

**HLIB Research**

PP 9484/12/2012 (031413)

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# NOT RATED

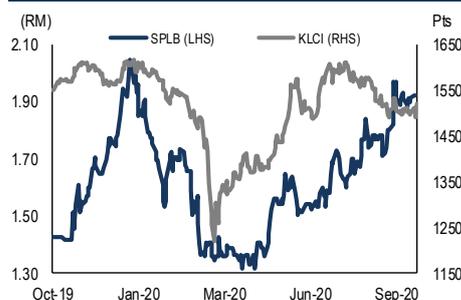
**Fair Value:** **RM2.89**
**Previously:** -

**Current Price:** **RM1.92**

Capital upside	50.5%
Dividend yield	3.1%
Expected total return	53.6%

**Sector coverage:** Plantation

**Company description:** Sarawak Plantation Bhd is an agricultural company that develops, cultivates, and manages oil palm plantations.

**Share price**


	1M	3M	12M
Absolute	10.3	18.5	30.6
Relative	8.5	23.3	32.9

**Stock information**

Bloomberg ticker	SPLB MK
Bursa code	5135
Issued shares (m)	279
Market capitalisation (RM m)	536
3-mth average volume ('000)	101
SC Shariah compliant	Yes

**Major shareholders**

Ta Ann Holdings Bhd	30.4%
State Financial Secretary Sarawak	25.5%
Urusharta Jamaah Sdn Bhd	6.7%

**Earnings summary**

FYE (Dec)	FY19	FY20f	FY21f
Core PATMI	25.4	35.5	45.0
Core EPS (sen)	9.1	12.7	16.1
P/E (x)	21.0	15.1	11.9

# Sarawak Plantation

## An attractive proxy to high CPO price

SPB is one of the pioneers in Sarawak's oil palm industry, with total land bank of 45,668 ha (of which 78% of it has already been planted with oil palms, with an average age of 11.3 years as of end-FY19). We anticipate SPB's earnings expansion to sustain into the next 3 years, underpinned by higher CPO prices and FFB output (arising from increased harvestable area and more planted area moving to higher yield bracket). We believe SPB is undervalued relative to its peers, given its improving operating efficiencies and healthy balance sheet. We value SPB at RM2.89 based on 18x projected FY21 EPS of 16.1 sen (implying an upside of 50.5%).

**One of the pioneers in Sarawak's oil palm industry.** SPB is principally engaged in the cultivation oil palm plantation, processing of palm oil products, and other palm oil related activities (such as seed production, cattle integration, provision of laboratory and management services, and property investment). SPB is one of the pioneers in Sarawak's oil palm plantation industry, with total land bank of 45,668 ha (of which 78% of it has already been planted with oil palms, with an average age of 11.3 years as of end-FY19).

**Improving operational efficiencies.** Ta Ann emerged as the single-largest shareholder of SPB in Mar-2018. Subsequently, SPB undertook a series of transformation changes (by leveraging on Ta Ann's experience and expertise in plantation management). The measures undertaken since 2018 have resulted in notable improvement in SPB's operational efficiencies, evidenced by the significantly higher FFB output.

**Beneficiary of high CPO price.** Based on our sensitivity analysis, every RM100/mt increase in CPO price will result in our core net profit forecasts in SPB changing by RM6-7m p.a.

**Healthy balance sheet.** SPB had net debt and net gearing ratio of RM33.4m and 0.06x as at 30 Jun 2020. We expect SPB's net gearing level to remain on a downtrend, arising from its ability to generate strong operating cash flow and the absence of major capex event.

**Forecasts.** We project SPB's core net profit to grow 39.7%, 26.8% and 11.6% to RM35.5-50.2m in FY20-22, underpinned by (i) higher CPO prices (as we project average CPO price realised to rise from RM2,087/mt in FY19 to RM2,350/mt in FY20 and RM2,400/mt for FY21-22, in line with our sector-wide projection), and (ii) higher FFB output (arising from increased harvestable area and more planted area moving to higher yield bracket).

