

# Sarawak Oil Palms (SOP MK)

## Off to a strong start

### On track to deliver record profit in FY21E

1Q21 core PATMI was ahead of our/consensus expectations driven by better-than-expected CPO ASP achieved. Following our PATMI upgrade, we now expect SOP to deliver a record core PATMI for FY21E (+29% YoY), driven by higher CPO ASP of MYR3,100/t. We maintain our BUY on SOP with a new TP of MYR5.67 as we roll forward our valuation year to 14x FY22 PER peg (previously MYR5.59 on 14x FY21 PER), its 5Y mean. Trading at 10x PER and EV/ha of MYR30,000, the stock is undervalued.

### 1Q21: Benefitted from high CPO ASP

1Q21 headline PATMI was MYR79m (+11% YoY, +320% QoQ). Adjusted for net FV gain on biological assets (MYR6m) and unrealised FX loss (MYR1m), its 1Q21 core PATMI of MYR74m (-4% YoY, +291% QoQ) met 33%/28% our/street full-year forecasts. Included in its core PATMI was a FV gain on derivative FI of just MYR3m compared to MYR38m gain a year ago. Overall, 1Q21 strong performance was boosted by higher CPO ASP of MYR3,885/t (+45% YoY, +20% QoQ) and PK ASP (MYR2,889/t; +115% YoY, +33% QoQ) while FFB output was flat YoY (-10% QoQ).

### FFB output growth in 1Q21 trailing guidance

1Q21 FFB output growth has lagged SOP's FY21E guidance of +7-10% YoY (MKE: +7% YoY). While there is still room for SOP's output to play catch up during the seasonal peak period in 2H, we have conservatively reduced our FY21E absolute FFB output assumption by 2% (which now implies a FY21E FFB growth of +5% YoY). As for downstream, it is unclear how SOP's downstream performed in 1Q21, but we believe it would likely breakeven or on a worse case scenario a slight loss.

### FY21E PATMI raised by 11%

Incorporating our new industry-wide CPO ASP forecasts of MYR3,100/t (from 2,700/t) for 2021 and lower FFB output, we raise our FY21E core PATMI by 11%. Our FY22-23E PATMI are broadly unchanged as we kept our CPO ASP assumptions at MYR2,600/t. As for FY20 DPS, SOP had proposed a first and final DPS of 6sen (ex-date on 29 June 21) pending shareholders' approval at the upcoming AGM on 25 June.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,916	2,759	2,998	2,825	2,856
EBITDA	308	489	536	497	512
Core net profit	82	197	253	231	245
Core EPS (sen)	14.4	34.5	44.4	40.5	43.0
Core EPS growth (%)	21.1	139.3	28.6	(8.7)	6.1
Net DPS (sen)	5.0	6.0	13.3	12.2	12.9
Core P/E (x)	28.4	11.6	9.1	10.0	9.4
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	1.2	1.5	3.3	3.0	3.2
ROAE (%)	4.1	8.8	10.3	8.8	8.8
ROAA (%)	2.0	4.7	5.8	5.1	5.2
EV/EBITDA (x)	9.3	5.3	4.5	4.5	4.0
Net gearing (%) (incl perps)	17.6	6.6	net cash	net cash	net cash
Consensus net profit	-	-	244	222	218
MKE vs. Consensus (%)	-	-	4.1	4.2	12.6

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# BUY

Share Price	MYR 4.05
12m Price Target	MYR 5.67 (+43%)
Previous Price Target	MYR 5.59

### Company Description

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

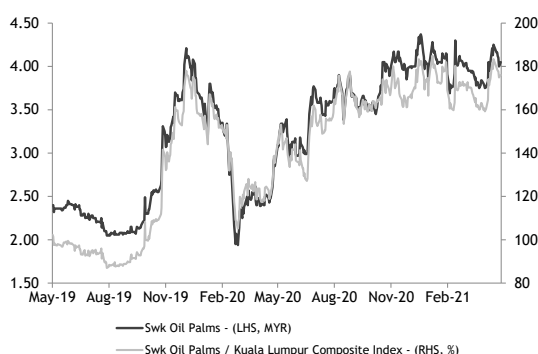
### Statistics

52w high/low (MYR)	4.37/2.93
3m avg turnover (USDm)	0.3
Free float (%)	16.6
Issued shares (m)	572
Market capitalisation	MYR2.3B
	USD558M

