

03 September 2019

Sime Darby Plantation Bhd

Another Miss

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2Q19 posted a core net loss CNL* of RM13m in 2Q19, dragging 1H19 core net profit (CNP) down to RM39m. The 1H19 CNP was markedly below expectations, accounting for only 7% of consensus full-year estimate and 9% of ours, mainly due to weaker-than-expected FFB output. No dividend was declared during the quarter, as expected. **Slash FY19-20E CNP by 40-19% to RM252-862m. Maintain UP and TP of RM4.00.**

Below expectations. Sime Darby Plantation Berhad (SIMEPLT) posted a core net loss (CNL*) of RM13m in 2Q19, dragging 1H19 core net profit (CNP) down to RM39m. The 1H19 CNP was markedly below expectations, accounting for only 7% of consensus full-year estimate and 9% of ours, mainly due to weaker-than-expected FFB growth of 3.7% in 1H19 vs. our FY19 assumption of 5.3%. No dividend was declared during the quarter, as expected.

Downstream not much of a help. YoY, 1H19 CNP plummeted 92% on poorer Upstream performance (core PBIT -97% to RM19m), as 3.7% FFB growth failed to offset a 16% decline in the average CPO price. A marginal improvement in Downstream's core PBIT (+2.3% to RM136m) did little to cushion the Upstream weakness. **QoQ**, despite flat CPO prices, Upstream PBIT dived into loss of RM64m from a profit of RM83m on a 3.6% seasonal FFB decline amid shorter working month during Eid al-Fitr. In addition, despite a 4% increase in sales volume, Downstream's core PBIT declined 40% to RM51m as more stringent Glycidyl Ester compliance requirement in Europe resulted in higher processing costs, denting the segment's margin to 2.3% from 3.7% in 1Q19. These were partially offset by positive taxation of RM83m arising from the recognition of deferred tax asset on losses on the disposal of PT MAS during the quarter, and unrealised profit on land sale amid change in Real Property Gains Tax (RPGT) rate in Malaysia. Overall, the group posted CNL of RM13m vs. CNP of RM52m last quarter.

Better 2H. We expect the group to return to profitability in subsequent quarters, driven by seasonally higher FFB output and a recovery in the CPO price. Management expects CPO to hover around RM2,200/MT in 2H19 (vs. MPOB's CPO price of RM2,145/MT currently). The group remains committed to its RM1b asset monetisation plan (disposing of non-core/non-performing assets), with 3,300 acres of land identified for sales for the purpose of property development and government infrastructure projects. In addition, the group expects to conclude the disposal of Liberia asset by year-end of which the group is currently in talks with three parties. In the event that no buyer can be identified, the group shall hand over the concession back to the Liberian government, which will likely be accompanied with asset write-offs (carrying value of the Liberian asset stands at c.USD55m).

Slash FY19-20E CNP by 40-19% to RM252-862m after cutting our FFB forecasts from 10.9-11.2m MT (+5-3% YoY) to 10.5-10.8m MT (+2-3% YoY).

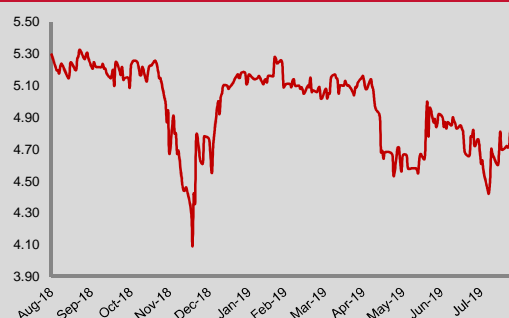
Maintain UNDERPERFORM with an unchanged Target Price of RM4.00 based on CY20E PBV of 2.0x (switched from 25.7x PER valuation previously), a discount to the large-cap peer average of 2.5x given its extremely low-base earnings. Its downstream margins are also under pressure amid stiff competition from Indonesia. Our TP implies a CY20E PER of 31.5x and the company is currently trading at an unexciting CY20E PER of 39.3x.

Risks to our call include sharp rises in CPO prices and significant improvement in downstream margins.

UNDERPERFORM ↔

Price : **RM4.98**
Target Price : **RM4.00** ↔

Share Price Performance



KLCI 1,612.14
YTD KLCI chg -4.6%
YTD stock price chg 4.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPL MK Equity
Market Cap (RM m)	34,285.2
Shares Outstanding	6,884.6
52-week range (H)	5.40
52-week range (L)	3.95
3-mth avg daily vol:	3,208,178
Free Float	36%
Beta	0.9

Major Shareholders

Skim Amanah Saham Bumiputera	43.7%
Employee Provident Fund Board	14.8%
Kumpulan Wang Persaraan	5.4%