**Fair value of RM2.89.** At RM1.92, SPB is trading at EV of circa RM16,700/ha, and FY20-22 P/E of 15.1x, 12.0x and 10.7x respectively, which is undervalued compared to other mid-sized upstream plantation players. Given its improving operating efficiencies and healthy balance sheet, we believe the valuation gap between SPB and other mid-sized plantation peers should narrow. We value SPB at RM2.89 based on 18x projected FY21 EPS of 16.1 sen, at lower end of our target P/E range for plantation companies under our coverage. We note that our fair value also implies EV of RM24,500/ha.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	101.9	68.7	90.3	114.6	140.6
Receivables	14.8	15.7	20.5	21.7	22.2
Inventories	12.2	12.6	16.4	17.4	17.8
PPE	683.7	699.6	700.3	700.8	701.1
Others	42.0	37.5	37.3	37.2	37.0
<b>Assets</b>	<b>854.6</b>	<b>834.0</b>	<b>864.9</b>	<b>891.7</b>	<b>918.8</b>
Payables	51.7	51.3	63.1	66.8	68.4
Debt	153.4	119.4	119.4	119.4	119.4
Others	114.0	122.0	122.0	122.0	122.0
<b>Liabilities</b>	<b>319.0</b>	<b>292.6</b>	<b>304.5</b>	<b>308.2</b>	<b>309.8</b>
Shareholders' equity	545.9	552.0	570.7	593.3	618.3
Non-controlling interests	-10.4	-10.6	-10.3	-9.8	-9.3
<b>Equity</b>	<b>535.5</b>	<b>541.4</b>	<b>560.4</b>	<b>583.5</b>	<b>609.0</b>

### Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	310.8	347.5	410.2	434.4	444.8
EBITDA	47.0	53.1	83.8	96.3	103.1
Operating profit	18.4	25.1	49.4	61.7	68.2
Net finance cost	-3.6	-1.3	-1.0	-0.3	0.3
Associates & JVs	0.0	0.0	0.0	0.0	0.0
PBT	15.8	28.4	48.4	61.4	68.5
Tax expense	-4.9	-7.7	-12.6	-16.0	-17.8
PAT	10.9	20.7	35.8	45.4	50.7
Non-controlling interests	0.3	0.2	-0.4	-0.5	-0.5
Reported PATMI	11.2	20.9	35.5	45.0	50.2
Exceptional items	3.3	4.5	0.0	0.0	0.0
Core PATMI	14.5	25.4	35.5	45.0	50.2
Consensus core PATMI			32.0	42.2	41.5
HLIB/ Consensus			111.1%	106.7%	121.0%

### Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
PBT	15.8	28.4	48.4	61.4	68.5
D&A	28.5	28.1	34.4	34.7	34.9
Working capital	-4.2	-3.7	3.2	1.5	0.7
Taxation	-7.6	4.1	-12.6	-16.0	-17.8
Others	0.8	-7.0	0.0	0.0	0.0
<b>CFO</b>	<b>33.3</b>	<b>49.8</b>	<b>73.5</b>	<b>81.7</b>	<b>86.3</b>
Capex	-30.0	-33.7	-35.0	-35.0	-35.0
Others	5.5	3.8	0.0	0.0	0.0
<b>CFI</b>	<b>-24.5</b>	<b>-29.9</b>	<b>-35.0</b>	<b>-35.0</b>	<b>-35.0</b>
Changes in debt	2.7	-38.4	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-14.0	-14.0	-16.8	-22.4	-25.2
Others	0.0	-0.9	0.0	0.0	0.0
<b>CFF</b>	<b>-11.2</b>	<b>-53.2</b>	<b>-16.8</b>	<b>-22.4</b>	<b>-25.2</b>
<b>Net cash flow</b>	<b>-2.5</b>	<b>-33.3</b>	<b>21.7</b>	<b>24.3</b>	<b>26.1</b>
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	104.4	101.9	68.7	90.3	114.6
Ending cash	101.9	68.7	90.3	114.6	140.6

### Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	5.2	9.1	12.7	16.1	17.9
P/E (x)*	37.1	21.2	15.1	12.0	10.7
EV/EBITDA	12.5	11.1	7.0	6.1	5.7
DPS (sen)	5.0	5.0	6.0	8.0	9.0
Dividend yield	2.6%	2.6%	3.1%	4.2%	4.7%
BVPS (RM)	1.95	1.97	2.04	2.12	2.21
P/B (x)	1.0	1.0	0.9	0.9	0.9
EBITDA margin	15.1%	15.3%	20.4%	22.2%	23.2%
Operating margin	5.9%	7.2%	12.0%	14.2%	15.3%
PBT margin	5.1%	8.2%	11.8%	14.1%	15.4%
Net margin*	4.7%	7.3%	8.7%	10.4%	11.3%
ROE	2.7%	4.6%	6.2%	7.6%	8.1%
ROA	1.7%	3.0%	4.1%	5.0%	5.5%
Net gearing	0.10	0.09	0.05	0.01	net cash

### Assumptions

FYE Dec	FY20f	FY21f	FY22f
FFB yield (mt/ha)	16.5	17.0	17.5
OER	20.2%	20.2%	20.2%
PKER	4.3%	4.3%	4.3%

### Average selling prices (RM/mt)

CPO	2,350	2,400	2,400
PK	1,293	1,320	1,320

\*Based on core net profit

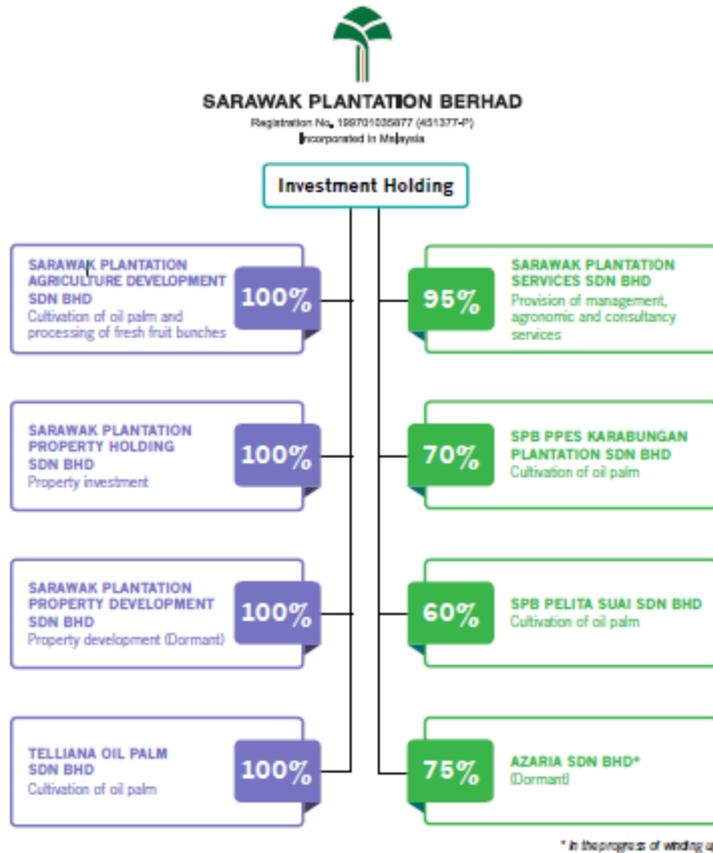
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## Background

**One of the pioneers in Sarawak's oil palm industry.** Incorporated in Oct-1997 as a private limited company (as a vehicle company for the privatisation of Sarawak Land Development Board's assets) and subsequently converted into a public company in Feb-2000, Sarawak Plantation Bhd (SPB) is principally engaged in the cultivation oil palm plantation, processing of palm oil products, and other palm oil related activities (such as seed production, cattle integration, provision of laboratory and management services, and property investment). SPB is one of the pioneers in Sarawak's oil palm plantation industry, with total land bank of 45,668 ha (of which 78% of it has already been planted with oil palms, with an average age of 11.3 years as of end-FY19).

