

Sime Darby Plantation Bhd

Below Expectations

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9MFY19 CNP of RM93m (-85% YoY) came below expectations, accounting for 26%/30% of our/consensus' full-year estimates, mainly due to: (i) lower-than-expected FFB output, and (ii) higher-than-expected production cost. No dividend was declared, as expected. Reduce FY19-20E CNP by 43-16% to RM206-858m. Maintain MARKET PERFORM with a lower TP of RM5.00.

Below expectations. Sime Darby Plantation Berhad (SIMEPLT) registered 3QFY19 Core Net Profit (CNP*) of RM53m bringing 9MFY19 CNP to RM93m (-85% YoY). This came below expectations, accounting for only 26%/30% of our/consensus' estimates, mainly due to: (i) lower-than-expected 9MFY19 FFB output growth of only 1% (to 7.42m MT) vs. our growth estimate of 5%, and (ii) higher-than-expected 9MFY19 CPO production cost which we believe was c.RM1,600/MT (vs. our expected RM1,500/MT). Note that we have excluded a series of impairments amounting to RM299m mainly from discontinuing operations. No dividend was declared, as expected.

Lower CPO price – the culprit. YoY, 9MFY19 CNP plummeted (-85%) on the back of lower CPO prices (-14%) and lower FFB output (-1%), which resulted in Upstream core PBIT margin contraction (-28ppt) to 7%. Meanwhile, Downstream's core PBIT increased 13% to RM204m on cheaper feedstock and higher sales volume, underpinned by zero export levies in Indonesia and Malaysia. **QoQ**, 3QFY19 registered CNP of RM53m (from CNL of RM13m in 2QFY19) attributed to: (i) higher FFB output (+1%), and (ii) improvement in OER (+0.61ppt) to 21.85%. Additionally, Downstream' core PBIT rose (+33%) on higher capacity utilisation (+6ppt) which also contributed to the improvement.

Full impact of CPO price rally may not be felt in 4QFY19. In SIMEPLT's quarterly explanatory notes, management highlighted that the group has already committed to forward sales, which we gathered is set at around RM2,300-RM2,400/MT. As such, although we expect to see a sequential earnings improvement in 4QFY19, the impact from the CPO price rally could be slightly muted. Meanwhile, its sugar division is expected to remain a drag as it recovers from the pest issue, while harvesting season is also over.

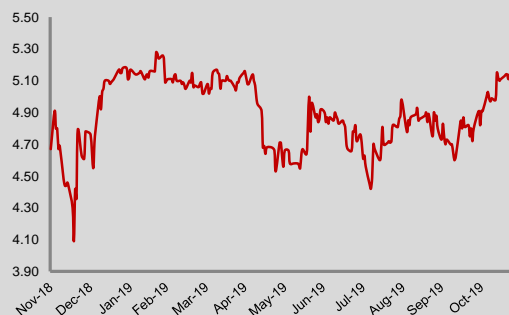
Reduce FY19-20E CNP by 43-16% to RM206-858m after: (i) lowering our FY19-20E FFB output from 10.5-10.8m MT (+3/+3% YoY) to 10.1-10.4m MT (-1%/+3% YoY), and (ii) raise FY19-20E production cost from RM1,500-1,500/MT to RM1,600-1,600/MT.

Maintain MARKET PERFORM with a lower Target Price of RM5.00 (from RM5.10) based on 2.52x CY20E PBV (vs. peers' 2.5x), reflecting -0.5SD from mean given its low earnings base. **Risks to our call include:** (i) sharp rise/fall in CPO prices, (ii) higher/lower-than-expected FFB output, and (iii) precipitous rise/fall in fertilizer/labour/transportation costs.

MARKET PERFORM ↔

Price : RM4.98
Target Price : RM5.00 ↓

Share Price Performance



KLCI 1,561.74
YTD KLCI chg -7.6%
YTD stock price chg 4.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPL MK Equity
Market Cap (RM m)	34,285.2
Shares Outstanding	6,884.6
52-week range (H)	5.32
52-week range (L)	3.95
3-mth avg daily vol:	3,487,838
Free Float	26%
Beta	0.9

Major Shareholders

Skim Amanah Saham Bumiputera	43.9%
Employee Provident Fund Board	14.2%
Kumpulan Wang Persaraan	5.6%

Summary Earnings Table

FYE Dec (RMm)	2018A [^]	2019E	2020E
Turnover	6,543	12,178	13,448
EBITDA	555	834	1,712
PBT	457	433	1,291
Net Profit (NP)	244	206	858
Core Net Profit	221	206	858
Consensus(NP)	N.A.	309	687
Earnings Revision	N.A.	-43%	-16%
Core EPS (sen)	3.2	3.0	12.6
Core EPS growth (%)	-83.8	-6.7	315.8
NDPS (sen)	1.7	2.0	8.0
BV/Share (RM)	1.93	1.94	1.99
Core PER	153.3	164.2	39.5
Price/BV (x)	2.6	2.6	2.5
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	0.3	0.4	1.6

