

19 November 2021

Sime Darby Plantation Bhd

Higher Costs Ahead

By Adrian Kok | adrian.kok@kenanga.com.my

9MFY21 CNP of RM1.74b is deemed above our expectation (78%) and consensus' (84%). We expect a modest sequential improvement in 4QFY21 as higher CPO price should make up for lower FFB production. Raise FY21E CNP by 10%, but cut FY22E CNP by 12% (on higher fertiliser cost and tax). Downgrade to MP with a lower TP of RM4.10 (from RM4.60) @ FY22E PER of 18x (-1.0SD). FY22 prospects are less exciting, while U.S. CBP's WRO resolution remains uncertain.

Above expectations. Sime Darby Plantation Berhad (SIMEPLT) registered 9MFY21 Core Net Profit (CNP) of RM1,736m (+322% YoY) which is above both our (78%) and consensus' (84%) estimates due to higher-than-expected average CPO price. 9MFY21 FFB output of 7.0m MT (flat YoY) is at 76% of our estimate. Absence of DPS is as expected.

Boosted by upstream. YoY, 9MFY21 CNP rose (+322%, from a low base) mainly led by an improvement in upstream recurring PBIT (+156%) due to higher average CPO price (+43%) while FFB remained flat. QoQ, 3QFY21 CNP rose (+17%) as higher average CPO price (+4%) overshadowed lower FFB output (-5%).

FFB production likely to decline in 4QFY21. Management is guiding flat-to-slight negative FY21 FFB growth (in line with our flat assumption). This implies sequential production decline of ~3% in 4QFY21. That said, we think earnings could show a modest sequential improvement on higher CPO price (MPOB-QTD4QFY21 CPO price: +17% QoQ). Meanwhile, management has locked in most of its fertiliser requirements for 2022 at 30-40% higher cost, which we incorporate in our earnings revision below.

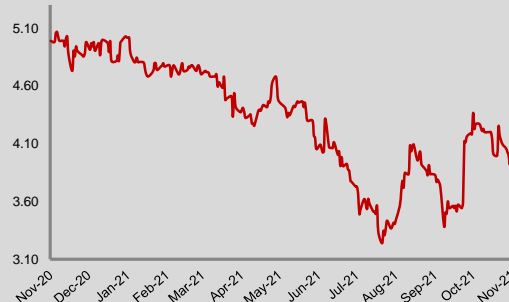
Raise FY21E CNP by 10% on higher realised average CPO price of ~RM3,600/MT (vs. RM3,400/MT previously), but reduce FY22E CNP by 12% on prosperity tax and higher fertiliser cost hike of 30% (vs. 5%).

Downgrade to MARKET PERFORM with a lower TP of RM4.10 (from RM4.60) on FY22E PER of 18x, reflecting -1.0SD from mean. Despite beating earnings expectations, we think FY22 prospects are less exciting as we expect CPO price to trend lower, for which, we have factored in an average price of RM3,200/MT. At FY22E PER of 17.5x, we think the stock is fairly valued especially with lingering ESG concerns, and hence our downgrade. At this juncture, the timeline completion of an assessment by Impactt which is an ethical trade consultancy remains in 1QFY22. Thereafter, improvements based on recommendations may have to be taken, making the resolution of U.S. CBP's WRO a lengthy one.

MARKET PERFORM

Price : RM3.96
Target Price : RM4.10

Share Price Performance



KLCI 1,523.79
YTD KLCI chg -6.4%
YTD stock price chg -20.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPL MK Equity
Market Cap (RM m)	27,386.2
Shares Outstanding	6,915.7
52-week range (H)	5.23
52-week range (L)	3.27
3-mth avg daily vol:	4,764,794
Free Float	20%
Beta	1.0

Major Shareholders

Skim Amanah Saham Bumiputera	54.0%
Employees Provident Fund Board	16.1%
Kumpulan Wang Persaraan	6.5%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	13,081	18,248	16,795
EBITDA	2,086	3,625	2,677
PBT	1,991	3,472	2,497
Net Profit (NP)*	1,185	2,440	1,568
Core Net Profit	829	2,440	1,568
Consensus (NP)	N.A.	2069	1591
Earnings Revision	N.A.	+10%	-12%
Core EPS (sen)	12.0	35.3	22.7
Core EPS growth (%)	72.3	194.3	-35.7
NDPS (sen)	11.6	21.0	14.0
BV/Share (RM)	1.98	2.12	2.20
Core PER (x)	32.9	11.2	17.5
Price/BV (x)	2.0	1.9	1.8
Net Gearing (x)	0.5	0.5	0.4
Net Dvd. Yield (%)	2.9	5.3	3.5

