

# Sime Darby Plantation Bhd

(5285 | SDPL MK) Plantation | Plantation

**Maintain NEUTRAL**

## FFB production to improve in the coming quarters

**Revised Target Price: RM5.19**  
(previously RM4.93)

### KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings surged to RM243m, mainly premised on the strong recovery in average CPO price**
- **However, the coming quarters could record lower earnings as the average CPO price trends lower**
- **The easing of average CPO price could be partially made up by the expectancy of higher FFB production**
- **Healthier debt position as the group carry on with its asset monetisation exercise**
- **Maintain Neutral with a revised TP of RM5.19**

**Strong recovery in earnings.** Sime Darby Plantation Bhd's (SDPL) 1QFY20 normalised earnings came in at RM243m, a stark improvement as compared to 1QFY19 normalised earnings of RM39m. Note that the bulk of the exceptional items relates to the gains on land disposal. The optimism in the financial performance was mainly led by the upstream segment. All in, the SDPL's 1QFY20 normalised earnings came in within ours but above consensus expectations, accounting for 27.6% and 33.1% of full year FY20 earnings estimates respectively.

**Upstream.** The upstream segment reported 1QFY20 PBIT of RM288m, a surge of more than +100%yoy. This was mainly attributable to higher average of crude palm oil (CPO) and palm kernel (PK) prices (*refer to Table 1*) as well as increase in oil extraction rate (OER) (*refer to Table 3*). However, the fresh fruit bunches (FFB) production declined by -16%yoy, mainly impacted by the contraction in FFB production in Malaysia to 1,074k mt (*refer to Table 2*). Note that we expect the upstream segment's earnings to trend lower in the coming quarters in view of lower CPO price in comparison to 1QFY20 average of RM2,605/mt. Nonetheless, this would be partially buffered by expectancy of higher FFB production.

**Downstream.** The downstream segment reported 1QFY20 PBIT of RM89m (+4.7%yoy) which was mainly due to improved performance from the differentiated businesses. This, however, was partially offset by weaker performance from the trading and bulk operations in view of lower demand from China and India.

**Asset monetisation exercise.** In 1QFY20, the group has raised RM279m cash arising from the asset monetisation exercise. This has also led to higher cash balance of RM714m (vs 4QFY19: RM431m). Moving forward, for FY20 and FY21, SDPL is expecting to rake in cash of more than RM1.5b 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 revising our FY20/21/22 CPO price forecast to RM2,300/2,450/2,550 respectively. This led to revision in FY20/21/22 earnings to RM766.0m/880.4m/927.6m respectively.

### RETURN STATISTICS

Price @ 22 <sup>nd</sup> May 2020 (RM)	4.92
Expected share price return (%)	+5.5
Expected dividend yield (%)	+1.3
<b>Expected total return (%)</b>	<b>+6.8</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.6	-0.4
3 months	-0.4	3.8
12 months	5.1	17.3

### KEY STATISTICS

FBM KLCI	1,436.76
Syariah compliant	Yes
Issue shares (m)	6,884.58
Estimated free float (%)	26.66
Market Capitalisation (RM'm)	33,872.11
52-wk price range (RM)	3.82– 5.63
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	11.02
Monthly volatility (%)	16.39
3-mth average daily volume (m)	5.21
3-mth average daily value (RM'm)	24.23
Top Shareholders (%)	
Amanah Saham Nasional Bhd	45.22
Employees Provident Fund Board	15.21
Kumpulan Wang Persaraan Diperbadan	6.14

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**Target price.** We are rolling forward our valuation base year to FY21 and derive a new target price of **RM5.19** (*previously RM4.93*). This is premised on pegging revised FY21 P/B of RM1.73 against target P/B ratio of 3.0x which is half standard deviation below the average ratio since its listing.

**Table 1: CPO and PK prices**

Region	1QFY20		1QFY19		Change (%yoy)	
	CPO	PK	CPO	PK	CPO	PK
Malaysia	2,491	1,667	2,012	1,322	+25	+26
Indonesia	2,613	1,246	1,998	994	+31	+25
PNB/SI	2,828	n.a.	2,002	n.a.	+37	n.a.
<b>Average</b>	<b>2,605</b>	<b>1,519</b>	<b>2,012</b>	<b>1,213</b>	<b>+29</b>	<b>+25</b>

Source: Company, MIDFR

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


Region	1QFY20	1QFY19	Change (%yoy)	Remarks
Malaysia	1,074	1399	-23	Prolonged dry weather impacting the development of oil palm inflorescence
Indonesia	578	596	-3	Lower mature areas subsequent to the disposal of a loss-making subsidiary with 7,282 Ha of estates in June 2019
PNB/SI	466	510	-9	High rainfall and flood particularly in West New Britain
<b>Total</b>	<b>2,118</b>	<b>2,505</b>	<b>-15</b>	Lower mature areas in Malaysia and Indonesia, adverse weather in PNG/SI and peak crop pattern in 1Q10

Source: Company, MIDFR

**Table 3: Upstream – OER (%)**

Region	1QFY20	1QFY19	Change (ppts)	Remarks
Malaysia	21.05	21.09	-0.04	Lower oil content in fruits resulted from prolonged dry period which has also impacted FFB production
Indonesia	22.93	21.98	0.95	Favourable weather conditions were conducive for harvesting and crop evacuation
PNB/SI	22.40	21.52	0.88	Improvement in harvesting and collection processes
<b>Average</b>	<b>21.89</b>	<b>21.41</b>	<b>0.48</b>	Favourable weather in Indonesia and better organisation of harvesting activities in PNG

Source: Company, MIDFR

**Maintain NEUTRAL.** The disposal of the loss-making Liberian operation will improve the earnings capability of the group. Coupled with favourable CPO price, we expect significant improvement in the group's earnings. Nonetheless, we expect the earnings to trend lower in the subsequent quarters as the CPO price trended lower than the average CPO price of about RM2,600/mt achieved as at 1QFY20. We expect this to be partially cushioned by the expectancy of better FFB production. Meanwhile, the earnings performance of the downstream segment remains resilient, which is mainly supported by the differentiated business. On another note, the group's asset monetisation exercise continues to gain traction. This would help to pare down the debt level to its target gross gearing ratio of 30% within the next three years and strengthen the balance sheet. However, this could also mean that the dividend payout could remain unattractive. Premised on this, we estimate that dividend yield to remain below two percent. All factors considered, we are maintaining our **NEUTRAL** recommendation on the group. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	6MFY18	2019	2020E	2021F	2022F
Revenue	6,543.0	12,062.0	13,556.0	14,202.2	14,713.6
EBIT	555.0	404.0	1,313.1	1,464.4	1,539.0
PBT	457.0	251.0	1,162.0	1,303.1	1,369.6
PATANCI	244.0	-200.0	780.2	880.4	927.6
<b>Normalised PATANCI</b>	159.0	238.0	780.2	880.4	927.6
Normalised EPS (sen)	2.3	3.5	11.3	12.8	13.5
Normalised EPS Growth (%)	-81.5	47.9	227.8	12.8	5.4
PER (x)	213.0	144.1	43.9	38.9	37.0
Dividend Per Share (sen)	1.7	1.0	5.7	6.4	6.7
Dividend yield (%)	0.3	0.2	1.2	1.3	1.4

Source: Company, MIDFR

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

## SIME DARBY PLANTATION BHD: 1QFY20 RESULTS SUMMARY

FYE 31 <sup>st</sup> Dec (All in RM'm unless stated otherwise)	Quarterly				
	1QFY20	1QFY19	% YoY	4QFY19	% QoQ
Revenue	3,044.0	2,999.0	1.5	3,376	-9.8
EBITDA	954.0	519.0	83.8	396.0	140.9
Depreciation and amortisation	-313.0	-321.0	-2.5	-323	-3.1
EBIT	641.0	198	n.m.	73	n.m.
Finance costs	-38.0	-58.0	-34.5	-44	-13.6
Finance income	3.0	3.0	0.0	3	0.0
Share of results of associates	1.0	-1.0	n.m.	0	n.m.
Share of results of joint ventures	0.0	-1.0	n.m.	0	n.m.
PBT	607.0	141.0	n.m.	32	n.m.
Taxation	-180.0	-14.0	n.m.	-34	n.m.
Profit from continuing operations	427.0	127	n.m.	-2.0	n.m.
Profit /(loss) from discontinued operations	74.0	-16	n.m.	-13	n.m.
Non-controlling interest and perpetual sukuk	33.0	37	-10.8	43	-23.3
Total PATANCI	468.0	74.0	n.m.	-58.0	n.m.
Normalised PATANCI	243.0	39.0	n.m.	-74.0	n.m.
Normalised EPS (sen)	3.5	0.6	n.m.	-1.07	n.m.
			+/- ppts		+/- ppts
EBIT margin (%)	21.1	6.6	14.5	2.2	18.9
Normalised PATAMI margin (%)	8.0	1.3	6.7	-2	10.2
Effective tax rate (%)	29.7	9.9	19.7	106.3	-76.6

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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