

Sarawak Oil Palms (SOP MK)

Historic MYR0.5b PATMI on record palm oil prices

An excellent proxy to CPO price rally

FY21 core PATMI beat our/street estimates by 37%/35% due to record palm oil products ASP. SOP is now in net cash position, allowing it to raise DPS beyond the yearly 5-sen. A final DPS for FY21 will be proposed before its AGM (in addition to 4sen interim DPS paid). SOP is poised to benefit from high spot prices in 2022 as it has minimal forward sales. Following our EPS upgrade, we raise TP to MYR5.88 after rolling forward valuation to FY23E (from FY22) on unchanged 13x PER, its 5Y mean.

4Q results: Another beat

Adjusted for FV loss on biological assets (MYR7m), 4Q21 core PATMI of MYR216m (+10x YoY, +80% QoQ) brings FY21 core PATMI to MYR504m (+156% YoY). High 4Q palm oil products ASP of MYR5,468/t (+69% YoY, +22% QoQ) more than offset lower FFB output (-3% YoY, -2% QoQ). As for downstream, we understand it was fairly profitable in 4Q21, boosted by FV gain on derivatives of MYR41m (ie. reversing past FV losses). For FY21, we estimate its all-in operating cost of customer was at a higher MYR1,885/t (+22% YoY) due the low yields and higher State and windfall taxes paid.

Anticipating 2% YoY FFB output growth in FY22E

Due to labour shortage, FY21 FFB output fell 8% YoY to 1.25mt. Without the necessary foreign workers returning, it is hard to envisage a significant improvement in FFB output for FY22E. Furthermore, we understand that FY21 fertilising activities were 25% behind schedule due to fertiliser supply disruption, wet weather and lack of labour. Therefore, we forecast a modest 2% YoY growth in FFB output in FY22E.

Raising CPO ASP and PATMI forecasts

Following our industry-wide CPO ASP revisions to MYR4,100/t (from MYR3,200/t) for 2022E and MYR3,200/t (from MYR3,000/t) for 2023E, we raise our FY22E/23E core PATMI forecasts for SOP by 51%/0% respectively. In FY21, SOP revised down the estimated useful economic life of oil palms trees to 22 years (from 25 years), and hence accelerated its amortisation expenses. We reflected this new accounting policy in our revised PATMI forecasts. We also introduce our FY24 EPS forecast.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,759	4,433	4,459	3,787	3,740
EBITDA	489	908	713	535	547
Core net profit	197	504	370	259	272
Core EPS (sen)	34.5	88.3	64.8	45.2	47.6
Core EPS growth (%)	139.3	155.6	(26.6)	(30.2)	5.2
Net DPS (sen)	6.0	17.9	13.0	13.6	14.3
Core P/E (x)	11.6	4.0	8.3	11.9	11.3
P/BV (x)	1.0	0.7	1.0	0.9	0.9
Net dividend yield (%)	1.5	5.1	2.4	2.5	2.7
ROAE (%)	8.8	19.7	12.5	8.1	8.1
ROAA (%)	4.7	11.3	7.7	5.1	5.2
EV/EBITDA (x)	5.3	2.3	3.9	4.7	4.2
Net gearing (%) (incl perps)	6.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	247	267	na
MKE vs. Consensus (%)	-	-	49.9	(3.1)	na

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BUY

Share Price	MYR 5.37
12m Price Target	MYR 5.88 (+12%)
Previous Price Target	MYR 5.60

Company Description

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

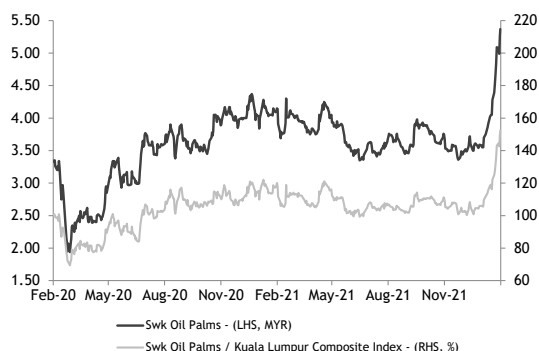
Statistics

52w high/low (MYR)	5.37/3.35
3m avg turnover (USDm)	0.5
Free float (%)	16.6
Issued shares (m)	572
Market capitalisation	MYR3.1B USD733M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	50	43	29
Relative to index (%)	44	37	27

