

04 June 2024

# Sime Darby Plantation

## A Slow Start for FY24

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**SIMEPLT's 1QFY24 results disappointed. Nonetheless, its 1QFY24 core net profit more than tripled YoY thanks to higher FFB harvest and lower cost. It is venturing into property and renewable energy but their contributions will not be immediate. We cut our FY24F net profit forecast by 3% but maintain our TP of RM4.00 and MARKET PERFORM call.**

Its 1QFY24 core net profit (excluding fair value loss of RM19m and foreign exchange loss RM18m) disappointed, coming in at only 22% and 17% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from production cost easing more slowly than our expectation. No dividend was declared as expected.

**YoY**, its 1QFY24 core net profit more than tripled on: (i) higher FFB production (by 9% as higher Malaysian production more than cushioned lower harvest in Indonesia due to dry weather while production in PNG was hit by torrential rains), (ii) lower production cost (including a higher offset from better PK prices), (iii) improved downstream earnings on strong margins in Europe, and (iv) lower tax. Meanwhile, its CPO prices realised were flattish.

**QoQ**, its core net profit rose 28% despite seasonally weaker FFB production (-17%) thanks to better CPO prices (+5%), lower production cost (including a higher offset from better PK prices) and lower tax.

**Outlook.** Global edible oil demand is expected to outpace supply uptick hence CY24 inventory is likely to dip below last year's levels but remaining manageable. As such, CPO prices are likely to stay firm at around RM3,800 per MT over FY24-25. Fuel and fertiliser costs have also declined by 10%-30% lower while PK prices, which has fallen since mid-2022, has started to trend up and higher PK sales helps to lower the milling cost of CPO. Upstream harvest should also improve further as Indonesia and PNG weather normalise.

The same cannot be said for downstream where tight refining margin is set to persist due to competition from new Indonesian capacities but European demand and margins should hold.

**New push into property and renewable energy.** SIMEPLT will drop "plantation" from its new name, "SD Guthrie Berhad," with effect on 5 June 2024 in Bursa. Whilst reflecting the desire to venture beyond plantation, adopting the name "Guthrie" which has a long plantation history suggests plantation may remain core for some years to come. Industrial property and solar farms are among the projects already identified but key details (stakeholders, funding requirements and project specifics) are outstanding. SIMEPLT is aiming for equity control and plans to kickstart the projects soon but earnings are likely beyond FY24. At this juncture, we are neutral on the new ventures.

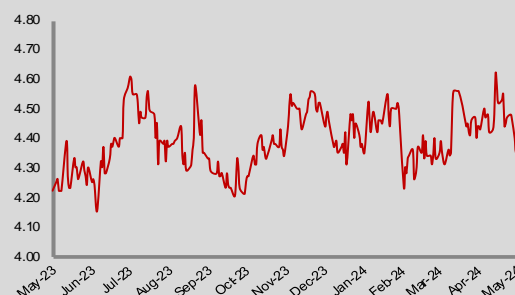
**Forecasts.** We cut our FY24F net profit forecast by 3% but keep our FY25 numbers.

**Valuations.** However, we maintain our TP of RM4.00 based on 1.6x PBV, a discount to average 2x for large integrated peer due to SIMEPLT's lower 5-year average ROE of 8% vs. 10% of its peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

## MARKET PERFORM ↔

Price : RM4.25  
Target Price : RM4.00 ↔

### Share Price Performance



KLCI 1,596.68  
YTD KLCI chg 9.8%  
YTD stock price chg -4.7%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker SDPL MK EQUITY  
Market Cap (RM m) 29,391.8  
Shares Outstanding 6,915.7  
52-week range (H) 4.73  
52-week range (L) 4.05  
3-mth avg daily vol: 2,923,444  
Beta 22%

### Major Shareholders

Amanah Saham Nasional 53.3%  
Employee Provident Fund Board 15.4%  
Kumpulan Wang Persaraan 6.7%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	18,428	19,374	18,920
EBIT	2,927	1,763	2,008
PBT	2,752	1,705	1,932
<b>Net Profit (NP)</b>	<b>1,860</b>	<b>1,111</b>	<b>1,307</b>
<b>Core NP</b>	<b>882</b>	<b>1,111</b>	<b>1,307</b>
Consensus	-	1,460	1,492
Earnings Revision	-	-3%	-
<b>Core EPS (sen)</b>	12.8	16.1	18.9
Core EPS grwth (%)	-56.9	25.9	17.7
NDPS (sen)	16.0	15.0	15.0
BV/Share (RM)	2.57	2.58	2.62
Core PER (x)	35.3	28.0	23.8
Price/BV (x)	1.8	1.7	1.7
Net Gearing (x)	0.2	0.3	0.3
Dividend Yield (%)	3.6	3.3	3.3

04 June 2024

**Investment case.** With some of its estates ripe for property development, SIMEPLT is defensive and undervalued from an asset point of view but long-term expansion plans and productivity management strategies are less clear cut; hence, we are keeping our **MARKET PERFORM** call.

**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 palm kernel prices, and (iv) cost inflation particularly fertilisers.

