

Sime Darby Plantation (SDPL MK)

2Q22 core results missed expectations

Expect weaker 2H22 core earnings

2Q22 core PATMI missed expectations due to low CPO yields in Malaysia, hurt by the shortage of harvesters, and a net build-up of inventory in Indonesia due to the export ban and restrictions there. Given sharply lower CPO prices, we expect 2H core PATMI to be weaker HoH. We cut FY22E core PATMI by 12% mainly on lower output assumptions; FY23E/FY24E unchanged. SDPL remains a HOLD with an unchanged RNAV-TP of MYR4.42 on 0.4x RNAV peg. We prefer KLK MK (BUY, CP: MYR21.76, TP: MYR28.10).

2Q: Poorer upstream, but better downstream

SDPL posted a 2Q22 headline PATMI of MYR812m (+32% YoY, +13% QoQ), in part lifted by land disposal gain (MYR228m) and unrealised FX gain (MYR25m). Adjusted, 2Q22 core PATMI of MYR559m (-12% YoY, -23% QoQ) brought 1H22 to MYR1,284m (+17% YoY), 45%/43% of our/consensus FY22E. Upstream EBIT fell to MYR618m (-22% YoY, -26% QoQ) mainly on lower group FFB output (-16% YoY, +9% QoQ; especially in MY due to severe shortage of harvesters) and higher cost pressures, mitigated by higher CPO ASP (+44% YoY, +17% QoQ). Fertiliser application was slightly behind schedule in 1H22. Positively, downstream EBIT of MYR243m (+66% YoY, +84% QoQ) rose on higher revenue (+41% YoY, +31% QoQ) and margins.

Some forward sales committed for 2H22 crop

1H22 FFB output (-15% YoY) was hurt by shortage in harvesters in MY. SDPL is guiding for high single-digit negative growth for FY22E. We cut our FY22E output growth to -10% YoY (from +2% YoY), but keep FY23E-24E output as we anticipate workers to return soon. As for forward sales, SDPL guides that it has sold forward ~40% of MY's 2H crop (ASP of ~MYR5,100/t) and ~30% of PNG's 4Q crop (ASP of ~USD1,300/t). By our estimate, they represent ~23% of 2H group output at an ASP of ~MYR5,200/t.

Higher windfall levy payment lifted unit cost in 1H

SDPL guides its 1H22 group cost to customer (per tonne) at ~MYR2,400/t (+40% YoY) largely due to higher windfall levy and remediation expenses. It expects 2H22 cost to be lower HoH. An interim DPS of 10sen will go ex-date on 3 Nov.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|---------|--------|--------|--------|--------|
| Revenue | 13,081 | 18,695 | 18,388 | 18,501 | 18,844 |
| EBITDA | 2,856 | 5,064 | 5,198 | 4,046 | 3,880 |
| Core net profit | 999 | 2,384 | 2,503 | 1,735 | 1,582 |
| Core EPS (sen) | 14.5 | 34.5 | 36.2 | 25.1 | 22.9 |
| Core EPS growth (%) | 1,022.4 | 137.5 | 5.0 | (30.7) | (8.8) |
| Net DPS (sen) | 11.6 | 20.3 | 24.1 | 15.0 | 13.7 |
| Core P/E (x) | 34.4 | 10.9 | 12.2 | 17.5 | 19.2 |
| P/BV (x) | 2.5 | 1.7 | 1.9 | 1.8 | 1.7 |
| Net dividend yield (%) | 2.3 | 5.4 | 5.5 | 3.4 | 3.1 |
| ROAE (%) | 8.8 | 15.6 | 17.6 | 10.4 | 9.1 |
| ROAA (%) | 3.5 | 8.1 | 8.1 | 5.5 | 5.0 |
| EV/EBITDA (x) | 14.5 | 6.4 | 6.9 | 8.7 | 8.9 |
| Net gearing (%) (incl perps) | 40.4 | 32.8 | 25.7 | 21.2 | 18.6 |
| Consensus net profit | - | - | 2,839 | 2,013 | 1,607 |
| MKE vs. Consensus (%) | - | - | (2.2) | (13.8) | (1.6) |

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HOLD

| | |
|-----------------------|----------------|
| Share Price | MYR 4.40 |
| 12m Price Target | MYR 4.42 (+6%) |
| Previous Price Target | MYR 4.42 |

Company Description

SDPL is an integrated plantation company with the largest oil palm planted area, and largest CPO and CSPO producer in the world.

