

COMPANY RESULTS

Hap Seng Plantations (HAPL MK)

2Q22: Below Expectations

HAPL's 1H22 earnings contributed 50% of our full-year forecast, falling short of our forecasts as we expect a weaker 2H22 due to lower CPO ASP. Still, we would like to highlight that HAPL achieved the highest CPO ASP among all the plantation companies under our coverage, partially offsetting the lower production in 2Q22. The company declared interim dividend of 5 sen/share (yield: 2.2%). Maintain BUY with a target price of RM2.80.

2022 RESULTS

Year to 31 Dec (RMm)	2Q22	qoq % chg	yoy % chg	1H22	yoy % chg	Remarks
Revenue	246.9	1.9	36.3	489.0	61.7	
Operating Profit	94.8	(24.5)	49.6	220.4	113.5	
Profit Before Tax	66.9	(34.2)	41.1	168.6	119.5	
Net Profit	66.9	(34.2)	41.1	168.6	119.5	
Core Net Profit	67.4	(9.0)	29.5	141.5	88.7	Below our expectations due to sharp drop in PK prices.
		qoq bp chg	yoy bp chg		yoy bp chg	
Margins (%)						
EBIT	38.4	(13.4)	3.4	45.1	10.9	
Core Net Profit	27.3	(3.3)	(1.4)	28.9	4.1	

Source: Hap Seng Plantations, UOB Kay Hian

RESULTS

- Results below our expectations.** Hap Seng Plantation's (HAPL) 2Q22 core net profit came in at RM67m (-9% qoq, +>30% yoy), bringing 1H22 core net profit to RM142m (+89% yoy). 1H22 total core net profit contributed 50% of our and consensus full-year earnings, which we deem below our expectations as we expect a weaker 2H22 due to lower hoh ASP. The negative variances mainly came from lower-than-expected palm kernel (PK) ASP; the lower-than-expected 2Q22 fresh fruit bunch (FFB) production resulted in lower sales volume as well.
- Lower qoq earnings dragged by significant drop in PK prices...** 2Q22 earnings came in 9% lower qoq mainly dragged by the significant drop in PK prices (-20% qoq). In addition, total FFB production had also dropped 5% qoq in 2Q22, leading to a same drop in CPO and PK sales volume. The lower FFB production in 2Q22 was mainly affected by the lower FFB yield due to seasonal yield trend and changes in cropping patterns.
- ...partially offset by higher CPO prices.** As usual, HAPL exceeded its record high CPO ASP again in 2Q22, achieving its CPO ASP at RM6,741/tonne, the highest among all the companies under our coverage.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	468	671	960	812	785
EBITDA	173	350	437	333	329
Operating profit	85	263	354	251	248
Net profit (rep./act.)	69	200	269	202	200
Net profit (adj.)	69	200	269	202	200
EPS (sen)	8.6	25.1	33.7	25.2	25.0
PE (x)	26.0	8.9	6.6	8.8	8.9
P/B (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	9.4	4.7	3.7	4.9	4.9
Dividend yield (%)	3.1	7.6	9.7	6.8	6.7
Net margin (%)	14.7	29.9	28.1	24.8	25.5
Net debt/(cash) to equity (%)	(3.7)	(6.4)	(7.4)	(12.5)	(16.2)
Interest cover (x)	n.a.	291.8	n.a.	n.a.	n.a.
ROE (%)	4.1	11.1	13.5	9.2	8.6
Consensus net profit	-	-	273	188	157
UOBKH/Consensus (x)	-	-	0.99	1.07	1.27

Source: Hap Seng Plantations, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.23
Target Price	RM2.80
Upside	+25.6%

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):	1,783.3
Market cap (US\$m):	397.6
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

52-week high/low RM3.35/RM1.89

1mth	3mth	6mth	1yr	YTD
2.8	(23.6)	(16.2)	12.6	13.2

Major Shareholders

	%
Hap Seng Consolidated	74.9
EPF	8.3
FY22 NAV/Share (RM)	2.64
FY22 Net Cash/Share (RM)	0.20

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jacquelyn Yow Hui Li
+603 2147 1995
jacquelyn@uobkayhian.com

