



AmInvestment Bank

Company report

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HAP SENG PLANT

(HAPL.MK, HAPL.KL)

29 Dec 2021

Pure planter without Indonesian price discount

HOLD

(Initiation)

Rationale for report: Initiation

Price	RM1.98
Fair Value	RM2.20
52-week High/Low	RM2.28/RM1.69

Key Changes

Fair value	na
EPS	na

YE to Dec	FY20	FY21E	FY22F	FY23F
Revenue	467.6	694.0	603.0	535.4
Net profit	90.3	173.8	125.9	98.4
EPS	11.3	21.7	15.7	12.3
EPS growth	187.1	92.4	-27.5	-21.9
Consensus net (RM mil)		176.6	136.9	112.8
DPS (sen)	7.0	14.0	10.0	8.0
PE (x)	17.5	9.1	12.6	16.1
EV/EBITDA (x)	7.5	4.9	5.7	6.2
Div yield (%)	3.5	7.1	5.1	4.0
ROE (%)	5.4	10.0	7.0	5.3
Net gearing (%)	na	na	na	na

Stock and Financial Data

Shares Outstanding (million)	800.0
Market Cap (RM mil)	1,584.0
Book value (RM/share)	2.14
P/BV (x)	0.8
ROE (%)	5.4
Net Gearing (%)	na
Major Shareholders	Hap Seng Consolidated (74.9%) EPF (8.9%)
Free Float (%)	25.1
Avg Daily Value (RM mil)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	-0.0	+10.0	+10.6
Relative (%)	+0.3	+10.8	+18.6



Investment Highlights

- We initiate coverage on Hap Seng Plantations (HSP) with a HOLD recommendation and fair value of RM2.20/share. Our fair value for HSP is based on FY23F PE of 18.0x. We have also used the PE of 18.0x to derive TSH Resources' fair value. We ascribe a three-star ESG rating to HSP.
- Based on our earnings forecasts, HSP is currently trading at FYE12/22E PE of 12.6x and FYE12/23F PE of 16.1x. In comparison, TSH's FYE12/22F PE is 16.0x.
- HSP's dividend yields are decent. We forecast HSP's dividend yields to be 7.1% in FY21E and 5.1% in FY22F based on a share price of RM1.98/share. Dividend payouts are estimated to be 64.5% in FY21E and 63.5% in FY22F.
- We expect HSP's capex to be RM50.0mil each in FY21E (FY20: RM54.7mil) and FY22F. HSP's capex consists mainly of maintenance of infrastructure and replanting of ageing oil palm trees. HSP's capex is not as heavy as its peers as most of the group's landbank has already been fully planted.
- HSP has not acquired any landbank in recent years. Instead in November 2021, HSP sold 623.8ha of land in Tawau to Hap Seng Consolidated for RM84.9mil. In June 2020, HSP sold 552ha of land in Tawau, Sabah to Hap Seng Consolidated for RM76.0mil or an estimated RM137,583/ha. We believe that Hap Seng Consolidated plans to launch property projects on both parcels of land in the future.
- HSP is a pure planter. The group does not have palm refining or biodiesel operations. As such, HSP benefits when CPO prices are rising but suffers when CPO prices fall. We estimate that HSP's net profit would decline by 3% to 5% for every RM100/tonne fall in CPO price.
- Also, HSP sells its CPO mainly at spot prices. Forward sales of CPO are minimal. Hence, HSP's average CPO price realised is usually close to Sabah spot prices.
- HSP's FFB production growth is driven mainly by enhancements in yields and not higher mature areas. This is because any increase in mature areas would be offset by HSP's replanting of ageing oil palm trees every year. At the same time, there are no new plantings as most of HSP's land are completely planted.
- All of HSP's oil palm estates are located in Sabah. The group does not have operations in Indonesia. Hence, HSP does not suffer from the Indonesia CPO price discount. In Sabah, HSP's planted areas of oil palm are in Lahad Datu, Tawau and Kudat.