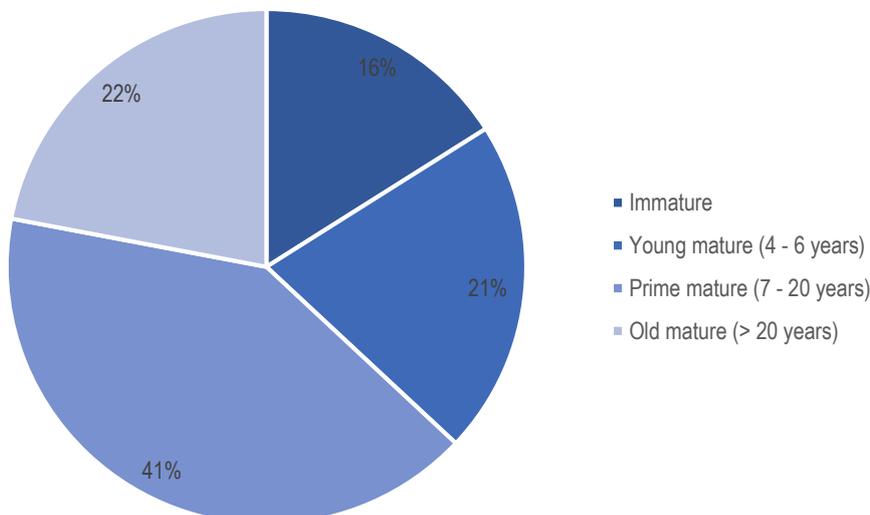
**Out of the total planted area of 35,706 ha...** 16% is categorised under immature bracket, while the remaining 84% of categorised under mature bracket (see Figure #2).

