

03 June 2019

Sime Darby Plantation Bhd

Weak Results to Linger

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1Q19 CNP* of RM52m (-74% YoY; -40% QoQ) came below expectations at 5% of consensus full-year estimate and 10% of ours, mainly due to higher-than-expected production cost. However, 1Q19 FFB output of 2.52m MT (+8% YoY) aligned with our expectation at 23%. No dividend was declared during the quarter, as expected. Slash FY19E CNP by 17% to RM417m but maintain FY20E CNP of RM1.1b. Maintain UP with TP of RM4.00.

Below expectations. Sime Darby Plantation Berhad (SIMEPLT)'s 1Q19 Core Net Profit (CNP*) of RM52m (-74% YoY; -40% QoQ) came below expectations at 5% of consensus full-year estimate and 10% of ours, mainly due to higher-than-expected production cost (c.RM1,500/MT vs. our RM1,450/MT assumption). Nevertheless, 1Q19 FFB output of 2.52m MT (+8% YoY) was inline with our expectation at 23%. No dividend was declared during the quarter, as expected.

Downstream not much of a help. YoY, 1Q19 CNP plummeted 74% to RM52m on weaker Upstream performance (core PBIT -71% to RM83m), as an 8% FFB growth failed to offset lower CPO price (-18% to RM2,012/MT). Meanwhile, Downstream's core PBIT jumped 31% to RM85m on cheaper feedstock and higher sales volume (+11%), which was underpinned by favourable import duties in India and zero export levies in Indonesia. **QoQ**, despite higher CPO prices (+8%), Upstream PBIT tumbled 55% on seasonal FFB decline (-10%). In addition, Downstream's core PBIT also declined 13% owing to lower sales volume (-14%). Overall, these resulted in a 40% drop in the group's CNP.

Weakness to linger. In its briefing, management noticeably toned down its CPO price guidance – now foreseeing it to be traded in the range of RM2,000-2,250/MT in 2H19 vs. RM2,250-2,450/MT previously – citing uncertainty from the US-China trade war. We are slightly more pessimistic, with CPO price forecast range of RM1,800-2,100/MT for 2H19, as we expect rising stockpiles in both Indonesia and Malaysia (possibly revisiting the 3.0m-MT mark) to place tremendous pressure on CPO prices. On the production front, management targets 3-5% YoY FFB growth in 2Q19, translating into -0.4% to +1.5% sequential production change. Coupled with uninspiring Downstream margins amid intense competition from Indonesia, we expect earnings to remain weak in 2Q19. On a brighter note, the group remains committed to its RM1b asset monetisation plan (disposing of non-core/non-performing assets), with 80% expected to be completed this year. Management guided that about nine-tenths of the sales value would be registered as gain on disposals, translating into c.15.00 sen (or 8%) increase in BVPS upon full execution of the plan.

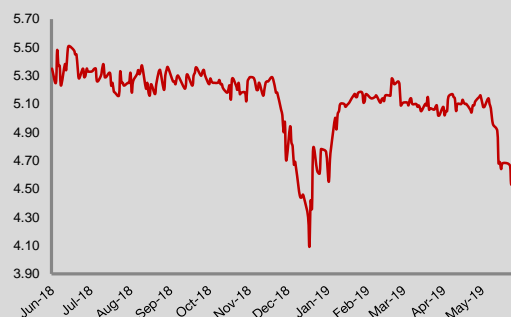
Slash FY19E CNP by 17% to RM417m after raising our unit production cost assumption from RM1,450/MT to RM1,500/MT; but **maintain FY20E CNP of RM1.1b** and unit production cost of RM1,500/MT as we expect unit cost to be contained by FFB growth and improved efficiency from mechanisation efforts.

Maintain UNDERPERFORM with an unchanged Target Price of RM4.00 based on sum-of-parts (SoP) valuation with the plantation segment valued at 25.7x CY20E PER, implying -2.0SD from its historical mean. We believe the group's near-term plantation earnings will be impeded by the depressed CPO price environment, while its downstream margins are also under pressure amid stiff competition. At current price, valuation appears expensive at CY20E PER of 29.9x (mean).

UNDERPERFORM ↔

Price : RM4.66
Target Price : RM4.00 ↔

Share Price Performance



KLCI 1,650.76
YTD KLCI chg -2.4%
YTD stock price chg -2.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPL MK Equity
Market Cap (RM m)	32,082.1
Shares Outstanding	6,884.6
52-week range (H)	5.45
52-week range (L)	3.95
3-mth avg daily vol:	3,084,935
Free Float	37%
Beta	0.87

Major Shareholders

Skim Amanah Saham Bumiputera	43.7%
Employee Provident Fund Board	14.4%
Kumpulan Wang Persaraan	4.6%

Summary Earnings Table

FYE Dec (RMm)	2018A [^]	2019E	2020E
Turnover	6,543	11,234	12,478
EBITDA	555	1,110	1,957
PBT	457	709	1,555
Net Profit (NP)	244	417	1,059
Core Net Profit	221	417	1,059
Consensus(NP)	N.A.	914	1,179
Earnings Revision	N.A.	-17%	0%
Core EPS (sen)	3.2	6.1	15.6
Core EPS growth (%)	-83.8	88.6	154.0
NDPS (sen)	1.7	4.0	10.0
BV/Share (RM)	1.93	1.95	2.01
Core PER	143.4	76.0	29.9
Price/BV (x)	2.4	2.4	2.3
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	0.4	0.9	2.1

* Our 1Q19 CNP excludes PPE write-off (RM8m) and unrealised forex gain (RM30m).

