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AmInvestment Bank

Company report

CHIN TECK PLANT

(KLR MK, KIML.KL)

2 Aug 2022

Low enterprise value per hectare

HOLD

(Initiation)

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Rationale for report: Initiation

Price	**RM9.30**
Fair Value	**RM9.80**
52-week High/Low	RM10.00/RM6.635

Key Changes

Fair value	na
EPS	na

YE to Aug	**FY21**	**FY22E**	**FY23F**	**FY24F**
Revenue (RM mil)	182.7	267.1	196.3	196.3
Net Profit (RM mil)	68.1	110.1	69.0	74.7
EPS (sen)	74.5	120.5	75.5	81.8
EPS growth (%)	89.2	61.7	(37.3)	8.3
Consensus net (RM mil)	-	-	-	-
DPS (sen)	30.0	42.0	30.0	33.0
PE (x)	12.5	7.7	12.3	11.4
EV/EBITDA (x)	6.0	3.4	5.5	5.0
Div yield (%)	3.2	4.5	3.2	3.5
ROE (%)	9.6	14.4	8.4	8.6
Net gearing (%)	na	na	na	na

Stock and Financial Data

Shares Outstanding (million)	91.4
Market Cap (RM'mil)	850
Book value (RM/share)	8.00
P/BV (x)	1.2
ROE (%)	9.6
Net Gearing (%)	na
Major Shareholders	Tiong Thye Company (36.7%) Gan Teng Siew Realty (11.6%)
Free Float (%)	63.3
Avg Daily Value (RM mil)	0.2

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	+0.4	+31.8	+41.6
Relative (%)	+12.3	+33.5	+41.8

Investment Highlights

- **We initiate coverage on Chin Teck Plantations (CTP) with a HOLD recommendation and fair value of RM9.80/share. Our fair value for CTP is based on FY23F PE of 13x.**

- **The FY23F PE assumption of 13x is the simple average PE of small planters in Malaysia. Over the past 5 years, CTP's PE band ranged from a low of 9.6x to a high of 18x. Average PE was 13.8x. We ascribe a 3-star ESG rating to CTP.**

- **Weak CPO prices are anticipated to affect CTP's earnings in 2H2022. However, CTP's decent FY23F dividend yield of over 3% is expected to support the group's share price.**

- **CTP has an EV (enterprise value) of RM17,403/ha compared with Hap Seng Plantations' RM47,176/ha and TSH Resources' RM45,009/ha. We attribute CTP's lower EV/ha to the small size of the group's planted areas and ageing age profile.**

- **CTP has a landbank of 11,327ha in Peninsular Malaysia. The group does not have operations in Sabah. Out of the 11,327ha, about 1,618ha are in Port Dickson, 1,618ha in Gua Musang, Kelantan and 8,091ha in Rompin, Pahang. CTP also has 2 palm oil mills with total processing capacity of 70 tonnes per hour.**

- **CTP's exposure to Indonesia is via its shareholding in 2 joint ventures (JV). The 2 JVs have 20,423ha of oil palm estates in total in Lampung and South Sumatra. The joint ventures were in the red in FY21 as harvesting activities were affected by unrest in the surrounding villages.**

- **CTP's FFB yields and OERs (oil extraction rate) are in line with the average for Peninsular Malaysia. From FY17 to FY21, CTP's FFB yields ranged from a low of 18.7 tonnes/ha to a high of 24.8/ha while its OERs were between 18.6% and 19.5%.**

- **We forecast CTP's cost of CPO production (gross profit level) to range from RM2,300/tonne to RM2,500/tonne in FY22E vs. RM1,769/tonne in FY21. CTP is expected to be affected by high fertiliser costs and wages in FY22E and FY23F.**

- **On the back of low capex and robust CPO prices in 1H2022, we anticipate CTP's free cash flows to grow from 57.7 sen in FY21 to 90.6 sen in FY22E. CTP has high cash reserves and zero borrowings. Gross cash stood at RM356.9mil as of end FY21.**

EXHIBIT 1: PEER VALUATION COMPARISONS

	Share price (RM)	EPS (sen)		PE (x)		FY22E DPS	FY22E Div Yield
		FY22E	FY23F	FY22E	FY23F	(sen)	(%)
Hap Seng Plant	2.35	34.6	14.5	6.8	16.2	19.0	8.1
TSH Resources	1.05	13.6	5.6	7.7	18.8	3.0	2.9
Kim Loong	1.67	15.2	9.2	11.0	18.2	19.0	11.4
Ta Ann	3.84	80.8	57.4	4.8	6.7	31.6	8.2
SOP	2.76	77.0	37.8	3.6	7.3	17.0	6.2
Chin Teck	9.13	120.5	75.5	7.6	12.1	42	4.6
Simple average (Ex-Chin Teck)				6.8	13.4		

Source: Bloomberg, AmInvestment Bank

EXHIBIT 2: ESG RATING

Overall	★	★	★		
RSPO certification	★	★			
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★		
Fires	★	★	★		
Work site safety	★	★	★		
Corporate social responsibility	★	★	★		
Corruption free pledge	★	★	★		
Accessibility and transparency	★	★	★		

*We accord a discount/premium of **-6%, -3%, 0%, +3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

INITIATE COVERAGE WITH HOLD AND FAIR VALUE OF RM9.80/SHARE

We initiate coverage on Chin Teck Plantations (CTP) with a HOLD recommendation and fair value of RM9.80/share.

