1QFY23 Results Review (Below) | Wednesday, 24 May 2023

Sarawak Plantation Berhad

(5135 | SPLB MK) Main | Plantation

The Squeeze on Estate Margins Remained

***Downgrade to* NEUTRAL**
(previously BUY)

***Revised* Target Price: RM2.20**
(previously RM2.60)

KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Oil Palm profitability decelerated**
- **Oil palm performance on low seasonality**
- **Earnings estimates revised downward**
- **Downgrade to NEUTRAL with a revised TP of RM2.20**

Below expectation. Sarawak Plantation Berhad (SPB) core PATAMI contracted to RM15.0m (-15%mom, -75.6%yoy) during the quarter, only made 19% of ours/consensus full year forecast. The moderation in CPO price, compounded by low seasonality operations also reduced its operating profit to RM14.6m versus RM39.0m.

Oil palm profitability. The segment profit decreased to RM14.9m (-76.6%mom, -64.9%yoy) on the back of lower ASP CPO realized of RM3,942/Mt (-33.6%yoy) and ASP PK realized of RM1,927/Mt (-56.0%yoy), respectively. On top of that, estate profit margins were hit by -32 ppt to +21.6% due to the lower FFB processed and reduced external FFB purchased.

Oil palm operations. Operational wise**,** low seasonality circumstances have impacted its FFB external purchase by -17%yoy, which caused the FFB processing to slow down by -8%. As a result, CPO and PK production have decreased by -7% and -1%, respectively. Nonetheless, the OER remained decent at 20.11% (+1.0%yoy) following better FFB evacuation process on improved weather conditions.

Earnings forecast. We lower our FY23 and FY24 earnings forecast to RM75.9m (-5.0%) and RM66.6m (-6%yoy) respectively, as we expect weaker performance (margin compression) in subsequent quarters and year on account of slower production output anticipated amidst sticky cost of production (average cost of production for FY22 is around RM2,600/Mt as opposed RM2,200/Mt in subsequent year).

Downgrade to NEUTRAL. We remain cautious on the business outlook, as we expect CPO price to moderate as a result from the Indonesia government's decision lifting its export restriction in end-May (2022: 23rd May) in order to reduce glutting stockpiles. Hence, we reduced our call from BUY to **NEUTRAL** with a revised TP of **RM2.20** based on PER of 8.1x which nearly 2y avg mean by pegging FY23F EPS of 27.2sen. Note that, SPB is purely upstream player and the share price is highly connected with CPO movement c. 0.89 correlation.

RETURN STATISTICS	
Price @ 23rd May 2023 (RM)	2.14
Expected share price return (%)	+2.95
Expected dividend yield (%)	+0.3
Expected total return (%)	**+2.98**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.7	5.6
3 months	5.2	-1.8
12 months	-27.5	-22.4

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	532.1	457.7	382.7
EBITDA	111.8	96.2	71.4
PBT	101.2	86.4	62.3
Core PATAMI	75.9	66.6	48.0
EPS (sen)	27.2	23.9	17.2
DPS (sen)	0.1	0.1	0.1
Dividend yield (%)	5.6	5.6	4.7

KEY STATISTICS

FBM KLCI	1,411.54
Issue shares (m)	279.03
Estimated free float (%)	18.92
Market Capitalisation (RM'm)	599.0
52-wk price range	RM1.91 – RM3.38
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.17
Top Shareholders (%)	
Ta Ann Holdings Bhd	29.41
STATE FINANCIAL	25.52
Urusharta Jamaah Sdn Bhd	5.06

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Sarawak Plantation: 1Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Revenue	**183.9**	**158.1**	**111.5**	**-29.5%**	**-39.4%**
EBITDA	84.1	32.8	28.2	-14.2%	-66.5%
EBIT	73.9	22.5	17.9	-20.3%	-75.8%
Finance cost	-0.4	-0.1	-0.1	21.7%	-78.5%
Finance Income	0.6	1.1	1.1	1.5%	66.0%
PBT	**56.6**	**11.1**	**16.0**	**44.3%**	**-71.7%**
Tax expense	-12.9	-5.9	-4.0	-33.0%	-69.4%
PATAMI	43.8	5.3	12.1	>100%	-72.3%
Core PATAMI	**61.4**	**17.6**	**15.0**	**-15.0%**	**-75.6%**
Core EPS	22.0	6.3	5.4	-15.0%	-75.6%
EBITDA margin (%)	45.7	20.8	25.3		
PBT margin (%)	30.8	7.0	14.4		
Core PATAMI margin (%)	33.4	11.2	13.4		
Effective tax rate (%)	22.8	53.1	24.6		

