Sime Darby Plantation Berhad

***Maintain* BUY**

(5285 | SDPL MK) Main | Plantation

100% local estates workers by end-2027

***Unchanged* Target Price: RM5.50**

DEVELOPMENT

- Sime Plant. plans to employ 100% local workers by the end of 2027 with a minimum wage of RM3,000.
- We are positive on this latest development as it will lessen the dependency risk of foreign labour in the estates amidst increase its FFB evacuation.

OUR VIEW

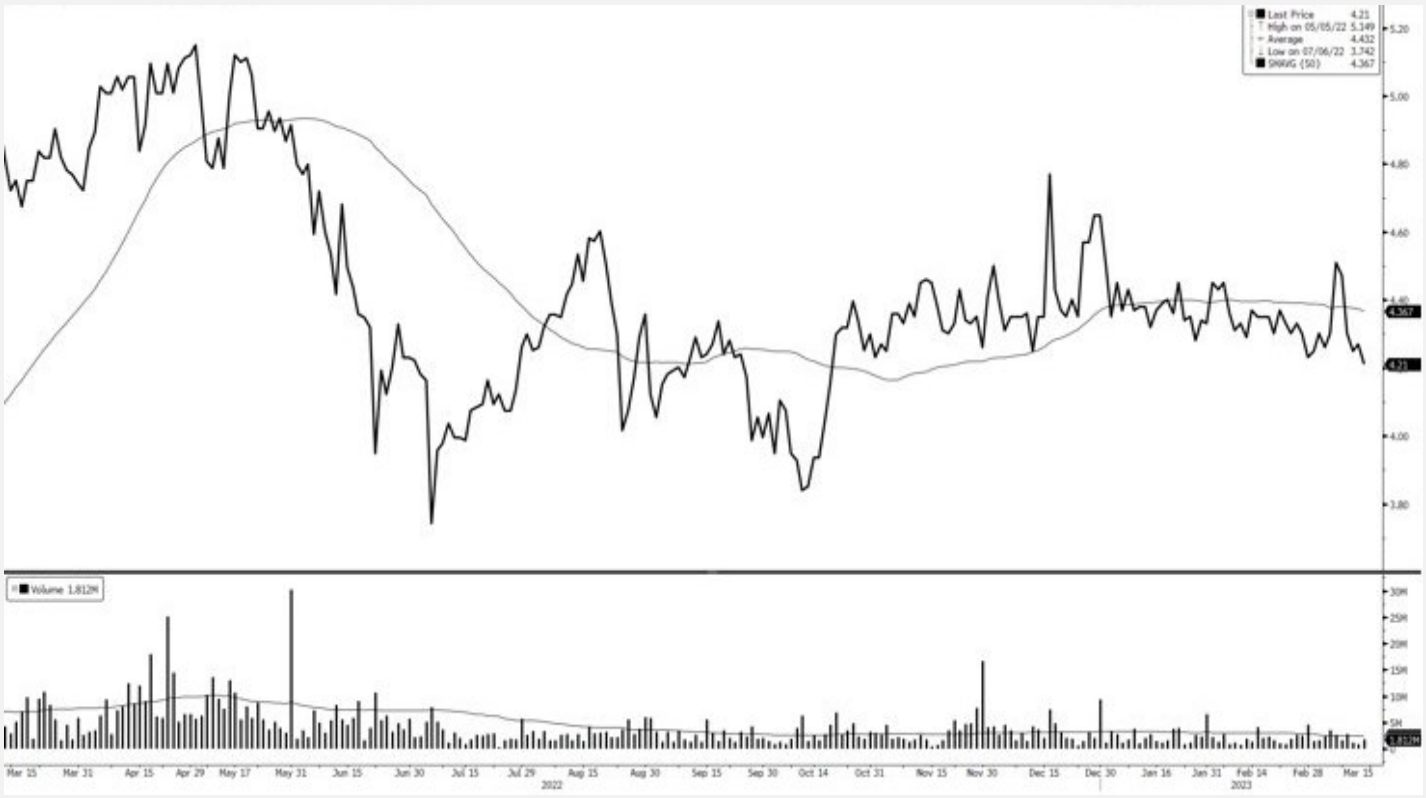
- According to media reports and mentioned in the POC 2023 conference**,** Sime Plant. plans to employ 100% local workers by the end of 2027 with a minimum wage of RM3,000 via "Project Local". We opine that this will be aided by more mechanisation, automation and digitalisation in place to increase productivity level (achieve lower unit cost as compared manual labour cost) apart from making the jobs and task easier and not laborious. The company would have to change the stigma surrounding plantation activity known as a 3Ds job (dirty, dangerous and difficult).
- With the industry's minimum salary around RM1,500 to 2,000 currently, we believe an increase of +50% to +100% to average RM3,000 salary will the major factor encouraging local talents to enter into the plantation area with automation revolving around it. Hence, this latest development would therefore reduce the risk of dependency on foreign labour and enable the estate to draw in local more talents, while enhancing the company's FFB evacuation process as well as ensuring Social pillar under the ESG issues are uphold.
- Operational wise, as of now Sime Plant's headcount in Malaysia's estates comprises 60% foreign and 40% local (FY21: 63% foreign and 37% local) out of c. 25,000 workers. The company aims to increase its land to labour ratio to 1:17.5 ha by 2025 from the baseline of 1:14.8 ha currently. With their mechanisation Transformation Unit (MTU) and Robotics Centre, these would create a better path for its mechanisation process in estates areas. Aside note, the company used to have normal chisel and sickle for their harvesting activities, but now they are using motorised chisel and sickle, and in the future, overall, there would be a combination of Hybrid/UGV + robotic arm, drones and on-board CPU and detection system for the upstream activities.
