

21 November 2023

# Hap Seng Plantations

## Lower Cost Boosts Sequential Earnings

By **Teh Kian Yeong** | [tehy@kenanga.com.my](mailto:tehy@kenanga.com.my)

**HSPLANT's 9MFY23 results met our expectation but disappointed the market. Its 3QFY23 core net profit jumped 86% QoQ underpinned by steady CPO prices and lower costs which lifted margins. We maintain our forecasts but tone down our TP by 6% to RM1.70 (from RM1.80). Maintain MARKET PERFORM.**

HSPLANT's 9MFY23 core net profit (excluding RM11m fair value gains) met our expectation at 72% of our full-year forecast but disappointed the market at only 65% of the full-year consensus estimate. As is the usual practice for HSPLANT which only pay half yearly dividends, no dividend was declared for this 3Q.

Its 3QFY23 core net profit (excluding RM17.7m fair value gains) recovered from a very weak 2QFY23 largely on better margins and FFB harvest of 0.159m MT (+12% QoQ, +13% YoY). An average CPO price realised of RM3,924 per MT (-1% QoQ, -25% YoY) was essentially flat QoQ; hence, better margins came from lower unit costs, thanks to higher FFB output and lower cost. About 40% of the full year's manuring was applied in 2QFY23 and at old fertiliser prices which were 20%-30% higher than current fertiliser prices.

**CPO prices should stay firm going into FY24.** Global edible oils supply-demand in 2024 should stay fragile, more so than even 2023. Demand is reverting back to 3%-4% YoY trend line growth. However, supply growth is shaky due to current dry weather affecting Brazilian soya planting while SE Asian oil palm yields are affected by ageing trees. We are keeping sector CPO prices at RM3,800 per MT over 2023-24 but as HSPLANT historically enjoys premium for its certified palm oil, the assumed CPO price for HSPLANT is closer to RM4,000 for FY23-24.

**Keeping FFB estimate at 660k MT.** HSPLANT is aiming for 690k MT of FFB this year. We doubt this is achievable as 10-month FFB output is only 0.519m MT and harvest is peaking in Oct or Nov. Unless Nov and Dec production accelerates 20% MoM, HSPLANT is more likely to end up with 640k-660k MT, hence we are keeping our 660k estimate.

**Easier production costs ahead** thanks to: (a) the impact of the May 2022 minimum wage hike of 25% flattening out, (b) easier fertiliser and energy costs since 1Q this year as well as (c) higher FFB production, not just from QoQ seasonal effect but also better YoY yields.

**Forecasts.** Maintained.

However, we tone down our TP by 6% to RM1.70 (from RM1.80) as we rationalise our valuation basis to 16x forward PER, in line with the 6-month average for smaller plantation companies (from 0.7x P/NTA previously). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 2). We maintain an annual NDPS of 7.0 sen.

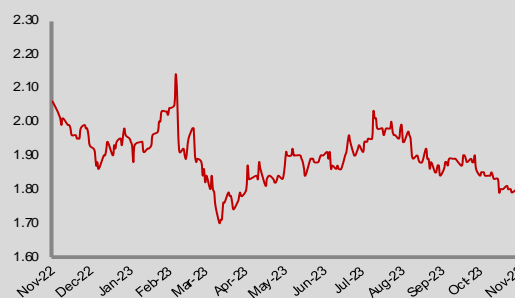
The long-term investment case for HSPLANT is one of defensiveness: (i) a highly cash-generative upstream-centric oil palm operations, (ii) solid net cash position of RM415m, and (iii) decent dividend track record, though near-term cost management need to be addressed. Maintain **MARKET PERFORM**.

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

## MARKET PERFORM ↔

**Price :** **RM1.81**  
**Target Price :** **RM1.70** ↓

### Share Price Performance



KLCI	1,456.92
YTD KLCI chg	-2.6%
YTD stock price chg	-6.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK EQUITY
Market Cap (RM m)	1,447.4
Shares Outstanding	799.7
52-week range (H)	2.16
52-week range (L)	1.68
3-mth avg daily vol:	210,183
Free Float	26%
Beta	0.9

### Major Shareholders

Hap Seng Consolidate	69.5%
Employees Provident	1.7%
Public Smallcap Fund	1.0%

### Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	814.6	712.0	722.5
EBIT	266.9	87.1	99.5
PBT	264.0	85.7	98.0
<b>Net Profit (NP)</b>	<b>210.3</b>	<b>85.1</b>	<b>94.2</b>
<b>Core NP</b>	<b>204.4</b>	<b>85.1</b>	<b>94.2</b>
Consensus (CNP)	-	93.4	116.2
Earnings Revision	-	-	-
Core EPS (sen)	25.6	10.6	11.8
Core EPS growth (%)	2.0	-58.4	10.7
NDPS (sen)	12.0	7.0	7.0
NTA/Share (RM)	2.41	2.46	2.50
Core PER (x)	7.1	17.0	15.4
Price/NTA (x)	0.75	0.74	0.72
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	6.6	3.9	3.9