Figure #1 Breakdown on SPB's land bank



2019 annual report

Figure #2 Breakdown on SPB's land bank



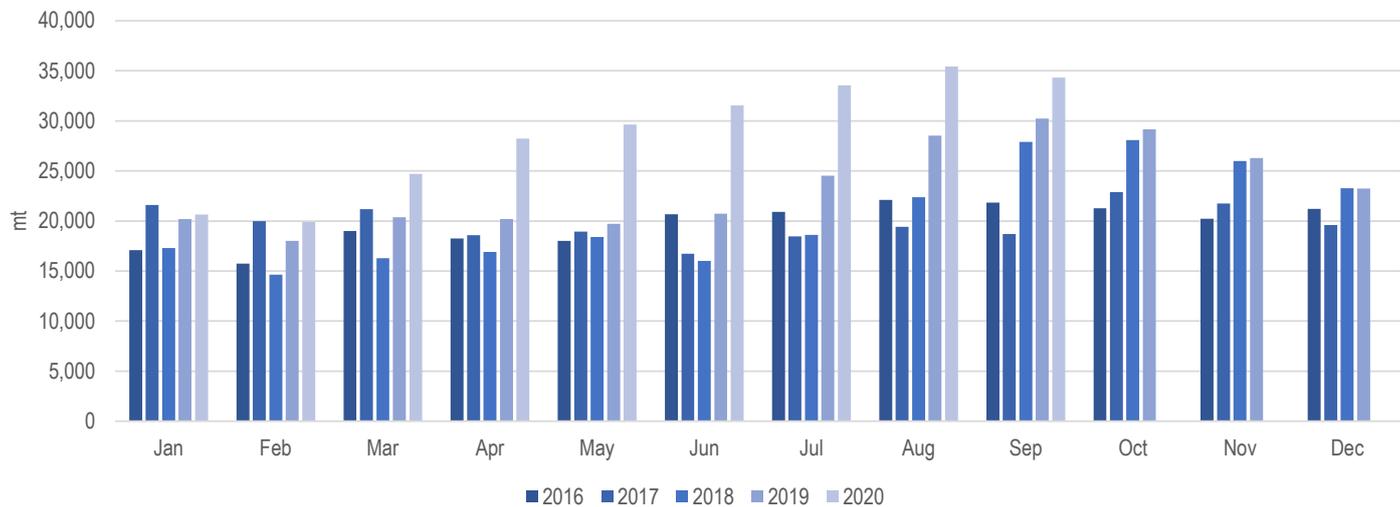
2019 annual report

## Investment Highlights

**Started embarking on a series of transformational changes since 2018.** Ta Ann emerged as the single-largest shareholder of SPB in Mar-2018, via the acquisition of a 30.4% stake in the latter for RM169.9m (or RM2/share) from Cermat Ceria Sdn Bhd. Subsequently, SPB undertook a series of transformation changes (by leveraging on Ta Ann's experience and expertise in plantation management), which include, amongst others, reorganisation at management level, strengthening of standard operating procedures, upgrading of facilities and streamlining of human resources. Besides, SPB also started recovering encumbered areas and normalising enhancement areas.

**Efforts have started paying off.** The measures undertaken since 2018 has resulted in notable improvement in SPB's operational efficiencies, evidenced by the significantly higher FFB output (see Figure #3).

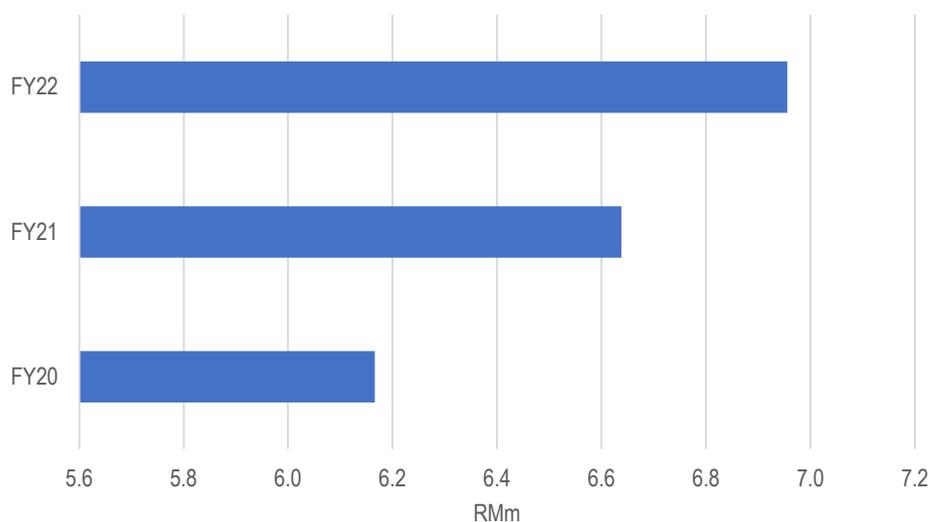
**Figure #3** Monthly FFB output trend



Bursa Malaysia

**Beneficiary of high CPO price.** SPB is a pure upstream oil palm plantation player and its earnings are highly sensitive to CPO price movement. Based on our sensitivity analysis, every RM100/mt increase in CPO price will result in our core net profit forecasts in SPB changing by RM6-7m p.a. (see Figure #4).

