

29 May 2023

# Hap Seng Plantations

## Guidance of Easier 2HFY23 Cost

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HSPLANT's post-1QFY23 results guidance remains broadly as per a quarter ago. CPO price is expected to stay rangebound (RM3,500-RM4,000 per MT) but we are upgrading FY23-24F core net profit on a 3% uplift to earlier FFB expectation as well as the lowering of CPO production cost by 4%. Maintain OUTPERFORM and TP of RM2.30, which is based on 0.9x Price/NTA for FY24F which is also supported by a decent 5% dividend yield based on TP.

CPO prices are still expected to trade between RM3,500 and RM4,000 per MT. Whilst keeping to this range, we have moderated our average CPO price expectation for FY23-24F slightly, from RM3,800 to RM3,700 per MT. As HSPLANT tends to enjoy a premium for its RSPO certified palm oil, the average CPO price for HSPLANT should be closer to RM3,900 per MT for FY23-24 (down from RM4,100 previously). Since this has been reflected in our latest results note, there is no change to our CPO price assumption after the briefing.

HSPLANT is also retaining earlier FY23F FFB target. With production visible till mid-May, HSPLANT remains optimistic of reaching its Feb 2023 guidance of 0.690m MT in FFB harvest for FY23, with peak fruiting expected in 4QFY23. 1QFY23 FFB output of 0.156m MT (-12% QoQ, +15% YoY) was indeed good in spite of the QoQ dip which is seasonal. Historically, HSPLANT's first quarter normally suffers a 23% QoQ in FFB production. Given the robust 1QFY23 harvest and HSPLANT's confidence of its FY23F harvest, we are revising up our FFB forecast from 0.630m MT to 0.650m MT for FY23 but this is still short of the 0.690m MT target as the forecast imputes in ideal palm yields, workforce efficiency and kind weather condition.

**Easier production costs in 2HFY23.** 1QFY23 cost of producing CPO averaged out to RM2,750 per MT or 27% higher YoY. However, HSPLANT is expecting full-year CPO cost to ease to RM2,300 per MT (vs. our earlier expectation of RM2,400). Labour cost rose 36% YoY as the latest minimum wage hike, from RM1,100 to RM1,500, took effect on 1 May 2022. However, fertiliser cost has fallen and the group has locked-in its 2HFY23 requirement at lower prices. Altogether, HSPLANT expects FY23F fertiliser cost to fall by almost 10% YoY. By FY24, lower diesel consumption is also expected. 60% of the group's electricity needs in the estates is already provided by two existing bio-gas capture and power generation facilities. A third facility is being constructed and when ready in FY24, the group should be 80% self-sufficient in electricity.

**6% and 8% upgrade to FY23-24F core net profit, respectively** on 3% higher FFB output and 4% cut to CPO production cost on lower fertiliser prices, easier diesel prices and less diesel consumption in FY24. Higher FFB output is also helping to contain rising wages. Maintain FY23-24F NDPS of 12.0 sen each.

**Maintain OUTPERFORM and TP of RM2.30** based on 0.9x FY24F Price/NTA. The TP also translates to a decent dividend yield of 5%. However, the main investment case for HSPLANT remains: (a) its highly cash-generative upstream-centric oil palm operations, (ii) solid net cash position of RM412m, and (iii) a good history of dividend payout. The group is also open to acquisition but on very selective basis. 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 : RM1.90  
Target Price : RM2.30 ↔

### Share Price Performance



KLCI 1,402.98  
YTD KLCI chg -6.2%  
YTD stock price chg -2.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,519.4
Shares Outstanding	799.7
52-week range (H)	2.88
52-week range (L)	1.68
3-mth avg daily vol:	443,630
Free Float	26%
Beta	0.9

### Major Shareholders

Hap Seng Consolidate	69.5%
Employees Provident	1.7%
Prudential Unit Trust	1.0%

### Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	814.6	726.1	734.2
EBIT	266.9	122.1	132.6
PBT	264.0	120.6	131.2
<b>Net Profit (NP)</b>	<b>210.3</b>	<b>112.4</b>	<b>120.4</b>
<b>Core NP</b>	<b>204.4</b>	<b>112.4</b>	<b>120.4</b>
Consensus (CNP)	-	123.9	119.2
Earnings Revision	-	+6%	+8%
Core EPS (sen)	25.6	14.1	15.1
Core EPS grwth (%)	2.0	-45.0	7.2
NDPS (sen)	12.0	12.0	12.0
NTA/Share (RM)	2.41	2.46	2.52
Core PER (x)	7.4	13.5	12.6
Price/NTA (x)	0.79	0.77	0.76
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	6.3	6.3	6.3

