1)	(82.0)	(87.7)	(88.9)	(93.5)
Minorities	(2.3)	(16.1)	(18.1)	(18.5)	(19.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	89.8	202.2	228.1	233.1	247.0
Core net profit	82.4	197.1	228.1	233.1	247.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	830.2	947.1	1,144.5	1,341.9	1,545.8
Accounts receivable	206.3	214.7	214.5	214.3	216.7
Inventory	253.7	276.8	279.7	278.4	279.8
Property, Plant & Equip (net)	2,617.2	2,569.8	2,542.1	2,523.5	2,503.8
Intangible assets	168.3	168.3	168.3	168.3	168.3
Investment in Associates & JVs	39.9	23.3	21.3	21.3	23.3
Other assets	65.0	57.9	57.9	57.9	57.9
<b>Total assets</b>	<b>4,180.6</b>	<b>4,257.8</b>	<b>4,428.3</b>	<b>4,605.5</b>	<b>4,795.5</b>
ST interest bearing debt	435.6	392.3	392.3	392.3	392.3
Accounts payable	216.0	210.3	212.5	211.5	212.5
LT interest bearing debt	803.0	719.5	719.5	719.5	719.5
Other liabilities	410.0	435.0	435.0	435.0	435.0
<b>Total Liabilities</b>	<b>1,865.0</b>	<b>1,756.8</b>	<b>1,759.0</b>	<b>1,758.1</b>	<b>1,759.1</b>
Shareholders Equity	2,203.7	2,376.7	2,536.4	2,699.6	2,872.5
Minority Interest	111.9	124.3	132.9	147.9	164.0
<b>Total shareholder equity</b>	<b>2,315.6</b>	<b>2,501.0</b>	<b>2,669.3</b>	<b>2,847.5</b>	<b>3,036.5</b>
<b>Total liabilities and equity</b>	<b>4,180.6</b>	<b>4,257.8</b>	<b>4,428.3</b>	<b>4,605.5</b>	<b>4,795.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	127.2	300.3	334.0	340.6	360.1
Depreciation & amortisation	149.9	153.7	147.7	148.6	149.6
Adj net interest (income)/exp	30.9	20.9	40.0	42.2	44.5
Change in working capital	118.0	(35.4)	(24.8)	(28.7)	(37.0)
Cash taxes paid	3.3	(60.6)	(87.7)	(88.9)	(93.5)
Other operating cash flow	52.0	37.5	0.0	0.0	0.0
Cash flow from operations	450.7	409.5	389.3	400.9	411.5
Capex	(125.8)	(105.1)	(120.0)	(130.0)	(130.0)
Free cash flow	324.9	304.4	269.3	270.9	281.5
Dividends paid	(28.5)	(28.5)	(68.4)	(69.9)	(74.1)
Equity raised / (purchased)	(0.5)	0.0	0.0	0.0	0.0
Change in Debt	(35.4)	(129.6)	0.0	0.0	0.0
Other invest/financing cash flow	(4.7)	(3.5)	(3.5)	(3.5)	(3.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	255.8	142.8	197.4	197.4	203.9

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(19.1)	(5.4)	(0.1)	(0.1)	1.1
EBITDA growth	4.7	58.5	2.2	0.6	3.1
EBIT growth	5.8	111.6	4.9	0.5	4.2
Pretax growth	16.7	136.2	11.2	2.0	5.7
Reported net profit growth	43.7	125.1	12.8	2.2	5.9
Core net profit growth	21.1	139.3	15.7	2.2	5.9
<b>Profitability ratios (%)</b>					
EBITDA margin	10.6	17.7	18.1	18.2	18.6
EBIT margin	5.4	12.1	12.8	12.8	13.2
Pretax profit margin	4.4	10.9	12.1	12.4	12.9
Payout ratio	31.8	30.0	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.1	7.3	8.3	8.5	8.9
Revenue/Assets (x)	0.7	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.9	1.8	1.7	1.7	1.7
ROAE (%)	4.1	8.8	9.3	8.9	8.9
ROAA (%)	2.0	4.7	5.3	5.2	5.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	39.2	36.4	39.4	39.5	39.2
Days receivable outstanding	29.6	27.5	28.0	28.0	27.8
Days inventory outstanding	42.3	45.6	47.2	47.6	47.4
Days payables outstanding	32.7	36.7	35.9	36.1	36.0
Dividend cover (x)	3.1	3.3	3.3	3.3	3.3
Current ratio (x)	1.9	2.2	2.5	2.8	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.4	2.5	2.6	2.7
Net gearing (%) (incl perps)	17.6	6.6	net cash	net cash	net cash
Net gearing (%) (excl. perps)	17.6	6.6	net cash	net cash	net cash
Net interest cover (x)	5.1	16.0	22.2	27.2	36.1
Debt/EBITDA (x)	4.0	2.3	2.2	2.2	2.1
Capex/revenue (%)	4.3	3.8	4.4	4.7	4.7
Net debt/ (net cash)	408.5	164.7	(32.7)	(230.1)	(434.0)

Source: Company; Maybank

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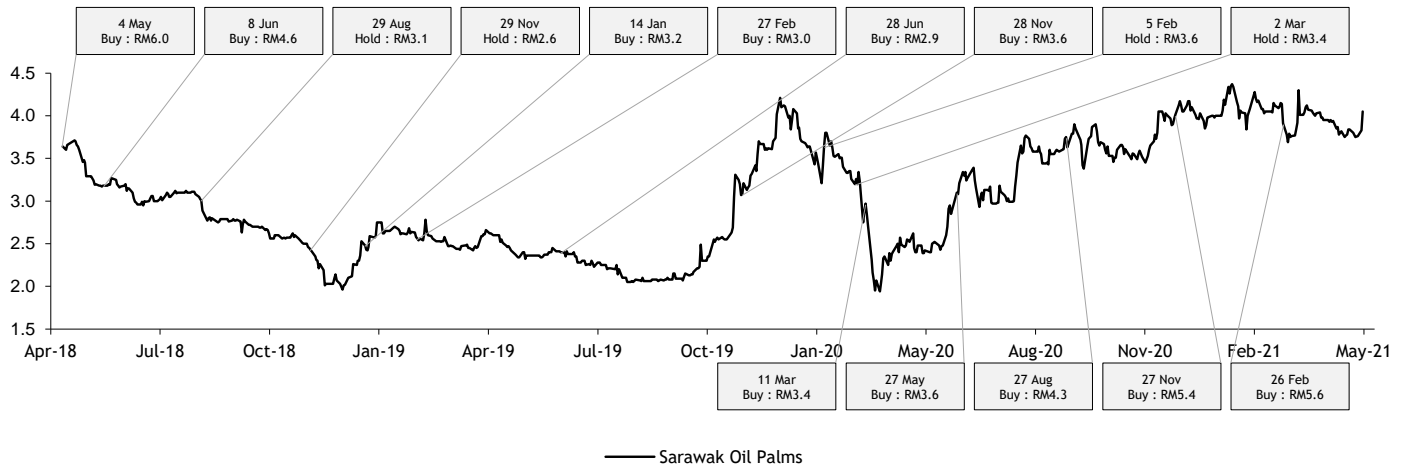
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## Historical recommendations and target price: Sarawak Oil Palms (SOP MK)

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