Sime Darby Plantation Berhad

Maintain BUY

(5285 | SDPL MK) Main | Plantation

Disposal 100% equity in LSI and SHE

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

DEVELOPMENT

- Last Friday, Sime Plant. entered into 2 conditional shares sale and purchase agreements (CSPAs) with PT Global Berkat Usahatama for disposal 100% stake in LSI and SHE with a total cash consideration of RM518m.
- We are neutral on this latest development as this in-line with company's internal-reorganisation for its non-core operations.

OUR VIEW

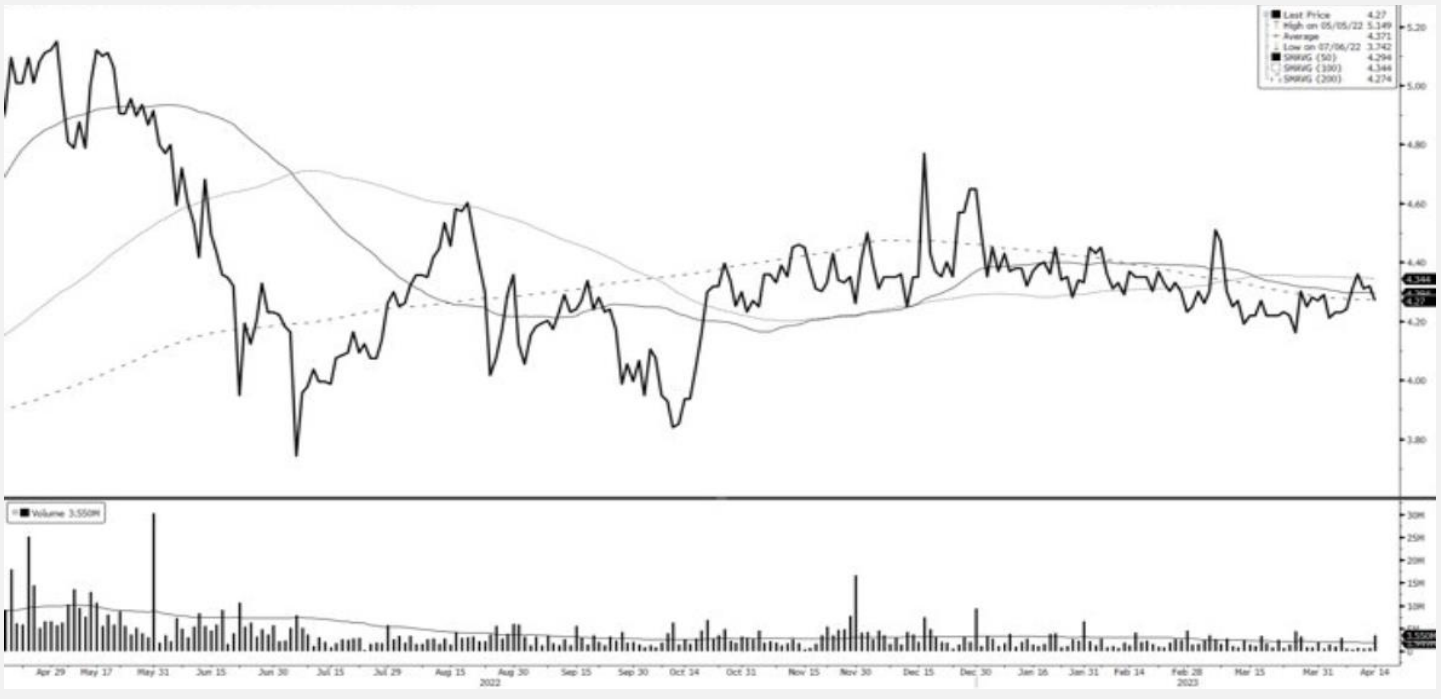
- Based on the announcement, both Sime. Plant's wholly subsidiaries ASM and MGG entered into 2 CSPAs with PT Global Berkat Usahatama (GBU) for the disposal of 100% equity interest in LSI and SHE. Once the dust settle, LSI and SHE will no longer subsidiaries of SDPB and Sime. Plant will be paid in cash consideration of RM51.8m (10% of total deal) upon execution of the CSPA while the remaining of RM466.2m on the closing of the CSPA. Both companies were acquired in March 2001 and up on-to-date, the total cost of investment of LSI and SHE were approximately worth RM8.7b and RM8.3b respectively. LSI and SHE contribution to the FY22's earnings were about RM287.7m and RM5.9m or 11.9% and 0.2% of total earnings. While both net assets were accounted of RM249.2m and RM122.4m.
- There will be a net gain on disposal amounted RM107m in FY23 but we will exclude it in our earnings forecast. Additionally, after the proposed disposal, net asset attributable to owners of the Company will rise by +0.7% to RM15.3m resulting total equity to jump RM18.0m (+0.59%). Consequently, this will bring net asset per share to RM2.21 (+1 sen). Apart from that, proceeds derived from the disposal will be utilized for working capital, based on the management guidance.
- **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) respectively, as compared to 1,072 Mt and 4,630 Mt, respectively. This year, we predict that its 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)	13.7	12.2	17.1	19.4	21.8
DPS	20.3	16.0	15.0	13.0	12.0
Dividend Yield %	4.7	3.8	3.5	3.0	2.8

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