Sime Darby Plantation Berhad

(5285 | SDPL MK) Main | Plantation

Uninspiring Results

***Downgrade to* NEUTRAL**

(previously BUY)

***Revised* Target Price: RM4.10**

(previously RM5.50)

KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Upstream; a mixed bag performance**
- **Downstream; a surprising lower profit**
- **Earnings estimates revised downward**
- **Downgrade to NEUTRAL with a revised TP of RM4.10**

Earnings weaken. Due to a combination of decreased seasonality, a shortage of competent harvesters, and poorer performance from the downstream subsegment, SDPL started the year with a dismal core profit of RM57.0m (-90.8%yoy). Overall, the results fell short of ours and consensus expectations, accounting for 3% of full year forecasts.

Upstream; a mixed bag performance. The top line was still robust, with a record revenue of RM662m (+86.5%yoy), helped by contributions from Malaysia and Indonesia of RM319.0m (>100%yoy) and RM294.0m (+38.7%yoy), respectively. PBIT, on the other hand, was limited to RM220.0m (-75.2%yoy) compared RM886.0 in 1QFY22 due to decreased FFB output of 1.8m Mt (-5%yoy), unchanged fixed costs, and a decrease in OER of 21.02% from 21.36%. Note that, average CPO and PK realised prices have fell to RM3,887/Mt (-13%yoy) level as a result of Indonesia export restrictions.

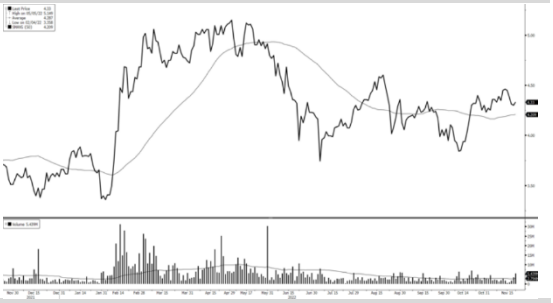
Downstream. In the 1QFY23 period, the downstream segment's PBIT decreased by +58.0%yoy to RM68.0m. Less sales volume, squeezed margins, and a rise in Indonesia's export tax and levy structure all contributed to this. Profit and margin from the JV were also down due market volatility.

Earnings estimates. After excluding the forex gain, the core PATAMI came in at only RM57.0m, or 3% of the full year target. Hence, we lower our FY23-FY24 earnings estimates by -45%/-26% as we anticipate that newly recruited harvesters will take 9 to 12 months to achieve the company's pre-pandemic output. We also consider the possibility of a margin pressure in the upcoming quarters due to the continued high operational costs, as fertiliser prices are still high due to last 2HFY22 locked in activities.

Downgrade to NEUTRAL. We downgrade our BUY call to **NEUTRAL** with a revised TP of **RM4.10** (previously RM5.50) based on PER of 30x which nearly 5-year average mean by pegging FY23F EPS of 13.7sen. We are cautious on SDPL outlook, particularly in the Malaysia estate area, since production won't fully recover for around another year due to a shortage of competent harvesters. Keep in mind that Malaysia produced 43% of the group's FFB, and with that long gestation period, SDPL may not possible to fully realise peak season months later in 2H23.

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	4.41
Expected share price return (%)	-7.09
Expected dividend yield (%)	+1.70
Expected total return (%)	**-5.39**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.0	-1.7
3 months	5.9	1.2
12 months	11.3	17.6

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	11,401.3	12,960.6	13,352.0
EBITDA	2,394.3	2,721.7	2,803.9
Profit Before Tax	2,197.1	2,462.5	2,536.8
Core PATAMI	944.6	1,131.5	1,352.6
Core EPS	13.7	16.4	19.6
DPS	7.5	10.0	12.0
Dividend Yield	1.7%	2.3%	2.7%

KEY STATISTICS	
FBM KLCI	1,409.6
Issue shares (m)	6915.7
Estimated free float (%)	23.2
Market Capitalisation (RM'm)	29,945.0
52-wk price range	RM3.46-RM5.46
3-mth average daily volume (m)	2.8
3-mth average daily value (RM'm)	11.9
Top Shareholders (%)	
ASNB	53.35
EPF Board	13.59
KWAP	6.63

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Sime Darby Plant: 1Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Revenue	4,381.0	5,670.0	4,069.0	-28.2%	-7.1%
EBITDA	1,360.0	1,165.0	646.0	-44.5%	-52.5%
PBT	1,043.0	743.0	255.0	-65.7%	-75.6%
Tax expense	-263.0	-133.0	-147.0	10.5%	-44.1%
PATAMI	718.0	562.0	69.0	-87.7%	-90.4%
Core PATAMI	622.0	566.0	57.0	-89.9%	-90.8%
EBITDA margin (%)	31.0	20.5	15.9	-4.7	-15.2
PBT margin (%)	23.8	13.1	6.3	-6.8	-17.5
Core PATAMI margin (%)	14.2	10.0	1.4	-8.6	-12.8
Effective tax rate (%)	25.2	17.9	57.6	39.7	32.4