*Excluding disc. ops



19 November 2021

Results Highlights								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	5,061	4,411	15%	3,182	59%	13,145	9,442	39%
Op Profit (before JV and Asc)	920	932	(1%)	331	178%	2,639	1,517	74%
Pretax Profit	904	920	(2%)	311	191%	2,600	1,437	81%
Tax	-208	-217	(4%)	-74	181%	-590	-360	64%
Perpetual sukuk	-31	-31	0%	-31	0%	-93	-93	0%
MI	-30	-25	20%	-16	88%	-73	-22	232%
Disc. Ops	-25	-30	(17%)	0	nm	-55	74	nm
Net Profit	610	617	(1%)	190	221%	1,789	1,036	73%
Core Net Profit^{^*}	669	572	17%	275	143%	1,736	411	322%
EPS (sen)	8.8	8.9	(1%)	2.8	220%	25.9	15.0	72%
Net DPS (sen)	0.0	7.9	(100%)	0.0	nm	7.9	4.0	97%
EBIT %	18.2%	21.1%		10.4%		20.1%	16.1%	
PBT %	17.9%	20.9%		9.8%		19.8%	15.2%	
Tax %	23.0%	23.6%		23.8%		22.7%	25.1%	
CPO Avg	3,770	3,632	4%	2,504	51%	3,545	2,485	43%
FFB Prod ('000 mt)	2,342	2,455	(5%)	2,394	(2%)	7,005	6,982	0%

[^]Excluding disc. Ops^{*}Includes adjustments for FV gains/loss in commodities future contracts (CFC) and forward exchange contracts (FEC)

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Segmental Revenue								
- Upstream	501	687	(27%)	519	(3%)	1,726	1,858	(7%)
- Downstream	4,543	3,707	23%	2,650	71%	11,368	7,538	51%
- Others	17	17	0%	13	31%	51	46	11%
Total Group	5,061	4,411	15%	3,182	59%	13,145	9,442	39%
Segmental PBIT	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
- Upstream	902	778	16%	258	250%	2,347	1,321	78%
- Downstream	7	146	(95%)	71	(90%)	260	184	41%
- Others	16	14	14%	2	700%	44	15	193%
Total PBIT (after JV/Asc)	925	938	(1%)	331	179%	2,651	1,520	74%
Segmental Recurring PBIT	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
- Upstream	913	789	16%	273	234%	2,245	877	156%
- Downstream	7	146	(95%)	71	(90%)	260	184	41%
- Others	11	8	38%	2	450%	32	12	167%
Total Recurring PBIT	931	943	(1%)	346	169%	2,537	1,073	136%

Source: Company, Kenanga Research

19 November 2021

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
					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																	
FGV HOLDINGS BHD	1.47	5,362.8	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	21.7	16.6	16.3	1.3	1.2	7.5%	3.7%	1.45	MP
GENTING PLANTATIONS BHD	6.90	6,190.7	Y	12/2021	11.8%	-4.9%	57.8%	-3.1%	26.0	16.5	17.0	1.3	1.2	7.5%	3.8%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.05	1,639.4	Y	12/2021	45.7%	-10.7%	117.5%	-18.3%	23.7	10.9	13.3	1.0	0.9	8.6%	5.4%	2.30	OP
IJM PLANTATIONS BHD	3.10	2,729.8	N	03/2022	16.5%	-3.7%	53.3%	-20.6%	22.2	14.5	18.3	1.9	1.8	12.6%	2.9%	3.10	Accept Offer
IOI CORPORATION BHD	3.81	23,703.9	Y	06/2022	5.1%	-5.8%	11.6%	-10.6%	28.4	19.9	22.2	2.4	2.2	11.5%	2.4%	4.05	MP
KUALA LUMPUR KEPONG BHD	20.60	22,204.5	Y	09/2021	22.4%	-2.3%	83.0%	-8.5%	29.2	16.0	17.5	2.0	1.9	12.2%	2.7%	23.60	OP
PPB GROUP BERHAD	17.40	24,753.2	Y	12/2021	18.4%	11.1%	3.7%	7.9%	18.9	18.2	16.9	1.1	1.1	6.1%	2.3%	19.40	MP
SIME DARBY PLANTATION BHD	3.96	27,386.2	Y	12/2021	39.5%	-8.0%	194.3%	-35.7%	32.9	11.2	17.5	2.0	1.9	17.2%	5.3%	4.10	MP
TA ANN HOLDINGS BERHAD	3.09	1,361.0	Y	12/2021	33.1%	-12.6%	178.1%	-25.6%	21.5	7.7	10.4	1.0	0.9	12.0%	5.2%	2.85	MP
TSH RESOURCES BHD	1.11	1,532.0	Y	12/2021	64.2%	-10.8%	92.2%	-27.1%	21.3	11.1	15.2	1.0	0.9	9.2%	2.7%	1.17	MP
UNITED MALACCA BHD	5.15	1,080.3	Y	04/2022	11.1%	-1.6%	123.1%	-25.9%	38.1	17.1	23.0	0.8	0.8	4.8%	2.9%	5.25	MP
Simple Average					25.9%	-4.7%	85.9%	-15.1%	25.8	14.5	17.0	1.4	1.3	9.9%	3.6%		

Source: Bloomberg, Kenanga Research

19 November 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

