

Sime Darby Plantation Berhad

(5285 | SDPL MK) Plantation | Plantation

Maintain NEUTRAL

Asset monetisation exercise to pick up pace in 2020

Revised Target Price: RM4.93
(previously RM4.96)

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings rebounded strongly to RM143.0m from RM15.0m achieved in 3QFY19**
- **Full year FY19 normalised earnings of RM238.0m exceeded ours and consensus expectations**
- **Further suspension of its third party suppliers could put further downward pressure on the group's FFB production**
- **Remain steadfast in improving its debt profile**
- **Maintain Neutral with a revised TP of RM4.93**

Rebounds in earnings. Sime Darby Plantation Bhd's (SDPL) 4QFY19 normalised earnings amounted to RM143.0m, a significant improvement from RM15.0m achieved for 3QFY19. This was mainly supported by higher revenue contribution of RM3,376.0m, an increase of +19.7%qoq.

Exceed our expectations. Cumulatively, FY19 normalised earnings amounted to RM238.0m. This is after excluding for exceptional items which mainly consist of the impairment charges on the Liberian operations of RM235m. All in, SDPL's FY19 financial performance came in better than ours and consensus expectations.

Upstream. The upstream segment reported recurring FY19 PBIT of RM125.0m from continuing operation as compared to RM1,141.0m in the comparative period last year. This was mainly due to lower average prices of CPO (-5.5%yoy) and PK (-33.1%yoy) and lower FFB production (-6.3%yoy).

Downstream. The downstream segment remained resilient at RM276.0m for FY19. This was supported by improved results of Asia Pacific bulk and differentiated refineries which recorded higher sales volumes and margins. Nonetheless, the Europe, Middle East and Africa operations suffered from lower sales volume and margin.

Asset monetisation exercise. In FY19, the group has raised RM114m cash from the disposal of PT Mitra Austral Sejahtera (RM103m) and land sales (RM11m). Moving forward, SDPL is expecting to rake in cash of more than RM1.0b arising from land sales as well as divestment of non-core and non-strategic assets, non-profitable assets, low yielding assets and adjacent investments.

Impact to earnings. We are factoring healthier upstream production margin and higher contribution from the downstream segment. Subsequently, FY20 and FY21 have been revised upwards to RM882.1m and RM925.0m respectively.

Target price. After taking into consideration FY19 financial performance, we are revising our target price to **RM4.93** (previously RM4.96). This is premised on pegging revised FY20 PBF of RM1.64 against target P/B ratio of 3.0x which is half standard deviation below the average ratio since its listing.

RETURN STATISTICS

Price @ 28 th February 2020 (RM)	4.96
Expected share price return (%)	-0.6
Expected dividend yield (%)	+1.3
Expected total return (%)	+0.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.2	1.0
3 months	-9.0	2.6
12 months	-2.9	11.3

KEY STATISTICS

FBM KLCI	1,482.64
Syariah compliant	Yes
Issue shares (m)	6,884.58
Estimated free float (%)	2473
Market Capitalisation (RM'm)	34,147.49
52-wk price range (RM)	4.22– 5.63
Beta vs FBM KLCI (x)	0.96
Monthly velocity (%)	1.11
Monthly volatility (%)	22.85
3-mth average daily volume (m)	5.48
3-mth average daily value (RM'm)	20.16
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	44.85
Employees Provident Fund	13.74
Kumpulan Wang Persaraan diperbadan	6.04

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Table 1: CPO prices

Region	FY19	12ME Dec 2018	Change (%yoy)
Malaysia	2,069	2,262	-8.5
Indonesia	2,048	1,920	6.7
PNB/SI	2,074	2,412	-14.0
Liberia	2,037	1,989	2.4
Average	2,063	2,184	-5.5

Source: Company, MIDFR

Table 2: Upstream - FFB Production ('000 mt)


Region	FY19	12ME Sept 2018	Change (%yoy)	Remarks
Malaysia	5102	5,373	-5.0	Prolonged dry weather in Peninsular Malaysia in 2019 which impacted the development of oil palm inflorescence
Indonesia	2,663	2,892	-7.9	Prolonged severe rainfall deficit in parts of Kalimantan and Sumatra which interrupted bunch formation
PNB/SI	1,814	1,980	-8.4	Higher seasonal rainfall particularly in West New Britain which affected bunch pollination
Liberia	100	86	16.3	-
Total	9,679	10,332	-6.3	

Source: Company, MIDFR

Table 3: Upstream - OER (%)

Region	FY19	12ME Sept 2018	Change (%yoy)	Remarks
Malaysia	21.18	20.65	0.5	Dry weather conditions were more conducive for harvesting and crop evacuation
Indonesia	21.92	21.14	0.8	Improved crop quality delivered to mills
PNB/SI	22.10	22.35	-0.2	-
Liberia	22.35	19.76	2.6	-
Average	21.58	21.12	0.5	

Source: Company, MIDFR

Maintain NEUTRAL. The completion of the disposal of the Liberian operation will lead to better earnings for the group as seen in its 4QFY19 financial results. However, the recovery in FFB production is expected to remain weak. This is partly due the possibility of further suspension of its suppliers. To recall, the group has recently suspended two Malaysian suppliers for failing to meet its environmental standards and has identified 55 others as 'high risk'. While the downstream segment has defended its earnings performance, it is insufficient made up for the underperformance from the upstream segment. We understand the group is focusing on growing the downstream segment to partially made up for the volatile upstream contribution. However, we expect the strategy will have to observe long gestation period. On another note, we view that dividend yield to remain unattractive as compared to its peers. The proceeds from the asset monetisation exercise is expected to be use to pare down the borrowings with a target gross gearing ratio of 30% within the next three years. All factors considered, we are maintaining our **NEUTRAL** recommendation at this juncture. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	6MFY18	2019	2020E	2021F	2022F
Revenue	6,543.0	12,062.0	14,854.2	15,520.5	16,110.3
EBIT	555.0	404.0	1,379.0	1,445.9	1,515.0
PBT	457.0	251.0	1,219.7	1,276.0	1,337.2
PATANCI	244.0	-200.0	882.1	925.0	971.5
Normalised PATANCI	159.0	238.0	882.1	925.0	971.5
Normalised EPS (sen)	2.3	3.5	12.8	13.4	14.1
Normalised EPS Growth (%)	-81.5	47.9	270.6	4.9	5.0
PER (x)	213.0	144.1	38.9	37.1	35.3
Dividend Per Share (sen)	1.7	1.0	6.4	6.7	7.1
Dividend yield (%)	0.3	0.2	1.3	1.4	1.4

Source: Company, MIDFR

*Change in financial year end from Juen to Dec (6 months period ended 31st December 2018)

SIME DARBY PLANTATION BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative
	4QFY19	3QFY19	% QoQ	2019
Revenue	3,376.0	2,821.0	19.7	12,062.0
PBIT - continuing operations	73.0	118.0	-38.1	404.0
PATANCI - Continuing operations	-45.0	32.0	-240.6	122.0
PATANCI - Discontinuing operations	-13.0	-275.0	-95.3	-322.0
Total PATANCI	-58.0	-243.0	-76.1	-200.0
Normalised PATANCI	143.0	15.0	853.3	238.0
Normalised EPS (sen)	2.1	0.2	853.3	3.5
Normalised PATANCI margin (%)	4.2	0.5	696.6	2.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.