- **Outlook.** Due to a shortage of skilled harvesters, which stood at about 2,468 as of Dec 2022, Malaysia's FFB output for the 4QFY22 and FY22 performance was only 865 Mt (-19% yoy) and 3,513 Mt (-24% yoy), as compared to 1,072 Mt and 4,630 Mt, respectively. This year, we predict that FFB output will increase by +12% to 9.2 Mt (management guidance 10-15%) on the back of better performance of Malaysia estate as a result of the improvement in the labour shortage, in which the company anticipates receiving c. 3,000 to 4,000 in May 23.
- **Earnings forecast.** Maintain.
- Overall, we remain bullish on SDPL outlook due to 1) FFB yield/mature of 16.6/ha, which ranks among the top tiers, 2) fairly prime of palm trees age profile of 12.1 years, still impressive given their large planted area, and 3) well integrated operation, where the manufacturing segment, which accounts for roughly 26% of group profit, will assist withstand and decline in average selling price for CPO – thus, lowering the volatility of earnings.
- We maintain our **BUY** call on Sime Plant. with a **target price of RM5.50.** Our target price is premised on unchanged FY23 EPS of 25.0sen against PER of 22x.

INVESTMENT STATISTICS

Annual Standardized Year end 31 December	2021A	2022A	2023F	2024F	2025F
Revenue	18,695.5	21,030.0	15,284.1	14,116.3	13,352.0
EBIT	3641.7	3563.0	3209.7	2964.4	2803.9
PBT	3,639.1	3,492.0	2,945.3	2,682.1	2,536.8
PATANCI	2,254.6	2,542.0	1,727.4	1,519.4	1,352.6
Normalised PATANCI	2,156.0	2,418.0	1,727.4	1,519.4	1,352.6
Core EPS	31.2	35.0	25.0	22.0	19.6
PER (x)	13.4	12.0	16.8	19.1	21.4
DPS	20.3	16.0	15.0	13.0	12.0
Dividend Yield %	4.8	3.8	3.6	3.1	2.9

Source: Company, MIDFR

SHARE PRICE CHART



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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology