

31 May 2024

Hap Seng Plantations

Better FFB Harvest Expected

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

HSPLANT guided for flat but firm CPO price of RM4,000/MT and easier production cost which correspond with our assumptions. We maintain our forecasts but raise our FY24-25F NDPS forecasts from 7 sen to 8 sen. We maintain our TP of RM2.00 and MARKET PERFORM call.

We came away from HSPLANT's results briefing feeling assured after the following key takeaways were addressed:

- FY24 CPO prices to stay flat but firm at around RM4,000/MT.** The group guided for slightly firmer QoQ CPO prices in 2Q due to short dated 1-2 months forward sales.

However, for the full year, HSPLANT is still expecting CPO prices to hover around RM4,000/MT which is in line with our CY24-25 CPO estimates. Therefore, no change to our CPO price assumptions.

Note that our sector CPO price expectation of RM3,800/MT for CY24-25 is at discount to HSPLANT's prices because, historically, the group's RSPO-certified palm oil enjoys better prices over the sector average.

- Still expecting FFB to grow YoY.** The group continues to guide for 0.7m MT FFB output for the full year FY24, a 10% YoY increase in production on improving crop or yields cycle. However, we are more comfortable with a lower FFB output; hence, leaving our estimates of 0.67m MT for FY24 and 0.7m MT in FY25 intact.
- Easier production cost likely.** Compared to CPO production cost of RM2,562 per MT in FY23, HSPLANT expects production cost to dip to RM2,200 per MT if FFB output can reach 0.7m MT with fertiliser costs expected to nearly halve, from around RM2,700 per MT in FY23 to RM1,400 per MT in FY24.
- 60%-70% dividend pay-out likely to stay for FY24-25.** Having closed March 2024 with RM471m in net cash, HSPLANT is expected to continue paying out around 60%-70% of its basic EPS as dividends. Over the past 10 years, the group has been paying out 46% to 81% (65% on average) of its EPS as dividends. As such, given our respective core EPS of 12.8 sen and 13.1 sen, we are nudging up FY24-25 NDPS from 7 sen to 8 sen.

Forecasts. No change.

Valuations. TP is also kept unchanged at RM2.00 using the same valuation basis of 16x forward PER, being 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 3). However, we have raised our annual NDPS from 7 sen to 8 sen for FY24-25.

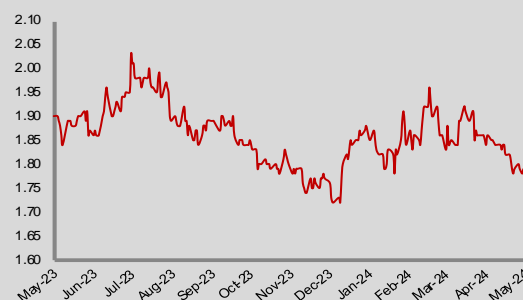
Investment case. The long-term investment case for HSPLANT is one of defensiveness namely: (i) a highly cash-generative upstream-centric oil palm operations, (ii) solid net cash position, and (iii) decent dividend track record and higher dividend payout cannot be ruled out given the growing cash holding. Maintain **MARKET PERFORM**.

Risks to our call include: (i) Western hostility towards palm oil on sustainability and bio-diversity issues; (ii) impact of weather and labour shortages on production, (iii) weak CPO and PK prices, and (iv) cost inflation particularly fertilisers.

MARKET PERFORM ↔

Price : RM1.79
Target Price : RM2.00 ↔

Share Price Performance



KLCI 1,604.26
YTD KLCI chg 10.3%
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.	455,435
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)	-	103.3	108.6
Earnings Revision	-	-	-
Core EPS (sen)	11.3	12.8	13.1
Core EPS Grwth (%)	-55.8	13.0	2.8
NDPS (sen)	6.8	8.0	8.0
NTA/Share (RM)	2.44	2.49	2.53
Core PER (x)	15.8	14.0	13.6
Price/NTA (x)	0.73	0.72	0.71
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	3.8	4.5	4.5

31 May 2024

Peer 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.
PLANTATION																	
GENTING PLANTATIONS BHD	MP	5.95	6.00	0.8%	5,338.1	Y	12/2024	33.9	36.1	21.0%	6.4%	17.5	16.5	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%	2.8%	14.0	13.6	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.87	4.10	5.9%	24,008.3	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.4	18.3	2.2	11.6%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	21.46	21.00	-2.1%	23,528.9	Y	09/2024	90.0	125.7	8.7%	39.7%	23.8	17.1	1.6	6.7%	50.0	2.3%
PPB GROUP BHD	OP	14.74	17.50	18.7%	20,969.1	Y	12/2024	111.1	132.5	38.1%	19.3%	13.3	11.1	0.7	5.6%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.26	4.00	-6.1%	29,460.9	Y	12/2024	16.6	18.8	30.1%	13.5%	25.7	22.6	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	1.10	1.30	18.2%	1,518.2	Y	12/2024	6.9	7.4	-1.8%	6.3%	15.9	15.0	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.08	6.00	18.1%	1,065.6	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.6	15.5	0.7	3.2%	12.0	2.4%
Simple Average					109,078.0						9.6%	18.6%	19.5	16.4	1.1	7.1%	3.4%

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	★	★	★	☆	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

31 May 2024

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 E-mail: research@kenanga.com.my