



AmInvestment Bank

SIME DARBY PLANT

(SDPL MK, SIPL.KL)

10 Sep 2020

Company report

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

03 2036 2305

Facing 10% labour shortage

HOLD

(Maintained)

Rationale for report: Company update

Price	RM5.12
Fair Value	RM5.50
52-week High/Low	RM5.63/RM3.82

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Dec	FY19	FY20E	FY21F	FY22F
Revenue (RMmil)	12,062.3	12,892.2	13,990.6	14,887.2
Net Profit (RMmil)	(200.2)	521.4	950.5	977.9
EPS (sen)	-2.9	7.6	13.8	14.2
EPS growth (%)	-138.3	-360.5	82.3	2.9
Consensus net (RMmil)	201.8	564.1	814.2	955.3
DPS (sen)	1.0	6.0	7.0	8.0
PE (x)	-176.1	67.6	37.1	36.0
EV/EBITDA (x)	23.7	20.5	16.2	15.7
Div yield (%)	0.2	1.2	1.4	1.6
ROE (%)	-1.5	4.0	7.2	7.2
Net Gearing (%)	72.0	79.6	76.9	74.1

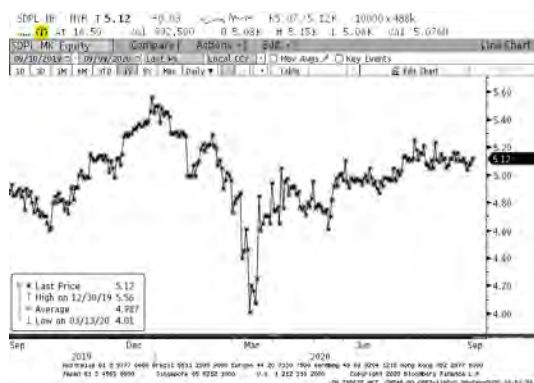
Stock and Financial Data

Shares Outstanding (million)	6,884.6
Market Cap (RM/mil)	35,249.2
Book value (RM/share)	2.30
P/BV (x)	2.2
ROE (%)	-1.5
Net Gearing (%)	72.0 (including perpetual sukuk)

Major Shareholders	ASB (45.1%)
	EPF (13.6%)

Free Float (%)	54.9
Avg Daily Value (RM mil)	12.2

Price performance	3mth	6mth	12mth
Absolute (%)	+0.2	+15.9	+4.7
Relative (%)	+8.4	+10.3	+12.2



Investment Highlights

- We maintain HOLD on Sime Darby Plantation (SDP) with an unchanged fair value of RM5.50/share. Our fair value for SDP is based on a FY21F PE of 40x.
- Sime Darby Plantation participated in Bursa Malaysia/AmInvestment Bank's webinar yesterday and here are the highlights:
 - We understand that SDP is currently facing a shortage of 10% or 2,500 workers at its oil palm estates in Malaysia. To alleviate the shortage, SDP has extended the contracts of most of its existing estate workers. About 60% of the group's estate workers are from Indonesia.
 - Also, SDP has recruited 300 Malaysians. None of them are from the prisons although SDP has visited prisons and drug rehabilitation centres in its recruitment drive. The locals will take over the jobs of the general workers at the oil palm estates while the general workers will be retrained as harvesters. General workers are usually in charge of upkeep and manuring at the oil palm estates.
 - In addition, SDP is trying to mechanise some of the processes in the estates such as manuring and collection of loose fruits. Harvesting intervals have been extended from once in 10 to 12 days to once in 15 days. This can be done as FFB yields were weak in 1HFY20.
 - SDP does not expect its net profit to be affected by the shortage of workers as CPO prices are higher this year. We have assumed that SDP's FFB production would inch down by 1.5% in FY20E. We understand that labour shortage is more acute in Sarawak compared with Sabah or Peninsular Malaysia.
 - SDP's FFB yields in Indonesia are weak. SDP's average FFB yield in Indonesia was 17.14 tonnes/ha in FY19 compared with 20.9 tonnes/ha in Malaysia and 22.4 tonnes/ha in Papua New Guinea (PNG). The low FFB yield in Indonesia is due to ageing oil palm trees and a low number of trees per ha. The previous owner of Minamas Plantations planted 110 to 120 trees per ha in the late 1990s compared with the industry average of 148 trees.
 - To rectify this, SDP started aggressively replanting the ageing oil palm trees in Indonesia three years ago. The group replanted about 6% to 7% of the planted areas in Indonesia per year. SDP also increased the number of tree plantings to 168 trees per ha.
 - SDP hopes to increase the FFB yield in Indonesia to 20 tonnes/ha by FY23F. The group is also hopeful that the average FFB yields in Malaysia and PNG would exceed the target of 23 tonnes/ha each in FY23F. SDP's goals are to achieve an average group FFB yield of 23 tonnes/ha and oil extraction rate of 23% in FY23F.