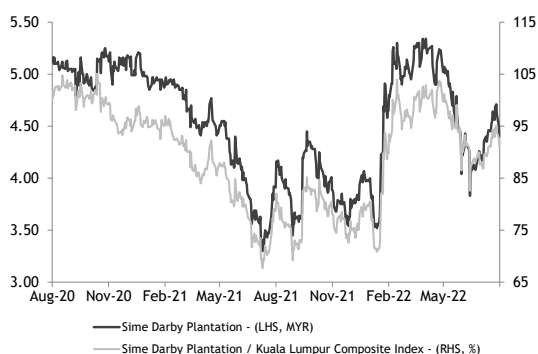
Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 5.21/3.30 |
| 3m avg turnover (USDm) | 4.5 |
| Free float (%) | 48.0 |
| Issued shares (m) | 6,916 |
| Market capitalisation | MYR27.4B |
| | USD6.6B |

Major shareholders:

| | |
|------------------------------------|-------|
| Permodalan Nasional Berhad (total) | 57.0% |
| EPF | 14.9% |
| KWAP | 6.0% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|------|------|
| Absolute (%) | 5 | (12) | 13 |
| Relative to index (%) | 3 | (9) | 15 |

Source: FactSet

Abbreviation

ASP = Average selling price
EBIT = Earnings before interest and taxes
ID = Indonesia
MY = Malaysia
PATMI = Profit after tax and minority interests

Fig 1: SDPL Summary Results Table

| | Quarterly | | | | | Cumulative | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| FYE Dec (MYR m) | 2Q22 | 2Q21 | %YoY | 1Q22 | %QoQ | 6M22 | 6M21 | %YoY |
| Revenue | 5,587 | 4,411 | 27 | 4,381 | 28 | 9,968 | 8,084 | 23 |
| Core EBIT | 877 | 943 | (7) | 982 | (11) | 1,859 | 1,606 | 16 |
| Non-recurring | 232 | (11) | NA | 47 | 394 | 279 | 113 | 147 |
| EBIT | 1,109 | 932 | 19 | 1,029 | 8 | 2,138 | 1,719 | 24 |
| Net Interest | (25) | (18) | 39 | (17) | 47 | (42) | (30) | 40 |
| Share of associate/ JV | 37 | 6 | 517 | 31 | 19 | 68 | 7 | 871 |
| Pre-tax profit | 1,121 | 920 | 22 | 1,043 | 7 | 2,164 | 1,696 | 28 |
| Tax | (259) | (217) | 19 | (263) | (2) | (522) | (382) | 37 |
| Discontinuing operations | NA | (30) | NA | NA | NA | NA | (30) | NA |
| Perpetual Sukuk | (31) | (31) | 0.0 | (31) | 0.0 | (62) | (62) | 0.0 |
| Minority Interests | (19) | (25) | (24) | (31) | (39) | (50) | (43) | 16 |
| PATMI | 812 | 617 | 32 | 718 | 13 | 1,530 | 1,179 | 30 |
| Core PATMI | 559 | 633 | (12) | 725 | (23) | 1,284 | 1,096 | 17 |
| Segmental | | | | | | | | |
| | 2Q22 | 2Q21 | %YoY | 1Q22 | %QoQ | 6M22 | 6M21 | %YoY |
| Upstream Malaysia | 1,329 | 1,294 | 3 | 1,090 | 22 | 2,419 | 2,092 | 16 |
| Upstream Indonesia | 561 | 582 | (4) | 556 | 1 | 1,117 | 1,166 | (4) |
| Upstream PNG | 1,156 | 575 | 101 | 458 | 152 | 1,614 | 1,172 | 38 |
| Upstream Liberia | NA | NA | NA | NA | NA | NA | NA | NA |
| Upstream (Total) | 3,046 | 2,451 | 24 | 2,104 | 45 | 5,150 | 4,430 | 16 |
| Downstream | 5,250 | 3,731 | 41 | 4,012 | 31 | 9,262 | 6,898 | 34 |
| Others | 150 | 85 | 76 | 164 | (9) | 314 | 168 | 87 |
| Inter-seg Elimination | (2,859) | (1,856) | 54 | (1,899) | 51 | (4,758) | (3,412) | 39 |
| Total revenue | 5,587 | 4,411 | 27 | 4,381 | 28 | 9,968 | 8,084 | 23 |
| Upstream Malaysia | 66 | 270 | (76) | 224 | (71) | 290 | 390 | (26) |
| Upstream Indonesia | 106 | 321 | (67) | 153 | (31) | 259 | 511 | (49) |
| Upstream PNG | 446 | 198 | 125 | 462 | (3) | 908 | 431 | 111 |
| Upstream Liberia | NA | NA | NA | NA | NA | NA | NA | NA |
| Upstream (Total) | 618 | 789 | (22) | 839 | (26) | 1,457 | 1,332 | 9 |
| Downstream | 243 | 146 | 66 | 132 | 84 | 375 | 253 | 48 |
| Others | 16 | 8 | 100 | 11 | 45 | 27 | 21 | 29 |
| Core EBIT | 877 | 943 | (7) | 982 | (11) | 1,859 | 1,606 | 16 |
| EBIT margin (%) | | | | | | | | |
| | | | +/- ppt | | +/- ppt | | | +/- ppt |
| EBIT margin - Upstream (Total) | 20.3 | 32.2 | (11.9) | 39.9 | (19.6) | 28.3 | 30.1 | (1.8) |
| EBIT margin - Downstream | 4.6 | 3.9 | 0.7 | 3.3 | 1.3 | 4.0 | 3.7 | 0.4 |
| Overall | 15.7 | 21.4 | (5.7) | 22.4 | (6.7) | 18.6 | 19.9 | (1.2) |
| Operational | | | | | | | | |
| FFB production (t) | 2,074,081 | 2,455,404 | (16) | 1,910,060 | 9 | 3,984,141 | 4,662,404 | (15) |
| CPO (t) | 551,046 | 642,112 | (14) | 495,810 | 11 | 1,046,856 | 1,214,112 | (14) |
| PK (t) | 126,818 | 147,859 | (14) | 113,094 | 12 | 239,912 | 280,859 | (15) |
| CPO ASP (MYR/t) | 5,213 | 3,632 | 44 | 4,465 | 17 | 4,868 | 3,422 | 42 |