**Results Highlights**

<i>FYE Dec (RM m)</i>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ</b>	<b>1Q23</b>	<b>YoY</b>	<b>3MFY24</b>	<b>3MFY23</b>	<b>YoY</b>
<b>Revenue</b>	<b>4,342</b>	<b>5,280</b>	<b>-18%</b>	<b>4,069</b>	<b>+7%</b>	<b>4,342</b>	<b>4,069</b>	<b>+7%</b>
Gross Profit	394	351	+12%	251	+57%	394	251	+57%
<b>EBIT</b>	<b>427</b>	<b>414</b>	<b>+3%</b>	<b>311</b>	<b>+37%</b>	<b>427</b>	<b>311</b>	<b>+37%</b>
Net Interest Expenses	(30)	(41)	-27%	(48)	-38%	(30)	(48)	-38%
Associates & JVs	(14)	15	-193%	2	-800%	(14)	2	-800%
El (to be excluded. fr N Profit)	(37)	7	-629%	(10)	+270%	(37)	(10)	+270%
<b>Pretax Profit</b>	<b>346</b>	<b>395</b>	<b>-12%</b>	<b>255</b>	<b>+36%</b>	<b>346</b>	<b>255</b>	<b>+36%</b>
Taxation	(93)	(151)	-38%	(147)	-37%	(93)	(147)	-37%
Perpetual Sukuk	(31)	(31)	-	(31)	-	(31)	(31)	-
MI	(11)	(13)	-15%	(8)	+38%	(11)	(8)	+38%
<b>Net Profit</b>	<b>211</b>	<b>200</b>	<b>+5%</b>	<b>69</b>	<b>+206%</b>	<b>211</b>	<b>69</b>	<b>+206%</b>
El (excluded. from N Profit)	37	(7)	-629%	10	+270%	37	10	+270%
<b>Core Net Profit</b>	<b>248</b>	<b>193</b>	<b>+28%</b>	<b>79</b>	<b>+214%</b>	<b>248</b>	<b>79</b>	<b>+214%</b>
EPS (sen)	3.1	2.9	+5%	1.0	+206%	3.1	1.0	+206%
<b>Core EPS (sen)</b>	<b>3.6</b>	<b>2.8</b>	<b>+28%</b>	<b>1.1</b>	<b>+214%</b>	<b>3.6</b>	<b>1.1</b>	<b>+214%</b>
DPS (sen)	-	6.1	-	-	-	-	-	-
GP %	9%	7%	-	6%	-	9%	6%	-
EBIT %	10%	8%	-	8%	-	10%	8%	-
PBT %	8%	7%	-	6%	-	8%	6%	-
Tax %	27%	38%	-	58%	-	27%	58%	-
CPO (RM / MT)	3,880	3,688	+5%	3,887	-0.2%	3,880	3,887	-0.2%
PK (RM / MT)	1,940	1,742	+11%	1,794	+8%	1,940	1,794	+8%
FFB Production (MT)	1,979	2,394	-17%	1,823	+9%	1,979	1,823	+9%

Source: Company, Kenanga Research

**Segmental Breakdown**

<i>FYE Dec (RM m)</i>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ</b>	<b>1Q23</b>	<b>YoY</b>	<b>3MFY24</b>	<b>3MFY23</b>	<b>YoY</b>
<b>Segmental Revenue:</b>								
Upstream	440	539	-18%	662	-34%	440	662	-34%
Downstream	3,870	4,725	-18%	3,362	+15%	3,870	3,362	+15%
Others	32	16	+100%	45	-29%	32	45	-29%
<b>Group Revenue</b>	<b>4,342</b>	<b>5,280</b>	<b>-18%</b>	<b>4,069</b>	<b>+7%</b>	<b>4,342</b>	<b>4,069</b>	<b>+7%</b>
<b>Segmental PBT:</b>								
Upstream	255	255	-	220	+16%	255	220	+16%
Downstream	121	183	-34%	68	+78%	121	68	+78%
Others	0	(2)	-100%	15	-100%	0	15	-100%
Net Interest Expenses	(30)	(41)	-27%	(48)	-38%	(30)	(48)	-38%
<b>Group Pretax Profit</b>	<b>346</b>	<b>395</b>	<b>-12%</b>	<b>255</b>	<b>+36%</b>	<b>346</b>	<b>255</b>	<b>+36%</b>

Source: Company, Kenanga Research

04 June 2024

### 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>																	
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 HLDNGS	MP	1.78	2.00	12.4%	1,423.4	Y	12/2024	12.8	13.1	13.0%	2.8%	13.9	13.5	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.82	4.10	7.3%	23,698.1	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.2	18.0	2.2	11.6%	11.0	2.9%
KUALA LUMPUR KEPONG BHD	MP	20.86	21.00	0.7%	22,871.0	Y	09/2024	90.0	125.7	8.7%	39.7%	23.2	16.6	1.5	6.7%	50.0	2.4%
PPB GROUP BHD	OP	14.76	17.50	18.6%	20,997.6	Y	12/2024	111.1	132.5	38.1%	19.3%	13.3	11.1	0.7	5.6%	45.0	3.0%
SIME DARBY PLANTATION BHD	MP	4.25	4.00	-5.9%	29,391.8	Y	12/2024	16.1	18.9	25.9%	17.7%	26.5	22.5	1.6	6.2%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.97	4.00	0.8%	1,748.6	Y	12/2024	40.9	43.5	3.5%	6.2%	9.7	9.1	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.05	1.30	23.8%	1,449.2	Y	12/2024	6.9	7.4	-1.8%	6.3%	15.2	14.3	0.7	9.2%	2.0	1.9%
UNITED MALACCA BHD	OP	5.09	6.00	17.9%	1,067.7	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.7	15.5	0.7	3.2%	12.0	2.4%
<b>Simple Average</b>					<b>108,030.4</b>					<b>8.9%</b>	<b>19.5%</b>	<b>19.4</b>	<b>16.2</b>	<b>1.1</b>	<b>7.0%</b>		<b>3.4%</b>

Source: Bloomberg, 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

04 June 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.**

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