EXHIBIT 1: PEER VALUATION COMPARISONS

	Share price (RM)	EPS (sen)		FY22F DPS (sen)	PE (x)		Dividend yield (%) FY22F
		FY22F	FY23F		FY22F	FY23F	
TSH Resources	1.08	8.7	8.8	2.2	12.4	12.3	2.0%
Ta Ann	3.43	38.1	34.4	17.3	9.0	10.0	5.0%
Sarawak Oil Palms	3.50	49.5	41.3	12.5	7.1	8.5	3.6%
Kim Loong Resources	1.58	13.0	11.0	9.6	12.2	14.4	6.1%
Hap Seng Plantations	1.98	17.8	13.7	10.2	11.1	14.5	5.2%

Source: Bloomberg

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 RM2.20/SHARE

□ We have assumed PE of 18.0x to value HSP

We have a fair value of RM2.20/share for HSP, which implies an upside of 11.1% on its current share price of RM1.98/share.

We have assumed FY23F PE of 18.0x to derive HSP's fair value of RM2.20/share. The PE of 18.0x is the same PE that we have used to derive TSH Resources' fair value.

HSP's planted areas of oil palm amount to about 35,434ha compared with TSH's 42,272ha (before the disposals of land) and IJMP's 61,277ha. HSP's FFB yield was 19.7 tonnes/ha in FY20 vs. TSH's 22.8 tonnes/ha and IJMP's 19.3 tonnes/ha.

The PE of 18.0x is within HSP's historical price band. In the past five years, HSP's PE ranged from a low 10.4x to a high of 38.2x. Average PE was 21.1x.

□ HSP's PE is cheaper than its Sabah peers

Against peers of roughly similar size in Sabah, HSP is cheaper. Based on *Bloomberg* consensus estimates, HSP's peers are trading at FY22F PE of 12.2x to 12.4x currently against HSP's 11.1x (Exhibit 1).

Against the planters in Sarawak however, HSP's PE is higher. According to *Bloomberg* consensus, FY22F PEs of the Sarawak planters are between 7.1x and 9.0x.

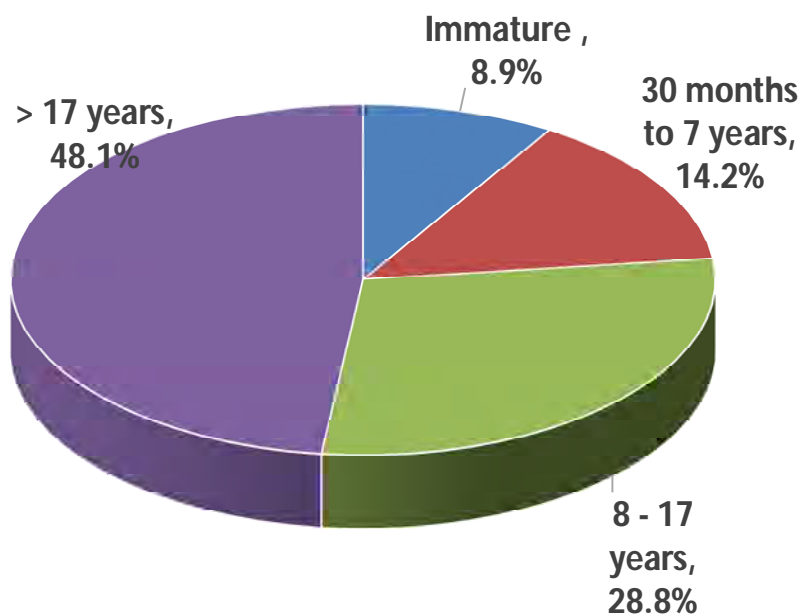
We believe that the Sarawak planters are trading at a discount to their Sabah peers as a significant portion of the planted areas are on peat soil. In addition, there is a lack of RSPO-certified products in Sarawak.

□ Current EV/ha of RM42,661/ha

We estimate the implied market value of HSP's planted landbank to be RM42,661/ha. This is higher than Genting Plantation's RM34,067/ha but below TSH Resources' RM48,572/ha (before proposed disposals of land).

We believe that some of HSP's oil palm estates in Sabah have property development potential. In the past two years, HSP has sold 1,176ha of land in Tawau to Hap

EXHIBIT 3: AGE PROFILE OF OIL PALM TREES



Source: Company, AmInvestment Bank

Seng Consolidated for RM160.9mil in total. The disposals were carried out via two transactions.