SEGMENTAL BREAKDOWN & AVERAGE CPO PRICE REALISED

FYE Dec (RM'm)	Quarterly				
Revenue	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Group Upstream	355.0	887.0	662.0	*-25.4%*	*86.5%*
Upstream Malaysia	98.0	373.0	319.0	*-14.5%*	*>100%*
Upstream Indonesia	212.0	485.0	294.0	*-39.4%*	*38.7%*
Upstream PNG	45.0	29.0	49.0	*69.0%*	*8.9%*
Downstream	3,988.0	4,763.0	3,362.0	*-29.4%*	*-15.7%*
Segment Profit					
Group Upstream	886.0	701.0	220.0	*-68.6%*	*-75.2%*
Upstream Malaysia	271.0	61.0	(21.0)	*<100%*	*<100%*
Upstream Indonesia	153.0	460.0	105.0	*-77.2%*	*-31.4%*
Upstream PNG	462.0	180.0	136.0	*-24.4%*	*-70.6%*
Downstream	161.0	87.0	68.0	*-21.8%*	*-57.8%*
Segment Margin %					
Group Upstream	*249.6*	*79.0*	*33.2*	*-45.8*	*-216.3*
Upstream Malaysia	*276.5*	*16.4*	*-6.6*	*-22.9*	*-283.1*
Upstream Indonesia	*72.2*	*94.8*	*35.7*	*-59.1*	*-36.5*
Upstream PNG	*1,026.7*	*620.7*	*277.6*	*<100*	*<100*
Downstream	*4.0*	*1.8*	*2.0*	*0.2*	*-2.0*
CPO Price realised (RM/Mt)					
Avg Group	*4,587*	*4,036*	*3,879*	*-3.9%*	*-15.4%*
Upstream Malaysia	4,122	4,560	4,148	*-9.0%*	*0.6%*
Upstream Indonesia	4,112	3,410	3,455	*1.3%*	*-16.0%*
Upstream PNG	5,527	4,138	4,034	*-2.5%*	*-27.0%*

Source: Sime Darby Plant., MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	18,695.5	21,030.0	11,401.3	12,960.6	13,352.0
EBITDA	3,641.7	3,563.0	2,394.3	2,721.7	2,803.9
PBT	3,600.1	3,492.2	2,197.1	2,462.5	2,536.8
PATAMI	2,254.6	2,542.0	1,288.6	1,395.0	1,352.6
Core PATAMI	2,156.0	2,418.0	944.6	1,131.5	1,352.6
EPS (sen)	31.2	35.0	13.7	16.4	19.6
PER (x)	14.1x	12.6x	32.3x	27.0x	22.5x
DPS (sen)	20.3	16.0	7.5	10.0	12.0
Dividend yield (%)	4.6%	3.6%	1.7%	2.3%	2.7%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	17,247.8	17,800.4	17,680.4	17,590.4	17,510.4
Right-of-use assets	1,997.9	2,007.7	2,007.7	2,007.7	2,007.7
Biological assets	2,823.5	2,946.6	2,946.4	2,946.2	2,946.0
Non-current assets	23,318.3	23,908.5	23,651.5	23,351.5	23,011.5
Biological assets	2,468.2	2,778.4	2,708.4	2,728.4	2,818.4
Inventories	284.3	180.3	180.3	180.3	180.3
Trade & other receivables	2,877.8	2,602.6	2,403.1	2,332.0	2,190.4
Current assets	6,409.4	6,588.6	6,845.6	7,145.6	7,485.6
Total Assets	**30,335.7**	**31,148.1**	**31,218.1**	**31,338.1**	**31,488.1**
Loans & borrowings	2,179.7	2,444.0	2,384.0	2,344.0	2,254.0
Trade & other payables	2,232.1	2,463.8	2,463.8	2,463.8	2,463.8
Current liabilities	5,185.7	5,274.0	5,184.0	5,114.0	5,064.0
Loans & borrowings	4,018.6	3,632.7	3,632.7	3,632.7	3,632.7
Retirement benefits	155.1	147.4	147.2	147.0	146.8
Non-current liabilities	7,155.4	6,719.0	6,718.8	6,718.6	6,718.4
Equity	17,856.2	19,016.0	19,071.0	18,997.0	18,962.0
Liabilities & equity	**30,335.7**	**31,148.1**	**31,218.1**	**31,338.1**	**31,488.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	3,600.1	3,492.2	2,197.1	2,462.5	2,536.8
Cash flow from operations	3482.6	3644.4	3519.4	3424.4	3355.4
Cash flow from investing	-1243.2	-1215.2	-1162.2	-1107.2	-1054.2
Cash flow from financing	-1884.3	-2397.5	-2317.5	-2262.5	-2249.5
Net cash flow	355.1	31.7	39.7	54.7	51.7
Net cash/(debt) b/f	309.0	602.6	635.0	674.7	729.4
Net cash/(debt) c/f	602.6	635.0	674.7	729.4	781.2

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	29.5%	49.0%	25.3%	23.8%	22.8%
EBIT margin	20.2%	41.3%	17.4%	15.4%	14.2%
PBT margin	21.4%	42.7%	16.6%	14.8%	13.3%
Core PATMI margin	15.5%	14.3%	10.5%	9.4%	8.6%

Source: Bloomberg, 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 *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