**Figure #4** Earnings sensitivity to CPO price change (RM100/mt)

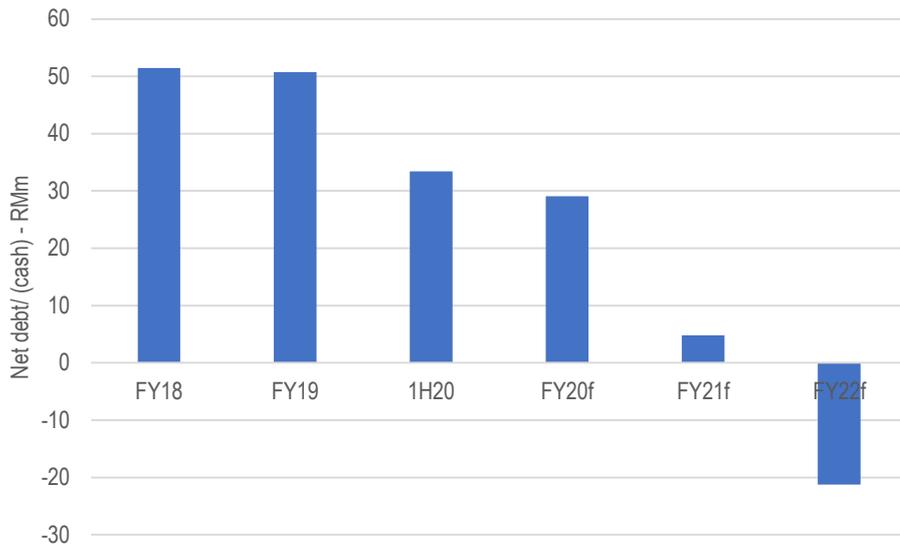


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**Could be a privatisation candidate too.** Recall in our sector report dated 21 Sep 2020 (titled: *More corporate actions in the pipeline?*), most privatisation targets share several similar characteristics, including low trading liquidity, low valuation, and under investment community's radar. We did a quick search on KL Plantation Index components based on 4 criteria, namely (i) 6-month daily trading volume of less than 0.5m shares, (ii) P/B of not more than 1x, (iii) Enterprise value (EV) of not more than RM40k/ha (planted), and (iv) limited or no research coverage. Our search results show that SPB is one of the 14 plantation companies that meet all our above-mentioned criteria as potential privatisation target. Besides, current share price is still lower than Ta Ann's entry cost of RM2.00/share (back in early-2018).

**Healthy balance sheet.** SPB had net debt and net gearing ratio of RM33.4m and 0.06x as at 30 Jun 2020. Despite having assumed a dividend payout ratio of 50% p.a., we expect SPB's net gearing level to remain on a downtrend, arising from its ability to generate strong operating cash flow (based on our average CPO price assumptions of RM2,350/mt for FY20 and RM2,400/mt for FY21-22) and the absence of major capex event.

**Figure #5** Net gearing trend



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## Financials

**2Q20 results commentary.** SPB's core net profit multiplied to RM7.5m in 2Q20 (from a mere RM0.9m SPLY), due to (i) higher sales volume (for both CPO and PK, which grew 4.7% and 11.9%), and (ii) higher palm product prices. On QoQ basis, core net profit dipped marginally by 1.8% to RM7.5m, as higher sales volume of CPO and PK and lower production cost were more than offset by lower palm product prices (which was in turn due to Covid-19 lockdown, which affected commodity prices including palm oil).

