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SIME DARBY PLANT

(SDPL MK, SDPL.KL)

PLANTATION

19 Jan 2021

Minimal impact from floods in Malaysia

HOLD

(Maintained)

Rationale for report: Company update

Price **RM4.98**
 Fair Value **RM5.55**
 52-week High/Low **RM5.335/RM3.809**

Key Changes

Fair value Unchanged
 EPS 

YE to Dec	FY19	FY20E	FY21F	FY22F
Revenue (RMmil)	12,062.3	12,695.7	13,990.1	15,198.7
Net Profit (RMmil)	(200.2)	789.3	955.8	1,025.6
EPS (sen)	-2.9	11.5	13.9	14.9
EPS growth (%)	-138.3	-494.3	21.1	7.3
Consensus net (RMmil)	201.8	818.1	945.4	980.3
DPS (sen)	1.0	8.0	8.5	9.0
PE (x)	-171.3	43.4	35.9	33.4
EV/EBITDA (x)	23.2	17.0	15.4	14.6
Div yield (%)	0.2	1.6	1.7	1.8
ROE (%)	-1.5	6.0	7.2	7.5
Net Gearing (%)	72.0	66.9	62.3	57.3

Stock and Financial Data

Shares Outstanding (million) 6,884.6
 Market Cap (RMmil) 34,285.2
 Book value (RM/share) 2.30
 P/BV (x) 2.2
 ROE (%) -1.5
 Net Gearing (%) 72.0

Major Shareholders ASB (45.1%)
 EPF (13.6%)

Free Float (%) 54.9
 Avg Daily Value (RMmil) 12.2

Price performance	3mth	6mth	12mth
Absolute (%)	-0.0	-2.1	-6.0
Relative (%)	-5.8	-2.9	-6.8

Investment Highlights

- We maintain HOLD on Sime Darby Plantation (SDP) with an unchanged fair value of RM5.55/share. Our fair value for SDP is based on a FY21F PE of 40x. SDP's FY21F PE is demanding at 35.9x.
- Our FY21F earnings forecast for SDP is unchanged. However, we have raised SDP's FY20E net profit by 5.9% to account for higher plantation EBIT margin and downstream earnings.
- We think that SDP's downstream division would perform well in 4QFY20 on the back of higher trading profits. We believe that the increase in trading profits would compensate for the erosion in EBIT margins of the differentiated and bulk products segments in the downstream division (bulk products, differentiated products and trading activities) in 4QFY20. The trading segment accounted for 28% of the downstream division's EBIT in 9MFY20.
- We believe that SDP's de-gearing exercise would take a breather in FY21F. Due to the Covid-19 pandemic, we reckon that there is little appetite for landbank acquisition currently. Also, approvals from government agencies on any potential sale of landbank may take some time.
- As at end-June 2020, SDP had sold about 58.1% or 1,350 acres out of the 2,324 acres of landbank targeted for disposal. We think that SDP recognised gains of RM450mil from the disposal of landbank and non-performing assets in 9MFY20.
- Operationally, we have assumed a group FFB production growth of 4.0% for SDP in FY21F. We believe that most of the increase in FFB output in FY21F would come from Indonesia. We expect SDP's FFB production in Indonesia to recover by 5% in FY21F after falling by about 10% in FY20E.
- About less than 5% of SDP's oil palm estates in Malaysia were affected by the recent floods. There was minimal impact in Indonesia as the group's estates in Kalimantan had already experienced heavy rains in 3QFY20. The impact in PNG (Papua New Guinea) is not known yet as the wet season usually takes place only from February onwards.

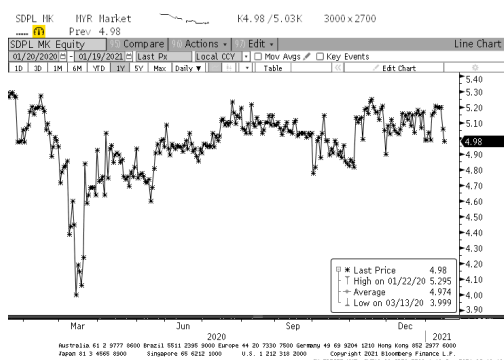


EXHIBIT 1: SDP'S FOREIGN SHAREHOLDING (%)



Source: Company

MAINTAIN HOLD WITH UNCHANGED FAIR VALUE OF RM5.55/SHARE

We are keeping our HOLD recommendation on Sime Darby Plantation (SDP) with an unchanged fair value of RM5.55/share. Our fair value for SDP is based on a FY21F PE of 40x.

We have raised SDP's FY20E net profit by 5.9% to account for higher upstream EBIT margin and downstream earnings. We expect SDP's upstream earnings to be strong in 4QFY20 due to a higher CPO price.

In line with higher net profit, we forecast SDP's gross DPS to be 8.0 sen in FY21F compared with 1.0 sen in FY20E. The FY21F gross DPS of 8.0 sen represents a net payout of 71.8% and a yield of more than 1.0%.

SDP's net gearing (including RM2.2bil perpetual sukuk) is forecast to decline to 67.2% as at end-FY20E from 72.0% as at end-FY19 due to higher cash flows from improved CPO prices.

SDP's foreign shareholding stood at 9.33% as at end-November 2020 compared with 10.36% a year ago (see Exhibit 1).

OPERATIONAL UPDATES

□ FFB production to improve by 4.0% in FY21F

We estimate SDP's FFB output to rise by 4.0% in FY21F after falling by 5.0% in FY20E. Although SDP is still facing a shortage of labour in Malaysia, we reckon that there would be a recovery in FFB yields in FY21F as the lagged impact from 2019's drought, dissipates.

We believe that the recovery in FFB production in FY21F is expected to be underpinned by the Indonesia division.

We think that the Indonesia upstream unit would record an FFB output growth of 5.0% in FY21F after registering a 10.0% fall in FY20E.

On a group level, we believe that SDP would achieve an average FFB yield of 20.0 tonnes/ha in FY21F vs. 19.5 tonnes/ha in FY20E.

□ Replanting of ageing oil palm trees to continue in FY21F

SDP's mature areas are forecast to fall by 4,500ha in FY21F due to the replanting of ageing oil palm trees.

We expect SDP to continue with its replanting efforts in FY21F after falling behind in FY20E. SDP's replanting was only 90% to 95% of its target of 27,500ha in FY20E due to Covid-19.

SDP is envisaged to replant 4.8% of its planted areas in Malaysia and 5.5% of its planted areas in Indonesia in FY21F.

Average ages of SDP's oil palm trees are 11.7 years in Malaysia, 13.1 years in Indonesia and 12.0 years in Papua New Guinea (PNG).

□ Minimal impact from floods in January 2021 and December 2020

We understand that the wet weather has only affected SDP's operations in Malaysia so far. Less than 10,000ha of SDP's oil palm estates in Malaysia were hit by the

floods. These comprise only 3.3% of SDP's planted areas of 300,000ha in Malaysia.

SDP's oil palm estates in Kalimantan were not affected as they had already experienced heavy rains in 3QFY20. There are no issues with the weather in PNG currently. The weather in PNG usually turns wet from February onwards.

About 51.3% of SDP's planted areas of oil palm were located in Malaysia in FY19 while another 33.2% were in Indonesia. The balance 15.5% of SDP's planted areas were in PNG/Solomon Islands.

□ CPO production cost per tonne to remain flat in FY21F

We think that SDP's all-in cost of CPO production would remain flat at RM1,600/tonne in FY21F as high palm kernel credits compensate for an increase in the cost of wages.

In line with the increase in CPO prices, the price of palm kernel in Sabah jumped by 103.2% to RM2,630/tonne as at 13 January 2021 from RM1,294/tonne as at 1 July 2020.

We believe that SDP's fertiliser costs would increase in FY21F due to a higher volume of application. In FY20E, SDP fell short of its fertiliser application programme by about 10% to 20% in Malaysia due to the MCO.

In terms of prices, fertiliser is expected to be unchanged in FY21F. However, we reckon that the cost of wages would rise in FY21F as SDP strives to entice its estate workers to stay on.

We believe that fertiliser accounts for 40% to 50% of CPO production costs while wages account for another 25% to 35%. Infrastructure, transportation and other overheads make up the balance 15% to 35% of CPO production costs.

SDP's PNG division is expected to record the highest CPO cost of production of RM1,800/tonne in FY21F while Malaysia's cost of production is estimated to be the lowest at RM1,500/tonne. Cost of CPO production in Indonesia is envisaged to be about RM1,600/tonne in FY21F.

□ Disposal of assets may take time

We think that SDP's asset disposal programme may take a breather in FY21F. Due to economic uncertainties arising from Covid-19, we reckon that there is little appetite for landbank acquisitions among property developers currently.

As of 30 June 2020, SDP had only sold 1,350 acres of landbank or 58.1% out of its target of 2,324 acres. We believe that the disposal proceeds would be used to pare down borrowings. Excluding the RM2.2bil perpetual sukuk, SDP's gross borrowings amounted to RM6.9bil as at end-September 2020.

Recall that SDP's asset disposal programme involves selling 2,324 acres of landbank and its 50% stake in Emory Oleochemicals for a rough sum of more than RM1.5bil in total.

