

### COMPANY RESULTS

## Sime Darby Plantation (SDPL MK)

3Q22: Result Within Our Expectations But Lower Than Consensus'

**SDPL's 9M22 results came in within our expectations but are lower than consensus'. The weaker 3Q22 results were mainly dragged by the Malaysia upstream operations. However, this was partially offset by stronger Indonesia upstream operations and record-high downstream earnings in 3Q22. Maintain HOLD as investors remain concerned about its US CBP and RSPO issues as well as the huge labour shortage faced by its Malaysia operations. Target price: RM4.75.**

### 3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg	Remarks
Turnover	5,392	(3.5)	6.5	15,360	16.9	
Upstream	2,331	(23.5)	(18.1)	7,481	2.8	
Downstream	4,913	(6.4)	7.5	14,175	23.6	
Operating Profit	553	(30.9)	(44.3)	2,469	(5.9)	
Upstream	249	(59.7)	(72.7)	1,706	(24.0)	
Downstream	397	63.4	5,571.4	772	196.9	
Net Profit	433	(46.7)	(29.0)	1,963	9.7	
Core Net Profit	331	(34.2)	(53.2)	1,639	(10.4)	Within our expectations, but lower than consensus.
<b>Margins (%)</b>		<b>+/(-) bps</b>	<b>+/(-) bps</b>		<b>+/(-) bps</b>	
Operating profit	10.3	(4.1)	(9.3)	16.1	(3.9)	
Upstream	10.7	(9.6)	(21.4)	22.8	(8.1)	
Downstream	8.1	3.5	7.9	5.4	3.2	
Core net profit	6.1	(2.9)	(7.8)	10.7	(3.2)	

Source: SDPL, UOB Kay Hian

### RESULTS

- **Results within our expectations but lower than consensus'.** After excluding gain fair value gains on commodities contracts, RM43m loss on forward forex contracts and other extraordinary items, Sime Darby Plantation's (SDPL) 3Q22 core net profit was RM331m (-34% qoq, -53% yoy), bringing 9M22 core net profit to RM1,639m (-10% yoy). This accounted for 73% of our full-year forecast, within our expectations. Having said that, net profit came in at only ~60% of consensus' forecasts, below market expectations. 9M22 earnings were lower yoy, mainly dragged by lower FFB production but partially offset by higher ASP yoy.
- **3Q22 earnings declined qoq,** mainly dragged by its Malaysia upstream operations which reported an operating loss of RM145m in 3Q22. We reckon that this was mainly due to lower CPO and PK selling prices. However, this is partially mitigated by downstream earnings coming in stronger on both qoq and yoy bases.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	13,081	18,695	22,229	22,011	22,318
EBITDA	2,814	5,051	4,959	4,481	4,301
Operating profit	1,589	3,722	3,629	3,143	2,955
Net profit (rep./act.)	1,185	2,338	2,257	1,916	1,807
Net profit (adj.)	688	2,338	2,257	1,916	1,807
EPS (sen)	10.1	34.4	33.2	28.2	26.6
PE (x)	43.5	12.8	13.3	15.6	16.6
P/B (x)	1.9	1.7	1.7	1.7	1.7
EV/EBITDA (x)	13.5	7.5	7.7	8.5	8.9
Dividend yield (%)	2.1	2.4	2.3	1.9	1.8
Net margin (%)	9.1	12.5	10.2	8.7	8.1
Net debt/(cash) to equity (%)	40.3	33.5	40.8	34.3	27.1
Interest cover (x)	28.4	68.3	47.1	35.3	41.9
ROE (%)	7.6	14.0	13.0	11.0	10.4
Consensus net profit	-	-	2,979	1,940	1,812
UOBKH/Consensus (x)	-	-	0.76	0.99	1.00

Source: Sime Darby Plantation, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM4.33
Target Price	RM4.75
Upside	+9.7%

### COMPANY DESCRIPTION

The largest oil palm plantation company in Malaysia.

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	SDPL MK
Shares issued (m):	6,915.7
Market cap (RMm):	30,429.1
Market cap (US\$m):	6,779.8
3-mth avg daily t'over (US\$m):	4.2

### Price Performance (%)

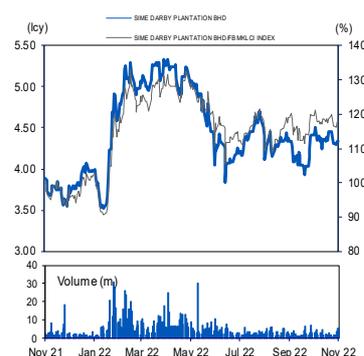
52-week high/low RM5.34/RM3.45

1mth	3mth	6mth	1yr	YTD
5.0	(12.4)	(5.4)	12.5	17.0

### Major Shareholders

	%
Skim Amanah Saham Bumiputera	42.1
Employees Provident Fund	14.0
FY23 NAV/Share (RM)	2.53
FY23 Net Debt/Share (RM)	0.87

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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

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

- **Dragged by Malaysia upstream operations.** SDPL's Malaysia upstream operations registered the highest loss since 2018 at RM145m in 3Q22. This was mainly due to: a) lower CPO and PK selling prices, and b) higher fertiliser application in 3Q22 (with cost of fertiliser also increasing by at least 60-80% yoy). Management also mentioned that the company had applied about 70% of its full-year fertiliser target for its Malaysia estates as of end-Sep 22. On top of that, we believe that the labour shortage issue had also weighed on its Malaysia upstream operations' performance, and caused a 26% yoy decline in FFB production for 9M22.
- **PNG upstream earnings declined 94% qoq in 3Q22**, despite CPO ASP remaining high at RM5,845/tonne during the quarter. This was mainly due to the timing of delivery, during which the inventory level in Papua New Guinea (PNG) was three times higher than that of Sep 21.
- The lower qoq earnings in 3Q22 was partially offset by:
  - a) **Strong recovery from Indonesia upstream operations**, which increased by >100% qoq and 10% yoy, on the back of strong sales volume after the Indonesian government relaxed export restrictions in 3Q22.
  - b) **Consistent record-high downstream earnings since 2017.** Downstream operating profit increased by 63% qoq and >100% yoy in 3Q22. This is on the back of higher margin across its businesses in Asia Pacific, despite lower sales volume.

### STOCK IMPACT

- **4Q22 earnings to be higher qoq.** We expect 4Q22 earnings to be slightly higher qoq on the back of higher CPO ASP, better sales volume from PNG upstream operations, and healthy downstream margin.
- **Improvement in labour shortage.** SDPL is currently still short of 3,000-4,000 harvesters in their Malaysia estates (38% shortage). Recently, SDPL started to receive more than 1,700 harvesters and expects to continue receiving about 200-250 harvesters each week. Hence, we expect FFB production to see some improvement in 4Q22.
- **Some forward sales made for 2023.** SDPL has locked in about 8% of its Malaysia production for 2023 at a selling price of RM4,400-4,500/tonne.
- **New specialty oils and fats refinery coming up in Sumatera, which is expected to start production in 2024.** The refinery will have an annual production capacity of >450,000 tonnes of palm and lauric based products.

### EARNINGS REVISION/RISK

- **We maintain our 2022-24 net profit forecasts** at RM2,257m, RM1,916m and RM1,807m respectively.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with target price of RM4.75.** We reckon that the US CBP and RSPO issues would still be an overhang for SDPL, while the shortage of workers in Malaysia has negatively impacted its Malaysian operation's performance. Our valuation is pegged to 17x 2023F PE, or -2SD of the plantation sector's five-year mean.

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

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- SDPL recently announced that the additional biogas plant would be built in Kedah and Negeri Sembilan. This allows SDPL to work towards their carbon reduction target of 40% by 2030 (current: 18%).</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- SDPL is waiting for the modification/revocation of the findings by the US CBP (SDPL had submitted their assessment report to US CBP in Apr 22).</li> <li>- SDPL had set up an internal governor structure with a steering committee to monitor the WRO progress.</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>
--

### UPSTREAM CONTRIBUTION BY COUNTRY

(RMm)	3q22	qoq % chg	yoy % chg	9m22	yoy % chg
Malaysia	(145)	(319.7)	(144.3)	145	(79.8)
Indonesia	365	244.3	10.3	624	(25.9)
PNG	29	(93.5)	(88.6)	937	36.6
Total	249	(59.7)	(72.7)	1,706	(24.0)