Sources: Company, Maybank IBG Research

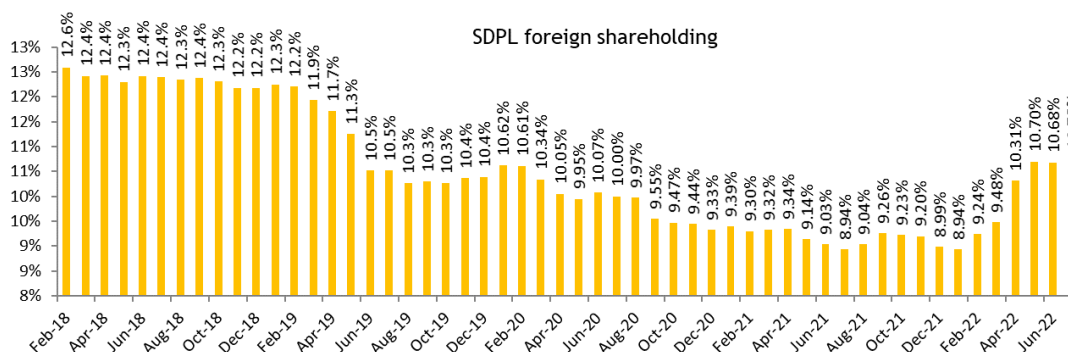
Fig 2: SDPL - Revised Net Asset Value (RNAV)

| FYE Dec | Status | Size Hectare | Estimated Market price MYR psf | Estimated Market Value MYR 'm | Remarks MYR per hectare (equivalent) |
|--|------------------------|----------------------|---|--|---|
| Selangor | Freehold | 36,153* | 5.00 | 19,449 | 537,966 |
| Malacca | Freehold | 14,779* | 2.00 | 3,180 | 215,186 |
| Negeri Sembilan | Freehold | 36,020* | 2.00 | 7,751 | 215,186 |
| Johor | Freehold | 54,518* | 1.50 | 8,799 | 161,390 |
| Pahang | Freehold | 9,336* | 1.00 | 1,004 | 107,593 |
| Perak | Freehold | 37,155* | 1.50 | 5,996 | 161,390 |
| Kedah | Freehold | 18,885* | 1.00 | 2,032 | 107,593 |
| Value of estates with property development potential | | 206,846* | | 48,212 | |
| | | | | | |
| | ** Adj EBIT FY12/23 | Adj EBIT less tax | Target multiple | | |
| Plantation (MYR 'm) | 1,745 | 1,326 | 25x | 33,147 | |
| Downstream (MYR 'm) | 256 | 195 | 12x | 2,337 | |
| Associate/ JV company (BV) | | | | 393 | |
| Cash | | | | 1,355 | As at 31 Dec 2022 |
| Debt | | | | (6,248) | As at 31 Dec 2022 |
| Perpetual Sukuk | | | | (2,231) | As at 31 Dec 2022 |
| Minority Interest | | | | (474) | As at 31 Dec 2022 |
| Total RNAV (MYR 'm) | | | | 76,490 | |
| No of shares ('m) | | | | 6,916 | |
| RNAV per share | | | | 11.06 | |
| At 0.4x RNAV | | | | 4.42 | |

Source: Company, Maybank IBG Research; *Freehold land per annual report

** Annualised and adjusted to exclude EBIT of estates with property development potential to avoid double counting

Fig 3: SDPL's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Sime Darby Plantation (SDPL). Key risks to the palm oil sector and SDPL 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, Indonesian, Papua New Guinea and EU governments on upstream or downstream segments; (v) sharply lower crude oil prices which makes palm biodiesel demand not viable; (vi) weaker competing oil prices (like soybean and rapeseed); and (vii) sanctions by key customers following audit findings and assessment by *Impactt*.

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 29.0 | 13.0 | 11.0 | 17.5 | 19.2 |
| Core P/E (x) | 34.4 | 10.9 | 12.2 | 17.5 | 19.2 |
| P/BV (x) | 2.5 | 1.7 | 1.9 | 1.8 | 1.7 |
| P/NTA (x) | 3.2 | 2.1 | 2.3 | 2.1 | 2.1 |
| Net dividend yield (%) | 2.3 | 5.4 | 5.5 | 3.4 | 3.1 |
| FCF yield (%) | 3.1 | 7.7 | 9.5 | 6.6 | 5.1 |
| EV/EBITDA (x) | 14.5 | 6.4 | 6.9 | 8.7 | 8.9 |
| EV/EBIT (x) | 25.3 | 8.6 | 9.3 | 13.4 | 14.5 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 13,081.0 | 18,695.0 | 18,388.1 | 18,501.2 | 18,844.0 |
| EBITDA | 2,855.5 | 5,064.0 | 5,197.8 | 4,046.3 | 3,880.5 |
| Depreciation | (1,224.5) | (1,329.0) | (1,355.2) | (1,423.2) | (1,491.1) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 1,631.0 | 3,735.0 | 3,842.6 | 2,623.1 | 2,389.4 |
| Net interest income / (exp) | (99.0) | (74.0) | (69.3) | (40.8) | (21.4) |
| Associates & JV | 4.0 | 35.0 | 15.0 | 15.0 | 15.0 |
| Exceptionals | 455.0 | (94.0) | 275.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 1,991.0 | 3,602.0 | 4,063.3 | 2,597.3 | 2,383.0 |
| Income tax | (466.0) | (1,109.0) | (1,056.5) | (671.4) | (615.7) |
| Minorities | (53.0) | (112.0) | (104.5) | (66.9) | (61.4) |
| Perpetual securities | (125.0) | (124.0) | (124.3) | (124.3) | (124.3) |
| Discontinued operations | (162.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 1,185.0 | 2,257.0 | 2,778.0 | 1,734.7 | 1,581.6 |
| Core net profit | 999.0 | 2,383.6 | 2,503.0 | 1,734.7 | 1,581.6 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 309.0 | 589.0 | 1,355.3 | 1,878.4 | 2,065.2 |
| Accounts receivable | 1,442.6 | 2,074.6 | 2,015.1 | 2,027.5 | 2,065.1 |
| Inventory | 1,569.0 | 2,466.0 | 2,357.7 | 2,099.4 | 2,403.4 |
| Property, Plant & Equip (net) | 17,283.0 | 17,211.0 | 17,365.8 | 17,452.6 | 17,471.4 |
| Intangible assets | 2,789.0 | 2,819.0 | 2,819.0 | 2,819.0 | 2,819.0 |
| Investment in Associates & JVs | 78.0 | 378.0 | 393.0 | 408.0 | 423.0 |
| Other assets | 4,849.4 | 4,800.4 | 4,800.4 | 4,800.4 | 4,800.4 |
| Total assets | 28,320.0 | 30,338.0 | 31,106.4 | 31,485.4 | 32,047.5 |
| ST interest bearing debt | 2,329.0 | 2,274.0 | 2,074.0 | 1,874.0 | 1,674.0 |
| Accounts payable | 609.2 | 1,228.2 | 1,047.9 | 933.1 | 1,068.2 |
| LT interest bearing debt | 4,561.0 | 4,174.0 | 4,174.0 | 4,174.0 | 4,174.0 |
| Other liabilities | 4,551.0 | 4,803.0 | 4,803.0 | 4,803.0 | 4,803.0 |
| Total Liabilities | 12,050.0 | 12,479.0 | 12,098.7 | 11,783.9 | 11,719.0 |
| Shareholders Equity | 13,655.0 | 15,191.0 | 16,302.2 | 16,996.1 | 17,628.7 |
| Minority Interest | 384.0 | 437.0 | 474.5 | 474.4 | 468.9 |
| Total shareholder equity | 14,039.0 | 15,628.0 | 16,776.7 | 17,470.5 | 18,097.5 |
| Perpetual securities | 2,231.0 | 2,231.0 | 2,231.0 | 2,231.0 | 2,231.0 |
| Total liabilities and equity | 28,320.0 | 30,338.0 | 31,106.4 | 31,485.4 | 32,047.5 |

