

23 November 2022

# Boustead Plantations Bhd

## Lower CPO Prices, Higher Cost

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**BPLANT's 9MFY22 missed expectations as it fell into losses in 3QFY22. Its FFB production rose seasonally by 16% QoQ but rising fertiliser costs and falling prices resulted in the group falling into the red. We cut our FY22/FY23 earnings forecasts by 33%/25%, reduce our TP by 32% to RM0.65 (from RM0.95) and downgrade our call to MARKET PERFORM from OUTPERFORM.**

**Below expectations.** 9MFY22 core net profit came in below expectations, accounting for 56% our full-year forecast and 60% of the full-year consensus estimates. The variance against our forecast came largely from lower CPO prices realised but offset by higher production cost in 3QFY22, leading to losses. The declared dividend of 1.1 sen brings the total YTD to 11.2, below our expectation of 14.0 sen.

**YoY,** revenue grew 28.9% as CPO prices remained elevated above FY21 levels. The group recorded an average CPO price of RM5,527/MT for 9MFY22, up 36% compared to 9MFY21. However, FFB production fell 8% YoY as the group continued to feel the effects of a persistent labour shortage as well as its aging palm profile. Gross profit also fell 3.5% following the acute rise in costs due to heightened fertiliser prices, the increased minimum wage and the lower production. Nevertheless, core earnings (excluding a RM367.7m pre-tax gain on land disposal during 1HFY22) grew 13% as the group continued to benefit from the elevated CPO prices, higher interest income and lower finance costs.

**QoQ,** their seasonal FFB production grew 16%, broadly in line with the 13% seasonal increase during 3QFY21. Group CPO prices came off significantly during 3QFY22, falling 35% to RM4,089/MT from the average of RM6,327/MT during 2QFY22. Revenue fell in line with CPO prices, decreasing 31.2% QoQ. However, gross profits fell 78% as elevated fertiliser prices and falling yields resulted in the group struggling to cover costs. Overall, the group fell in to the red, recording a net loss of RM4.8m.

**Looking forward.** The immediate outlook for the group looks cloudy given persistent cost pressures and challenges regarding FFB yield. While the group continues to push for improvements in its FFB production and age profile via its *Plantation Performance Improvement Programme*, immediate results may be marginal given the limited extent that such initiatives can fully address labour shortfalls and the aging palm profile. The group has already seen the impact from elevated fertiliser prices and falling yields on performance during 3QFY22 which could persist in the near to medium term.

Regarding the global edible oil market, CPO prices have come off significantly since the peak during 2QCY22, settling around the RM3,500/MT-RM4,000/MT range as supply recovers. However, prices are still above pre-CY22 levels and should stay firm on supportive post-Covid economic reopening. We expect demand recovery to continue as record high palm oil prices limited buying in 1HFY22 and, despite some relaxations, China has yet to fully revert to a new post Covid normal. Elevated fossil fuel prices are also prompting stronger demand for biofuels. Lastly, slower demand due to recession cannot be dismissed but edible oil demand has historically been resilient. As such, after accounting for recent price trends, we continue to expect CPO prices to remain elevated during FY23 but at a lower level of around RM3,800/MT compared to RM4,000/MT previously.

## MARKET PERFORM

<b>Price:</b>	<b>RM0.67</b>	↓
<b>Target Price:</b>	<b>RM0.65</b>	↓
<b>Expected Capital Gain:</b>	<b>-RM0.02</b>	<b>-3.0%</b>
<b>Expected Div. Yield:</b>	<b>RM0.125</b>	<b>+18.7%</b>
<b>Expected Total Gain:</b>	<b>RM0.105</b>	<b>+15.7%</b>

**KLCI Index** 1,441.29

### Stock Information

Bloomberg Ticker	BPLANT MK Equity
Bursa Code	5254
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	2,240.0
Market Cap (RM m)	1,500.8
Par value per share (RM)	#N/A N/A
52-week range (H)	1.25
52-week range (L)	0.60
Free Float	29%
Beta	1.5
3-mth avg daily vol:	1,560,366