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue	13,286.0	12,062.3	12,695.7	13,990.1	15,198.7
EBITDA	2,282.8	1,142.8	2,337.8	2,590.2	2,710.5
Depreciation	(1,269.8)	(1,208.0)	(1,201.1)	(1,222.4)	(1,242.6)
Operating income (EBIT)	1,013.0	(65.2)	1,136.7	1,367.8	1,467.9
Other income & associates	410.0	204.0	202.0	202.0	202.0
Interest expense	(195.0)	(167.5)	(112.8)	(120.3)	(126.8)
Exceptional items	(270.0)	280.0	-	-	-
Pretax profit	958.0	251.3	1,225.9	1,449.5	1,543.1
Taxation	(297.0)	23.6	(294.2)	(347.9)	(370.3)
Minorities/pref dividends	(138.0)	(153.3)	(142.4)	(145.7)	(147.1)
Net profit from discount ops		(321.8)			
Net profit	523.0	(200.2)	789.3	955.8	1,025.6
Balance Sheet (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Fixed assets	17,004.1	17,314.0	17,612.9	17,890.4	18,147.8
Intangible assets	2,892.8	2,840.5	2,840.5	2,840.5	2,840.5
Other long-term assets	3,811.4	3,909.6	4,289.2	4,291.2	4,292.2
Total non-current assets	23,708.3	24,064.1	24,742.6	25,022.2	25,280.6
Cash & equivalent	491.0	431.3	717.4	1,347.3	2,061.5
Stock	1,681.8	1,498.4	1,391.3	1,533.2	1,665.6
Trade debtors	2,203.1	1,933.6	2,017.4	2,223.1	2,415.1
Other current assets	542.1	580.3	581.1	581.1	581.1
Total current assets	4,918.0	4,443.6	4,707.2	5,684.6	6,723.4
Trade creditors	2,222.4	1,360.6	1,451.7	1,585.9	1,726.4
Short-term borrowings	1,804.3	2,489.5	2,514.4	2,539.6	2,565.0
Other current liabilities	226.9	407.9	1,911.2	2,379.0	2,831.7
Total current liabilities	4,253.6	4,258.0	5,877.4	6,504.4	7,123.1
Long-term borrowings	5,492.6	5,255.4	4,729.8	4,966.3	5,214.7
Other long-term liabilities	3,134.1	3,133.4	3,131.2	3,131.2	3,131.2
Total long-term liabilities	8,626.7	8,388.8	7,861.0	8,097.5	8,345.8
Shareholders' funds	13,118.4	13,261.0	13,093.4	13,465.0	13,872.0
Minority interests	2,627.5	2,599.7	2,618.1	2,639.9	2,663.0
BV/share (RM)	2.29	2.30	2.28	2.34	2.40
Cash Flow (RMmil, YE 31 Dec)	2018	2019F	2020E	2021F	2022F
Pretax profit	958.0	251.3	1,225.9	1,449.5	1,543.1
Depreciation	1,193.0	1,206.0	1,201.1	1,222.4	1,242.6
Net change in working capital	(455.0)	11.3	113.5	(532.6)	(556.8)
Others	543.5	275.9	(2.0)	(2.0)	(2.0)
Cash flow from operations	2,239.5	1,744.5	2,538.6	2,137.3	2,226.9
Capital expenditure	(1,586.5)	(1,566.2)	(1,500.0)	(1,500.0)	(1,500.0)
Net investments & sale of fixed assets	38.5	193.9	20.0	20.0	20.0
Others	187.0	11.7	3.5	3.5	3.5
Cash flow from investing	(1,361.0)	(1,360.6)	(1,476.5)	(1,476.5)	(1,476.5)
Debt raised/(repaid)	197.5	471.9	(500.6)	261.6	273.7
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(384.0)	(517.0)	(275.4)	(292.6)	(309.8)
Others	(684.0)	(389.7)	0.0	0.0	0.0
Cash flow from financing	(870.5)	(434.8)	(776.0)	(31.0)	(36.1)
Net cash flow	8.0	(50.9)	286.0	629.9	714.3
Net cash/(debt) b/f	538.0	491.0	431.4	717.4	1,347.3
Forex	(55.0)	(8.7)	0.0	0.0	0.0
Net cash/(debt) c/f	491.0	431.4	717.4	1,347.3	2,061.5
Key Ratios (YE 31 Dec)	2018	2019F	2020E	2021F	2022F
Revenue growth (%)	-7.5	-9.2	5.3	10.2	8.6
EBITDA growth (%)	-44.1	-12.2	33.6	9.9	4.1
Pretax margins (%)	0.1	0.0	0.1	0.1	0.1
Net profit margins (%)	0.0	0.0	0.1	0.1	0.1
Interest cover (x)	11.1	11.3	22.4	23.1	22.8
Effective tax rate (%)	31.0	-9.4	24.0	24.0	24.0
Net dividend payout (%)	206.7	-34.4	69.8	61.2	60.4
Debtors turnover (days)	58	61	59	58	58
Stock turnover (days)	40	46	45	40	40
Creditors turnover (days)	46	65	43	46	46

Source: Company, AmInvestment Bank estimates

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