CASH FLOW (MYR m)

| | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Pretax profit | 1,991.0 | 3,602.0 | 4,063.3 | 2,597.3 | 2,383.0 |
| Depreciation & amortisation | 1,224.5 | 1,329.0 | 1,355.2 | 1,423.2 | 1,491.1 |
| Adj net interest (income)/exp | 99.0 | 74.0 | 69.3 | 40.8 | 21.4 |
| Change in working capital | (241.0) | (855.0) | (12.6) | 131.1 | (206.4) |
| Cash taxes paid | (103.0) | (614.0) | (1,056.5) | (671.4) | (615.7) |
| Other operating cash flow | (503.5) | (72.0) | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 2,431.0 | 3,439.0 | 4,403.7 | 3,506.0 | 3,058.4 |
| Capex | (1,360.0) | (1,440.0) | (1,510.0) | (1,510.0) | (1,510.0) |
| Free cash flow | 1,071.0 | 1,999.0 | 2,893.7 | 1,996.0 | 1,548.4 |
| Dividends paid | (379.0) | (1,005.0) | (1,733.8) | (1,107.8) | (1,015.9) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (1,063.0) | (591.0) | (200.0) | (200.0) | (200.0) |
| Perpetual securities distribution | (125.0) | (124.0) | (124.3) | (124.3) | (124.3) |
| Other invest/financing cash flow | 360.0 | 50.0 | (69.3) | (40.8) | (21.4) |
| Effect of exch rate changes | 14.0 | 27.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (136.0) | 329.0 | 766.3 | 523.1 | 186.7 |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 8.4 | 42.9 | (1.6) | 0.6 | 1.9 |
| EBITDA growth | 73.8 | 77.3 | 2.6 | (22.2) | (4.1) |
| EBIT growth | 273.2 | 129.0 | 2.9 | (31.7) | (8.9) |
| Pretax growth | 693.2 | 80.9 | 12.8 | (36.1) | (8.3) |
| Reported net profit growth | nm | 90.5 | 23.1 | (37.6) | (8.8) |
| Core net profit growth | 1,022.4 | 138.6 | 5.0 | (30.7) | (8.8) |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 21.8 | 27.1 | 28.3 | 21.9 | 20.6 |
| EBIT margin | 12.5 | 20.0 | 20.9 | 14.2 | 12.7 |
| Pretax profit margin | 15.2 | 19.3 | 22.1 | 14.0 | 12.6 |
| Payout ratio | 67.2 | 62.1 | 60.0 | 60.0 | 60.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 9.1 | 12.1 | 15.1 | 9.4 | 8.4 |
| Revenue/Assets (x) | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Assets/Equity (x) | 2.1 | 2.0 | 1.9 | 1.9 | 1.8 |
| ROAE (%) | 8.8 | 15.6 | 17.6 | 10.4 | 9.1 |
| ROAA (%) | 3.5 | 8.1 | 8.1 | 5.5 | 5.0 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 87.4 | 76.2 | 88.0 | 91.7 | 85.3 |
| Days receivable outstanding | 36.9 | 33.9 | 40.0 | 39.3 | 39.1 |
| Days inventory outstanding | 80.3 | 77.7 | 90.8 | 94.2 | 83.2 |
| Days payables outstanding | 29.8 | 35.4 | 42.8 | 41.9 | 37.0 |
| Dividend cover (x) | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 |
| Current ratio (x) | 1.1 | 1.4 | 1.6 | 1.8 | 1.9 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.4 | 2.4 | 2.6 | 2.7 | 2.7 |
| Net gearing (%) (incl perps) | 40.4 | 32.8 | 25.7 | 21.2 | 18.6 |
| Net gearing (%) (excl. perps) | 46.9 | 37.5 | 29.2 | 23.9 | 20.9 |
| Net interest cover (x) | 16.5 | 50.5 | 55.4 | 64.3 | 111.7 |
| Debt/EBITDA (x) | 2.4 | 1.3 | 1.2 | 1.5 | 1.5 |
| Capex/revenue (%) | 10.4 | 7.7 | 8.2 | 8.2 | 8.0 |
| Net debt/ (net cash) | 6,581.0 | 5,859.0 | 4,892.7 | 4,169.6 | 3,782.8 |