Our fair value of RM9.80/share for CTP is based on FY23F PE of 13x. The PE of 13x is the simple average FY23F PE of small planters in Malaysia.

Our PE assumption of 13x for CTP is lower than the 18x that we have used to arrive at the target prices for Kim Loong Resources (KLR), Hap Seng Plantations (HSP) and TSH Resources. We apply a discount due to CTB's smaller size and illiquid trading volume.

Over the past 5 years, CTP's PE ranged from a low of 9.6x to a high of 18x. Average PE was 13.8x.

❑ ***Low EV/ha of RM17,403***

We believe that some of CTP's planted land may have potential for property development. CTP has 1,618ha of oil palm estates in Port Dickson, Negeri Sembilan.

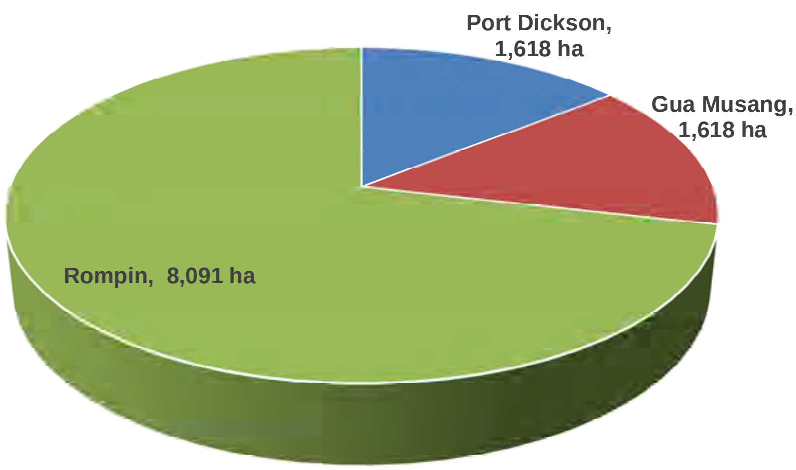
Stripping out assets such as cash, investments in quoted shares and associates from CTP's market capitalisation, we estimate that investors are currently valuing CTP's planted landbank at RM17,403/ha.

This is low compared to HSP's RM47,176/ha and TSH Resources' RM45,009/ha. Also, the market price of a prime oil palm estate in Peninsular Malaysia ranges from RM80,000/ha to RM100,000/ha currently.

We reckon that investors are ascribing a discount to CTP's assets due to the unattractive age profile of the group's oil palm trees. Almost all of the group's planted areas are more than 16 years old.

Overall, CTP only has 3 oil palm estates in Peninsular Malaysia and these generate most of the group's earnings.

EXHIBIT 3: LOCATION OF CTP'S PLANTED AREAS



Source: Company

❑ *CTP's ROE is in line with most of the smaller planters*

CTP recorded returns on equity (ROE) of 4.8% to 9.6% from FY19 to FY21. CTP's ROE was unexciting at 4.8% in FY19 as average CPO price realised was only RM2,055/tonne. As average CPO price climbed to RM3,591/tonne in FY21, CTP's ROE rose to 9.6%.

CTP's ROE of 9.6% in FY21 was below Kim Loong Resources' (KLR) 17.5% as the former's dividend pay-out was not as attractive. CTP paid out 40% of its FY21 net profit as dividends vs. KLR's 99%.

Compared to TSH and HSP however, CTP's ROEs were in line. TSH's ROE ranged from 3.1% to 10.3% from FY19 to FY21 while HSP's ROEs were between 1.9% and 12.5%.

❑ *CTP is sensitive to CPO prices*

Being a pure and small planter, CTP is more sensitive to CPO prices compared with integrated companies. We estimate that CTP's net profit would fall by 5% to 10% for every RM100/tonne change in CPO prices.

We have assumed average CPO prices of RM5,500/tonne for FY22E and RM3,000/tonne for FY23F vs. RM3,591/tonne recorded in FY21.

CTP's net profit plunged to RM32.1mil in FY19 as CPO price dived to RM2,055/tonne from RM2,471/tonne. As CPO price surged to RM3,591/tonne in FY21, CTP's net profit expanded to RM68.1mil.

INDUSTRY ANALYSIS

❑ *CPO prices are determined by market forces of demand and supply*

CPO prices are determined by market forces of demand and supply.

The main buyers of palm products are India, China and the EU. The 3 accounted for 46% of Malaysia's palm exports in 2021. India's palm demand is driven mainly by population growth while China's palm demand depends on the supply of competing vegetable oils in the country and the consumption patterns of its population. The EU's palm demand comes mainly from biodiesel and oleochemical industries.

The main producers of palm products are Indonesia and Malaysia. The 2 countries account for more than 80% of global palm production. CPO production is driven mainly by weather conditions and the availability of labour in Malaysia.

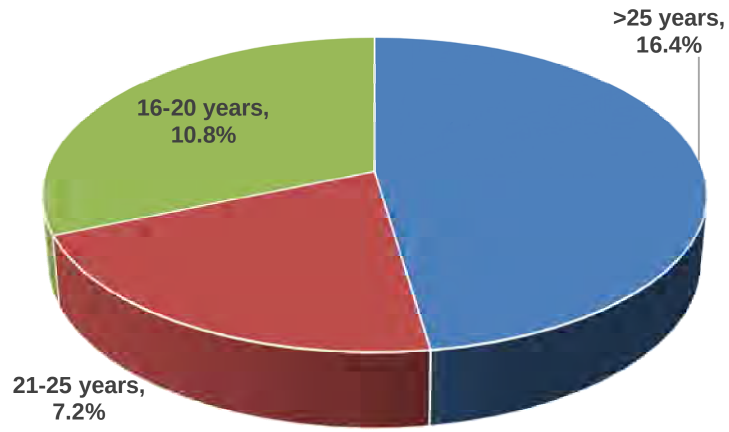
❑ *CPO prices are expected to soften in 2H2022*

We think that CPO prices would continue weakening in the coming months dragged by rising production. CPO output is expected to reach its highest level in October or November this year. 2H usually makes up 55% to 60% of full year's CPO production in Malaysia.