We believe that the market value of brownfield landbank in Sabah is between RM70,000/ha and RM100,000/ha. Acquiring listed companies to gain landbank may be cheaper than buying the physical land.

This year, Kuala Lumpur Kepong's (KLK) acquisition of IJM Plantations (IJMP) valued the latter at an EV of RM52,399/ha. IJMP has 36,263ha of planted areas in Indonesia and 25,014ha in Malaysia.

ABOUT HSP

Operations in Lahad Datu, Tawau and Marudu

HSP is a Sabah planter. In terms of total landbank, HSP has 36,830ha in Lahad Datu, 724ha in Tawau and 2,173ha in Marudu.

HSP does not have any exposure to Indonesia. Hence, it does not suffer from the Indonesia CPO price discount.

Out of the 35,434ha of planted areas in Sabah in FY20, 91.1% or 32,286ha were mature while the balance 8.9% or 3,148ha were immature.

Four palm oil mills; no exposure to downstream activities

HSP is a pure palm oil company. Hence, it has high leverage when CPO prices rise. On the flip side, HSP suffers more than the integrated players when CPO prices plunge.

We estimate that HSP's net profit would improve by 3% to 5% for every RM100/tonne change in CPO price.

Currently, there are no plans to venture into palm refining or biodiesel activities in the future. HSP has four palm oil mills in Sabah with a total processing capacity of 180 tonnes per hour. The palm oil mills recorded an average utilisation rate of 67.0% in FY20.

Sells CPO mainly at spot prices

HSP sells its CPO mainly at spot prices. There is minimal forward sales of CPO. As such, HSP's realised selling prices are usually quite close to the MPOB's spot prices in Sabah.

This also implies that compared to the integrated players, HSP benefits more when CPO prices rise but also suffer more when palm product prices are in the doldrums.

HSP's average CPO price realised was RM4,187/tonne in 9MFY21. This was close to the MPOB's average spot prices of RM4,137/tonne for Sabah and RM4,172/tonne for Malaysia.

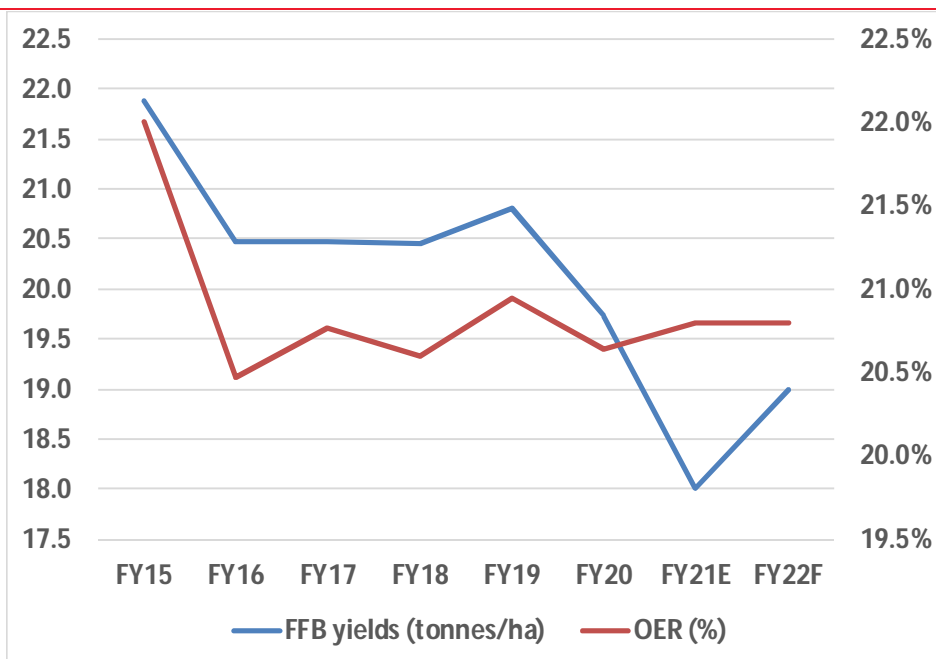
Ageing oil palm trees

HSP has a sizeable proportion of ageing oil palm trees. The average age of HSP's oil palm trees is between 15 and 16 years old.

About 48.1% of HSP's planted areas (oil palm) are more than 17 years while another 28.8% are between eight and 17 years old. An additional 14.2% of HSP's oil palm trees are from 30 months to seven years old while the balance 8.9% are less than 30 months (Exhibit 3).

HSP replants about 1,000ha of its planted areas every year. In FY20, the size of replanting was 1,061ha.

EXHIBIT 4: FFB YIELDS (TONNES/HA) AND OIL EXTRACTION RATE (OER) (%)



Source: Company, AmInvestment Bank

□ Focus is on Sabah and not Indonesia

We believe that HSP is interested in landbanking opportunities in Sabah instead of Indonesia.

In February 2018, HSP proposed to acquire 19,623ha of oil palm estates from Kretam Holdings for RM2.1bil or RM93,186/ha (inclusive of valuation for palm refinery, biodiesel plant and palm oil mills). In June 2018 however, the proposed acquisition was rescinded.

We believe that HSP's balance sheet is strong enough for the group to borrow and acquire at least 10,000ha of oil palm estates in Sabah. As at end-December 2020, HSP's gross cash stood at RM259.0mil. HSP has zero borrowings.

□ HSP has been selling plantation land to parent company

HSP has been monetising its landbank. We understand that some of the oil palm estates which were sold off are not contiguous to the rest of HSP's estates. In addition, the replanting and maintenance expenses of the estates were high as the trees were old.

In November 2021, HSP proposed to sell 623.8ha of oil palm estates in Tawau to Hap Seng Consolidated for RM84.9mil or RM136,141/ha.

In FY20, HSP sold 552ha of land in Tawau to Hap Seng Consolidated for RM76.0mil or RM137,583/ha. Hap Seng Consolidated plans to develop properties on the land in the future. HSP's net gain on disposal was RM6.5mil.

□ HSP's FFB yield and OER are higher or comparable to Sabah's industry average

HSP's FFB yield was 19.7 tonnes/ha in FY20 (Exhibit 4), which was higher than the average industry FFB yield of 16.8 tonnes/ha in Sabah. Compared to the Malaysian divisions of IJM Plantations (IJMP) and TSH Resources however, HSP's FFB yield was lower.

IJMP's Malaysia division recorded an FFB yield of 21.2 tonnes in FYE3/21 while TSH Resources' Malaysia unit registered an FFB yield of 21.3 tonnes/ha in FY20.

HSP's OER was 20.6% in FY20 (Exhibit 4) in line with the industry OER of 20.7% in Sabah. Compared to IJMP, HSP's OER was similar. IJMP's Malaysia unit achieved an OER of 20.5% in FYE3/21.

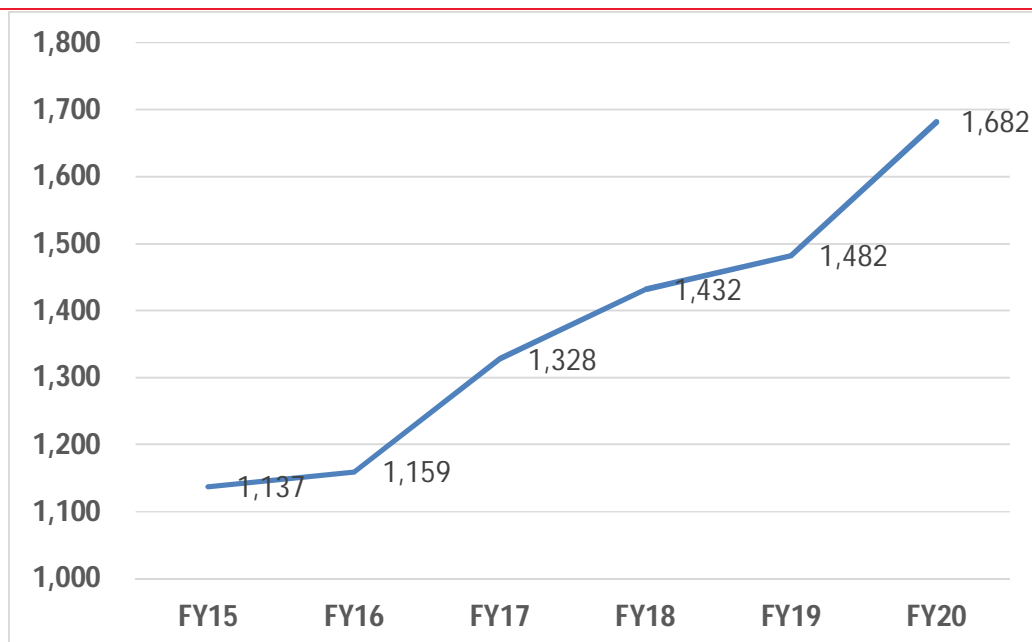
□ Annual capex is small

As HSP's landbank are fully planted, the group's capex is not intensive.

HSP's annual capex is mainly in respect of replanting and maintenance of palm oil mills and infrastructure. Also, as there are no major increases in mature areas, HSP does not need new palm oil mills.

HSP has not acquired any oil palm estate in recent years.

EXHIBIT 5: HISTORICAL COST OF CPO PRODUCTION PER TONNE (RM) – EX-AMORTISATION



Source: Company

FINANCIALS

FFB production growth forecast to be 5.0% in FY22F

HSP's FFB production is anticipated to fall by 6.0% in FY21E. HSP's FFB production slid by 7.4% YoY in 11MFY21.

HSP's FFB output is expected to be unexciting in FY21E due to lagged effects from the drought in previous years.

Looking ahead to FY22F, we forecast a small FFB production growth of 5.0% as foreign workers are expected to return to Malaysia. We have assumed an average FFB yields of 19.0 tonnes/ha for HSP in FY22F vs. 18.0 tonnes/ha in FY21E (FY20: 19.7 tonnes/ha).

We are not imputing a stronger increase in HSP's FFB yields in the short term. This is because improvements in FFB yields from oil palm trees entering the prime age would be offset by oil palm trees taken out for replanting every year.

HSP's average FFB yield was 20.6 tonnes/ha in the past six years. HSP's FFB yield ranged from a low of 19.7 tonnes/ha in FY20 to a high of 20.8 tonnes/ha in FY19.

Revenue growth of 48.4% in FY21E driven by robust CPO prices

We forecast HSP's revenue to grow by 48.4% to RM694.0mil in FY21E and -13.1% to RM603.0mil in FY22F. We have assumed average CPO prices of RM4,200/tonne in FY21E and RM3,500/tonne in FY22F for HSP.

HSP's average price of RM4,200/tonne for FY21E is higher than the average price of RM3,500/tonne that we have assumed for the other planters in our coverage.

This is because HSP sells its CPO mainly at spot prices. The group does not sell forward its CPO production. Hence, HSP's realised selling prices are close to the MPOB's spot prices.

Also, as HSP does not have operations in Indonesia, the group does not suffer from Indonesia's CPO export tax and levy.

HSP's CPO are sold mainly to the local refiners in Sabah. The group's export sales are minimal.

Labour shortage is not a major issue for HSP

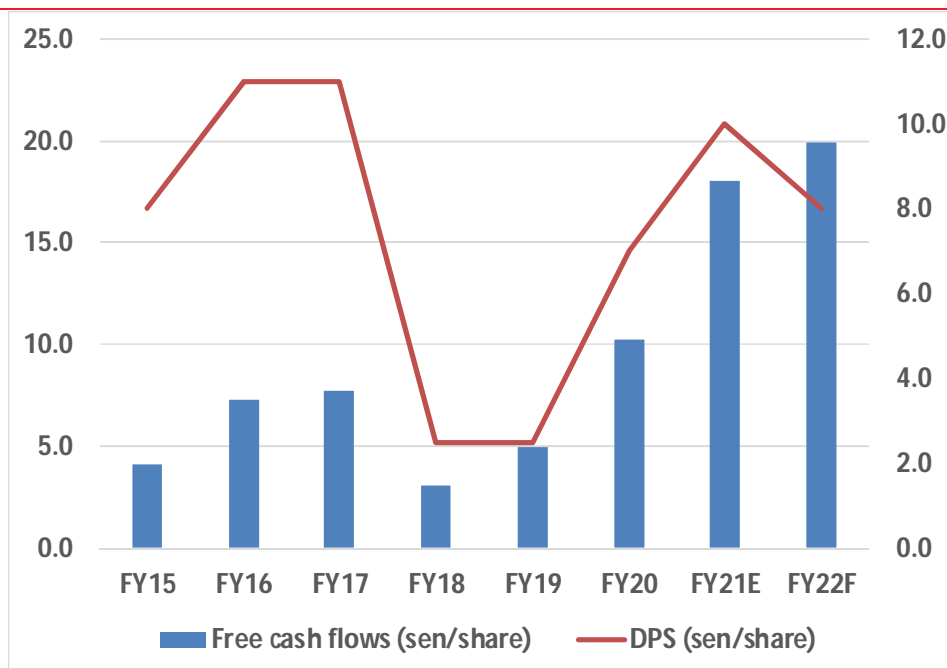
In contrast to the larger companies, HSP does not face significant labour shortages as the size of its estate operations is small at less than 35,000ha. Hence, it is easier to manage and retain estate workers.

