

29 May 2024

Hap Seng Plantations

Buoyed by Lower Production Cost

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HSPLANT's 1QFY24 results met our expectation but disappointed the market. Its 1QFY24 core net profit rose 6% YoY as lower production cost and better palm kernel prices more than offset weak CPO prices and FFB production. We maintain our forecasts, TP of RM2.00 and MARKET PERFORM call.

HSPLANT's 1QFY24 core net profit of RM21.7m (excluding RM15m fair value gains and RM0.3m disposal loss) came in at only 21% and 19% of our full-year forecast and the full-year consensus estimate, respectively. We consider the results within our forecast (given the low FFB harvest temporarily ahead and during the festive period, which should have started to pick up thereafter) but disappointed the market. No dividend was declared for the first quarter as usual.

YoY, its 1QFY24 revenue eased 0.6% on a 2% lower average CPO price realised of RM4,023/MT and a 5% fall in FFB production to 0.149m MT. However, its core net profit rose 6% thanks to lower production cost and a 7% rise in average palm kernel price realised (of which sales proceeds were used to offset CPO production cost).

QoQ, its 1QFY24 top line eased 9% largely due to a 17% decline in FFB production to 0.149m MT, partially cushioned by a 6% rise in average CPO price realised to RM4,023/MT. Its core net profit plunged by a sharper 44% due to loss of operating scale and a higher effective tax rate.

Outlook. We expect firm CPO prices in FY24 as global edible oils supply-demand in 2024 looks to stay fragile, with slightly tighter inventory levels expected. Trend line YoY demand growth of 3%-4% is likely but supply growth is expected to hinge only on soya as flattish palm oil along with rapeseed and sunflower harvests are expected for this vegetable oil season. Therefore, we maintain our sector CPO price of RM3,800 per MT for CY24-25 but RM4,000 for HSPLANT as it historically enjoys premium prices for its certified palm oil.

Meanwhile, production cost is likely to stay easier thanks to: (a) lower fertiliser and energy costs, and (b) FFB harvest anticipated to improve by 5% to 0.670m MT for FY24-25 and palm kernel (PK) prices appear to be bottoming out with HSPLANT already reporting better PK price of RM2,329 per MT (+9% QoQ, +7% YoY0 in 1QFY24. Higher sales for PK, a byproduct of milling CPO, will thus help contain overall CPO cost further.

Forecasts. No change.

Valuations. We also maintain our TP of RM2.00 based on 16x forward PER, which is in line with the 6-month average for smaller plantation companies. 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 sen.

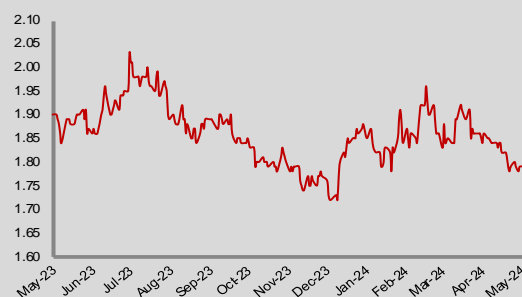
Investment case. HSPLANT's investment case is one of sustainable income yield and defensiveness on the back of: (i) highly cash-generative upstream oil palm operations, (ii) strong net cash position, and (iii) decent dividend track record. However, valuations are fair at the current level. Maintain **MARKET 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 : RM1.79
Target Price : RM2.00 ↔

Share Price Performance



KLCI 1,615.82
YTD KLCI chg 11.1%
YTD stock price chg 4.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker HAPL MK EQUITY
Market Cap (RM m) 1,431.4
Shares Outstanding 799.7
52-week range (H) 2.06
52-week range (L) 1.72
3-mth avg. daily vol. 455,893
Free Float 25%
Beta 1.0

