

30 May 2019

Hap Seng Plantations

Above Expectations

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1Q19 CNP of RM3.6m came above our expectation but missed consensus' FY19E CNP of RM50.4m. The deviation from our expectation was due to higher-than-expected FFB output and higher-than-expected CPO price. No dividend was declared as expected. Increase FY19-20E CNP to RM6.8m-RM27.8m on higher FFB output. Maintain MARKET PERFORM with an unchanged Target Price of RM1.50.

Above expectations. 1Q19 core net profit (CNP*) of RM3.6m (-77% YoY) is above our expectation but below consensus' FY19E CNP of RM50.4m. The deviation from our expectation was largely due to: (i) higher-than-expected FFB output, and (ii) higher-than-expected CPO price (RM2,099/MT vs. our FY19 forecast of RM2,000). FFB output of 189k MT (+16% YoY), which made up 28% of our full-year estimate of 681k MT is deemed above expectations as its 1Q FFB output typically accounts for 21% of full-year FFB output. No dividend was declared, as expected. HSPLANT normally declares dividend in 2Q and 4Q.

Dragged by lower CPO price. YoY, 1Q19 CNP plummeted 77% as average CPO price fell 19% to RM2,099/MT, despite a 16% increase in FFB output. In addition, the average PK price tumbled 39% to RM1,370/MT. As a result, EBIT margin eroded to 5.6% from 18.5% in 1Q19. QoQ, despite higher average CPO price of RM2,099/MT (+9%), 1Q19 CNP declined 27% as FFB output fell 13% to 189k MT.

Earnings to soften in coming quarters. Projecting into HSPLANT's next quarter, we expect earnings to soften marginally as CPO prices remain under pressure as stockpiles increase. Meanwhile, recovery from El Nino and La Nina in Sabah is expected to lend support to FFB production growth.

Increase FY19-20E CNP by 464%-7% (low base effect) to RM6.8m-RM27.8m as we lift our FY19-20E FFB output by 5-2% to 717k-723k MT and slightly tweaked for lower cost of production in view of FFB output growth.

Maintain MARKET PERFORM with an unchanged Target Price of RM1.50 based on Fwd. PBV of 0.73x applied to CY20E BVPS of RM2.07. The Fwd. PBV reflects -2.0 SD below HSPLANT's mean PBV, warranted by its previous four consecutive quarters of earnings disappointment.

Risks to our call are a sharp rise/drop in CPO prices and a precipitous rise/drop in labour/fertilizer/transportation cost.

MARKET PERFORM ↔

Price : RM1.47
Target Price : RM1.50 ↔

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	-10.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,175.5
Shares Outstanding	799.7
52-week range (H)	2.50
52-week range (L)	1.47
3-mth avg daily vol:	31,316
Free Float	23%
Beta	0.6

Major Shareholders

Hap Seng Consolidated Bhd	53.0%
Innoprise Corp Sdn Bhd	15.0%
Employees Provident Fund Board	8.7%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	390.8	389.9	429.5
EBIT	37.2	9.0	37.1
PBT	37.2	9.0	37.1
Net Profit (NP)	29.1	6.8	27.8
Core NP	29.1	6.8	27.8
Consensus (CNP)	n.a.	50.4	60.7
Earnings Revision	n.a.	464%	7%
Core EPS (sen)	3.6	0.8	3.5
Core EPS grwth (%)	-78.4	-76.7	310.3
NDPS (sen)	2.5	1.0	2.0
BV/Share (RM)	2.1	2.06	2.07
Core PER	40.4	173.3	42.2
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	N Cash	N Cash	N Cash
Net Dvd Yield (%)	1.7	0.7	1.4

*1Q19 CNP excludes PP&E write-off (RM0.2m) and gain on disposal of PP&E (RM1.1m).

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Results Highlights								
FY Dec (RM'm)	1Q19	4Q18	QoQ %	1Q18	YoY%	3M19	3M18	YoY%
Revenue	126.3	96.1	31.4%	121.2	4.2%	126.3	121.2	4.2%
Op Profit	7.1	10.0	-28.9%	22.4	-68.3%	7.1	22.4	-68.3%
Pretax Profit	7.1	10.0	-28.9%	22.4	-68.3%	7.1	22.4	-68.3%
Tax	(2.6)	(3.9)	-32.6%	(6.9)	-61.8%	(2.6)	(6.9)	-61.8%
Net Profit	4.5	6.1	-26.5%	15.5	-71.1%	4.5	15.5	-71.1%
Core Net Profit	3.6	6.4	-44.0%	15.4	-76.6%	3.6	15.4	-76.6%
Core EPS (sen)	0.5	0.8	-44.0%	1.9	-76.6%	0.5	1.9	-76.6%
Net DPS (sen)	0.0	1.0	NM	0.0	NM	0.0	0.0	NM
EBIT (%)	5.6%	10.4%		18.5%		5.6%	18.5%	
PBT (%)	5.6%	10.4%		18.5%		5.6%	18.5%	
Tax (%)	37.1%	39.1%		30.9%		37.1%	30.9%	
CPO Avg Price (RM/MT)	2,099	1,922	9.2%	2,590	-19.0%	2,099	2,590	-19.0%
PK Avg Price (RM/MT)	1,370	1,485	-7.7%	2,262	-39.4%	1,370	2,262	-39.4%
FFB Production (MT)	188,889	216,853	-12.9%	162,375	16.3%	188,889	162,375	16.3%

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	1.01	514.8	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.1	11.2	8.4	0.7	0.7	6.2%	4.0%	1.10	MP
FGV HOLDINGS BHD	1.16	4,231.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	1.0	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.10	8,188.4	Y	12/2019	2.4%	6.2%	40.6%	39.1%	56.9	44.2	34.4	2.0	2.1	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.47	1,175.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.4	173.3	42.2	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.47	1,294.5	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	84.4	46.7	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORP BHD	4.22	25,770.2	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	28.4	30.3	26.3	2.9	2.8	9.3%	1.7%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.20	25,772.2	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.9	30.0	26.4	2.3	2.2	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.62	26,488.8	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.0	22.7	21.8	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.62	31,806.7	Y	12/2019	71.7%	11.1%	126.5%	111.6%	142.2	62.8	29.7	2.4	2.4	3.8%	1.1%	4.00	UP
TA ANN HOLDINGS BERHAD	2.27	1,001.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.2	15.8	11.8	0.8	0.7	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.930	1,285.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	26.0	28.1	19.4	0.9	0.9	3.2%	0.9%	1.00	MP
UNITED MALACCA BHD	5.20	1,090.4	Y	04/2019	-35.6%	11.7%	-175.7%	-164.6%	28.4	N.A.	N.A.	0.7	0.6	3.5%	0.8%	4.90	UP
Simple Average					4.8%	11.1%	-9.5%	-20.5%	40.2	50.3	26.7	1.4	1.3	3.7%	1.5%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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