### Major Shareholders

Boustead Holdings Bhd	57.4%
Lembaga Tabung Angkatan Tentera	10.6%
UBS	1.0%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1,050.0	1,187.9	887.7
EBIT	390.6	374.1	183.4
PBT	344.8	720.6	171.8
<b>Net Profit</b>	<b>242.5</b>	<b>533.4</b>	<b>123.7</b>
<b>Core Net Profit</b>	<b>242.5</b>	<b>208.4</b>	<b>123.7</b>
Consensus (NP)	-	289.7	145.3
Earnings Revision	-	-33.3%	-24.6%
Core EPS (sen)	10.8	9.3	5.5
Core EPS growth (%)	605.2%	-14.0%	-40.7%
NDPS (sen)	8.4	12.5	6.0
Price to NTA (x)	0.6	0.5	0.5
PER (x)	6.2	7.2	12.1
PBV (x)	0.6	0.5	0.5
Net Gearing (%)	35.7	21.2	23.3
Net Div. Yield (%)	12.5	18.7	9.0

### Share Price Performance



	1 mth	3 mths	12 mths
<b>Absolute (%)</b>	<b>-2.2%</b>	<b>-16.3%</b>	<b>-5.6%</b>
<b>Relative (%)</b>	<b>-1.8%</b>	<b>-13.2%</b>	<b>0.0%</b>

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**Post results**, we adjust FY22F/FY23F earnings downwards by 33%/25% as we account for the lower FFB production and significantly higher costs during 2HFY22. Additionally, we lower our FY23 CPO price assumption by 5% to RM3,800/MT. We also lower our FY22F/FY23F dividend to 12.5/6.0 sen.

**Downgrade to MARKET PERFORM with a lower TP of RM0.65.** We continue to like BPLANT for its: (i) position as a pure upstream producer as a proxy to elevated CPO prices, and (ii) cash-rich position and good dividend payout record. However, we remain cautious given cost pressures and falling yields that have begun to drag performance as commodities prices are coming off.

Overall, we downgrade BPLANT to **MARKET PERFORM** with a lower TP of RM0.65 based on FY23F PER of 12x. While we maintain a 20% discount to the prospective PER we ascribe to its larger, more integrated peers, we shift our sector target valuation to 15x as we roll our valuation basis forward. We make no adjustments to TP based on a 3-star ESG rating as appraised by us.

**Risks to our call include:** (i) lower-than-expected CPO prices, (ii) higher-than-expected rise in costs, and (iii) lower-than-expected FFB production.

### Results Highlights

Y/E : Dec (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
<b>Revenue</b>	<b>240.3</b>	<b>349.0</b>	<b>-31.2%</b>	<b>293.8</b>	<b>-18.2%</b>	<b>913.4</b>	<b>708.5</b>	<b>28.9%</b>
<b>Gross Profit</b>	<b>32.3</b>	<b>143.1</b>	<b>-77.5%</b>	<b>165.6</b>	<b>-80.5%</b>	<b>326.7</b>	<b>338.7</b>	<b>-3.5%</b>
EBITDA	27.6	140.7	-80.4%	156.5	-82.4%	691.3	303.7	127.6%
EBIT	-3.4	110.1	-103.0%	124.0	-102.7%	629.7	207.1	204.1%
<b>PBT</b>	<b>-2.1</b>	<b>111.6</b>	<b>-101.9%</b>	<b>124.3</b>	<b>-101.7%</b>	<b>619.1</b>	<b>207.6</b>	<b>198.2%</b>
Tax & Zakat	-2.7	-38.0	-92.8%	-28.4	-90.3%	-114.7	-51.6	122.2%
<b>Net profit/(Losses)</b>	<b>-4.8</b>	<b>73.7</b>	<b>-106.6%</b>	<b>95.9</b>	<b>-105.0%</b>	<b>504.4</b>	<b>156.0</b>	<b>223.4%</b>
<b>Core Net Profit/(Losses)</b>	<b>-4.8</b>	<b>70.9</b>	<b>-106.8%</b>	<b>95.9</b>	<b>-105.0%</b>	<b>176.3</b>	<b>156.0</b>	<b>13.0%</b>
EPS (sen)	-0.02	3.3	-100.6%	4.3	-100.5%	22.7	7.0	225.4%
DPS (Sen)	1.1	2.8	-60.0%	1.8	-37.1%	11.2	4.4	

### Margins

Gross	13%	41%		56%		36%	48%	
EBITDA	11%	40%		53%		76%	43%	
EBIT	-1%	32%		42%		69%	29%	
PBT	-1%	32%		42%		68%	29%	
Net	-15%	51%		58%		154%	46%	
Effective tax rate	-131%	34%		23%		19%	25%	