21 November 2023

Results Highlights								
FYE Dec (RM m)	3Q23	2Q23	QoQ	3Q22	YoY	9MFY23	9MFY22	YoY
<b>Revenue</b>	<b>164.6</b>	<b>168.8</b>	<b>-3%</b>	<b>182.0</b>	<b>-10%</b>	<b>493.3</b>	<b>671.0</b>	<b>-26%</b>
Operating Profit	50.0	14.0	258%	18.0	178%	96.2	238.4	-60%
Pretax Profit	49.2	13.2	273%	17.2	185%	93.9	236.3	-60%
Taxation	(11.3)	(3.8)	201%	5.6	-301%	(23.2)	(44.8)	-48%
<b>Net Profit</b>	<b>37.8</b>	<b>9.4</b>	<b>302%</b>	<b>22.9</b>	<b>65%</b>	<b>70.7</b>	<b>191.4</b>	<b>-63%</b>
<b>Core Net Profit</b>	<b>20.2</b>	<b>10.8</b>	<b>86%</b>	<b>47.1</b>	<b>-57%</b>	<b>60.9</b>	<b>180.9</b>	<b>-66%</b>
<b>Core EPS (sen)</b>	<b>2.5</b>	<b>1.4</b>	<b>86%</b>	<b>5.9</b>	<b>-57%</b>	<b>7.6</b>	<b>22.6</b>	<b>-66%</b>
<b>DPS (sen)</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>-</b>	<b>N.a.</b>	<b>1.5</b>	<b>5.0</b>	<b>-70%</b>
EBIT %	30%	8%		10%		20%	36%	
PBT %	30%	8%		9%		19%	35%	
Tax %	23%	29%		-33%		25%	19%	
CPO (RM / MT)	3,924	3,978	-1%	5,219	-25%	3,994	5,999	-33%
PK (RM / MT)	2,142	2,168	-1%	2,543	-16%	2,164	3,712	-42%
FFB Production (MT)	158,853	141,799	12%	140,301	13%	459,962	406,062	13%

Source: Company, 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

21 November 2023

### 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	AO	1.53	1.55	1.3%	3,427.2	Y	12/2023	2.0	3.1	-85.5%	53.1%	75.8	49.5	1.2	1.6%	8.0	5.2%
GENTING PLANTATIONS BHD	MP	5.54	5.50	-0.7%	4,970.3	Y	12/2023	25.2	26.9	-51.8%	6.5%	21.9	20.6	0.9	4.2%	13.0	2.3%
HAP SENG PLANTATIONS HOLDING	MP	1.81	1.70	-6.1%	1,447.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	17.0	15.4	0.7	4.4%	7.0	3.9%
IOI CORP BHD	MP	3.95	3.80	-3.8%	24,504.6	Y	06/2024	24.6	24.7	1.4%	0.1%	16.0	16.0	2.2	14.5%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	22.00	24.50	11.4%	23,725.6	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.6	14.1	1.6	7.8%	50.0	2.3%
PPB GROUP BHD	OP	14.58	19.30	32.4%	20,741.5	Y	12/2023	75.0	114.3	-50.8%	52.4%	19.4	12.8	0.8	4.1%	45.0	3.1%
SIME DARBY PLANTATION BHD	UP	4.37	3.65	-16.5%	30,221.7	Y	12/2023	11.2	10.7	-62.3%	-4.3%	39.2	40.9	1.8	5.0%	8.0	1.8%
TA ANN HOLDINGS BHD	MP	3.53	3.40	-3.7%	1,554.8	Y	12/2023	32.8	34.4	-65.5%	4.6%	10.7	10.3	0.9	8.2%	25.0	7.1%
TSH RESOURCES BHD	MP	1.00	1.00	0.0%	1,380.2	Y	12/2023	4.2	6.3	-79.6%	51.6%	24.0	15.8	0.7	6.5%	1.0	1.0%
UNITED MALACCA BHD	MP	4.96	5.00	0.8%	1,040.5	Y	04/2024	33.0	25.3	-40.3%	-23.4%	15.0	19.6	0.7	4.4%	12.0	2.4%
<b>Simple Average</b>					<b>113,013.7</b>					<b>-45.1%</b>	<b>18.9%</b>	<b>21.4</b>	<b>18.0</b>	<b>1.2</b>	<b>6.6%</b>		<b>3.0%</b>

Source: Bloomberg, Kenanga Research

21 November 2023

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

---

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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)