SEGMENTAL BREAKDOWN & OPERATIONAL STATISTICS

FYE Dec (RM'm)	Quarterly				
Revenue	**1Q22**	**4Q22**	**1Q23**	**QoQ**	**YoY**
Estate Operations	76.4	85.3	46.8	-45.1%	-38.7%
Mill Operations	167.5	224.4	103.0	-54.1%	-38.5%
Segment Profit					
Estate Operations	40.8	55.2	10.1	-81.7%	-75.2%
Mill Operations	1.7	8.4	4.8	-42.9%	>100%
Segment margin %					
Estate Operations	53.39	64.73	21.64	-0.43	-0.32
Mill Operations	1.03	3.76	4.67	0.01	0.04
Operational Stats.					
Avg CPO Price realised (RM/Mt)	5,938	3,861	3,942	2%	-34%
Avg PK Prices realised (RM/Mt)	4,375	1,945	1,927	-1%	-56%

Source: Sarawak Plantation, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue*	790.5	710.9	532.1	457.7	382.7
EBITDA	188.9	160.8	111.8	96.2	71.4
PBT	168.4	134.2	101.2	86.4	62.3
PATAMI	127.8	96.7	75.9	66.6	48.0
Core PATAMI	127.8	96.7	75.9	66.6	48.0
EPS (sen)	45.8	34.7	27.2	23.9	17.2
PER (x)	4.7x	6.2x	7.9x	9.0x	12.4x
DPS (sen)	0.2	0.2	0.2	0.1	0.1
Dividend yield (%)	8.1%	6.0%	5.6%	5.6%	4.7%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	263.8	262.7	258.1	255.3	252.9
Bearer plants	330.6	330.2	330.2	330.2	330.2
Right-of-use assets	95.1	95.2	95.2	95.2	95.2
Non-current assets	695.0	693.3	688.7	685.9	683.5
Biological assets	64.0	56.8	56.8	56.8	56.8
Inventories	19.5	18.2	13.6	11.7	10.1
Trade and other receivables	13.7	13.5	9.2	8.0	6.6
Current assets	279.6	257.4	279.5	308.7	325.3
Total Assets	**974.7**	**950.7**	**968.3**	**994.5**	**1,008.9**
Trade and other payables	69.4	64.9	48.5	41.7	35.9
Loans and Borrowings	64.8	10.3	10.3	10.3	10.3
Current liabilities	179.9	118.0	101.5	94.7	89.0
Deferred tax liabilities	126.0	123.0	123.0	123.0	123.0
Loans and Borrowings	1.9	1.3	1.3	1.3	1.3
Non-current liabilities	130.2	126.8	126.8	126.8	126.8
Equity	664.6	706.0	740.0	773.0	793.1
Total Liabilities & equity	**974.7**	**950.7**	**968.3**	**994.5**	**1,008.9**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	**168.4**	**134.2**	**101.2**	**86.4**	**62.3**
Cash flow from operations	173.36	132.35	82.30	76.86	58.90
Cash flow from investing	(75.76)	(6.84)	(9.55)	(11.06)	(11.41)
Cash flow from financing	(66.02)	(113.14)	(41.85)	(33.48)	(27.90)
Net cash flow	**31.6**	**12.4**	**30.9**	**32.3**	**19.6**
Net cash/(debt) b/f	82.0	113.6	126.0	156.9	189.2
Net cash/(debt) c/f	**113.6**	**125.985**	**156.9**	**189.2**	**208.8**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	23.9%	22.6%	21.0%	21.0%	18.7%
EBIT margin	18.7%	16.7%	18.4%	18%	15%
PBT margin	21.3%	18.9%	19.0%	18.9%	16.3%
Core PATMI margin	16.2%	13.6%	14.3%	15%	13%

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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