### Major shareholders:

Shin Yang Group of Cos.	28.5%
State of Sarawak	28.1%
Agape International Pte Ltd.	10.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(2)	42
Relative to index (%)	9	(3)	31

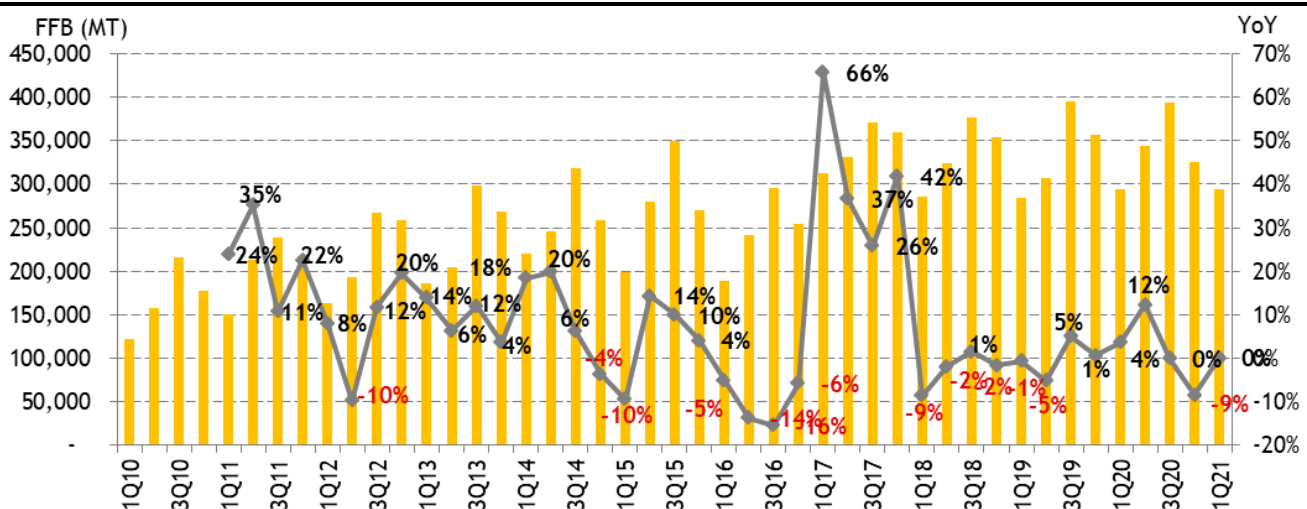
Source: FactSet

Fig 1: SOP - Summary results table

(MYR m)	1Q21	1Q20	%YoY	4Q20	%QoQ
Revenue	788.3	518.1	52.2	820.4	(3.9)
EBIT	119.8	102.4	17.0	59.6	101.0
Net interest	(6.2)	(6.0)	3.0	(2.5)	149.6
Share of Associates	(0.5)	0.0	NA	(11.5)	(95.5)
<b>Pre-tax profit</b>	<b>113.0</b>	<b>96.3</b>	<b>17.4</b>	<b>45.6</b>	<b>148.0</b>
Tax	(26.4)	(22.0)	20.1	(19.6)	34.6
Minority Interests	(7.6)	(3.1)	143.2	(7.1)	6.0
<b>PATMI</b>	<b>79.1</b>	<b>71.2</b>	<b>11.0</b>	<b>18.8</b>	<b>320.1</b>
<b>Core PATMI**</b>	<b>74.2</b>	<b>77.0</b>	<b>(3.7)</b>	<b>19.0</b>	<b>290.7</b>
<b>**Adjusted for:</b>					
Net unrealised FX (gain)/ loss	0.7	3.3	(77.7)	(0.8)	NA
Net FV (gain)/ loss on biological assets	(5.6)	2.5	NA	0.2	NA
<b>*EBIT included:</b>					
FV gain/(loss) on derivative FI	2.7	37.9	(92.8)	(39.0)	NA
			<b>+/- ppt</b>	<b>+/- ppt</b>	
EBIT margin (%)	15.2	19.8	(4.6)	7.3	7.9
<b>Operational</b>					
FFB production (t)	293,781	293,667	0.0	325,944	(9.9)
CPO (t)	86,921	84,393	3.0	96,506	(9.9)
PK (t)	18,445	18,432	0.1	19,983	(7.7)
Palm oil products ASP (MYR/t)	3,885	2,679	45.0	3,235	20.1
PK ASP (MYR/t)	2,889	1,346	114.6	2,177	32.7

