

26 January 2023

Hap Seng Plantations

Maintain Prospects of Good 4Q

By Teh Kian Yeong | tehy@kenanga.com.my

Maintain **OUTPERFORM** and TP of **RM2.50**. HSPLANT ended FY22 on marginally weaker FFB production but stronger CPO price. CPO prices should soften in FY23 but stay firm while FFB output is also expected to inch up. Maintain FY22-23F core EPS and we continue to like the group's cash generative upstream operations, net cash position and attractive yields.

Strong year-end harvest, as guided. HSPLANT ended FY22 with FFB output of 177K MT in the final quarter, up 26% QoQ and 7% YoY. 4QFY22 was thus the best quarter in terms of FFB and CPO output for the group in 2022. However, this is in line with: (a) historical trend as the group often enjoys better FFB production in the fourth quarter, and (b) the group's guidance of full-year FY22 FFB output of 580K MT (versus actual of 583K MT).

Acquisition is needed for stronger FFB uplift. We are maintaining FFB production of 630K MT come FY23 on improving yields. Without any new land bank or acquisition, FY23 harvest will largely be determined by the yield cycle of the trees, weather and labour as 88% or 35K Ha out of the group's 40K Ha is already planted, with the remaining area occupied largely by infrastructure. Acquisition cannot be dismissed given the group's sizeable cash surplus but asking prices are still quite high. An additional consideration for any acquisition is also whether the target estate and/or mill is certified or certifiable as HSPLANT is an established supplier of RSPO certified palm oil.

Range bound prices for palm oil. CPO is expected to trade between RM3,500-4,000/MT over 2023 to average at around RM3,800. However, expected CPO price for HSPLANT is RM4,100/MT in FY23 due largely to the premium the group enjoys from selling RSPO certified palm oil.

Cost pressures may ease but still high. After peaking in April 2022, IMF fertiliser price index has declined by 17% as of Dec 2022 but is still 8% higher YoY and more than 3x above the level in Dec 2020. Similarly, fuel cost remains high despite some easing while wages have been trending up. For unit cost, the prospect of higher FFB production should cushion some of the cost inflation but we stay cautious as upward cost pressure remains.

No change to forecast core EPS for FY22 and F23 at 28.2 sen and 21.0 sen, respectively. NDPS of 18.0 sen for FY22 and 14.0 sen for FY23 are also maintained.

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, 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. Even without acquisition, our FY23F core EPS of 21.0 sen is already 14% above consensus, most likely on account of our firmer CPO price expectation as we anticipate recovering demand to absorb much of the projected rise in 2023 supply.

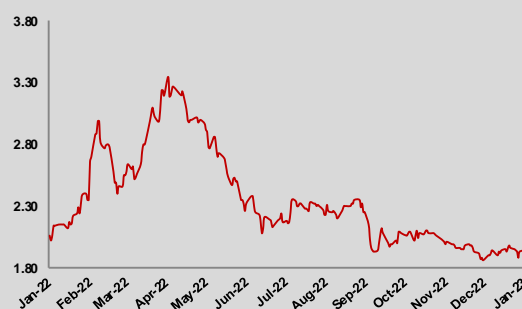
ESG rating of 3-star is comparable to peers with no premium factored into valuation/rating.

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

OUTPERFORM ↔

Price : **RM1.94**
Target Price : **RM2.50** ↔

Share Price Performance



KLCI 1,499.45
YTD KLCI chg 0.3%
YTD stock price chg 0.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,551.4
Shares Outstanding	799.7
52-week range (H)	3.35
52-week range (L)	1.86
3-mth avg daily vol:	288,364
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	248.8	167.6
Core NP	200.4	225.5	167.6
Consensus (CNP)	n.a.	224.2	146.7
Earnings Revision	n.a.	0%	0%
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