Source: Company; Maybank IBG Research

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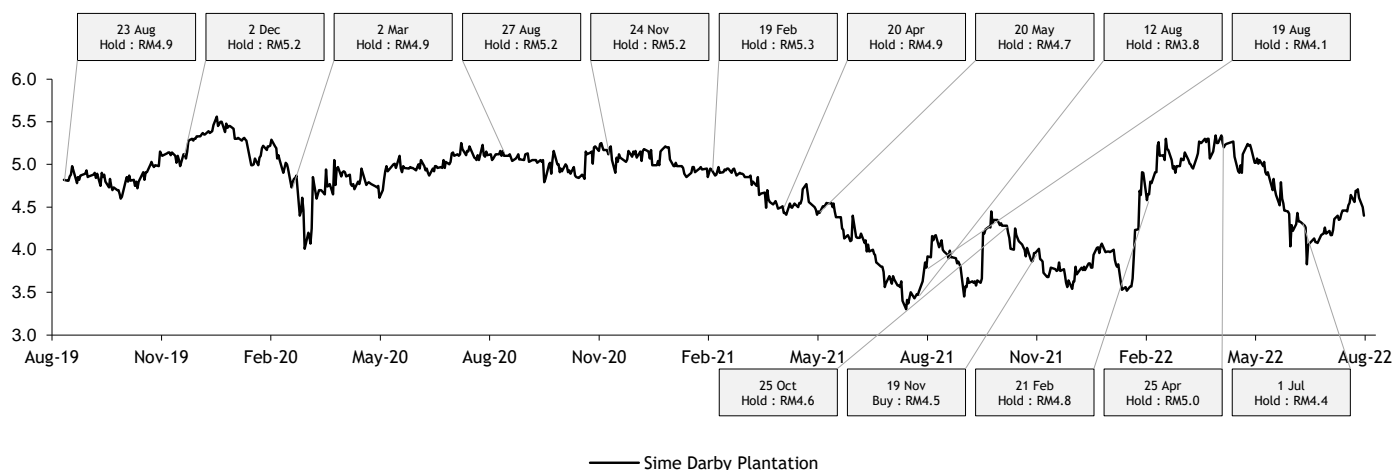
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