Oil World has forecast Malaysia's CPO production to improve by 1.0mil to 1.1mil tonnes in 2022E from 18.1mil tonnes in 2021. In Indonesia, CPO output is estimated to increase by 1.7mil to 1.9mil tonnes in 2022E from 45.3mil tonnes in 2021.

In terms of demand, we reckon that India's palm imports would improve due to the Deepavali festivities in October.

EXHIBIT 4: AGE PROFILE OF CTP'S OIL PALM TREES IN MALAYSIA



Source: Company

However, China's palm demand may be muted as certain parts of the country are facing Covid-19 lockdown measures.

❑ ***Large CPO price discount with US soybean oil***

There is incentive for buyers to switch to palm oil from soybean oil currently due to the large price discount.

The average price discount between US soybean oil and CPO was 17.5% or US$295/tonne in June vs. the 5-year average of 18.8%.

The USDA has forecast global soybean production to increase by 10.9% to 391.4mil tonnes in 2022E/2023F on the back of higher planted areas in the US. Global soybean inventory is expected to rise by 12.2% to 99.6mil tonnes in 2022E/2023F.

INVESTMENT ANALYSIS

❑ ***Small planter with oil palm estates only in Peninsular Malaysia***

CTP has planted areas of 10,960ha in Peninsular Malaysia. Out of the 10,960ha, about 91.4% or 10,017ha were mature in FY21. The balance 943ha were immature.

In terms of total landbank, CTP has 1,618ha of oil palm estates in Port Dickson, 1,618ha in Gua Musang, Kelantan and 8,091ha in Rompin, Pahang.

CTP is comparable to KLR in terms of size. The difference is the location of the oil palm estates. KLR has oil palm estates in Sabah and Johor whereas CTP only has landbank in Peninsular Malaysia.

CTP has 2 palm oil mills with total processing capacity of 70 tonnes per hour (tph). The palm oil mills are located in Gua Musang and Rompin.

To ensure high utilisation rates at the palm oil mills, CTB purchases FFB from third parties. FFB purchases accounted for 12% to 18% of total FFB processed from FY19 to FY21.

❑ ***Oil palm trees are ageing***

CTP's oil palm trees are ageing. As of end-August 2021, about 10.8% of the group's planted areas were between 16 and 20 years old while another 7.2% were from 21 to 24 years old.

A large 16.4% of CTP's planted areas were more than 25 years old. CTP does not have oil palm trees less than 16 years old.

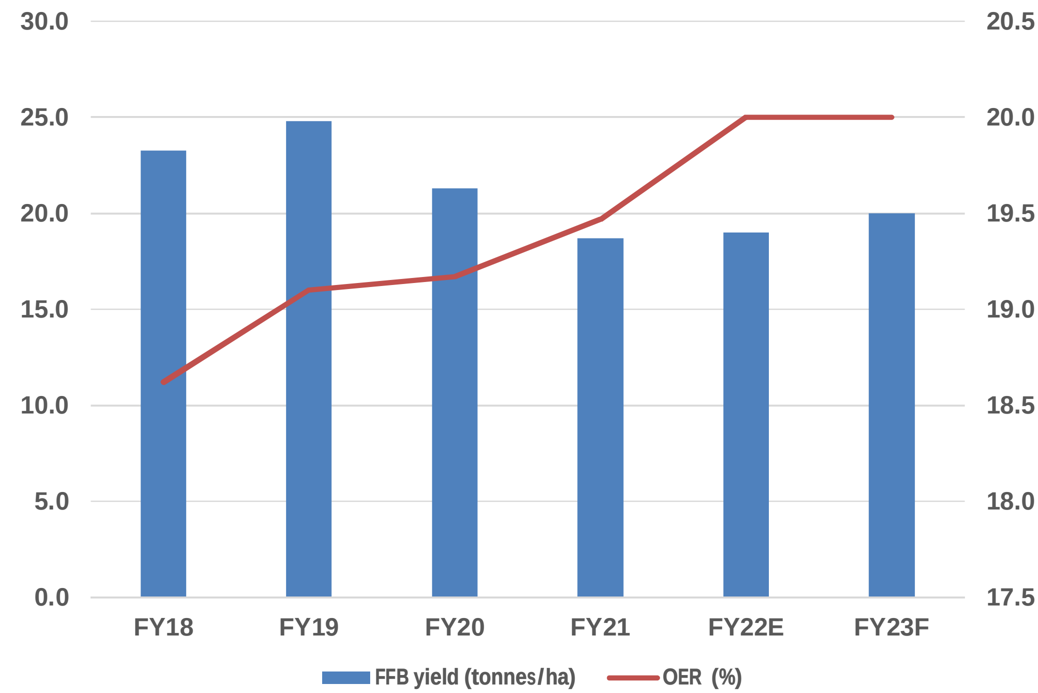
In spite of the high proportion of ageing trees, the size of CTP's replanting is small. Replanting amounted to 3.4% of planted areas in FY20 and 5.4% in FY21.