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						DuPont Analysis					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	Net Margin (%)	5.0	14.8	29.9	23.8	22.6
Fixed Assets	1,841	1,802	1,711	1,669	1,627	Assets T/over (x)	0.2	0.2	0.3	0.3	0.3
Biological Assets	25	34	58	58	58	Leverage Factor(x)	1.3	1.3	1.3	1.4	1.3
Intangible Assets	54	-	-	85	(85)	ROE (%)	1.3	4.0	10.6	11.4	8.2
Other FA	51	54	91	123	96	Leverage					
Inventories	30	32	14	28	22	Debt/Asset (x)	2.8	2.5	2.1	1.8	1.9
Receivables	4	1	12	12	12	Debt/Equity (x)	3.6	3.2	2.6	2.5	2.4
Other CA	133	259	418	803	894	Net Cash/(Debt)	73.6	191.3	368.2	753.8	845.0
Cash	2,138	2,182	2,303	2,778	2,625	Net Debt/Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Total Assets	39	33	52	104	81	Valuations					
Payables	9	10	6	6	6	EPS (sen)	3.9	11.3	28.0	31.1	21.0
ST Borrowings	3	5	6	5	4	Core EPS (sen)	2.6	8.7	25.1	28.2	21.0
Other ST Liability	50	46	43	43	43	NDPS (sen)	2.5	7.0	17.0	18.0	14.0
LT Borrowings	384	373	379	634	446	BV (RM)	2.1	2.1	2.4	2.5	2.6
Other LT Liability	-	-	-	-	-	PER (x)	55.9	19.5	7.9	7.1	10.5
Minorities Int.	1,653	1,715	1,817	1,985	2,044	Core PER (x)	83.7	25.4	8.8	7.8	10.5
Net Assets						Net Div. Yield (%)	1.1	3.2	7.7	8.2	6.4
Share Capital	1,476	1,476	1,476	1,476	1,476	P/BV (x)	1.06	1.03	0.93	0.89	0.86
Reserves	178	240	408	510	569	EV/EBITDA (x)	13.3	7.9	5.5	2.4	3.3
Equity	1,653	1,715	1,883	1,985	2,044						
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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	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	OVERALL		★	★	★	
SPECIFIC	Biodiversity Conservation	★	★	★	☆	
	Sustainable Planting	★	★	★		
	Guest Labour Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	★	
	Occupational Health & Safety	★	★	★		
	Waste Disposal & Pollution Control	★	★	★	☆	

- ☆ 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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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.				
Stocks Under Coverage																	
BOUSTEAD PLANTATIONS BHD	MP	0.655	0.650	-0.76%	1,467.2	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.0	11.9	0.5	20.3%	12.5	19.1%
FGV HOLDINGS BHD	MP	1.32	1.40	6.06%	4,815.6	Y	12/2022	32.7	22.5	2.1%	-31.1%	4.0	5.9	0.8	20.3%	8.0	6.1%
GENTING PLANTATIONS BHD	MP	5.99	6.00	0.17%	5,374.2	Y	12/2022	56.6	44.3	26.3%	-21.8%	10.6	13.5	1.0	10.0%	27.0	4.5%
HAP SENG PLANTATIONS HOLDINGS	OP	1.94	2.50	28.87%	1,551.4	Y	12/2022	28.2	21.0	12.5%	-25.7%	6.9	9.3	0.8	12.9%	18.0	9.3%
IOI CORP BHD	MP	3.85	4.00	3.90%	23,900.7	Y	06/2023	24.8	19.6	-14.4%	-21.2%	15.5	19.7	2.2	14.6%	14.0	3.6%
KUALA LUMPUR KEPONG BHD	OP	21.28	25.50	19.83%	22,943.2	Y	09/2023	159.2	140.9	-17.0%	-11.5%	13.4	15.1	1.6	12.2%	50.0	2.3%
PPB GROUP BHD	OP	17.52	18.60	6.16%	24,924.0	Y	12/2022	130.6	118.4	24.1%	-9.3%	13.4	14.8	1.0	8.2%	40.0	2.3%
SIME DARBY PLANTATION BHD	UP	4.34	3.65	-15.90%	30,014.2	Y	12/2022	29.5	24.3	1.3%	-17.7%	14.7	17.9	1.9	12.7%	17.0	3.9%
TA ANN HOLDINGS BHD	OP	3.51	5.10	45.30%	1,546.0	Y	12/2022	75.8	51.3	15.0%	-32.3%	4.6	6.8	0.9	19.8%	50.0	14.2%
TSH RESOURCES BHD	OP	1.08	1.35	25.00%	1,490.6	Y	12/2022	14.5	12.4	-7.8%	-14.3%	7.5	8.7	0.7	35.3%	5.0	4.6%
UNITED MALACCA BHD	MP	5.39	5.00	-7.24%	1,130.7	Y	04/2023	41.1	35.6	-25.6%	-13.6%	13.1	15.2	0.8	5.6%	15.0	2.8%
SECTOR AGGREGATE					119,157.6					-1.1%	-18.5%	12.0	14.7	1.1	15.2%		5.4%

Source: 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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Published 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