

## COMPANY UPDATE

### Hap Seng Plantations (HAPL MK)

#### Short-term Knee-jerk Impact

HAPL's share price has dropped 6% since 30 May 22 after the disposal of shares by its holding company Hap Seng Consolidated. The disposal is meant to increase public spread as Hap Seng Consolidated once held as much as 75% of HAPL's shares. We are not concerned about this disposal as it could increase liquidity. Fundamentally, HAPL remains our top pick as it is the beneficiary of high CPO spot prices and will see a 17% yoy production growth in 2022. Maintain BUY. Target price: RM4.00.

#### WHAT'S NEW

- **To increase public spread and liquidity.** Hap Seng Plantations' (HAPL) share price has weakened by 6% since 30 May 22 after the disposal of 2.63m shares (or 73% of traded volume on 30 May 22) by its holding company Hap Seng Consolidated (Hap Seng Conso), lowering its stake in HAPL to 69.5%. Recall that Hap Seng Conso had raised its stake in HAPL to 74.9% back in Aug 21 by acquiring an additional 120m shares from Innoprise Corp. Ytd, Hap Seng Conso has sold 16.49m HAPL shares, which accounts for only 2% of HAPL's total shares.
- **Key takeaways from recent analyst briefing:**
  - Highest CPO production growth among Malaysian plantation companies under our coverage.** Management maintained its production guidance of +17% yoy and does not foresee any significant downside to production as its labour force is sufficient to handle the peak season. HAPL has the least shortage (>1% labour shortage) among the plantation companies under our coverage. This is also partly due to its replanting programme that allows HAPL to redirect its replanting workers towards helping with harvesting activities. Having said that, we remain conservative, only factoring in FFB production growth of 10% yoy for 2022. HAPL's 4M22 FFB production is within our expectation, contributing about 30% of our full-year assumption.
  - Higher cost of production cost in 2H22.** We expect HAPL's cost of production for 2022 to increase by 25-30%, with more costs to be reflected in 2H22. This was mainly due to more manuring activities and the impact from the higher minimum wage starting from May 22. HAPL guided that the impact from the higher minimum wage would result in an additional cost of about RM15m for 2022.

## KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	468	671	960	773	632
EBITDA	173	350	437	299	202
Operating profit	85	263	354	217	121
Net profit (rep./act.)	69	200	269	175	102
Net profit (adj.)	69	200	269	175	102
EPS (sen)	8.6	25.1	33.7	21.9	12.7
PE (x)	31.3	10.7	8.0	12.3	21.2
P/B (x)	1.3	1.1	1.0	1.0	0.9
EV/EBITDA (x)	11.6	5.7	4.6	6.7	9.9
Dividend yield (%)	2.6	6.3	8.1	4.9	2.8
Net margin (%)	14.7	29.9	28.1	22.7	16.1
Net debt/(cash) to equity (%)	(3.7)	(6.4)	(7.4)	(12.5)	(15.9)
Interest cover (x)	n.a.	291.8	n.a.	n.a.	n.a.
ROE (%)	4.1	11.1	13.5	8.1	4.5
Consensus net profit	-	-	273	185	145
UOBKH/Consensus (x)	-	-	0.99	0.95	0.70

Source: Hap Seng Plantations, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM2.69
Target Price	RM4.00
Upside	+48.7%

## COMPANY DESCRIPTION

Pure upstream plantation company with a total landbank of 40,279 ha

## STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	HAPL MK
Shares issued (m):	799.7
Market cap (RMm):	2,151.2
Market cap (US\$m):	489.5
3-mth avg daily t'over (US\$m):	1.9

## Price Performance (%)

52-week high/low RM3.35/RM1.78

1mth	3mth	6mth	1yr	YTD
(16.7)	(2.9)	41.6	40.8	36.5

## Major Shareholders

	%
Hap Seng Consolidated	69.5
EPF	2.7
FY22 NAV/Share (RM)	2.64
FY22 Net Cash/Share (RM)	0.20

## PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

#### • Achieved highest CPO ASP among plantation companies under our coverage in 1Q22.

HAPL has the highest CPO ASP among plantation companies under our coverage, with CPO selling price of RM6,019/tonne vs peers' RM4,500-5,000/tonne. As we have always highlighted, HAPL sells 100% of its products at spot markets, which has enabled it to capture the current high prices since 2021. On top of that, its premium for Roundtable Sustainable Palm Oil (RSPO) had increased over the last two years due to higher demand for sustainable raw materials, of which HAPL is a direct beneficiary of.

#### • No issues from labour crunch. With less than 1% labour shortage, HAPL has the least labour shortage issue as compared with other plantation companies under our coverage. HAPL is also expecting some returning workers in Jun/Jul 22 and is still pending the arrival of new workers in Malaysia.

#### • Marginal impact from prosperity tax. Management guided that the impact from the prosperity tax would be RM19m-20m, based on an assumed average CPO price of RM5,500/tonne for 2022.

### EARNINGS REVISION/RISK

#### • Maintain earnings forecasts. Our net profit forecasts are at RM289m, RM175m and RM102m for 2022-24 respectively.

### VALUATION/RECOMMENDATION

#### • Maintain BUY with a target price of RM4.00, based on 11x 2022F PE, or -2SD to its five-year mean. We maintain BUY on HAPL as we expect the current high CPO prices to continue to benefit HAPL as it has a better pricing advantage than its Malaysian peers.