CTP plans to replant about 565ha in FY22F, which would be 5.1% of planted areas. We estimate cost of replanting until maturity to be RM15,000/ha to RM20,000/ha.

❑ ***But FFB yields are decent***

In spite of the ageing profile of the oil palm trees, CTP's FFB yields are decent. CTP's FFB yields hovered between 18.7 tonnes/ha and 24.8 tonnes/ha from FY19 to FY21. In comparison, the average FFB yield in Peninsular Malaysia ranged from 16.2 tonnes/ha to 18 tonnes/ha from 2019 to 2021.

EXHIBIT 5: FFB YIELDS (TONNES/HA) AND OER (%)



Source: Company, AmInvestment Bank

CTP recorded oil extraction rates (OER) of 19.1% to 19.5% from FY19 to FY21. These are slightly below the average OERs of palm oil mills in Peninsular Malaysia ranged from 19.7% to 19.9%. We think that CTP's palm oil mills are older and hence, not as efficient as the upgraded and newer palm oil mills.

- ***Production cost per tonne is expected to rise***

Working backwards, we estimate CTP's cost of production (gross profit level) to be RM1,769/tonne in FY21. This is in line with most of the larger planters.

CTP's cost of production rose from a low of RM1,085/tonne in FY19 to RM1,769/tonne in FY21 due to a drop in the volume of FFB production and higher cost of wages.

CTP's FFB production fell by 11.2% to 187,483 tonnes in FY21 from 232,519 tonnes in FY19. FFB yield slid to 18.7 tonnes/ha in FY21 from 24.8 tonnes in FY19.

We attribute the decline in CTP's FFB production from FY19 to FY21 to the lagged impact of the drought and haze, which took place in Malaysia in 3Q2019.

As CTP's planted areas are small at less than 11,000ha, we believe that the group's labour shortage problem may not be as severe as the bigger upstream players.

- ***Palm operations are MSPO-certified***

CTP's operations are MSPO-certified (Malaysian Sustainable Palm Oil) but not RSPO-certified (Roundtable for Sustainable Palm Oil). Due to CTP's small size, we reckon that the group prefers to focus on the MSPO instead of RSPO.

We believe that CTP sells its CPO mainly to local refiners such as FGV Holdings. CTP has 8 customers in total.

As of end-August 2021, all of CTP's 3 oil palm estates and 2 palm oil mills were certified by the MSPO.

MSPO standards have 7 principles, which form the management and operating framework for a plantation company. These principles encompass the development of new plantings of oil palm, environment and ecosystem services and employment conditions.

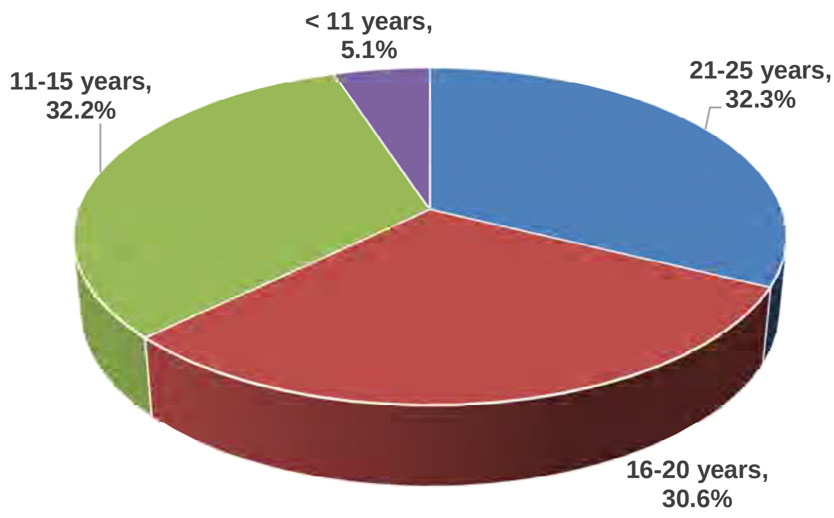
- ***Indonesian plantation joint ventures affected by unrest in neighbouring villages***

CTP's exposure to Indonesia is via two joint ventures. In FY21, CTP's share of net loss in the joint venture was RM5.1mil. CTP recorded impairments of RM6.1mil each in FY20 and FY21 in respect of its investments in the joint ventures.

CTP has a 50% shareholding in Global Formation and a 40% equity interest in Chin Thye Investment. The joint ventures have planted areas of 20,423ha in Lampung, Jambi and South Sumatra.

The Indonesian joint ventures were affected by unrest in the villages surrounding the oil palm estates. Hence, harvesting activities could not take place or were delayed. In Lampung, the area which can be accessed was only half of the planted areas.

EXHIBIT 6: AGE PROFILE OF CTP'S OIL PALM TREES IN INDONESIA



Source: Company

About 32.3% of the planted areas in Indonesia are between 21 and 25 years old while another 30.6% from 16 to 20 years old. An additional 32.2% of the oil palm trees are aged 11 to 15 years old while the balance 4.9% below 11 years old.

- ***Exposure to property development via 40%-owned associate, West Synergy***

CTP's share of net profit in the property associate was RM6.6mil in FY21. This was 7.5% of the group's FY21 pre-tax profit of RM87.7mil.

West Synergy is currently developing a township in Lukut, Negeri Sembilan called Bandar Springhill. The township has a total area of 1,990 acres. The gross development value of the township project is estimated to be RM1bil.

The township project has 755 acres of oil palm estates, which have not been converted into property development. These estates are expected to contribute positively to the associate's earnings due to high CPO prices.

CTP owns 40% of West Synergy while MUI Properties owns the balance 60%.

FINANCIALS

- ***Sells CPO mainly at spot prices***

We believe that CTP sells mainly at spot prices. The group's realised CPO prices are close to the MPOB's average spot prices for Peninsular Malaysia.

For instance, CTP's average CPO price was RM3,591/tonne in FY21 compared with the MPOB's average price of RM3,833/tonne for Peninsular Malaysia.

As CTP sells mainly at spot prices, the group benefits more than integrated players when CPO prices go up and vice versa.

As CTP's exposure to Indonesia is only via joint ventures, the group does not suffer from the price discount in Indonesia.

- ***Revenue growth of 46.2% in FY22F***

We forecast CTP's revenue to climb by 46.2% to RM267.1mil in FY22F on the back of higher CPO prices and production. We have assumed an average CPO price of RM5,500/tonne for CTP in FY22F vs. RM3,591/tonne in FY21.

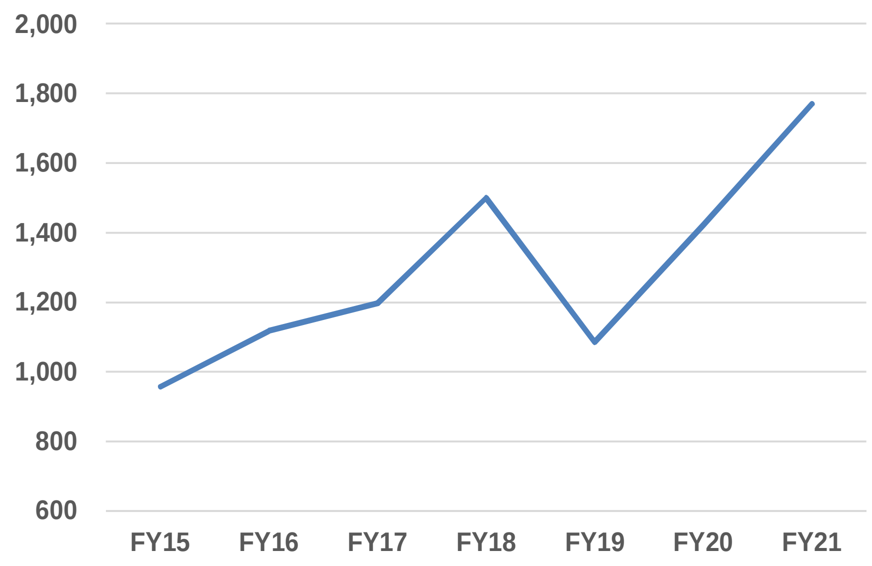
We have also assumed that CTP's FFB production would improve by 1.5% in FY22E compared with a decline of 11.2% in FY21. We reckon that CTP would achieve an average FFB yield of 19 tonnes/ha in FY22F vs. 18.7 tonnes/ha in FY21. The improvement in FFB yield in FY22F is expected to be driven by dissipating effects of 2019's drought and haze.

Looking ahead to FY23F, we think that CTP's revenue would fall by 26.5% to RM196.3mil due to a lower CPO price. We have assumed an average CPO price of RM3,000/tonne in FY23F vs. RM5,500/tonne in FY22F. We have assumed that CTP's FFB production would rise by 5% in FY23F (FY22E: 1.5%).

- ***Production cost per tonne to rise in FY22E***

We reckon that CTP's cost of production would increase to more than RM2,300/tonne in FY22E from RM1,769/tonne in FY21. Cost of fertiliser is expected to double in FY22E while cost of wages may rise by 5% to 10%.

EXHIBIT 7: ESTIMATED COST OF CPO PRODUCTION (GROSS PROFIT LEVEL) (RM/TONNE)



Source: AmInvestment Bank

Fertiliser is estimated to account for 30% to 40% of the cost of production while wages envisaged to account for another 30% to 40%. Transportation and other overheads are anticipated to make up the balance 20% to 40% of the cost of production.

Fertiliser costs have doubled this year due to the sanctions on Russia and Belarus, which is one of the largest producers of potash. The war in Ukraine had also exacerbated the shortage situation.

- ***Dividend payouts of more than 30% per year***

We forecast a gross DPS of 42 sen for CTP in FY22E (FY21: 30 sen), which implies a payout of 35% (FY21: 40%).

From FY19 to FY21, CTP's dividend payouts ranged from a low of 40.3% to a high of 56.9%. Gross DPS ranged from 6 to 30 sen.

CTP's free cash flows are consistently positive on the back of low capex requirements. We estimate free cash flows to be high at 90.6 sen per share in FY22E and 60.8 sen per share in FY23F (FY21: 57.7 sen).

Capex is anticipated to be RM10mil in FY22E vs. RM8.8mil in FY21. We think that most of the capex would be in respect of maintenance of roads, palm oil mills and workers' housing.

- ***Cash of RM356.9mil; investment securities of RM91.5mil***

CTP has gross cash of RM356.9mil and zero borrowings as of end-August 2021. The group also had investment securities worth RM91.5mil.

The investment securities consist mainly of investments in quoted shares of RM14.3mil in Malaysia and RM67.3mil outside Malaysia. Out of the RM67.3mil, RM10.5mil were debt instruments and RM56.7mil were equities.

The investments securities are classified under long-term assets in CTP's balance sheet. This means that CTP does not intend to sell the quoted securities anytime soon.

CTP's strong balance sheet gives the group room to gear up to acquire plantation landbank in the future.

SWOT ANALYSIS

STRENGTHS

- ***Well-managed company***

CTP is fundamentally sound as reflected in the efficient cost of production and solid balance sheet. The group's gross profit margins are consistently high, ranging from 49.9% in FY18 to 54.5% in FY21.

CTP is 36.7%-owned by the Goh family via Tiong They Company. CTP's executive chairman is Goh Wei Lei. He is also the executive chairman of Negeri Sembilan Oil Palms.

CTP's chief operating officer is Ng Yeen Chern, who was appointed in 2016. CTP's chief financial officer is Gan Kok Ting, who has been with the group since 1994.

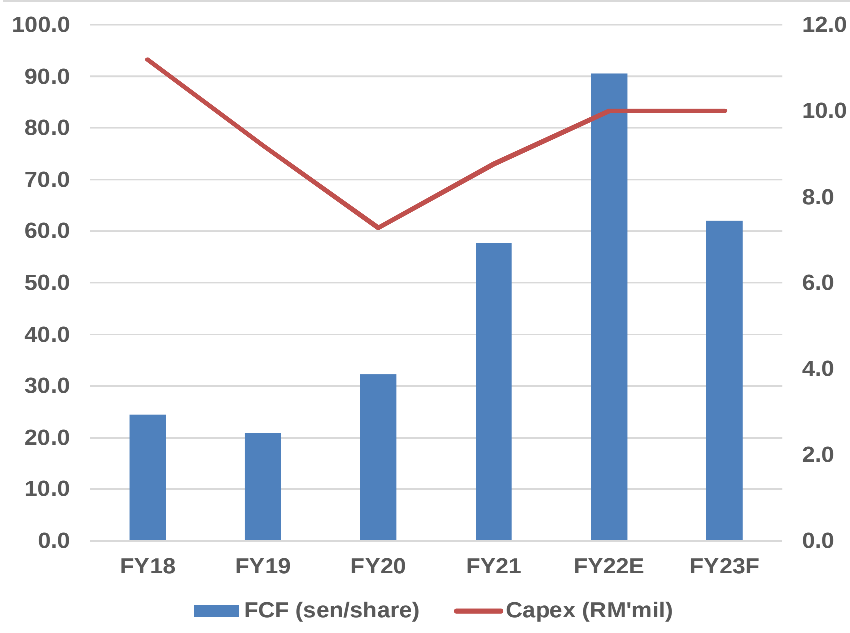
- ***Healthy balance sheet***

Including the RM356.9mil investment securities, CTP's cash and cash equivalents would come up to RM448.4mil.

CTP's healthy cash reserves allow the group to weather through periods of low CPO prices. The group does not need to borrow for working capital or capex.

The group's cash generating ability is healthy underpinned by low inventory and trade receivable turnover and minimal

EXHIBIT 8: FREE CASH FLOWS PER SHARE (SEN) VS. CAPEX (RM'MIL)



Source: Company, AmInvestment Bank

capex requirements. CTP's inventory turnover ranged from 7 to 19 days from FY18 to FY21 while debtors took 2 months or less to pay.

❑ *Profitable property associate*

West Synergy is consistently profitable. CTP received dividends of RM4.1mil from West Synergy and recognised its share of net profit of RM6.6mil in FY21.

We think that the Bandar Springhill township project can still be developed for another 5 to 10 years as 755 acres of oil palm estates are still unconverted.

WEAKNESSES

❑ *Unprofitable Indonesia joint ventures*

The joint ventures in Indonesia have been unprofitable for many years. This was due to unrest in the neighbouring villages, which prevented harvesting of FFB. CTP's share of net loss in the Indonesian joint venture was RM5.1mil in FY21.

CTP injected RM617,980 into the 40%-owned Chin Thye Plantations as working capital to help retain staff for existing operations and harvesting works pending clearance from the authorities.

On a positive note, however, we think that the joint ventures' losses will decline in FY22E on stronger CPO prices.

Overall, we forecast CTP's share of net profit in property associate and plantation joint ventures to be RM9.5mil in total in FY22E vs. RM1.6mil in FY21.

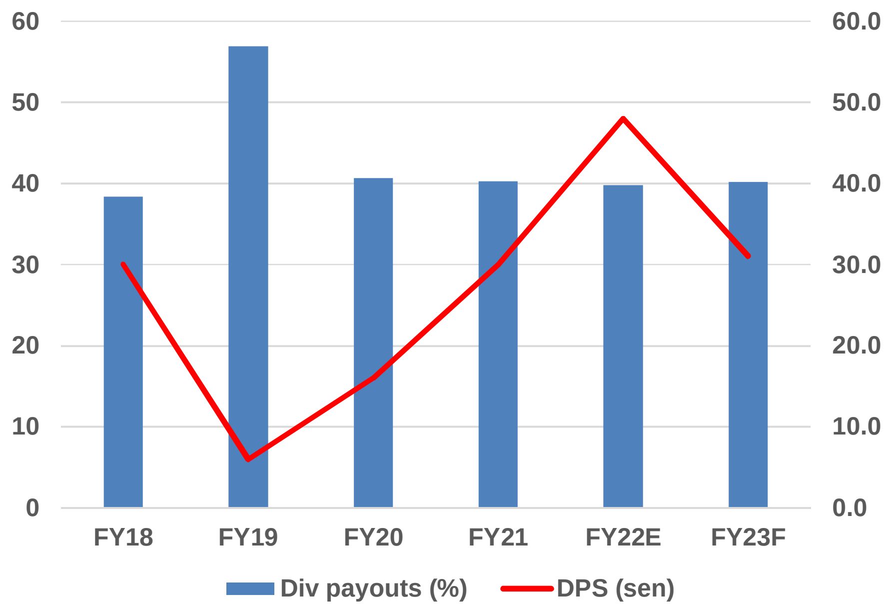
❑ *Lack of plantable reserves*

We believe that most of CTP's landbank in Peninsular Malaysia have already been fully planted. Hence CTP's long-term growth would depend solely on CPO prices and operating efficiencies.