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue	13,286.0	12,062.3	12,892.2	13,990.6	14,887.2
EBITDA	2,282.8	1,142.8	2,053.4	2,663.2	2,731.0
Depreciation	(1,269.8)	(1,208.0)	(1,201.1)	(1,222.4)	(1,242.6)
Operating income (EBIT)	1,013.0	(65.2)	852.3	1,440.7	1,488.4
Other income & associates	410.0	204.0	202.0	202.0	202.0
Interest expense	(195.0)	(167.5)	(188.0)	(200.5)	(211.3)
Exceptional items	(270.0)	280.0	-	-	-
Pretax profit	958.0	251.3	866.3	1,442.2	1,479.1
Taxation	(297.0)	23.6	(207.9)	(346.1)	(355.0)
Minorities/pref dividends	(138.0)	(153.3)	(137.0)	(145.6)	(146.2)
Net profit from discount ops		(321.8)			
Net profit	523.0	(200.2)	521.4	950.5	977.9
Core net profit	793.0	(480.2)	521.4	950.5	977.9
Balance Sheet (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Fixed assets	17,004.1	17,314.0	17,612.9	17,890.4	18,147.8
Intangible assets	2,892.8	2,840.5	2,840.5	2,840.5	2,840.5
Other long-term assets	3,811.4	3,909.6	4,381.2	4,383.2	4,385.2
Total non-current assets	23,708.3	24,064.1	24,834.6	25,114.2	25,373.6
Cash & equivalent	491.0	431.3	212.2	511.0	893.0
Stock	1,681.8	1,498.4	1,412.8	1,533.2	1,631.5
Trade debtors	2,203.1	1,933.6	2,048.6	2,223.2	2,365.6
Other current assets	542.1	580.3	581.1	581.1	581.1
Total current assets	4,918.0	4,443.6	4,254.8	4,848.5	5,471.2
Trade creditors	2,222.4	1,360.6	1,514.7	1,582.7	1,685.5
Short-term borrowings	1,804.3	2,489.5	2,514.4	2,539.6	2,565.0
Other current liabilities	226.9	407.9	572.3	572.3	572.3
Total current liabilities	4,253.6	4,258.0	4,601.4	4,694.5	4,822.8
Long-term borrowings	5,492.6	5,255.4	5,780.9	6,070.0	6,373.5
Other long-term liabilities	3,134.1	3,133.4	3,131.2	3,131.2	3,131.2
Total long-term liabilities	8,626.7	8,388.8	8,912.1	9,201.1	9,504.6
Shareholders' funds	13,118.4	13,261.0	12,963.1	13,432.7	13,860.8
Minority interests	2,627.5	2,599.7	2,612.7	2,634.4	2,656.6
BV/share (RM)	2.29	2.30	2.26	2.33	2.40
Cash Flow (RMmil, YE 31 Dec)	2018	2019F	2020E	2021F	2022F
Pretax profit	958.0	251.3	866.3	1,442.2	1,479.1
Depreciation	1,193.0	1,206.0	1,201.1	1,222.4	1,242.6
Net change in working capital	(455.0)	11.3	(1,152.0)	(960.5)	(914.7)
Others	543.5	275.9	(2.0)	(2.0)	(2.0)
Cash flow from operations	2,239.5	1,744.5	913.4	1,702.1	1,805.0
Capital expenditure	(1,586.5)	(1,566.2)	(1,500.0)	(1,500.0)	(1,500.0)
Net investments & sale of fixed assets	38.5	193.9	20.0	20.0	20.0
Others	187.0	11.7	3.5	3.5	3.5
Cash flow from investing	(1,361.0)	(1,360.6)	(1,476.5)	(1,476.5)	(1,476.5)
Debt raised/(repaid)	197.5	471.9	550.4	314.2	328.9
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(384.0)	(517.0)	(206.5)	(241.0)	(275.4)
Others	(684.0)	(389.7)	0.0	0.0	0.0
Cash flow from financing	(870.5)	(434.8)	343.9	73.2	53.5
Net cash flow	8.0	(50.9)	(219.2)	298.9	382.0
Net cash/(debt) b/f	538.0	491.0	431.4	212.2	511.0
Forex	(55.0)	(8.7)	0.0	0.0	0.0
Net cash/(debt) c/f	491.0	431.4	212.2	511.0	893.0
Key Ratios (YE 31 Dec)	2018	2019F	2020E	2021F	2022F
Revenue growth (%)	-7.5	-9.2	6.9	8.5	6.4
EBITDA growth (%)	-44.1	-12.2	17.6	26.1	3.6
Pretax margins (%)	0.1	0.0	0.1	0.1	0.1
Net profit margins (%)	0.0	0.0	0.0	0.1	0.1
Interest cover (x)	11.1	11.3	11.8	14.0	13.8
Effective tax rate (%)	31.0	-9.4	24.0	24.0	24.0
Net dividend payout (%)	206.7	-34.4	79.2	50.7	56.3
Debtors turnover (days)	58	61	59	58	58
Stock turnover (days)	40	46	45	40	40
Creditors turnover (days)	46	65	43	46	46

Source: Company, AmInvestment Bank estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.