

29 November 2022

Hap Seng Plantations

Easier Cost Expectation Post Briefing

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HSPLANT's analyst briefing suggests flattish YoY FY22 earnings before moderating in FY23, still robust though below record FY21 levels at above historical levels. CPO prices are expected to soften but so is production cost while harvest should improve moving forward. Our earnings direction is in line with the guidance but we nudge up FY22F/FY23F core EPS slightly by 2%/2% whilst keeping our TP of RM2.50 and OUTPERFORM call given its cash flow-rich upstream operations, huge net cash position and attractive dividend yields.

We came away from HSPLANT's analyst briefing last Friday feeling assured on the following key takeaways.

- CPO price is softening but HSPLANT should continue to enjoy premium prices** moving ahead. Although the group achieved better-than-average CPO prices in 3QFY22, more "normal" CPO prices are likely in 4QFY22 and FY23. Nevertheless, HSPLANT's sale of mostly certified palm oil with lower FFA (free fatty acid) level should continue to enjoy a small premium over market prices. The guidance is for average FY22-23 CPO price of RM5,500-4,000 per MT which is in line with our price trend forecast and comparable to our assumed prices of RM5,300-4,100 per MT.
- Easier production costs post 3QFY22.** Having seen higher fertiliser cost and lower output pushing up unit cost in 3QFY22 to RM3,040 per MT of CPO, HSPLANT expects production cost to decline moving into FY23. The group has tendered for enough fertiliser to cover the first half of next year at prices 10-15% below FY22's. Coupled with expectation of higher output, HSPLANT expects overall production cost of RM2,600 per MT CPO for FY22 to abate to RM2,300 in FY23, slightly lower than our estimated production cost of RM2,700 and RM2,500 respectively.
- FFB output.** Heavy rain affected harvest and fruit evacuation in 3QFY22 at the group's estates and the situation has not changed thus far in 4QFY22. As such, HSPLANT is no longer expecting stronger YoY FFB output for FY22 but guiding for flattish YoY output of 580K MT. However, fruit production can potentially reach 670K MT in FY23. Accordingly, we are nudging our FY22 estimated FFB output from 567K to 580K MT and from 595K MT to 630K for FY23.

Minimal adjustment to core EPS of 2% for both FY22/23F, from 27.8 sen to 28.2 sen for F22 and for FY23 from 20.6 sen to 21.0 sen. No change to expected NDPS of 18.0 sen for FY22 and 13.0 sen for FY23.

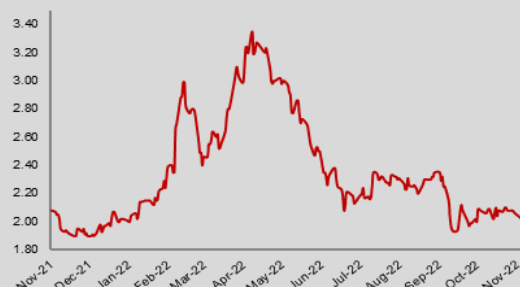
Maintain OUTPERFORM and TP of RM2.50 based on FY23F CEPS at 12x PER, which is at a 20% discount to our integrated peers' target rating of 15x. The main investment criteria for HSPLANT are: (i) highly cash-generative upstream-centric oil palm operations, (ii) solid net cash balance sheet (RM433m net cash), and (iii) a good history of dividend payout. Given the cash surplus, the group is open to acquisition but is likely to remain very selective given its past record. ESG rating of 3-star is comparable to peers thus no premium has been factored into our valuation/rating consideration.

Risks to our call include: (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) production cost inflation.

OUTPERFORM ↔

Price : RM2.01
Target Price : RM2.50 ↔

Share Price Performance



KLCI	1,486.54
YTD KLCI chg	-5.2%
YTD stock price chg	2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,607.4
Shares Outstanding	799.7
52-week range (H)	3.50
52-week range (L)	1.81
3-mth avg daily vol:	263,310
Free Float	25%
Beta	0.8

Major Shareholders

Hap Seng Consolidate	69.5%
Employees Provident	2.7%
John Chia Sin Tet	1.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	670.9	947.9	740.5
EBIT	292.6	330.4	191.0
PBT	290.3	329.2	189.8
Net Profit (NP)	224.0	248.9	167.6
Core NP	200.4	225.5	167.6
Consensus (CNP)	n.a.	245.0	156.0
Earnings Revision	n.a.	+2%	+2%
Core EPS (sen)	25.1	28.2	21.0
Core EPS grwth (%)	189.3	12.5	-25.7
NDPS (sen)	17.0	18.0	14.0
NTA/Share (RM)	2.36	2.48	2.56
Core PER (x)	8.8	7.8	10.5
Price/NTA (x)	0.93	0.89	0.86
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	7.7	8.2	6.4

