

23 November 2022

# Sime Darby Plantation Bhd

## Labour Shortfall Until Early FY23

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SIMEPLT's 9MFY22 results missed expectations. Its Malaysian upstream operation reported 3QFY22 losses as labour shortage capped production with softer production guidance up till possibly 1HFY23. 3QFY22 group-wide FFB harvest inched up 4% QoQ but softer CPO prices dragged earnings down QoQ and YoY. We are downgrading FY22F/FY23F core EPS (CEPS) by 19%/18%, our rating from MARKET PERFORM to UNDERPERFORM and TP from RM4.40 to RM3.65 based on historical integrated 15x PER against FY23F CEPS.

9MFY22 core net profit of RM1,517m disappointed, coming in at only 60% and 56% of our full-year forecast and the full-year consensus estimates, respectively. The variance against our forecast came largely from higher-than-expected production cost, which rose from less than RM2,500 per MT CPO to nearly RM3,000 on higher fertiliser cost as well as lower fruit production.

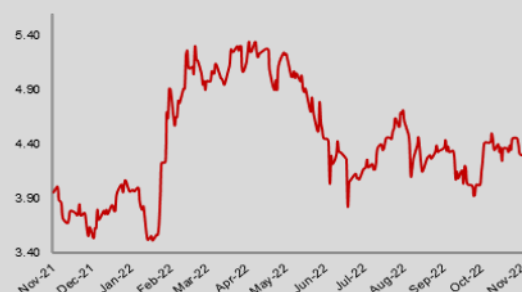
9MFY22 group EBIT managed to grow 7% YoY to RM2,828m thanks to stronger downstream margins which lifted EBIT to RM772m (+197% YoY) but upstream EBIT fell 16% YoY to RM1,979m. 3QFY22 upstream performance was much weaker than expected. The Malaysian upstream operation registered a loss of RM145m (vs. RM327m EBIT last year) and Papua New Guinea operation's earnings of RM29m (-89% YoY) was dampened by outbound shipping delays which affected sales. Overall, 3QFY22 FFB production inched up 4% QoQ but was 8% below last year's while CPO price fell 18% QoQ to RM4,277/MT. 9MFY22 average CPO price of RM4,648/MT (+31% YoY) was better than last year but cost also rose, not just from higher fertiliser cost but also on lower fruit output. The Malaysian upstream operation struggled with FFB production in 3QFY22, harvesting only 900K MT (+4% QoQ, -27% YoY) due to labour constraints as the group adjusts to new, tighter procedures in recruiting and managing overseas workers. No dividend was declared for 3QFY22, which is expected. Net gearing eased from 38% in 2QFY22 to 36% for 3QFY22 on lower working capital requirements. Including perpetual debt, net gearing dropped from 53% to 49%, QoQ.

**Looking ahead, edible oil demand usually edges up steadily year after year at 3-4% p.a.** However, unlike past seasons, demand in 2023 may register stronger than usual YoY growth despite possible economic slowdown/recession in US and Europe. For one, the spread of Covid-19 across the world dampened demand over 2020-21 with some recovery seen in 2022 which we expect to continue into 2023. China, a big vegetable oil market, has yet to revert to a new post Covid normal, though some relaxations are hinting of more easing to come, probably after this winter. Energy prices are also elevated which have and likely to continue to be supportive of biofuels. Lastly, as palm oil is trading at steep discounts to major vegetable oils, notably soy oil; hence, very competitive at the moment. All in all, we expect CPO prices to stay firm, between RM3,500/MT to RM4,000/MT for the rest of CY22 and into CY23. Average CPO price forecasts of RM4,000/RM3,500 per MT for FY22/FY23 are maintained but the production cost for SIMEPLT is raised from under RM2,500 per MT CPO to about RM3,000.

## UNDERPERFORM ↓

Price : **RM4.33**  
Target Price : **RM3.65** ↓

### Share Price Performance



KLCI	1,441.29
YTD KLCI chg	-8.1%
YTD stock price chg	15.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPL MK Equity
Market Cap (RM m)	29,945.0
Shares Outstanding	6,915.7
52-week range (H)	5.46
52-week range (L)	3.46
3-mth avg daily vol:	2,732,742
Beta	23%

### Major Shareholders

Amanah Saham Nasional	53.4%
Employee Provident Fund Board	13.6%
Kumpulan Wang Persaraan	6.6%

### Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	18,695	21,905	20,007
EBIT	3,641	2,944	2,569
PBT	3,602	2,961	2,518
<b>Net Profit (NP)</b>	<b>2,257</b>	<b>1,981</b>	<b>1,681</b>
<b>Core NP</b>	<b>2,018</b>	<b>2,043</b>	<b>1,681</b>
Consensus (CNP)	N.A.	2,658	1,963
Earnings Revision	N.A.	-19%	-18%
Core EPS (sen)	29.2	29.5	24.3
Core EPS grwth (%)	202.7	1.3	-17.7
NDPS (sen)	20.3	17.0	16.0
NTA/Share (RM)	2.20	2.31	2.40
Core PER (x)	14.8	14.7	17.8
Price/NTA (x)	2.0	1.9	1.8
Net Gearing (x)	0.3	0.3	0.2
Dividend Yield (%)	4.7	3.9	3.7