Major Shareholders

Hap Seng Consolidate 69.5%
Public Smallcap Fund 2.0%
Eastspring Inv Small 1.5%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	667.8	699.8	747.0
EBIT	124.2	109.5	110.6
PBT	124.9	110.2	111.9
Net Profit (NP)	91.4	102.2	105.1
Core NP	90.4	102.2	105.1
Consensus (CNP)	-	110.4	112.8
Earnings Revision	-	-	-
Core EPS (sen)	11.3	12.8	13.1
Core EPS Growth (%)	-55.8	13.0	2.8
NDPS (sen)	6.8	7.0	7.0
NTA/Share (RM)	2.44	2.49	2.55
Core PER (x)	15.8	14.0	13.6
Price/NTA (x)	0.73	0.72	0.70
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	3.8	3.9	3.9

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Results Highlights								
FYE Dec (RM m)	1Q24	4Q23	QoQ	1Q23	YoY	3MFY24	3MFY23	YoY
Revenue	159.0	174.6	-9%	159.9	-0.6%	159.0	159.9	-0.6%
Gross Profit	34.4	42.8	-20%	27.3	26%	34.4	27.3	26%
EBIT	34.5	45.4	-24%	29.4	17%	34.5	29.4	17%
Interest expenses	(0.8)	(0.8)	4%	(0.8)	2%	(0.8)	(0.8)	2%
EI (to be excluded fr N Profit)	14.8	(18.2)	-181%	2.9	405%	14.8	2.9	405%
Pretax Profit	48.5	26.4	84%	31.5	54%	48.5	31.5	54%
Taxation	(11.9)	(5.7)	109%	(8.1)	48%	(11.9)	(8.1)	48%
Net Profit	36.5	20.7	77%	23.4	56%	36.5	23.4	56%
EI (excluded fr N Profit)	(14.8)	18.2	-181%	(2.9)	405%	(14.8)	(2.9)	405%
Core Net Profit	21.7	38.9	-44%	20.5	6%	21.7	20.5	6%
Core EPS (sen)	2.7	4.9	-44%	2.6	6%	2.7	2.6	6%
DPS (sen)	-	5.3	-	-	-	-	-	-
GP %	22%	25%		17%		22%	17%	
EBIT %	22%	26%		18%		22%	18%	
PBT %	30%	15%		20%		30%	20%	
Tax %	25%	22%		26%		25%	26%	
CPO (RM / MT)	4,023	3,798	6%	4,088	-2%	4,023	4,088	-2%
PK (RM / MT)	2,329	2,128	9%	2,182	7%	2,329	2,182	7%
FFB Production (MT)	149,067	180,656	-17%	156,310	-5%	149,067	156,310	-5%

Source: Company, 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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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. 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																	
GENTING PLANTATIONS BHD	MP	6.00	6.00	0.0%	5,383.0	Y	12/2024	33.9	36.1	21.0%	6.4%	17.7	16.6	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HOLDING	MP	1.79	2.00	11.7%	1,431.4	Y	12/2024	12.8	13.1	13.0%	2.9%	14.0	13.6	0.7	5.1%	7.0	3.9%
IOI CORP BHD	MP	3.93	4.10	4.3%	24,380.5	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.8	18.5	2.2	11.6%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	21.98	21.00	-4.5%	24,099.0	Y	09/2024	90.0	125.7	8.7%	39.7%	24.4	17.5	1.6	6.7%	50.0	2.3%
PPB GROUP BHD	OP	14.90	18.50	24.2%	21,196.7	Y	12/2024	115.9	137.1	44.0%	18.3%	12.9	10.9	0.7	5.8%	45.0	3.0%
SIME DARBY PLANTATION BHD	MP	4.33	4.00	-7.6%	29,945.0	Y	12/2024	16.6	18.8	30.1%	13.5%	26.1	23.0	1.7	6.6%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.99	4.00	0.3%	1,757.4	Y	12/2024	40.9	43.5	3.5%	6.2%	9.8	9.2	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.12	1.30	16.1%	1,545.8	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.2	15.2	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.07	6.00	18.3%	1,063.5	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.6	15.4	0.7	3.2%	12.0	2.4%
Simple Average					110,802.5					11.0%	18.3%	19.5	16.5	1.2	7.1%		3.3%

Source: Bloomberg, 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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