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	419	468	671	948	741	Growth (%)					
EBITDA	127	199	254	416	276	Revenue	7.1	11.7	43.5	41.3	(21.9)
Depreciation	(88)	(88)	(86)	(86)	(85)	EBITDA	11.4	56.6	27.8	63.9	(33.6)
Operating Profit	38	111	293	330	191	Operating Profit	6.2	188.8	163.8	12.9	(42.2)
Total Financial Costs	(3)	(3)	(2)	(2)	(2)	Pre-tax Income	(1.6)	196.5	167.8	13.4	(42.4)
PBT	37	108	290	329	190	Core Net Income	(34.7)	229.5	189.3	12.5	(25.7)
Taxation	(5)	(18)	(66)	(104)	(46)	Profitability (%)					
Minority Interest	-	-	-	-	-	EBITDA Margin	30.3	42.5	37.8	43.9	37.3
Net Profit	31	90	224	249	168	Operating Margin	9.2	23.7	43.6	34.9	25.8
Core Net Profit	21	69	200	225	168	PBT Margin	8.7	23.2	43.3	34.7	25.6
						Core Net Margin	5.0	14.8	29.9	23.8	22.6
						Effective Tax Rate	14.0	16.7	22.8	31.5	24.0
						ROE	7.9	1.3	4.0	10.6	11.4
						ROA	1.0	3.2	8.5	8.1	6.4
Balance Sheet											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	DuPont Analysis					
Fixed Assets	1,841	1,802	1,711	1,669	1,627	Net Margin (%)	5.0	14.8	29.9	23.8	22.6
Biological Assets	25	34	58	58	58	Assets T/over (x)	0.2	0.2	0.3	0.3	0.3
Intangible Assets	54	-	-	85	(85)	Leverage Factor(x)	1.3	1.3	1.3	1.4	1.3
Other FA	51	54	91	123	96	ROE (%)	1.3	4.0	10.6	11.4	8.2
Inventories	30	32	14	28	22	Leverage					
Receivables	4	1	12	12	12	Debt/Asset (x)	2.8	2.5	2.1	1.8	1.9
Other CA	133	259	418	803	894	Debt/Equity (x)	3.6	3.2	2.6	2.5	2.4
Cash	2,138	2,182	2,303	2,778	2,625	Net Cash/(Debt)	73.6	191.3	368.2	753.8	845.0
Total Assets	39	33	52	104	81	Net Debt/Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Payables	9	10	6	6	6	Valuations					
ST Borrowings	3	5	6	5	4	EPS (sen)	3.9	11.3	28.0	31.1	21.0
Other ST Liability	50	46	43	43	43	Core EPS (sen)	2.6	8.7	25.1	28.2	21.0
LT Borrowings	384	373	379	634	446	NDPS (sen)	2.5	7.0	17.0	18.0	14.0
Other LT Liability	-	-	-	-	-	BV (RM)	2.1	2.1	2.4	2.5	2.6
Minorities Int.	1,653	1,715	1,817	1,985	2,044	PER (x)	55.9	19.5	7.9	7.1	10.5
Net Assets	1,476	1,476	1,476	1,476	1,476	Core PER (x)	83.7	25.4	8.8	7.8	10.5
Share Capital	178	240	408	510	569	Net Div. Yield (%)	1.1	3.2	7.7	8.2	6.4
Reserves	(1)	(1)	(1)	(1)	(1)	P/BV (x)	1.06	1.03	0.93	0.89	0.86
Equity	1,653	1,715	1,883	1,985	2,044	EV/EBITDA (x)	13.3	7.9	5.5	2.4	3.3
Cashflow Statement											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	126	137	304	306	257						
Investing CF	(96)	(85)	(32)	48	(33)						
Financing CF	(21)	(38)	(112)	(71)	(71)						
Change In Cash	9	14	160	283	153						
Free CF	30	52	272	354	224						

Source: Kenanga Research

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Peer Table 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.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	MP	0.665	0.650	-2.26%	1,489.6	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.1	12.0	0.5	20.3%	12.5	18.8%
FGV HOLDINGS BHD	MP	1.36	1.55	13.97%	4,961.5	Y	12/2022	35.9	26.2	12.3%	-27.1%	3.8	5.2	0.8	22.1%	8.0	5.9%
GENTING PLANTATIONS BHD	MP	6.16	6.00	-2.60%	5,526.7	Y	12/2022	56.6	44.3	26.3%	-21.8%	10.9	13.9	1.0	10.0%	27.0	4.4%
HAP SENG PLANTATIONS HOLDINGS	OP	2.01	2.50	24.38%	1,607.4	Y	12/2022	28.2	21.0	12.5%	-25.7%	7.1	9.6	0.8	12.9%	18.0	9.0%
IOI CORP BHD	MP	3.98	4.00	0.50%	24,707.7	Y	06/2023	24.8	19.6	-14.4%	-21.2%	16.0	20.4	2.2	14.6%	14.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	21.06	25.50	21.08%	22,706.0	Y	09/2023	159.2	140.9	-17.0%	-11.5%	13.2	14.9	1.6	12.2%	50.0	2.4%
PPB GROUP BHD	MP	16.20	17.00	4.94%	23,046.1	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	3.72	5.50	47.85%	1,638.5	Y	12/2022	60.0	57.8	-8.9%	-3.8%	6.2	6.4	0.9	15.9%	50.0	13.4%
TSH RESOURCES BHD	OP	1.11	1.35	21.62%	1,532.0	Y	12/2022	14.5	12.4	-7.8%	-14.3%	7.7	8.9	0.7	35.3%	5.0	4.5%
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%
Simple Average								56.9	49.4	-0.2%	-16.3%	10.5	12.6	1.2	15.0%		5.2%

Source: Bloomberg, Kenanga Research

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

☆ 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%

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

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