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Downgrade to UNDERPERFORM from MARKET PERFORM as we cut TP from RM4.40 to RM3.65. We are revising down FY22F/FY23F CEPS by 19%/18% due to higher costs from the combination of lower output and rising production cost. The group also needs time to fully implement all the new recruitment and management practices following the "forced labour" issue raised by the US Customs and Border Protection agency (USCBP) in Dec 2020 coupled with those recommended by RSPO as well. Altogether, the group expects to resolve and stabilise its labour issue only in 1HFY23. Our TP is based on FY23F CEPS at historical integrated PER of 15x. There is no ESG premium attached to the TP as SIMEPLT is currently rated at 3-star which is about average for the sector.

<b>Results Highlights</b>								
<i>FYE Dec (RM m)</i>	<b>3Q22</b>	<b>2Q22</b>	<b>QoQ</b>	<b>3Q21</b>	<b>YoY</b>	<b>9M22</b>	<b>9M21</b>	<b>YoY</b>
<b>Revenue</b>	<b>5,392</b>	<b>5,587</b>	<b>-3%</b>	<b>5,061</b>	<b>+7%</b>	<b>15,360</b>	<b>13,145</b>	<b>+17%</b>
Operating Profit (EBIT)	<b>622</b>	<b>1,146</b>	<b>-46%</b>	<b>920</b>	<b>-32%</b>	<b>2,828</b>	<b>2,639</b>	<b>+7%</b>
Pretax Profit	585	1,121	-48%	879	-33%	2,749	2,544	+8%
Taxation	(154)	(259)	-41%	(208)	-26%	(676)	(590)	+15%
Perpetual Sukuk	(31)	(31)	-	(31)	-	(93)	(93)	-
MI	(4)	(19)	-79%	(30)	-87%	(54)	(73)	-26%
Net Profit	<b>396</b>	<b>812</b>	<b>-51%</b>	<b>610</b>	<b>-35%</b>	<b>1,926</b>	<b>1,788</b>	<b>+8%</b>
Core Net Profit	<b>290</b>	<b>419</b>	<b>-31%</b>	<b>669</b>	<b>-57%</b>	<b>1,517</b>	<b>1,761</b>	<b>-14%</b>
<b>EPS (sen)</b>	<b>5.7</b>	<b>11.7</b>	<b>-51%</b>	<b>8.8</b>	<b>-35%</b>	<b>27.8</b>	<b>25.9</b>	<b>+8%</b>
<b>Core EPS (sen)</b>	<b>4.2</b>	<b>6.1</b>	<b>-31%</b>	<b>9.7</b>	<b>-57%</b>	<b>21.9</b>	<b>25.5</b>	<b>-14%</b>
<b>DPS (sen)</b>	-	10.0	N.A.	-	N.A.	10.0	7.9	+27%
Opg Profit %	12%	21%		18%		18%	20%	
PBT %	11%	20%		17%		18%	19%	
Tax %	26%	23%		24%		25%	23%	
CPO (RM / mt)	<b>4,277</b>	<b>5,213</b>	<b>-18%</b>	<b>3,770</b>	<b>+13%</b>	<b>4,648</b>	<b>3,545</b>	<b>+31%</b>
FFB Production (MT)	<b>2,150</b>	<b>2,075</b>	<b>+4%</b>	<b>2,342</b>	<b>-8%</b>	<b>6,134</b>	<b>7,005</b>	<b>-12%</b>

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<i>FYE Dec (RM m)</i>	<b>3Q22</b>	<b>2Q22</b>	<b>QoQ</b>	<b>3Q21</b>	<b>YoY</b>	<b>9M22</b>	<b>9M21</b>	<b>YoY</b>
<b>Segmental Revenue:</b>								
Upstream	473	348	+36%	501	-6%	1,176	1,726	-32%
Downstream	4,894	5,221	-6%	4,543	+8%	14,103	11,368	+24%
Others	25	18	+39%	17	+47%	81	51	+59%
<b>Group Revenue</b>	<b>5,392</b>	<b>5,587</b>	<b>-3%</b>	<b>5,061</b>	<b>+7%</b>	<b>15,360</b>	<b>13,145</b>	<b>+17%</b>
<b>Segmental Operating Profit:</b>								
Upstream	246	847	-71%	902	-73%	1,979	2,347	-16%
Downstream	397	243	+63%	7	+5571%	772	260	+197%
Others	(21)	56	-138%	11	-291%	77	32	+141%
<b>Group Operating Profit</b>	<b>622</b>	<b>1,146</b>	<b>-46%</b>	<b>920</b>	<b>-32%</b>	<b>2,828</b>	<b>2,639</b>	<b>+7%</b>

Source: Company, 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.
<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%

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

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