Source: Company, Kenanga Research

### Segmental Breakdown

	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
<b>Segmental Revenue</b>								
Domestic - Peninsular Malaysia	65.4	144.7	-54.8%	118.9	-45.0%	337.7	275.1	22.7%
Domestic - Sabah	144.1	169.0	-14.7%	157.8	-8.7%	486.7	376.3	29.4%
Domestic - Sarawak	30.7	35.2	-12.8%	17.1	80.0%	89.0	57.1	55.8%
<b>Total</b>	<b>240.3</b>	<b>349.0</b>	<b>-31.2%</b>	<b>293.8</b>	<b>-18.2%</b>	<b>913.4</b>	<b>708.5</b>	<b>28.9%</b>
<b>Segmental Operating Profit</b>								
Domestic - Peninsular Malaysia	14.6	68.8	-78.7%	61.4	-76.2%	159.1	122.1	30.3%
Domestic - Sabah	-5.0	39.9	-112.6%	66.3	-107.6%	106.2	108.9	-2.5%
Domestic - Sarawak	-7.9	3.8	-306.1%	5.3	-248.0%	-0.2	11.0	-101.7%
<b>Total</b>	<b>1.7</b>	<b>112.5</b>	<b>-98.5%</b>	<b>133.1</b>	<b>-98.7%</b>	<b>265.2</b>	<b>242.1</b>	<b>9.5%</b>

Source: Company, Kenanga Research

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### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>PLANTATION</b>																	
BOUSTEAD PLANTATIONS BHD	MP	0.670	0.650	-2.99%	1,500.8	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.2	12.1	0.5	20.3%	12.5	18.7%
FGV HOLDINGS BHD	MP	1.33	1.55	16.54%	4,852.0	Y	12/2022	35.9	26.2	12.3%	-27.1%	3.7	5.1	0.8	22.1%	8.0	6.0%
GENTING PLANTATIONS BHD	OP	6.50	7.50	15.38%	5,831.8	Y	12/2022	65.1	53.8	45.2%	-17.3%	10.0	12.1	1.1	11.4%	31.0	4.8%
HAP SENG PLANTATIONS HOLDINGS	OP	2.02	3.00	48.51%	1,615.4	Y	12/2022	30.8	24.7	23.1%	-19.9%	6.6	8.2	0.8	13.9%	20.0	9.9%
IOI CORP BHD	MP	4.02	4.10	1.99%	24,956.1	Y	06/2023	26.0	22.6	-10.2%	-13.0%	15.4	17.8	2.3	15.3%	14.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	21.30	28.00	31.46%	22,964.7	Y	09/2022	189.4	176.0	21.5%	-7.1%	11.2	12.1	1.7	17.1%	55.0	2.6%
PPB GROUP BHD	MP	16.22	17.00	4.81%	23,074.6	Y	12/2022	111.8	107.4	6.2%	-3.9%	14.5	15.1	0.9	7.4%	40.0	2.5%
SIME DARBY PLANTATION BHD	UP	4.33	3.65	-15.70%	29,945.0	Y	12/2022	29.5	24.3	1.3%	-17.7%	14.7	17.8	1.9	12.7%	17.0	3.9%
TA ANN HOLDINGS BHD	OP	3.69	5.50	49.05%	1,625.3	Y	12/2022	60.0	57.8	-8.9%	-3.8%	6.1	6.4	0.9	15.9%	50.0	13.6%
TSH RESOURCES BHD	OP	1.07	1.80	68.22%	1,476.8	Y	12/2022	16.1	16.1	2.1%	0.5%	6.7	6.6	0.6	36.2%	5.0	4.7%
UNITED MALACCA BHD	MP	5.40	5.30	-1.85%	1,132.8	Y	04/2023	48.2	40.5	-12.8%	-16.0%	11.2	13.3	0.8	7.2%	15.0	2.8%
<b>Simple Average</b>								<b>61.3</b>	<b>54.9</b>	<b>8.0%</b>	<b>-12.5%</b>	<b>10.0</b>	<b>11.4</b>	<b>1.2</b>	<b>15.9%</b>		<b>5.4%</b>

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
	<b>SPECIFIC</b>	Biodiversity Conservation	★	★	☆	
Sustainable Planting		★	★	★		
Guest Labour Welfare		★	★	★		
Supply Chain Auditing		★	★	☆		
Occupational Health & Safety		★	★	★	☆	
Waste Disposal & Pollution Control		★	★	★	☆	
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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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%

**\*\* The Expected Total Return might contain rounding discrepancy**

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

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