We believe that it would be challenging for CTP's FFB yields and OERs to improve in the long term due to the ageing profile of the oil palm trees.

CTP only replanted 378ha of ageing oil palm trees in FY20 and 596ha in FY21. These translated into 3.4% and 5.4% of CTP's planted areas respectively.

EXHIBIT 9: DPS (SHARE) AND DIVIDEND PAYOUTS (%)



Source: Company, AmInvestment Bank

❑ ***No estates in Sabah***

CTP does not have exposure to Sabah, which has higher oil extraction rates (OER) than Peninsular Malaysia. According to the MPOB, Sabah's OERs were 20.7% in 2020 and 20.6% in 2021. In comparison, OERs in Peninsular Malaysia were 19.7% in 2020 and 19.8% in 2021.

On the flip side, CTP's 1,618ha of oil palm estates in Port Dickson Malaysia may have potential for property development.

Based on a market price of RM80,000/ha, we estimate the value of CTP's land in Port Dickson to be RM129.4mil vs. the net book value of RM22.3mil.

OPPORTUNITIES

❑ ***Acquisitions of landbank***

We believe that there are opportunities for CTP to acquire landbank in Sabah due to its healthy cash reserves.

We estimate the market price of a brownfield plantation land to be RM80,000/ha to RM120,000/ha in Sabah. TSH Resources sold its 2,933ha of oil palm estates in 1Q2022 to Sharikat Keratong Sdn Bhd for RM228mil in March 2022.

Although there is palm oil land in Sarawak, we believe that there are operational challenges as most of the land are under natives' customary rights (NCR). Also, most of the land in Sarawak sit on peat soil.

There have not been many landbank transactions in Sarawak. In early 2020, WTK Holdings proposed to acquire 3,390ha of planted land in Miri for RM85mil or RM25,071/ha.

❑ ***More expansions in Indonesia***

CTP can expand its presence in Indonesia by increasing its stake in joint ventures or acquiring plantation land on its own.

We reckon that it would be more feasible to acquire brownfield plantation land in Indonesia as the land would already have the HGU (Hak Guna Usaha) title. In addition, developing greenfield plantations is challenging compared with 10 years ago as the approval process for new plantings takes a long time.

We estimate the cost of development of new plantings to be between RM15,000/ha and RM20,000/ha.

Based on past market transactions, we believe that brownfield plantation land in Kalimantan would cost about RM50,000/ha to RM60,000/ha.

THREATS

❑ ***Higher taxes and cess payments in Malaysia***

Palm oil companies would be affected if the Malaysia government raises the CPO windfall tax rates or lowers the threshold price levels for the windfall tax. Palm oil companies would also be hit if there is an increase in cess payments to MPOB.

Currently, the windfall tax kicks in when CPO prices exceed RM3,000/tonne for Peninsular Malaysia and RM3,500/tonne for Sabah and Sarawak. The windfall tax rate is 3.0%. Planters in Malaysia also pay a cess of

RM16/tonne on CPO production to the MPOB for their activities.

In Malaysia, the export tax on CPO is imposed when CPO prices exceed RM2,250/tonne. In August, the export tax rate was 8% on a reference price of RM5,258/tonne.

- ***Trade barriers on palm oil***

Anti-palm oil campaigns and trade barriers may affect global demand for palm oil. In the short term, however, demand for palm oil may be resilient as the Ukraine war has caused a shortage of sunflower oil and corn.

In the EU, palm biodiesel is expected to be phased out from 2025F onwards while in the USA, palm products from Sime Darby Plantation and FGV Holdings have been banned.

We believe that palm flows will be re-routed to Africa and the Middle East if there is a decline in demand from the EU. Palm oil is used mainly in the oleochemical and biodiesel industries in the EU.

RISKS

- ***Earnings risk from a fall in CPO prices***

Being a pure planter, CTP is sensitive to the volatility in CPO prices. We estimate that CTP's net profit will fall by 5% to 10% for every RM100/tonne change in CPO price.

CTP's net profit plunged by 55.1% to RM32.1mil in FY19 from RM71.5mil in FY18 as average CPO price realised slumped to RM2,055/tonne from RM2,471/tonne.

On the other hand, CTP's net profit climbed by 89.2% to RM68.1mil in FY21 from RM36mil in FY19 as average CPO price rose to RM3,591/tonne from RM2,378/tonne.

- ***Risk of poor FFB production due to a shortage of labour***

Although CTP may not be facing an acute labour shortage, we reckon that CTP's FFB production could be higher if there were more harvesters.

According to news reports, Malaysia is currently facing a shortage of more than 100,000 estate workers. The shortage of workers has resulted in a loss of 3.4mil tonnes of CPO and 857,000 tonnes of palm kernel per year.

