

25 February 2020

Hap Seng Plantations

4QFY19 Delivers Blockbuster Earnings

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FY19 CNP of RM21.0m came above our/consensus' estimates at 184%/174%, due to lower-than-expected production cost, estimated at c.RM1,800/MT (vs. our RM1,900/MT). FY19 DPS of 2.5 sen was a pleasant surprise. Consensus FY20E earnings of RM53.5m appear too conservative benchmarked against: (i) 4QFY19 earnings, and (ii) higher 1QFY20 (QTD) CPO price (+21%). Raise FY20E CNP by 10% on lower production cost (-3%) and introduce FY21E CNP of RM100.8m. Reiterate **OUTPERFORM** with a higher TP of RM2.55 (from RM2.50) on CY20E PBV 1.2x (+1SD).

Blockbuster 4QFY19 - above expectations. 4QFY19 posted a core net profit (CNP) of RM27.7m, which brought FY19 CNP to RM21.0m (-35% YoY). This was above our/consensus' estimate at 184%/174% mainly due to lower-than-expected CPO production cost which we estimate to be c.RM1,800/MT (vs. our expected RM1,900/MT). Meanwhile, FY19 FFB output of 676k MT (+3% YoY) came within our expectation at 97%. FY19 DPS of 2.5 sen (4QFY19 DPS: 2.0 sen) was above our expected 1.0 sen.

Quantum leap for plantation. YoY, despite a 14% decline in FFB output, 4QFY19 CNP improved (+75%) on the back of: (i) higher CPO price (+24%), and (ii) lower taxation (-89%) as a result of reversal of certain deferred tax provision in prior periods. **QoQ**, 4QFY19 registered CNP of RM27.7m (vs. CNL of RM7.6m in 3QFY19) riding on: (i) higher average CPO/PK prices (+17%/+20%), and (ii) higher FFB output (+17%). This resulted in PBT margin expansion to 25.3% (+22.4ppt).

4QFY19 sets the benchmark - potential earnings upgrade from consensus. We highlight here that **consensus' FY20E earnings of RM53.5m appears too conservative** given the strength of 4QFY19's earnings. In addition, average CPO price realized in 4QFY19 was RM2,376/MT (vs. QTD-1QFY20 CPO price of RM2,873/MT; +21%). We believe the group did not lock in CPO selling prices, which should allow them to fully capitalise on the higher CPO prices.

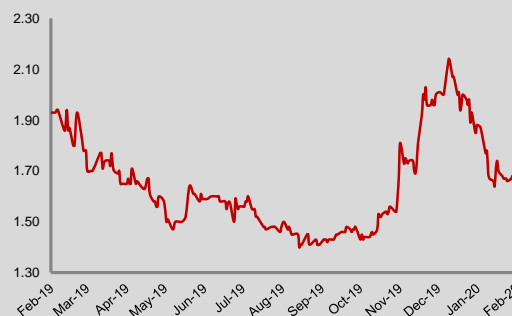
Raise FY20E CNP by 10% to RM92.7m after reducing CPO production cost by 3%, and introduce FY21E CNP of RM100.8m. Accordingly, we also raise our FY20E DPS to 7.0 sen (from 6.0 sen).

Reiterate OUTPERFORM with a higher Target Price of RM2.55 (from RM2.50) based on an unchanged CY20E PBV of 1.2x (+1SD). At current price, **HSPLANT is only trading at Fwd. PBV of 0.78x**, implying -1.0SD from mean, which we think is unwarranted given: (i) the strong earnings recovery, (ii) potential consensus' earnings upgrade, and (ii) **low EV/planted Ha of c.RM37k, implying 8% discount** to small cap planters' average EV/planted Ha of c.RM40k. On top of that, HSPLANT's net cash position of c.RM74m is an added bonus.