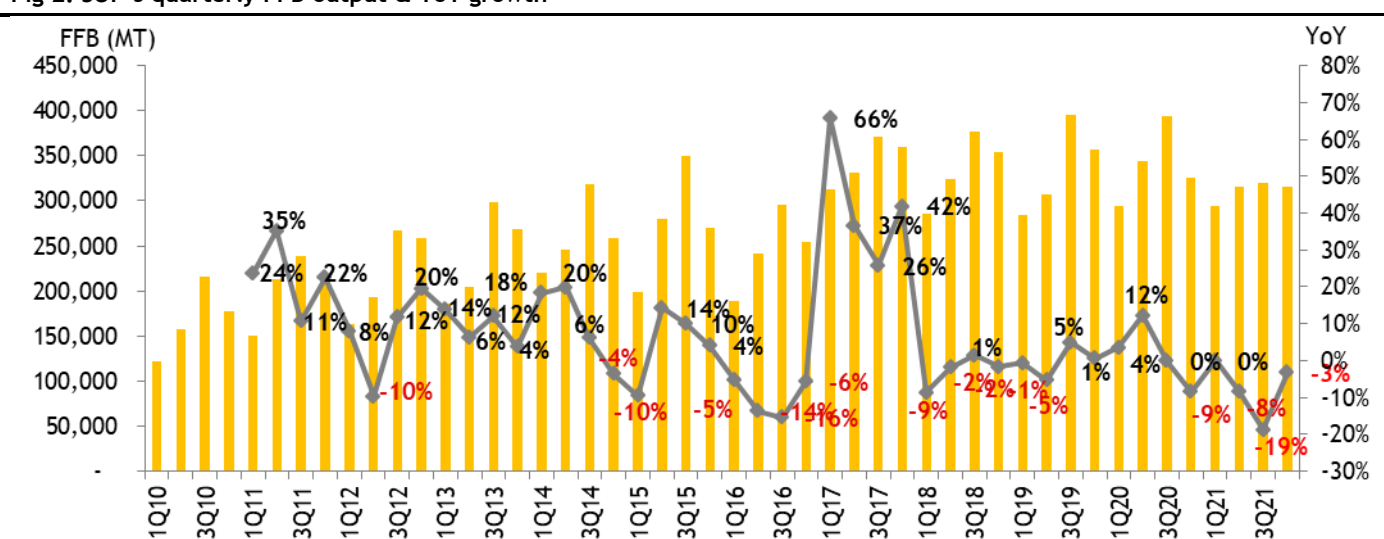
Source: FactSet

Fig 1: SOP - Summary results table

	Quarterly					Cumulative		
(MYR m)	4Q21	4Q20	%YoY	3Q21	%QoQ	12M21	12M20	%YoY
Revenue	1,394.1	820.4	69.9	1,301.5	7.1	4,433.0	2,759.4	60.6
EBIT	281.7	59.6	372.6	180.9	55.7	732.4	335.2	118.5
Net interest	(1.5)	(2.5)	(39.1)	(4.7)	(67.9)	(15.6)	(20.9)	(25.6)
Share of Associates	(1.2)	(11.5)	(89.8)	(0.7)	61.9	(2.8)	(14.0)	(80.0)
Pre-tax profit	279.0	45.6	512.1	175.4	59.0	714.1	300.3	137.8
Tax	(62.6)	(19.6)	218.6	(43.3)	44.3	(171.0)	(82.0)	108.5
Minority Interests	(8.1)	(7.1)	13.7	(6.6)	22.7	(31.8)	(16.1)	98.2
PATMI	208.3	18.8	1,007.0	125.5	66.0	511.2	202.2	152.8
Core PATMI**	216.2	19.0	1,038.9	120.4	79.5	504.4	197.1	155.9
**Adjusted for:								
Net unrealised FX (gain)/loss	0.0	(0.8)	NA	(0.0)	NA	0.5	(0.1)	NA
Net FV (gain)/loss on biological assets	7.9	0.2	4,673.3	(5.0)	NA	(6.8)	(5.1)	33.1
*EBIT included:								
FV gain/(loss) on derivative FI	40.7	(39.0)	NA	4.5	810.2	43.5	(12.0)	NA
			+/- ppt		+/- ppt			+/- ppt
EBIT margin (%)	20.2	7.3	12.9	13.9	6.3	16.5	12.1	4.4
Operational								
FFB production (t)	315,481	325,944	(3.2)	320,215	(1.5)	1,245,230	1,358,453	(8.3)
CPO (t)	71,255	96,506	(26.2)	97,308	(26.8)	354,766	390,475	(9.1)
PK (t)	22,498	19,983	12.6	21,524	4.5	83,968	84,475	(0.6)
Palm oil products ASP (MYR/t)	5,468	3,235	69.0	4,490	21.8	4,564	2,779	64.2
PK ASP (MYR/t)	4,272	2,177	96.2	2,919	46.4	3,297	1,862	77.1