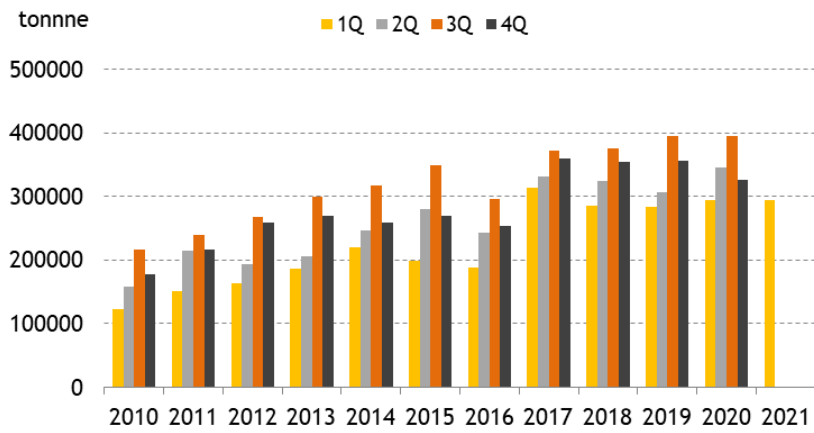
Source: Company

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



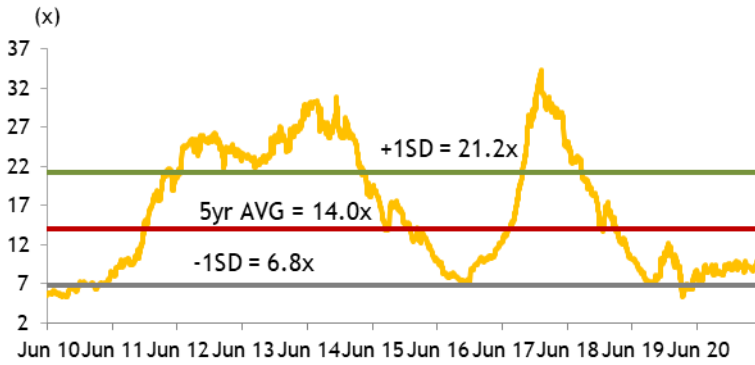
Source: Company

Fig 3: SOP’s historical quarterly output trend



Source: Company

Fig 4: 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	9.1	10.0	9.4
Core P/E (x)	28.4	11.6	9.1	10.0	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	1.5	3.3	3.0	3.2
FCF yield (%)	13.9	13.3	11.8	12.3	12.0
EV/EBITDA (x)	9.3	5.3	4.5	4.5	4.0
EV/EBIT (x)	18.1	7.7	6.2	6.4	5.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,915.5	2,759.4	2,998.2	2,824.7	2,855.6
EBITDA	308.3	488.9	536.3	496.5	512.1
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	388.7	347.9	362.4
Net interest income / (exp)	(30.9)	(20.9)	(15.8)	(13.1)	(10.0)
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	370.9	334.8	354.4
Income tax	(35.1)	(82.0)	(97.3)	(87.4)	(92.0)
Minorities	(2.3)	(16.1)	(20.1)	(16.1)	(17.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	89.8	202.2	253.4	231.3	245.4
Core net profit	82.4	197.1	253.4	231.3	245.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	830.2	947.1	1,139.4	1,350.1	1,550.3
Accounts receivable	206.3	214.7	233.2	219.7	222.1
Inventory	253.7	276.8	304.8	287.8	289.1
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>4,467.1</b>	<b>4,628.6</b>	<b>4,814.9</b>
ST interest bearing debt	435.6	392.3	392.3	392.3	392.3
Accounts payable	216.0	210.3	231.6	218.6	219.7
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>1,778.1</b>	<b>1,765.2</b>	<b>1,766.2</b>
Shareholders Equity	2,203.7	2,376.7	2,554.1	2,716.0	2,887.7
Minority Interest	111.9	124.3	134.9	147.5	161.0
<b>Total shareholder equity</b>	<b>2,315.6</b>	<b>2,501.0</b>	<b>2,689.0</b>	<b>2,863.5</b>	<b>3,048.7</b>
<b>Total liabilities and equity</b>	<b>4,180.6</b>	<b>4,257.8</b>	<b>4,467.1</b>	<b>4,628.6</b>	<b>4,814.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	127.2	300.3	370.9	334.8	354.4
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)	(49.5)	(11.5)	(37.2)
Cash taxes paid	3.3	(60.6)	(97.3)	(87.4)	(92.0)
Other operating cash flow	52.0	37.5	0.0	0.0	0.0
Cash flow from operations	450.7	409.5	391.9	413.6	407.3
Capex	(125.8)	(105.1)	(120.0)	(130.0)	(130.0)
Free cash flow	324.9	304.4	271.9	283.6	277.3
Dividends paid	(28.5)	(28.5)	(76.0)	(69.4)	(73.6)
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	192.3	210.7	200.2