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	468	671	815	726	734	<b>Growth (%)</b>					
EBITDA	199	275	283	209	215	Revenue	11.7	43.5	21.4	(10.9)	1.1
Depreciation	(88)	(86)	(85)	(87)	(82)	EBITDA	56.6	38.5	2.9	(26.2)	2.8
Operating Profit	111	293	267	122	133	Operating Profit	188.8	163.8	(8.8)	(54.3)	8.7
Total Financial Costs	(3)	(2)	(3)	(4)	(4)	Pre-tax Income	196.5	167.8	(9.1)	(54.3)	8.8
PBT	108	290	264	121	131	Core Net Income	229.5	189.3	2.0	(45.0)	7.2
Taxation	(18)	(66)	(54)	(27)	(28)	<b>Profitability (%)</b>					
Minority Interest	-	-	-	-	-	EBITDA Margin	42.5	41.0	34.8	28.8	29.2
Net Profit	90	224	210	112	120	Operating Margin	23.7	43.6	32.8	16.8	18.1
Core Net Profit	69	200	204	112	120	PBT Margin	23.2	43.3	32.4	16.6	17.9
						Core Net Margin	14.8	29.9	25.1	15.5	16.4
						Effective Tax Rate	16.7	22.8	20.3	22.0	21.0
						ROE	7.9	4.0	10.6	10.6	5.7
						ROA	3.2	8.5	8.4	4.4	4.7
Balance Sheet											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	<b>DuPont Analysis</b>					
Fixed Assets	1,802	1,711	1,732	1,685	1,656	Net Margin (%)	14.8	29.9	25.1	15.5	16.4
Biological Assets	34	58	29	29	29	Assets T/over (x)	0.2	0.3	0.3	0.3	0.3
Intangible Assets	-	-	-	-	-	Leverage Factor(x)	1.3	1.3	1.3	1.3	1.3
Other FA	54	91	120	94	95	ROE (%)	4.0	10.6	10.6	5.7	6.0
Inventories	32	14	9	22	22	<b>Leverage</b>					
Receivables	1	12	25	25	25	Debt/Asset (x)	2.5	2.1	2.8	2.7	2.7
Other CA	259	418	506	702	734	Debt/Equity (x)	3.2	2.6	3.5	3.5	3.4
Cash	2,182	2,303	2,421	2,557	2,561	Net Cash/(Debt)	191.3	368.2	438.0	719.3	666.4
Total Assets	1,802	1,711	1,732	1,685	1,656	Net Debt/Equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Payables	33	52	61	80	81	<b>Valuations</b>					
ST Borrowings	10	6	10	10	10	EPS (sen)	11.3	28.0	26.3	14.1	15.1
Other ST Liability	5	6	-	4	4	Core EPS (sen)	8.7	25.1	25.6	14.1	15.1
LT Borrowings	46	43	58	58	58	NDPS (sen)	7.0	17.0	12.0	12.0	12.0
Other LT Liability	373	379	362	437	398	BV (RM)	2.1	2.4	2.4	2.5	2.5
Minorities Int.	-	-	-	-	-	PER (x)	16.8	6.8	7.2	13.5	12.6
<b>Net Assets</b>	<b>1,715</b>	<b>1,817</b>	<b>1,929</b>	<b>1,969</b>	<b>2,011</b>	Core PER (x)	21.9	7.6	7.4	13.5	12.6
Share Capital	1,476	1,476	1,476	1,476	1,476	Net Div. Yield (%)	3.7	8.9	6.3	6.3	6.3
Reserves	239	407	454	493	535	P/BV (x)	0.9	0.8	0.8	0.8	0.8
<b>Equity</b>	<b>1,715</b>	<b>1,883</b>	<b>1,929</b>	<b>1,969</b>	<b>2,011</b>	EV/EBITDA (x)	6.7	4.2	3.8	3.8	4.0
Cashflow Statement											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	137	305	298	200	202						
Investing CF	(85)	(34)	55	(37)	(42)						
Financing CF	(38)	(112)	(161)	(93)	(93)						
Change In Cash	14	159	192	70	67						
Free CF	52	271	353	163	160						

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.				
PLANTATION																	
FGV HOLDINGS BHD	MP	1.40	1.40	0.00%	5,107.4	Y	12/2023	21.5	21.7	-44.6%	0.9%	6.5	6.5	0.8	12.1%	8.0	5.7%
GENTING PLANTATIONS BHD	MP	6.05	5.50	-9.09%	5,428.0	Y	12/2023	24.0	26.2	-54.1%	8.8%	25.2	23.1	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.90	2.30	21.05%	1,519.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.5	12.6	0.8	5.8%	12.0	6.3%
IOI CORP BHD	MP	3.91	4.20	7.42%	24,266.8	Y	06/2023	26.8	21.2	-7.6%	-20.8%	14.6	18.4	2.2	15.7%	14.0	3.6%
KUALA LUMPUR KEPONG BHD	OP	21.64	24.50	13.22%	23,337.4	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.3	13.9	1.6	7.8%	50.0	2.3%
PPB GROUP BHD	OP	15.92	19.30	21.23%	22,647.8	Y	12/2023	109.7	121.2	-28.1%	10.4%	14.5	13.1	0.8	5.9%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.22	3.65	-13.51%	29,184.3	Y	12/2023	7.2	8.3	-75.5%	15.1%	58.3	50.6	1.7	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.32	3.40	2.41%	1,462.3	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.6	9.7	0.8	7.8%	25.0	7.5%
TSH RESOURCES BHD	MP	0.950	1.10	15.79%	1,311.2	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.4	8.8	0.7	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.32	5.00	-6.02%	1,116.0	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.7	15.0	0.8	5.3%	15.0	2.8%
Sector Aggregate					115,380.6					-41.4%	5.7%	17.9	16.9	1.1	8.1%		3.6%

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	★	★	★	☆	
<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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