[^] 6-month period due to change in financial year-end

03 June 2019

Other Salient Points

Risks to our call include sharp rises in CPO prices and significant improvement in downstream margins.

Results Highlights									
	1Q			3Q		1Q		3Q	
FYE Dec (RMm)	FYE12/19	FYE12/18	QoQ %	FYE6/18	YoY%	FYE12/19	FYE6/18	YoY%	
Revenue	3,006	3,504	(14%)	3,659	(18%)	3,006	3,659	(18%)	
Op Profit	178	303	(41%)	401	(56%)	178	401	(56%)	
Pretax Profit	125	245	(49%)	352	(64%)	125	352	(64%)	
Tax	(14)	(86)	84%	(67)	79%	(14)	(67)	79%	
Perpetual sukuk	(31)	(30)	(3%)	(30)	(3%)	(31)	(30)	(3%)	
MI	(6)	0	nm	(6)	0%	(6)	(6)	0%	
Net Profit	74	129	(43%)	249	(70%)	74	249	(70%)	
Core Net Profit	52	86	(40%)	197	(74%)	52	197	(74%)	
EPS (sen)	1.1	1.9	(43%)	3.7	(71%)	1.1	3.7	(71%)	
Net DPS (sen)	0.0	1.7	nm	0.0	nm	0.0	0.0	nm	
EBIT %	5.9%	8.6%		11.0%		5.9%	11.0%		
PBT %	4.2%	7.0%		9.6%		4.2%	9.6%		
Tax %	11.2%	35.1%		19.0%		11.2%	19.0%		
CPO Avg	2,012	1,870	8%	2,452	(18%)	2,012	2,452	(18%)	
FFB Prod ('000 mt)	2,521	2,806	(10%)	2,339	8%	2,521	2,339	8%	

Source: Company, Kenanga Research

Segmental Breakdown									
	1Q			3Q		1Q		3Q	
FYE Dec (RMm)	FYE12/19	FYE12/18	QoQ %	FYE6/18	YoY%	FYE12/19	FYE6/18	YoY%	
Segmental Revenue									
- Upstream	722	860	(16%)	1,292	(44%)	722	1,292	(44%)	
- Downstream	2,269	2,633	(14%)	2,329	(3%)	2,269	2,329	(3%)	
- Others	15	11	36%	38	(61%)	15	38	(61%)	
Total Group	3,006	3,504	(14%)	3,659	(18%)	3,006	3,659	(18%)	
Segmental PBIT									
- Upstream	83	170	(51%)	333	(75%)	83	333	(75%)	
- Downstream	85	128	(34%)	65	31%	85	65	31%	
- Others	12	9	33%	(9)	nm	12	(9)	nm	
Total PBIT	180	307	(41%)	389	(54%)	180	389	(54%)	
Segmental Core PBIT									
- Upstream	83	185	(55%)	283	(71%)	83	283	(71%)	
- Downstream	85	98	(13%)	65	31%	85	65	31%	
- Others	10	6	67%	24	(58%)	10	24	(58%)	
Total Core PBT	178	289	(38%)	372	(52%)	178	372	(52%)	

Source: Company, Kenanga Research

03 June 2019

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	1.02	519.9	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.2	11.4	8.5	0.7	0.7	6.2%	3.9%	1.10	MP
FGV HOLDINGS BHD	1.14	4,158.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.36	8,399.2	Y	12/2019	2.4%	6.2%	40.6%	39.1%	58.4	45.3	35.3	2.0	2.2	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.50	1,199.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	41.3	176.9	43.1	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.50	1,320.9	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	86.1	47.6	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORPORATION BHD	4.31	26,319.8	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	29.0	30.9	26.8	3.0	2.8	9.3%	1.6%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.80	26,411.1	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	29.6	30.7	27.1	2.3	2.2	7.4%	1.6%	22.00	UP
PPB GROUP BERHAD	18.78	26,716.4	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	22.9	22.0	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.66	32,082.1	Y	12/2019	71.7%	11.1%	126.5%	111.6%	143.4	63.3	29.9	2.4	2.4	3.8%	0.9%	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%	0.900	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%	40.7	51.1	27.2	1.4	1.4	3.7%	1.5%		

Source: Bloomberg, Kenanga Research

03 June 2019

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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