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(19.1)	(5.4)	8.7	(5.8)	1.1
EBITDA growth	4.7	58.5	9.7	(7.4)	3.1
EBIT growth	5.8	111.6	16.0	(10.5)	4.2
Pretax growth	16.7	136.2	23.5	(9.7)	5.9
Reported net profit growth	43.7	125.1	25.3	(8.7)	6.1
Core net profit growth	21.1	139.3	28.6	(8.7)	6.1
<b>Profitability ratios (%)</b>					
EBITDA margin	10.6	17.7	17.9	17.6	17.9
EBIT margin	5.4	12.1	13.0	12.3	12.7
Pretax profit margin	4.4	10.9	12.4	11.9	12.4
Payout ratio	31.8	16.9	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.1	7.3	8.5	8.2	8.6
Revenue/Assets (x)	0.7	0.6	0.7	0.6	0.6
Assets/Equity (x)	1.9	1.8	1.7	1.7	1.7
ROAE (%)	4.1	8.8	10.3	8.8	8.8
ROAA (%)	2.0	4.7	5.8	5.1	5.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	39.2	36.4	37.7	40.6	39.2
Days receivable outstanding	29.6	27.5	26.9	28.9	27.9
Days inventory outstanding	42.3	45.6	45.0	48.8	47.3
Days payables outstanding	32.7	36.7	34.2	37.0	35.9
Dividend cover (x)	3.1	5.9	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	24.6	26.5	36.3
Debt/EBITDA (x)	4.0	2.3	2.1	2.2	2.2
Capex/revenue (%)	4.3	3.8	4.0	4.6	4.6
Net debt/ (net cash)	408.5	164.7	(27.7)	(238.3)	(438.5)

Source: Company; Maybank

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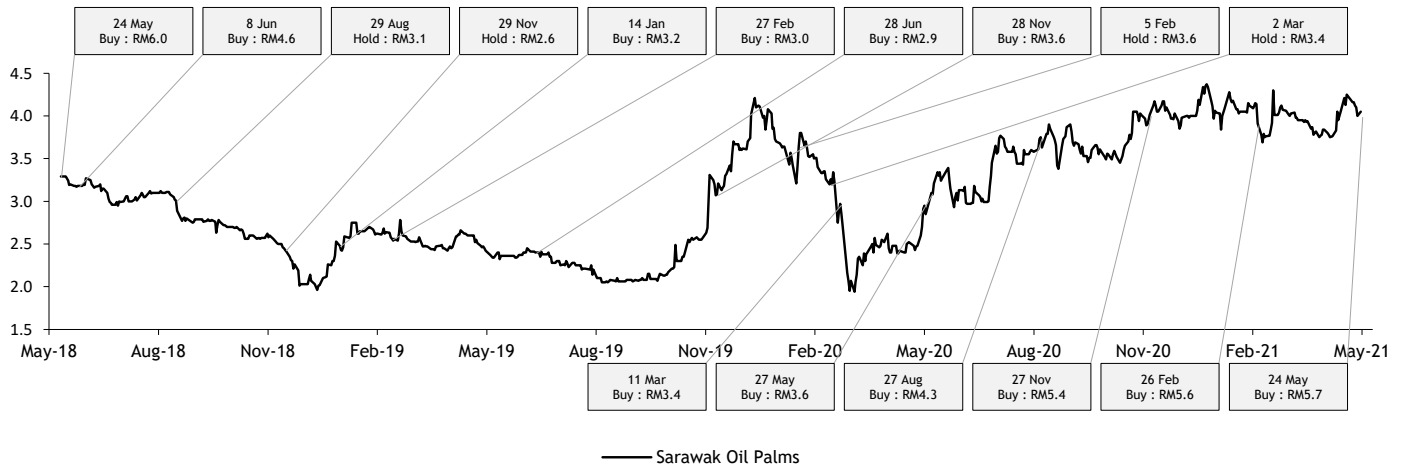
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