HSP's CPO enjoys RSPO premium as it is RSPO-certified

All of HSP's palm oil mills in Sabah have been certified by the RSPO. About 82% of the group's oil palm estates have been certified by the RSPO.

As such, HSP's certified palm products command an RSPO premium. We believe that the RSPO premium usually ranges from US\$15/tonne (RM62/tonne) to US\$30/tonne (RM125/tonne). This year however, the RSPO premium exceeded US\$50/tonne (RM208/tonne) due to a shortage of palm kernel oil.

EXHIBIT 6: FREE CASH FLOWS PER SHARE (SEN) VS. DPS (SEN)



Source: Company, AmInvestment Bank

❑ Production cost per tonne to rise in FY21E on lower volume of production

We believe that HSP's all-in cost of production would be RM1,900/tonne in FY21E vs. RM1,682/tonne in FY20. The increase in the cost of production per tonne in FY21E is mainly due to the fall in the volume of CPO output.

Looking ahead to FY22F, HSP's all-in cost of production may decline to RM1,700/tonne as the increase in the volume of CPO production compensate for the rise in fertiliser costs. We have assumed a FFB production growth of 5.0% for HSP in FY22F.

The cost of fertiliser is expected to surge by 40% to 45% in FY22F. Currently, there is a global shortage of fertiliser as some plants in the EU have shut down operations due to the surge in gas costs. Fertiliser accounts for about 30% to 40% of cost of CPO production.

❑ Core net profit growth of 92.4% in FY21E

We forecast HSP to record a robust core net profit growth of 92.4% in FY21E underpinned by healthy palm product prices. Average CPO price realised is expected to surge by 50.6% to RM4,200/tonne in FY21E from RM2,788/tonne in FY20.

Looking ahead to FY22F, we anticipate HSP's net profit to decline by 27.5% to RM125.9mil. HSP's net profit is expected to fall in FY22F as we have assumed a lower CPO price. As mentioned earlier, we have assumed an average CPO price of RM3,500/tonne in FY22F vs. RM4,200/tonne in FY21E.

❑ Capex of RM50.0mil in FY21E

We estimate HSP's capex to be RM50.0mil in FY21E compared with RM54.7mil in FY20.

HSP's capex in FY21E is expected to consist mainly of replanting of ageing oil palm trees and maintenance of roads and palm oil mills.

HSP is estimated to replant about 900ha to 1,000ha of ageing oil palm trees in FY21E vs. 1,061ha in FY20.

Cost of replanting until maturity is envisaged to range between RM15,000/ha and RM20,000/ha. Replanting is essential as HSP has a large proportion of ageing oil palm trees.

❑ Net cash; zero borrowings

HSP's balance sheet is strong. The group has zero borrowings. Gross cash reserves stood at RM345.9mil as at end-September 2021.

On the back of strong cash reserves coupled with low capex requirements, we believe that HSP would continue to return a decent amount of cash to shareholders. HSP's free cash flows are estimated to be 18.0 sen per share in FY21E and 20.0 sen per share in FY22F (Exhibit 6).