### SHARE PRICE CATALYST

- Higher-than-expected CPO prices.
- Higher-than-expected production.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

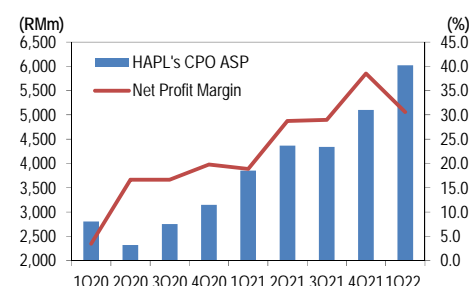
<b>• Environmental</b> <ul style="list-style-type: none"> <li>- All internal estates are Malaysia Sustainable Palm Oil, Roundtable Sustainable Palm Oil and International Sustainability &amp; Carbon Certification.</li> <li>- 0.4% of the FFB purchased from our 11 third-party (independent local outgrowers and smallholders) suppliers are RSPO or MSPO certified as three out of the 11 independent local outgrowers and smallholders have successfully obtained RSPO and MSPO accreditations, while one has obtained the MPSO certification as at Dec 20. These three external independent local outgrowers and smallholders have started to send their crops to our identity-preserved mill in Aug 20. This will inevitably raise HAPL's sustainably certified products in the near future.</li> <li>- Seven out of our 11 independent local outgrowers and smallholders indicated their willingness to participate in activities towards RSPO and MSPO certifications.</li> </ul>
<b>• Social</b> <ul style="list-style-type: none"> <li>- Transparent communication and response to ongoing cases involving community.</li> <li>- Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.</li> <li>- HAPL covers all costs for obtaining legal work permits in Malaysia with the exception of passports, which workers must obtain themselves. Each worker retains his or her own passport and we have discontinued the practice of requesting estate managers to hold workers' travel documents for safekeeping.</li> </ul>
<b>• Governance</b> <ul style="list-style-type: none"> <li>- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul>

### HAPL'S CERTIFICATIONS

Certifications	Facilities
RSPO	All mills & 100% landbank
MSPO	All mills & 100% landbank
ISCC EU	All mills
HACCP	All mills
MS ISO/IEC 17025	Plantations Central Laboratory
HALAL	All mills
MeSTI	All mills

Source: HAPL

### HAPL'S CPO ASP & PBT MARGINS



Source: HAPL, UOB Kay Hian

### KEY ASSUMPTIONS

	2022F	2023F
CPO Price (RM/tonne)	5,200	4,000
FFB production growth (+% yoy)	+10	+2

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	671	960	773	632
EBITDA	350	437	299	202
Deprec. & amort.	86	84	82	81
EBIT	263	354	217	121
Total other non-operating income	5	5	5	5
Associate contributions	0	1	2	3
Net interest income/(expense)	(1)	1	1	1
<b>Pre-tax profit</b>	<b>290</b>	<b>361</b>	<b>225</b>	<b>130</b>
Tax	(66)	(91)	(49)	(29)
Minorities	0	0	0	0
<b>Net profit</b>	<b>200</b>	<b>269</b>	<b>175</b>	<b>102</b>
Net profit (adj.)	200	269	175	102

**BALANCE SHEET**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,711	1,683	1,658	1,635
Other LT assets	0	0	0	0
Cash/ST investment	121	156	277	361
Other current assets	538	749	796	772
<b>Total assets</b>	<b>2,369</b>	<b>2,588</b>	<b>2,732</b>	<b>2,767</b>
ST debt	0	0	0	0
Other current liabilities	64	101	84	71
LT debt	0	0	0	0
Other LT liabilities	422	379	422	422
Shareholders' equity	1,883	2,108	2,226	2,274
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>2,369</b>	<b>2,588</b>	<b>2,732</b>	<b>2,767</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>277</b>	<b>267</b>	<b>284</b>	<b>202</b>
Pre-tax profit	263	354	217	121
Tax	(70)	(91)	(49)	(29)
Deprec. & amort.	86	84	82	81
Working capital changes	(1)	(85)	27	20
Other operating cashflows	(1)	6	7	8
<b>Investing</b>	<b>(154)</b>	<b>(58)</b>	<b>(58)</b>	<b>(58)</b>
Capex (growth)	(58)	(58)	(58)	(58)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(97)	0	0	0
<b>Financing</b>	<b>(66)</b>	<b>(174)</b>	<b>(105)</b>	<b>(61)</b>
Dividend payments	(56)	(174)	(105)	(61)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(10)	0	0	0
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>57</b>	<b>35</b>	<b>121</b>	<b>83</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>64</b>	<b>121</b>	<b>156</b>	<b>277</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>121</b>	<b>156</b>	<b>277</b>	<b>361</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	52.1	45.6	38.7	32.0
Pre-tax margin	43.3	37.6	29.1	20.6
Net margin	29.9	28.1	22.7	16.1
ROA	8.8	10.9	6.6	3.7
ROE	11.1	13.5	8.1	4.5
<b>Growth</b>				
Turnover	43.5	43.1	(19.5)	(18.2)
EBITDA	102.5	25.1	(31.6)	(32.4)
Pre-tax profit	167.8	24.3	(37.7)	(42.1)
Net profit	191.8	34.4	(34.9)	(42.1)
Net profit (adj.)	191.8	34.4	(34.9)	(42.1)
EPS	191.8	34.4	(34.9)	(42.1)
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(6.4)	(7.4)	(12.5)	(15.9)
Interest cover (x)	291.8	n.a.	n.a.	n.a.

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