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



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Results Highlights

	3Q	2Q		1Q*		9M	9M*	
FYE Dec (RM'm)	FYE12/19	FYE12/19	QoQ %	FYE12/18	YoY%	FYE12/19	FYE6/18	YoY%
Revenue	2,821	2,875	(2%)	3,039	(7%)	8,702	9,782	(11%)
Op Profit	110	3	3567%	252	(56%)	291	853	(66%)
Pretax Profit	84	(24)	nm	212	(60%)	185	713	(74%)
Tax	(11)	83	nm	(59)	(81%)	58	(211)	nm
Perpetual sukuk	(31)	(31)	0%	(32)	3%	(93)	(93)	0%
MI	(10)	(1)	(900%)	(6)	(67%)	(17)	(15)	(13%)
Disc. Ops	(275)	0	nm	0	nm	(275)	0	nm
Net Profit	(243)	27	nm	115	nm	(142)	394	nm
Core Net Profit	53	(13)	nm	135	(61%)	93	624	(85%)
EPS (sen)	(3.5)	0.4	nm	1.7	nm	(2.1)	5.8	nm
Net DPS (sen)	0.0	0.0	nm	0.0	nm	0.0	14.0	100%
EBIT %	3.9%	0.1%		8.3%		3.3%	8.7%	
PBT%	3.0%	-0.8%		7.0%		2.1%	7.3%	
Tax %	13.1%	345.8%		27.8%		-31.4%	29.6%	
CPO Avg	1,988	2,021	(2%)	2,117	(6%)	2,006	2,320	(14%)
FFB Prod ('000 mt)	2,470	2,430	2%	2,751	(10%)	7,421	7,527	(1%)

*Change in financial year-end from FYE (Jun) to FYE (Dec)

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q		1Q*		9M	9M*	
FYE Dec (RM'm)	FYE12/19	FYE12/19	QoQ %	FYE12/18	YoY%	FYE12/19	FYE6/18	YoY%
Segmental Revenue								
- Upstream	599	610	(2%)	700	(14%)	1,931	2,536	(24%)
- Downstream	2,191	2,251	(3%)	2,320	(6%)	6,711	7,177	(6%)
- Others	15	14	7%	19	(21%)	44	69	(36%)
Total Group	2,805	2,875	(2%)	3,039	(8%)	8,686	9,782	(11%)
Segmental PBIT								
- Upstream	91	(55)	nm	200	(55%)	119	810	(85%)
- Downstream	68	51	33%	48	42%	204	181	13%
- Others	(7)	5	nm	4	nm	10	(160)	nm
Total PBIT	152	1	>100%	252	(40%)	333	831	(60%)
Segmental Core PBIT								
- Upstream	116	(64)	nm	200	(42%)	135	886	(85%)
- Downstream	68	51	33%	48	42%	204	181	13%
- Others	10	7	43%	4	150%	27	4	575%
Total Core PBT	194	(6)	nm	252	(23%)	366	1,071	(66%)

*Change in financial year-end from FYE (Jun) to FYE (Dec)

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	0.860	434.3	Y	12/2019	-23.4%	14.5%	-57.2%	75.4%	8.6	20.1	11.5	0.6	0.6	3.0%	2.3%	0.860	UP
FGV HOLDINGS BHD	1.33	4,852.0	Y	12/2019	3.8%	4.0%	-1000.3%	12.8%	N.A.	N.A.	30.8	1.1	1.1	-0.5%	0.0%	1.25	MP
GENTING PLANTATIONS BHD	10.32	9,259.1	Y	12/2019	1.5%	10.8%	-17.0%	70.9%	58.2	76.4	48.4	2.0	2.2	2.9%	0.7%	9.65	UP
HAP SENG PLANTATIONS HLDGS	1.74	1,391.5	Y	12/2019	4.5%	14.3%	-61.0%	253.3%	47.9	122.6	34.7	0.8	0.8	0.7%	0.6%	1.90	OP
IJM PLANTATIONS BHD	1.74	1,532.2	N	03/2020	-2.8%	13.2%	71.4%	125.4%	N.A.	103.6	46.0	0.9	0.9	0.9%	0.6%	1.65	UP
IOI CORPORATION BHD	4.35	27,338.2	Y	06/2020	-2.1%	6.0%	24.5%	13.0%	35.9	28.9	25.5	2.9	2.8	10.0%	2.1%	4.45	MP
KUALA LUMPUR KEPONG BHD	23.34	24,856.3	Y	09/2020	16.2%	14.7%	46.1%	9.5%	40.3	27.6	25.2	2.4	2.3	8.5%	1.9%	24.60	OP
PPB GROUP BERHAD	18.20	25,891.3	Y	12/2019	5.4%	5.6%	17.3%	7.0%	27.4	23.4	21.8	1.2	1.2	5.3%	1.8%	17.90	MP
SIME DARBY PLANTATION BHD	4.98	34,285.2	Y	12/2019	86.1%	10.4%	-6.7%	315.8%	153.3	164.2	39.5	2.6	2.6	1.6%	0.4%	5.00	MP
SOUTHERN ACIDS MALAYSIA BHD	3.66	501.2	Y	03/2020	12.4%	6.9%	49.8%	20.0%	28.9	19.3	16.1	0.8	0.8	4.3%	1.6%	3.65	MP
TA ANN HOLDINGS BERHAD	2.99	1,317.0	Y	12/2019	1.9%	18.1%	-22.4%	34.4%	16.1	20.7	15.4	1.0	1.0	4.7%	1.7%	3.20	OP
TSH RESOURCES BHD	1.18	1,628.6	Y	12/2019	1.0%	13.3%	-1.1%	36.9%	32.9	33.1	24.2	1.1	1.1	3.4%	0.8%	1.20	MP
UNITED MALACCA BHD	5.28	1,107.2	Y	04/2020	8.1%	13.5%	-377.0%	73.1%	N.A.	N.A.	90.2	0.6	0.7	-0.5%	1.1%	5.30	MP
Simple Average					8.7%	11.2%	-102.6%	80.6%	44.9	58.2	33.0	1.4	1.4	3.4%	1.2%		

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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