Summary Earnings Table

FYE Dec (RMm)	2018A [^]	2019E	2020E
Turnover	6,543	11,191	12,427
EBITDA	555	894	1,700
PBT	457	493	1,297
Net Profit (NP)	244	252	862
Core Net Profit	221	252	862
Consensus(NP)	N.A.	536	894
Earnings Revision	N.A.	-40%	-19%
Core EPS (sen)	3.2	3.7	12.7
Core EPS growth (%)	-83.8	14.0	242.1
NDPS (sen)	1.7	2.0	8.0
BV/Share (RM)	1.93	1.95	1.99
Core PER	153.3	134.4	39.3
Price/BV (x)	2.6	2.6	2.5
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	0.3	0.4	1.6

* Our 2Q19 CNL excludes PPE disposal gain (RM40m), asset held-for-sale disposal gain (RM9m), impairment of asset held-for-sale (RM6m), reversal of intangible asset impairment (RM2m), PPE write-off (RM4m) and rights-of-use asset write-off (RM1m).

[^] 6-month period due to change in financial year-end

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Results Highlights

	2Q	1Q		4Q		1H	2H	
FYE Dec (RMm)	FYE12/19	FYE12/19	QoQ %	FYE6/18	YoY%	FYE12/19	FYE6/18	YoY%
Revenue	2,875	3,006	(4%)	3,084	(7%)	5,881	6,743	(13%)
Op Profit	3	178	(98%)	200	(99%)	181	601	(70%)
Pretax Profit	(24)	125	nm	149	nm	101	501	(80%)
Tax	83	(14)	nm	(85)	nm	69	(152)	145%
Perpetual sukuk	(31)	(31)	0%	(31)	0%	(62)	(61)	(2%)
MI	(1)	(6)	83%	(3)	67%	(7)	(9)	22%
Net Profit	27	74	(64%)	30	(10%)	101	279	(64%)
Core Net Profit	(13)	52	nm	292	nm	39	489	(92%)
EPS (sen)	0.4	1.1	(64%)	0.4	(11%)	1.5	4.1	(64%)
Net DPS (sen)	0.0	0.0	nm	14.0	nm	0.0	14.0	nm
EBIT %	0.1%	5.9%		6.5%		3.1%	8.9%	
PBT%	(0.8%)	4.2%		4.8%		1.7%	7.4%	
Tax %	345.8%	11.2%		57.0%		(68.3%)	30.3%	
CPO Avg	2,021	2,012	0%	2,379	(15%)	2,016	2,414	(16%)
FFB Prod ('000 mt)	2,430	2,521	(4%)	2,437	(0%)	4,951	4,776	3.7%

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q		4Q		1H	2H	
FYE Dec (RMm)	FYE12/19	FYE12/19	QoQ %	FYE6/18	YoY%	FYE12/19	FYE6/18	YoY%
Segmental Revenue								
- Upstream	610	722	(16%)	544	12%	1,332	1,836	(27%)
- Downstream	2,251	2,269	(1%)	2,528	(11%)	4,520	4,857	(7%)
- Others	14	15	(7%)	12	17%	29	50	(42%)
Total Group	2,875	3,006	(4%)	3,084	(7%)	5,881	6,743	(13%)
Segmental PBIT								
- Upstream	(55)	83	nm	277	nm	28	610	(95%)
- Downstream	51	85	(40%)	68	(25%)	136	133	2%
- Others	5	12	(58%)	(155)	nm	17	(164)	nm
Total PBIT	1	180	(99%)	190	(99%)	181	579	(69%)
Segmental Core PBIT								
- Upstream	(64)	83	nm	403	nm	19	686	(97%)
- Downstream	51	85	(40%)	68	(25%)	136	133	2%
- Others	7	10	(30%)	(24)	nm	17	0	nm
Total Core PBT	(6)	178	(103%)	447	(101%)	172	819	(79%)

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	0.955	3,484.0	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.8	0.8	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.02	8,989.9	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.5	54.0	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.45	1,159.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	39.9	171.0	41.7	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.46	1,285.6	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	145.0	52.2	0.8	0.7	0.5%	0.4%	1.40	MP
IOI CORPORATION BHD	4.41	27,715.3	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	36.4	29.4	28.7	3.0	2.9	9.9%	2.0%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.98	25,537.9	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.6	38.4	30.4	2.5	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.66	26,545.7	Y	12/2019	5.4%	5.6%	18.0%	5.5%	28.1	22.8	21.9	1.3	1.2	5.4%	1.8%	15.60	UP
SIME DARBY PLANTATION BHD	4.98	34,285.2	Y	12/2019	71.0%	11.0%	14.0%	242.1%	153.3	134.4	39.3	2.6	2.6	1.9%	0.4%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.64	498.4	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.8	21.7	18.1	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.15	947.0	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.4	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	5.08	1,065.2	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	111.4	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.0%	10.2%	-46.0%	26.9%	41.6	62.4	35.4	1.3	1.3	3.0%	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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