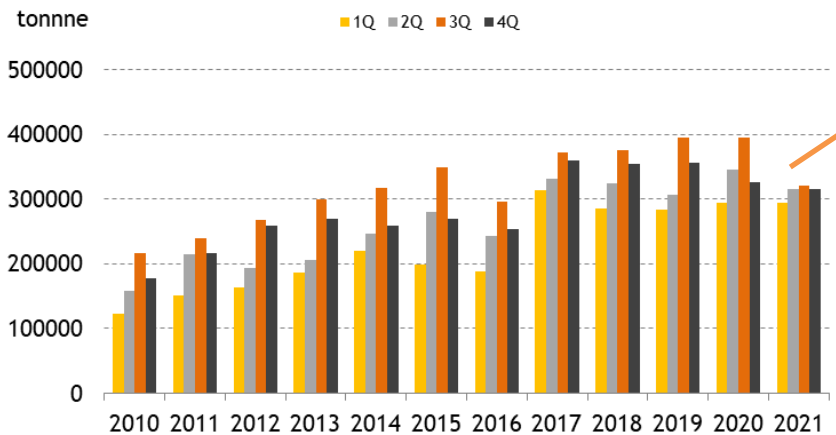
Source: Company; Maybank IBG Research

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



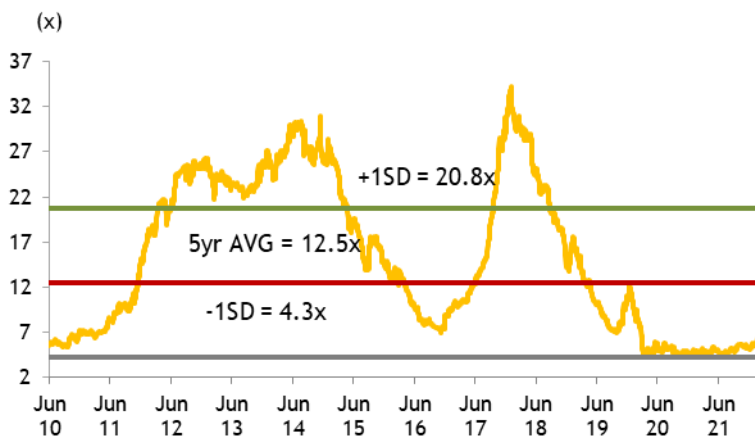
Source: Company

Fig 3: SOP's historical quarterly output trend



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
Key Metrics					
P/E (reported) (x)	9.5	4.2	8.3	11.9	11.3
Core P/E (x)	11.6	4.0	8.3	11.9	11.3
P/BV (x)	1.0	0.7	1.0	0.9	0.9
P/NTA (x)	1.0	0.7	1.0	0.9	0.9
Net dividend yield (%)	1.5	5.1	2.4	2.5	2.7
FCF yield (%)	13.3	11.0	15.6	12.7	11.0
EV/EBITDA (x)	5.3	2.3	3.9	4.7	4.2
EV/EBIT (x)	7.7	2.9	5.3	7.0	6.1

INCOME STATEMENT (MYR m)

Revenue	2,759.4	4,433.0	4,458.8	3,786.9	3,740.1
EBITDA	488.9	907.7	713.2	535.2	546.7
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	534.5	360.6	371.0
Net interest income / (exp)	(20.9)	(15.6)	(12.0)	(3.2)	4.9
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	522.5	359.3	377.9
Income tax	(82.0)	(171.0)	(130.6)	(85.8)	(90.2)
Minorities	(16.1)	(31.8)	(21.6)	(15.0)	(15.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	202.2	511.2	370.3	258.5	271.9
Core net profit	197.1	504.4	370.3	258.5	271.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	947.1	1,030.7	1,429.3	1,734.9	1,984.1
Accounts receivable	214.7	333.4	335.4	284.8	281.3
Inventory	276.8	511.2	499.9	430.4	421.2
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
Total assets	4,257.8	4,664.8	5,005.4	5,148.3	5,341.2
ST interest bearing debt	392.3	690.9	690.9	690.9	690.9
Accounts payable	210.3	299.6	329.7	283.8	277.8
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
Total Liabilities	1,756.8	1,724.9	1,754.9	1,709.1	1,703.0
Shareholders Equity	2,376.7	2,803.1	3,099.3	3,280.3	3,470.6
Minority Interest	124.3	136.8	151.1	158.9	167.5
Total shareholder equity	2,501.0	2,939.9	3,250.5	3,439.2	3,638.1
Total liabilities and equity	4,257.8	4,664.8	5,005.4	5,148.3	5,341.2

CASH FLOW (MYR m)