- ***Risk of a shortage of fertiliser***

There is risk that plantation companies may not be able to secure fertiliser supply given the global shortage resulting from the war in Ukraine. We believe that those affected may be smallholders in Malaysia and Indonesia.

We believe that CTP would still be able to secure fertiliser due to its long-standing relationship with suppliers. Fertiliser suppliers in Malaysia include Hap Seng Consolidated, CCM Fertiliser and Behn Meyer.

- ***Surge in landbank prices may affect expansion plans***

It would be difficult to acquire plantation land if landbank prices continue to surge. Depending on the location and whether the land has property or solar potential, the market price of an oil palm estate may exceed RM120,000/ha.

In late 2020, Malakoff Corporation bought 71ha of oil palm estates in Alor Gajah, Melaka from Tradewinds Plantation for RM150mil or RM2.1mil/ha.

On the flip side, an increase in landbank prices may make CTP's oil palm estates more valuable. However as CTP is unlikely to exit the palm oil business, the group would not be able to realise or monetise the capital gains.

EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	**2020**	**2021**	**2022E**	**2023F**	**2024F**
Revenue	129.8	182.7	267.1	196.3	196.3
EBITDA	41.2	82.7	131.4	72.9	73.4
Depreciation	(7.3)	(6.8)	(7.3)	(8.2)	(8.7)
Operating income (EBIT)	33.9	75.9	124.1	64.7	64.7
Other income & associates	4.7	5.8	14.0	14.5	15.0
Net interest	8.6	6.1	6.8	11.6	18.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	**47.2**	**87.7**	**144.9**	**90.8**	**98.3**
Taxation	(11.3)	(19.7)	(34.8)	(21.8)	(23.6)
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
Net profit	**36.0**	**68.1**	**110.1**	**69.0**	**74.7**

Balance Sheet (RMmil, YE 31 Aug)	**2020**	**2021**	**2022E**	**2023F**	**2024F**
Fixed assets	121.1	122.9	125.6	127.4	128.7
Intangible assets	-	-	-	-	-
Other long-term assets	243.6	256.3	265.8	275.8	286.3
Total non-current assets	**364.7**	**379.2**	**391.4**	**403.2**	**415.0**
Cash & equivalent	325.1	356.9	402.6	442.3	475.1
Stock	4.2	6.1	8.8	6.5	6.5
Debtors	18.1	20.3	29.3	21.5	21.5
Other current assets	7.0	8.7	8.7	8.7	8.7
Total current assets	**354.4**	**392.1**	**449.4**	**479.0**	**511.8**
Creditors	14.5	14.3	17.6	17.4	17.4
Short-term borrowings	-	-	-	-	-
Other current liabilities	1.2	2.2	2.2	2.2	2.2
Total current liabilities	**15.6**	**16.5**	**19.7**	**19.6**	**19.6**
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	23.3	24.1	24.1	24.1	24.1
Total long-term liabilities	**23.3**	**24.1**	**24.1**	**24.1**	**24.1**
Shareholders' funds	**680.2**	**730.7**	**797.0**	**838.6**	**883.1**
Minority interests	-	-	-	-	-
BV/share (RM)	7.44	8.00	8.72	9.18	9.67

Cash Flow (RMmil, YE 31 Aug)	**2020**	**2021**	**2022E**	**2023F**	**2024F**
Pretax profit	47.2	87.7	144.9	90.8	98.3
Add:					
Adjustments for non cash items	(5.6)	(7.1)	(18.9)	(23.4)	(30.4)
Working capital	(4.9)	(19.1)	(43.2)	(11.8)	(23.6)
Cash flow from operations	**36.8**	**61.5**	**82.8**	**55.5**	**44.3**
Capital expenditure	(7.3)	(8.8)	(10.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	0.0	0.5	0.0	0.0	0.0
Others	11.7	(39.2)	16.8	21.6	28.6
Cash flow from investing	**4.4**	**(47.5)**	**6.8**	**11.6**	**18.6**
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(14.6)	(27.4)	(43.9)	(27.4)	(30.1)
Others	0.0	1.0	2.0	3.0	4.0
Cash flow from financing	**(14.6)**	**(26.4)**	**(41.9)**	**(24.4)**	**(26.1)**
Net cash flow	**26.6**	**(12.4)**	**47.7**	**42.7**	**36.8**
Net cash/(debt) b/f	**89.4**	**116.7**	**104.0**	**149.7**	**189.4**
Forex	**0.7**	**0.7**	**0.0**	**0.0**	**0.0**
Net cash/(debt) c/f	**116.7**	**105.0**	**151.7**	**192.4**	**226.2**

Key Ratios (YE 31 Aug)	**2020**	**2021**	**2022E**	**2023F**	**2024F**
Revenue growth (%)	6.3	40.8	46.2	-26.5	0.0
EBITDA growth (%)	1.2	100.8	58.8	-44.5	0.8
Pretax margins (%)	36.4	48.0	54.2	46.2	50.1
Net profit margins (%)	27.7	37.3	41.2	35.1	38.0
Interest cover (x)	na	na	na	na	na
Effective tax rate (%)	23.8	22.4	24.0	24.0	24.0
Net dividend payout (%)	40.6	40.3	39.8	39.7	40.4
Trade debtors turnover (days)	51	41	40	40	40
Stock turnover (days)	12	12	12	12	12
Trade creditors turnover (days)	77	63	60	60	60

Source: Company, AmInvestment Bank estimates

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