**Figure #6** Quarterly results summary

FYE 31 Dec (RMm)	2Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	YoY
Revenue	75.7	98.9	97.4	-1.5	28.8	145.1	196.3	35.3
Estate operations	4.4	6.0	6.7	11.4	52.0	7.4	12.6	71.9
Mill operations	71.1	92.7	90.5	-2.3	27.4	137.3	183.2	33.4
Management services & rental	0.2	0.2	0.2	-5.9	4.2	0.4	0.5	10.9
Gross profit	9.9	19.7	24.2	22.9	>100	23.5	44.0	87.1
Estate operations	0.3	10.2	10.1	-0.7	>100	4.8	20.2	>100
Mill operations	9.8	9.7	14.3	47.9	45.6	19.2	24.0	24.8
Management services & rental	-0.2	-0.1	-0.1	NM	NM	-0.5	-0.2	NM
Other income	0.7	0.3	0.1	-61.7	-85.3	1.1	0.4	-65.3
Distribution expenses	-4.6	-5.4	-5.5	1.4	18.7	-8.8	-10.8	23.5
Administration expenses	-4.3	-4.4	-5.1	15.2	17.1	-8.4	-9.5	13.5
Results from operating activities	1.7	10.2	13.8	35.3	>100	7.5	24.0	>100
Net finance costs	-0.5	-0.1	0.0	-48.1	-92.6	-0.9	-0.1	-87.1
Change in fair value of biological assets	1.5	-1.8	11.9	>100	>100	3.6	10.1	>100
PBT	2.7	8.4	25.7	>100	>100	10.1	34.0	>100
Taxation	-0.3	-2.4	-6.3	>100	>100	-3.2	-8.6	>100
PAT	2.4	6.0	19.4	>100	>100	7.0	25.4	>100
Non-controlling interests	0.1	-0.2	0.0	-	-	0.1	-0.2	-
Reported net profit	2.4	5.8	19.4	>100	>100	7.1	25.2	>100
Exceptional items	-1.5	1.9	-11.9	-	-	-3.6	-10.0	-
Core net profit	0.9	7.7	7.5	-1.8	>100	3.5	15.2	>100
Reported EPS (sen)	0.9	2.1	6.9	>100	>100	2.5	9.0	>100
Core EPS (sen)	0.3	2.7	2.7	-1.8	>100	1.2	5.4	>100

*Els in 2Q20 relates mainly to RM11.9m change in fair value of biological assets.*

*Bursa Malaysia; HLIB Research*

**Forecasts.** We project SPB's core net profit to grow 39.7%, 26.8% and 11.6% to RM35.5-50.2m in FY20-22, underpinned by (i) higher CPO prices (as we project average CPO price realised to rise from RM2,087/mt in FY19 to RM2,350/mt in FY20 and RM2,400/mt for FY21-22, in line with our sector-wide projection), and (ii) higher FFB output (arising from increased harvestable area and more planted area moving to higher yield bracket).

**Dividend.** Despite the absence of a clear-cut dividend policy, we note that SPB had been paying dividend per share (DPS) of 5 sen p.a. for the last 2 years. Assuming a dividend payout ratio of 50%, we project DPS to increase to 6 sen, 8 sen, and 9 sen in FY20-22.

## Valuation & Recommendation

At RM1.92, SPB is trading at EV of circa RM16,700/ha, and FY20-22 P/E of 15.1x, 12.0x and 10.7x respectively, which is undervalued compared to other mid-sized upstream plantation players (see Figure #7). Given its improving operating efficiencies and healthy balance sheet, we believe the valuation gap between SPB and other mid-sized plantation peers should narrow.

**Fair value of RM2.89.** We value SPB at RM2.89 based on 18x projected FY21 EPS of 16.1 sen, at lower end of our target P/E range for plantation companies under our coverage. We note that our fair value also implies EV of RM24,500/ha.

**Figure #7** Quarterly results summary

	Share Price	Mkt Cap	EV	EV		P/E (x)	
	RM	RMm	RMm	RM/ha	CY 2020	CY 2021	CY 2022
Sarawak Plantation (SPB)	1.910	534.8	585.5	16,693	15.1	11.9	10.7
<u>Listed plantation players in Sarawak</u>							
Rimbunan Sawit	0.265	541.1	1,047.2	21,475	N/A	N/A	N/A
Sarawak Oil Palms	3.510	2,004.0	2,486.8	28,398	13.9	12.3	11.8
TH Plantations	0.445	393.3	1,679.3	24,027	33.1	18.0	10.5
<u>Other pure upstream plantation players</u>							
Hap Seng Plantations	1.660	1,328.0	1,254.4	40,279	41.1	26.3	26.1
IJM Plantations	1.560	1,248.9	1,937.6	60,966	20.2	15.9	14.3
TSH Resources	0.980	1,354.4	2,663.2	42,000	18.5	15.2	14.6

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

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<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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