

29 August 2019

Hap Seng Plantations

Stronger 2H Ahead

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2Q19 posted a CNL* of RM4.5m, bringing 1H19 CNL to RM0.9m, in line with our full-year CNP forecast of RM6.8m but below consensus CNP estimate of RM35.2m likely due to lower-than-expected CPO price. An interim dividend of 0.5 sen was declared, as expected. No changes in FY19-20E CNP of RM6.8-27.8m as earnings came within expectations. Maintain MP with a TP of RM1.50.

Within our expectation but below street's estimate. 2Q19 posted a core net loss (CNL*) of RM4.5m, bringing 1H19 CNL to RM0.9m, which we deem in line with our full-year core net profit (CNP) forecast of RM6.8m but below consensus CNP estimate of RM35.2m likely due to lower-than-expected CPO price. An interim dividend of 0.5 sen was declared, as expected.

Dragged by lower CPO price. YoY, despite a 12% increase in FFB output, 1H19 dived into CNL of RM0.9m from CNP of RM19.2m in 1H18 as the average CPO price fell 19% to RM2,058/MT and the average PK price tumbled 38% to RM1,274/MT. As a result, EBIT margin eroded to merely 1.2% from 12.9% in 1H18. **QoQ**, 2Q19 also sank into CNL of RM4.5m from CNP of RM3.6m in 1Q19 on a 26% drop in FFB output, a 4% dip in the average CPO price to RM2,017/MT and a 14% decline in the average PK price to RM1,178/MT.

Stronger 2H expected. We expect 2H earnings to be stronger due to a likely production recovery from El Nino and La Nina in Sabah. The recent recovery in CPO prices should also bode well for the 2H, although we believe further price upside is capped by burgeoning stockpiles in 4QCY19 and India's probe into Malaysian exports of refined palm oil (which, in a grey sky scenario, could lead to protectionism and lower palm oil imports from India).

No changes in FY19-20E CNP of RM6.8-27.8m as earnings came within expectations.

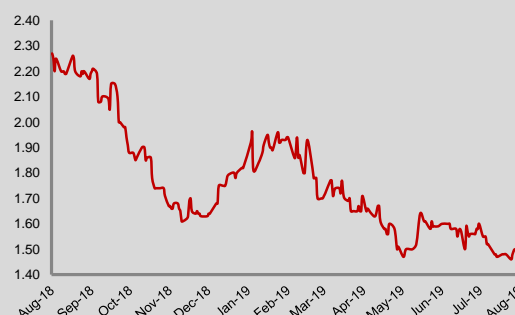
Maintain MARKET PERFORM with an unchanged Target Price of RM1.50 based on Fwd. PBV of 0.73x applied to CY20E BVPS of RM2.07. The Fwd. PBV reflects -2.0 SD below HSPLANT's mean PBV, warranted by its extremely low base earnings.

Risks to our call are a sharp rise/drop in CPO prices and a precipitous rise/drop in labour/fertilizer/transportation cost.

MARKET PERFORM ↔

Price : RM1.48
Target Price : RM1.50 ↔

Share Price Performance



KLCI 1,589.82
YTD KLCI chg -6.0%
YTD stock price chg -9.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,183.5
Shares Outstanding	799.7
52-week range (H)	2.28
52-week range (L)	1.46
3-mth avg daily vol:	21,060
Free Float	23%
Beta	0.5

Major Shareholders

Hap Seng Consolidated Bhd	53.0%
Innoprise Corp Sdn Bhd	15.0%
Employees Provident Fund Board	8.7%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	390.8	389.9	429.5
EBIT	37.2	9.0	37.1
PBT	37.2	9.0	37.1
Net Profit (NP)	29.1	6.8	27.8
Core NP	29.1	6.8	27.8
Consensus (CNP)	n.a.	35.2	52.5
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	3.6	0.8	3.5
Core EPS grwth (%)	-78.4	-76.7	310.3
NDPS (sen)	2.5	1.0	2.0
BV/Share (RM)	2.1	2.06	2.07
Core PER	40.7	174.5	42.5
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	N Cash	N Cash	N Cash
Net Dvd Yield (%)	1.7	0.7	1.4

*2Q19 CNP excludes PP&E write-off (<RM0.1m) and gain on disposal of PP&E (RM0.2m).

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Results Highlights								
FY Dec (RM'm)	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Revenue	80.0	126.3	-36.7%	107.9	-25.9%	206.2	229.1	-10.0%
Op Profit	(4.6)	7.1	NM	7.2	NM	2.5	29.6	-91.7%
Pretax Profit	(4.6)	7.1	NM	7.2	NM	2.5	29.6	-91.7%
Tax	0.4	(2.6)	NM	(3.2)	NM	(2.3)	(10.1)	-77.5%
Net Profit	(4.3)	4.5	NM	3.9	NM	0.2	19.4	-99.1%
Core Net Profit	(4.5)	3.6	NM	3.9	NM	(0.9)	19.2	NM
Core EPS (sen)	(0.6)	0.5	NM	0.5	NM	(0.1)	2.4	NM
Net DPS (sen)	0.5	0.0	NM	1.5	-66.7%	0.5	1.5	-66.7%
EBIT (%)	-5.8%	5.6%		6.6%		1.2%	12.9%	
PBT (%)	-5.8%	5.6%		6.6%		1.2%	12.9%	
Tax (%)	7.7%	37.1%		45.0%		92.6%	34.3%	
CPO Avg Price (RM/MT)	2,017	2,099	-3.9%	2,460	-18.0%	2,058	2,525	-18.5%
PK Avg Price (RM/MT)	1,178	1,370	-14.0%	1,822	-35.3%	1,274	2,042	-37.6%
FFB Production (MT)	139,634	188,889	-26.1%	131,555	6.1%	328,523	293,930	11.8%

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.840	425.4	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.4	13.2	9.1	0.6	0.6	4.4%	4.8%	0.850	MP
FGV HOLDINGS BHD	0.950	3,465.7	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.9	0.9	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.4	53.9	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.43	1,259.2	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	142.0	51.1	0.7	0.7	0.5%	0.4%	1.40	MP
IOI CORPORATION BHD	4.22	26,521.2	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	34.9	28.1	27.5	2.9	2.7	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.48	25,005.4	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.0	37.6	29.8	2.4	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	23.0	22.1	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.86	33,459.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	285.9	121.5	48.6	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.61	494.3	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.5	21.5	18.0	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.16	951.4	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.5	13.6	0.7	0.7	2.4%	1.9%	2.20	MP
TSH RESOURCES BHD	0.890	1,228.4	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.8	26.9	18.5	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.2%	10.1%	-39.8%	20.0%	54.8	61.1	36.1	1.3	1.3	3.1%	1.4%		

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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