We forecast gross DPS of 14.0 sen in FY21E and 10.0 sen in FY22F. These translate into net payouts of 64.5% and 63.5% respectively (FY20: 62.0%). HSP has an official dividend payout of 60% of net profit, at least. From FY16 to FY20, HSP's dividend payouts ranged from a low of 62.0% to a high of 80.0%. This is in line with HSP's cyclical earnings, which depend on CPO prices.

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Revenue	418.6	467.6	694.0	603.0	535.4
EBITDA	108.0	164.1	267.8	211.7	177.1
Depreciation	(88.4)	(87.7)	(88.0)	(85.6)	(81.3)
Operating income (EBIT)	19.6	76.5	179.8	126.0	95.8
Other income & associates	19.7	34.5	34.7	30.1	26.8
Interest expense	(2.8)	(2.5)	(2.6)	(2.6)	(2.6)
Exceptional items	-	-	-	-	-
Pretax profit	36.6	108.4	211.9	153.6	120.0
Taxation	(5.1)	(18.1)	(38.1)	(27.6)	(21.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	31.4	90.3	173.8	125.9	98.4
Balance Sheet (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Fixed assets	1,894.9	1,801.5	1,763.5	1,727.8	1,696.6
Intangible assets	-	-	-	-	-
Other long-term assets	-	-	-	-	-
Total non-current assets	1,894.9	1,801.5	1,763.5	1,727.8	1,696.6
Cash & equivalent	133.3	259.0	294.7	378.0	472.3
Stock	50.8	54.3	114.1	107.4	88.0
Trade debtors	30.0	31.9	47.5	49.6	36.7
Other current assets	28.7	35.3	35.3	35.3	35.3
Total current assets	242.8	380.4	491.6	570.2	632.3
Trade creditors	47.8	42.8	54.2	51.2	47.7
Short-term borrowings	-	-	-	-	-
Other current liabilities	2.5	5.4	5.4	5.4	5.4
Total current liabilities	50.4	48.3	59.6	56.6	53.1
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	434.8	418.8	418.8	418.8	418.8
Total long-term liabilities	434.8	418.8	418.8	418.8	418.8
Shareholders' funds	1,652.5	1,714.8	1,776.6	1,822.5	1,856.9
Minority interests	-	-	-	-	-
BV/share (RM)	2.07	2.14	2.22	2.28	2.32
Cash Flow (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Pretax profit	36.6	108.4	211.9	153.6	120.0
Depreciation	88.4	87.7	88.0	85.6	81.3
Net change in working capital	13.9	(10.7)	(64.1)	1.7	28.7
Others	(3.6)	(39.7)	(41.1)	(30.6)	(24.6)
Cash flow from operations	135.2	145.7	194.7	210.3	205.4
Capital expenditure	(86.3)	(54.7)	(50.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	5.2	77.6	0.0	0.0	0.0
Others	(15.0)	(107.9)	3.5	3.5	3.5
Cash flow from investing	(96.1)	(85.0)	(46.5)	(46.5)	(46.5)
Debt raised/(repaid)	(8.8)	(9.5)	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(12.0)	(28.0)	(112.0)	(80.0)	(64.0)
Others	(0.0)	0.0	0.0	0.0	0.0
Cash flow from financing	(20.8)	(37.5)	(112.0)	(80.0)	(64.0)
Net cash flow	18.3	23.2	36.2	83.8	94.9
Net cash/(debt) b/f	40.3	49.3	63.7	99.4	182.6
Forex	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) c/f	58.6	72.5	99.9	183.1	277.5
Key Ratios (YE 31 Dec)	2019	2020	2021E	2022F	2023F
Revenue growth (%)	7.1	11.7	48.4	-13.1	-11.2
EBITDA growth (%)	4.8	52.0	63.2	-21.0	-16.3
Pretax margins (%)	8.7	23.2	30.5	25.5	22.4
Net profit margins (%)	7.5	19.3	25.0	20.9	18.4
Interest cover (x)	0.0	0.0	1.0	2.0	3.0
Effective tax rate (%)	14.0	16.7	18.0	18.0	18.0
Net dividend payout (%)	63.6	62.0	64.5	63.5	65.0
Debtors turnover (days)	26	25	25	30	25
Stock turnover (days)	58	64	60	65	60
Creditors turnover (days)	54	50	50	50	50

Source: Company, AmInvestment Bank estimates

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