Pretax profit	300.3	714.1	522.5	359.3	377.9
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)	18.8	42.8	(35.0)
Cash taxes paid	(60.6)	(125.2)	(130.6)	(85.8)	(90.2)
Other operating cash flow	37.5	(32.5)	0.0	0.0	0.0
Cash flow from operations	409.5	461.5	610.0	520.4	468.0
Capex	(105.1)	(190.0)	(130.0)	(130.0)	(130.0)
Free cash flow	304.4	219.7	480.0	390.4	338.0
Dividends paid	(28.5)	(57.2)	(74.1)	(77.6)	(81.6)
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)	398.6	305.6	249.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.4)	60.6	0.6	(15.1)	(1.2)
EBITDA growth	58.5	85.7	(21.4)	(25.0)	2.1
EBIT growth	111.6	118.5	(27.0)	(32.5)	2.9
Pretax growth	136.2	137.8	(26.8)	(31.2)	5.2
Reported net profit growth	125.1	152.8	(27.6)	(30.2)	5.2
Core net profit growth	139.3	155.9	(26.6)	(30.2)	5.2
Profitability ratios (%)					
EBITDA margin	17.7	20.5	16.0	14.1	14.6
EBIT margin	12.1	16.5	12.0	9.5	9.9
Pretax profit margin	10.9	16.1	11.7	9.5	10.1
Payout ratio	16.9	20.0	20.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	7.3	11.5	8.3	6.8	7.3
Revenue/Assets (x)	0.6	1.0	0.9	0.7	0.7
Assets/Equity (x)	1.8	1.7	1.6	1.6	1.5
ROAE (%)	8.8	19.7	12.5	8.1	8.1
ROAA (%)	4.7	11.3	7.7	5.1	5.2
Liquidity & Efficiency					
Cash conversion cycle	36.6	38.2	46.8	48.7	45.3
Days receivable outstanding	27.5	22.3	27.0	29.5	27.2
Days inventory outstanding	46.6	45.2	52.4	56.4	52.9
Days payables outstanding	37.4	29.2	32.6	37.2	34.9
Dividend cover (x)	5.9	5.0	5.0	3.3	3.3
Current ratio (x)	2.2	1.9	2.2	2.5	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.7	2.9	3.0	3.1
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	44.5	112.0	na
Debt/EBITDA (x)	2.3	1.1	1.4	1.9	1.9
Capex/revenue (%)	3.8	4.3	2.9	3.4	3.5
Net debt/ (net cash)	164.7	(11.1)	(409.8)	(715.4)	(964.6)

Source: Company; Maybank

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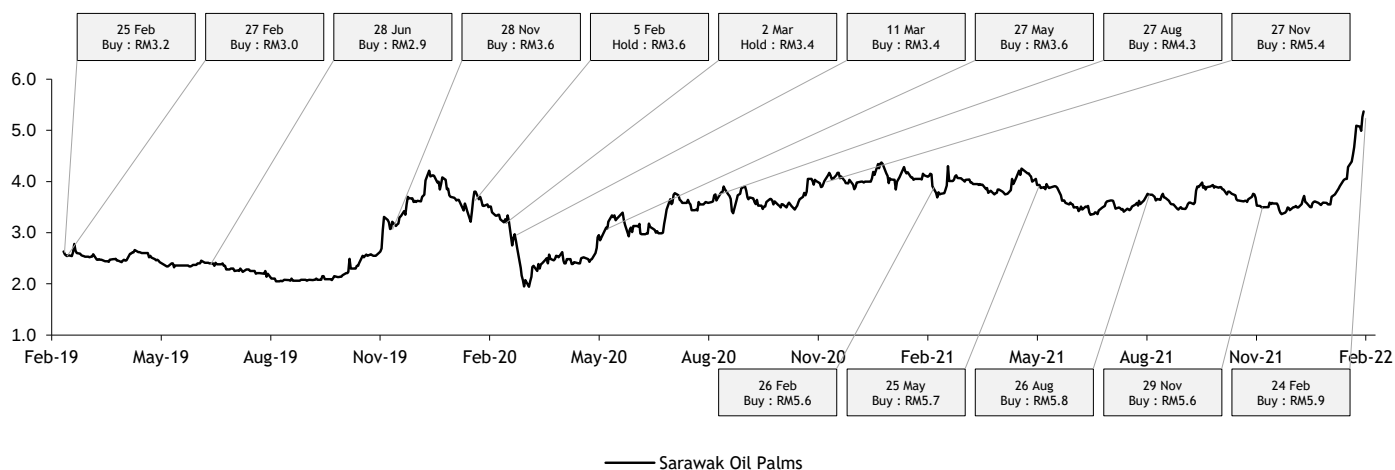
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Historical recommendations and target price: Sarawak Oil Palms (SOP MK)



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