Leow Huey Chuen
+603 2147 1990
hueychuen@uobkayhian.com

STOCK IMPACT

- **FFB production came in below our expectations.** HAPL's 1H22 production had dropped by 5% yoy. This is different from our expectation where we expected a 10% yoy FFB production growth for HAPL in 2022. HAPL's 1H22 FFB production only contributed about 40% of our full-year forecast. The difference was mainly due to the high rainfall in Sabah region in May and June that affected the harvesting process. Harvesting is catching up in August, which is in line with our crops survey for 1-20 August that showed a 33% mom increase in Sabah.
- **2H22 earnings may come in weaker.** As HAPL sells all of its products at spot prices, we expect lower hoh CPO ASP for HAPL in view of the softening CPO prices. The monthly average price for Malaysian CPO in Jul 22 was RM4,063/tonne, the lowest to date in 2022. With the recent Indonesian announcement of the temporary cease on export levy, we expect CPO ASP to continue to remain soft. Having said that, we expect this would be buoyed by the better production and sales volume in 2H22.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** We maintain our net profit forecasts at RM289m, RM229m and RM200m for 2022-24 respectively, pending the upcoming briefing on 26 Aug 22.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of RM2.80**, based on 11x 2023F PE, or -2SD to its five-year mean. Even though we expect lower 2H22 earnings, we maintain BUY given its attractive valuation where it is currently trading at 8.8x 2023F. In addition, we expect a strong total dividend yield of 9.7% for 2022.
- **Declared interim dividend of 5 sen/share (yield: 2.2%)**, which will be payable on 22 Sep 22. This is higher than 1H21 dividend of 1.5sen/share.

SHARE PRICE CATALYST

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

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - All internal estates have Malaysia Sustainable Palm Oil, Roundtable Sustainable Palm Oil and International Sustainability & Carbon Certification. - 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. - Seven out of our 11 independent local outgrowers and smallholders indicated their willingness to participate in activities towards RSPO and MSPO certifications. • Social <ul style="list-style-type: none"> - Transparent communication and response to ongoing cases involving community. - Implementation of programmes related to health, education, medical assistance, and other community enrichment acts. - 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. • Governance <ul style="list-style-type: none"> - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.
--

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

OUR ASSUMPTIONS

	2022F	2023F
CPO price (RM/tonne)	5,200	4,000
FFB production growth (%)	10.0	2.0

Source: UOBKH

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	671	960	812	785
EBITDA	350	437	333	329
Deprec. & amort.	86	84	82	81
EBIT	263	354	251	248
Total other non-operating income	5	5	5	5
Associate contributions	0	1	2	3
Net interest income/(expense)	(1)	1	1	1
Pre-tax profit	290	361	258	257
Tax	(66)	(91)	(57)	(56)
Minorities	0	0	0	0
Net profit	200	269	202	200
Net profit (adj.)	200	269	202	200

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	282	388
Other current assets	538	749	820	875
Total assets	2,369	2,588	2,760	2,898
ST debt	0	0	0	0
Other current liabilities	64	101	87	85
LT debt	0	0	0	0
Other LT liabilities	422	379	422	422
Shareholders' equity	1,883	2,108	2,250	2,391
Minority interest	0	0	0	0
Total liabilities & equity	2,369	2,588	2,760	2,898

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	277	267	304	284
Pre-tax profit	263	354	251	248
Tax	(70)	(91)	(57)	(56)
Deprec. & amort.	86	84	82	81
Working capital changes	(1)	(85)	21	4
Other operating cashflows	(1)	6	7	8
Investing	(154)	(58)	(58)	(58)
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
Financing	(66)	(174)	(121)	(120)
Dividend payments	(56)	(174)	(121)	(120)
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
Net cash inflow (outflow)	57	35	126	106
Beginning cash & cash equivalent	64	121	156	282
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	121	156	282	388

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	52.1	45.6	41.0	41.9
Pre-tax margin	43.3	37.6	31.8	32.7
Net margin	29.9	28.1	24.8	25.5
ROA	8.8	10.9	7.5	7.1
ROE	11.1	13.5	9.2	8.6
Growth				
Turnover	43.5	43.1	(15.5)	(3.3)
EBITDA	102.5	25.1	(23.9)	(1.2)
Pre-tax profit	167.8	24.3	(28.4)	(0.7)
Net profit	191.8	34.4	(25.2)	(0.7)
Net profit (adj.)	191.8	34.4	(25.2)	(0.7)
EPS	191.8	34.4	(25.2)	(0.7)
Leverage				
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)	(16.2)
Interest cover (x)	291.8	n.a.	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W