

### 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

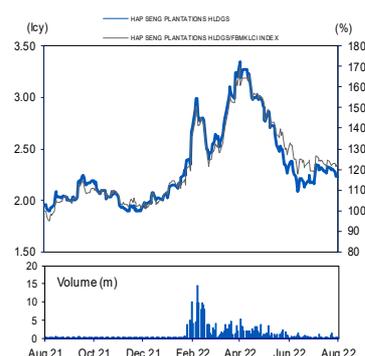
### Price Performance (%)

52-week high/low	RM3.35/RM1.89			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
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

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### 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"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>All internal estates have 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> </li> <li> <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> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul> </li> </ul>
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### 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
<b>Pre-tax profit</b>	<b>290</b>	<b>361</b>	<b>258</b>	<b>257</b>
Tax	(66)	(91)	(57)	(56)
Minorities	0	0	0	0
<b>Net profit</b>	<b>200</b>	<b>269</b>	<b>202</b>	<b>200</b>
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
<b>Total assets</b>	<b>2,369</b>	<b>2,588</b>	<b>2,760</b>	<b>2,898</b>
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
<b>Total liabilities &amp; equity</b>	<b>2,369</b>	<b>2,588</b>	<b>2,760</b>	<b>2,898</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>277</b>	<b>267</b>	<b>304</b>	<b>284</b>
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
<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>(121)</b>	<b>(120)</b>
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
<b>Net cash inflow (outflow)</b>	<b>57</b>	<b>35</b>	<b>126</b>	<b>106</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>64</b>	<b>121</b>	<b>156</b>	<b>282</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>121</b>	<b>156</b>	<b>282</b>	<b>388</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
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
<b>Growth</b>				
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)
<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)	(16.2)
Interest cover (x)	291.8	n.a.	n.a.	n.a.

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