Source: SDPL

### KEY ASSUMPTIONS

	FY22
CPO Price Forecast (RM/tonne)	5,200
FFB production growth (%)	0.00

Source: UOB Kay Hian

### KEY STATISTICS SUMMARY

	2Q22	qoq % chg	yoy % chg	9m22	yoy % chg
FFB Production (m tonnes)	2.15	3.6	(8.2)	6.14	(12.4)
- Malaysia	0.90	3.9	(26.9)	2.65	(25.5)
- Indonesia	0.78	7.9	20.9	2.05	2.4
- PNG	0.48	(3.3)	1.3	1.43	(0.6)
CPO ASP (RM/tonne)	4,277	(18.0)	13.4	4,439	25.2
- Malaysia	4,497	(3.8)	24.5	3,640	5.8
- Indonesia	2,913	(33.1)	(16.4)	6,050	91.4
- PNG	5,845	(11.0)	30.6	4,648	9.1

Source: SDPL

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	18,695	22,229	22,011	22,318
EBITDA	5,051	4,959	4,481	4,301
Deprec. & amort.	1,329	1,330	1,339	1,346
EBIT	3,722	3,629	3,143	2,955
Associate contributions	35	20	20	21
Net interest income/(expense)	(74)	(105)	(127)	(103)
Pre-tax profit	3,683	3,543	3,036	2,873
Tax	(1,109)	(1,063)	(911)	(862)
Minorities	(236)	(223)	(209)	(204)
Net profit	2,338	2,257	1,916	1,807
Net profit (adj.)	2,338	2,257	1,916	1,807

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	17,211	17,321	17,422	17,516
Other LT assets	6,056	6,056	6,056	6,056
Cash/ST investment	589	422	1,671	2,735
Other current assets	6,482	8,153	6,978	5,753
<b>Total assets</b>	<b>30,338</b>	<b>31,951</b>	<b>32,127</b>	<b>32,060</b>
ST debt	2,255	3,176	2,992	2,807
Other current liabilities	3,072	3,484	3,459	3,496
LT debt	4,174	4,355	4,655	4,655
Other LT liabilities	2,978	2,978	2,978	2,978
Shareholders' equity	17,422	17,422	17,422	17,422
Minority interest	437	536	621	702
<b>Total liabilities &amp; equity</b>	<b>30,338</b>	<b>31,951</b>	<b>32,127</b>	<b>32,060</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>3,439</b>	<b>2,022</b>	<b>3,407</b>	<b>3,186</b>
Pre-tax profit	3,757	3,649	3,163	2,976
Tax	(614)	(1,063)	(911)	(862)
Deprec. & amort.	1,329	1,330	1,339	1,346
Working capital changes	(855)	(1,685)	47	(67)
Other operating cashflows	(178)	(209)	(231)	(207)
<b>Investing</b>	<b>(1,222)</b>	<b>(1,100)</b>	<b>(1,100)</b>	<b>(1,100)</b>
Capex (maintenance)	(1,440)	(1,440)	(1,440)	(1,440)
Investments	0	0	0	0
Proceeds from sale of assets	326	326	326	326
Others	(108)	14	14	14
<b>Financing</b>	<b>(1,888)</b>	<b>(1,192)</b>	<b>(1,085)</b>	<b>(1,050)</b>
Dividend payments	(1,005)	(694)	(589)	(556)
Issue of shares	0	0	0	0
Proceeds from borrowings	5,949	0	0	0
Loan repayment	(6,537)	(500)	(500)	(500)
Others/interest paid	(295)	2	4	6
<b>Net cash inflow (outflow)</b>	<b>329</b>	<b>(270)</b>	<b>1,222</b>	<b>1,037</b>
Beginning cash & cash equivalent	309	665	422	1,671
Changes due to forex impact	(49)	27	27	27
<b>Ending cash &amp; cash equivalent</b>	<b>589</b>	<b>422</b>	<b>1,671</b>	<b>2,735</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	27.0	22.3	20.4	19.3
Pre-tax margin	19.7	15.9	13.8	12.9
Net margin	12.5	10.2	8.7	8.1
ROA	8.0	7.2	6.0	5.6
ROE	14.0	13.0	11.0	10.4
<b>Growth</b>				
Turnover	42.9	18.9	(1.0)	1.4
EBITDA	79.5	(1.8)	(9.6)	(4.0)
Pre-tax profit	85.0	(3.8)	(14.3)	(5.4)
Net profit	97.3	(3.5)	(15.1)	(5.7)
Net profit (adj.)	239.8	(3.5)	(15.1)	(5.7)
EPS	239.8	(3.5)	(15.1)	(5.7)
<b>Leverage</b>				
Debt to total capital	26.5	29.5	29.8	29.2
Debt to equity	36.9	43.2	43.9	42.8
Net debt/(cash) to equity	33.5	40.8	34.3	27.1
Interest cover (x)	68.3	47.1	35.3	41.9

## 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