OUTPERFORM ↔

Price : RM1.64
Target Price : RM2.55 ↑

Share Price Performance



KLCI	1,490.06
YTD KLCI chg	-6.2%
YTD stock price chg	-23.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,311.5
Shares Outstanding	799.7
52-week range (H)	2.14
52-week range (L)	1.40
3-mth avg daily vol:	121,737
Free Float	13%
Beta	0.7

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)	2019A	2020E	2021E
Turnover	418.6	481.8	503.6
EBIT	36.6	123.5	134.4
PBT	36.6	123.5	134.4
Net Profit (NP)	31.4	92.7	100.8
Core NP	21.0	92.7	100.8
Consensus (CNP)	n.a.	53.5	62.7
Earnings Revision	n.a.	10%	New
Core EPS (sen)	2.6	11.6	12.6
Core EPS grwth (%)	8.0	194.6	8.8
NDPS (sen)	2.5	7.0	8.0
BV/Share (RM)	2.07	2.11	2.16
Core PER (x)	62.4	14.2	13.0
Price/BV (x)	0.8	0.8	0.8
Net Gearing (x)	N Cash	N Cash	N Cash
Net Dvd Yield (%)	1.5	4.3	4.9

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Results Highlights								
FY Dec (RM m)	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	YoY%
Revenue	124.9	87.5	43%	96.1	30%	418.6	390.8	7%
Op Profit	32.7	3.1	>100%	10.0	>100%	39.4	37.2	6%
Pretax Profit	31.6	2.5	>100%	10.0	>100%	36.6	37.2	-2%
Tax	(0.4)	(2.4)	-83%	(3.9)	-89%	(5.1)	(8.0)	-36%
Net Profit	31.2	0.1	>100%	6.1	>100%	31.4	29.1	8%
Core Net Profit/(Loss)	27.7	(7.6)	nm	15.9	75%	21.0	32.2	-35%
Core EPS/(LPS) (sen)	3.5	(0.9)	nm	2.0	75%	2.6	4.0	-35%
Net DPS (sen)	2.0	0.0	nm	1.0	100%	2.5	2.5	0%
EBIT	26.2%	3.5%		10.4%		9.4%	9.5%	
PBT	25.3%	2.9%		10.4%		8.7%	9.5%	
Tax	1.3%	78.3%		39.1%		14.0%	21.6%	
CPO Avg Price (RM/MT)	2,376	2,038	17%	1,922	24%	2,133	2,297	-7%
PK Avg Price (RM/MT)	1,435	1,198	20%	1,485	-3%	1,295	1,849	-30%
FFB Production (MT)	187,128	159,935	17%	216,853	-14%	675,586	657,260	3%

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	0.915	462.1	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	9.2	21.4	11.3	0.6	0.6	3.0%	2.2%	1.00	MP
FGV HOLDINGS BHD	1.18	4,304.8	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	10.6	1.0	1.0	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	56.4	69.5	23.6	2.0	2.0	2.9%	0.8%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.64	1,311.5	Y	12/2020	15.1%	4.5%	-79.2%	340.8%	62.4	14.2	13.0	0.8	0.8	1.9%	4.3%	2.55	OP
IJM PLANTATIONS BHD	1.78	1,567.4	N	03/2020	10.0%	18.0%	34.5%	192.8%	N.A.	51.2	17.5	0.9	0.9	1.8%	1.2%	2.90	OP
IOI CORPORATION BHD	4.30	27,025.7	Y	06/2020	3.5%	11.1%	30.9%	16.8%	35.5	27.1	23.2	2.9	2.8	10.5%	2.1%	5.15	OP
KUALA LUMPUR KEPONG BHD	22.20	23,998.6	Y	09/2020	17.9%	16.1%	50.2%	13.6%	38.3	25.5	22.4	2.3	2.2	8.8%	2.5%	28.80	OP
PPB GROUP BERHAD	17.94	25,521.4	Y	12/2019	5.4%	5.6%	17.4%	9.5%	27.0	23.0	21.0	1.2	1.2	5.8%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	4.90	33,734.4	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	150.8	161.5	31.5	2.5	2.5	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.70	506.7	Y	03/2020	18.4%	14.8%	63.1%	46.0%	29.2	17.9	12.3	0.8	0.8	4.6%	1.6%	4.10	MP
TA ANN HOLDINGS BERHAD	3.14	1,383.1	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	16.9	21.8	10.1	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.21	1,670.0	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	33.8	34.0	15.7	1.2	1.1	3.4%	0.8%	1.90	OP
UNITED MALACCA BHD	5.15	1,080.3	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	67.0	0.6	0.6	-1.5%	1.6%	5.55	MP
Simple Average					12.9%	15.5%	-86.3%	131.5%	45.9	42.5	21.5	1.4	1.4	3.6%	1.6%		

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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