"Strong performance from upstream plantation division on higher CPO prices"

Share price performance

	1M	3M	12M
Absolute (%)	-0.9	-9.5	-8.9
Rel KLCI (%)	1.2	-8.9	-17.0

	BUY	HOLD	SELL
Consensus	7	10	2

Source: Bloomberg

Stock Data

Sector	Plantation
Issued shares (m)	6884.6
Mkt cap (RMm)/(US$m)	30,636/7,392
Avg daily vol - 6mth (m)	2.8
52-wk range (RM)	4.39-5.27
Est free float	22.3%
Stock Beta	0.8
Net cash / (debt) (RMm)	(6,145)
ROE (CY21E)	10.2%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

ASB	51%
EPF	17%
KWAP	6.4%

Source: Affin Hwang, Bloomberg

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SD Plantation (SDPL MK)

HOLD (maintain)
Up/Downside: +9.7%

Price Target: RM4.88
Previous Target (Rating): RM5.20 (HOLD)

1Q21: Strong beginning

- **SD Plantation's 1Q21 core net profit of RM499m (>100% yoy) came in above our expectations, mainly due to higher-than-expected contribution from its upstream plantation segment**
- **We raise our 2021/22E core EPS by 49.5%/12% mainly to take into account a higher CPO ASP assumption**
- **Despite raising our earnings forecasts and rolling forward our valuation horizon, our DCF-derived TP is lowered to RM4.88 as we apply a higher discount rate. We maintain our HOLD rating on SD Plantation**

1Q21 core net profit at RM499m – above our expectations

SD Plantation's 1Q21 revenue was higher by 20.7% yoy to RM3.7bn, while the EBITDA margin improved by 9.3ppt yoy to 28.4% in 1Q21 due to a better margin at the upstream segment given the higher average CPO and PK prices. For 1Q21, SD Plantation's CPO and PK ASPs were higher by 22.3% and 46.8% yoy at RM3,185/MT and RM2,230/MT respectively, while FFB production increased by 4.2% yoy to 2.2m MT (strong production rebound in Indonesia after the impact of the 2019 El Nino). The 1Q21 headline PBT increased by 27.8% yoy to RM776m, attributable to better profit contribution from both its upstream and downstream divisions. After excluding the one-off items, 1Q21 core net profit for continuing operations stood at RM499m, up >100% yoy. 1Q21 core net profit was above our expectations; the variance to our forecast was due to better-than-expected profit contribution from its upstream division.

Raising forecasts on higher CPO ASP assumptions

Given the strong 1Q21 results, we raise our 2021/22E core EPS by 49.5%/12.0%, mainly to take into account higher CPO ASP assumptions of RM3,300-2,650/MT (from RM2,650-2,500/MT previously). The likely strong CPO prices would be driven by lower-than-expected crop production, tightness in supply of edible oils and high prices of other edible oils, although they could come under pressure from 2H21 onwards as production picks up, in our view.

Maintaining our HOLD rating with a new TP of RM4.88

Despite raising our earnings forecasts and rolling forward our valuation horizon (but using a higher WACC assumption as investors remain sceptical on the CPO ASP trend as well as investor concerns over ESG issues on the sector), our DCF-derived TP is lowered to RM4.88 from RM5.20 previously. We think that the share price could remain volatile due to continual uncertainties surrounding the US CBP's Withhold Release Order on SD Plantation's palm-oil and palm-oil products that has an adverse impact on the company's reputation. Maintain Hold.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	12,062	13,081	14,483	13,115	12,879
EBITDA (RMm)	1,772.0	2,814.0	3,349.5	2,697.1	2,630.4
Pretax profit (RMm)	251.0	1,991.0	2,059.5	1,296.5	1,197.1
Net profit (RMm)	122.0	1,347.0	1,490.2	910.3	834.8
EPS (sen)	1.8	19.6	21.6	13.2	12.1
PER (x)	251.1	22.7	20.6	33.7	36.7
Core net profit (RMm)	284.0	876.0	1,440.2	910.3	834.8
Core EPS (sen)	4.1	12.7	20.9	13.2	12.1
Core EPS growth (%)	(78.1)	208.5	64.4	(36.8)	(8.3)
Core PER (x)	107.9	35.0	21.3	33.7	36.7
Net DPS (sen)	1.0	11.6	15.2	9.3	8.5
Dividend Yield (%)	0.2	2.6	3.4	2.1	1.9
EV/EBITDA	21.4	13.2	11.0	13.5	13.8
Chg in EPS (%)			+49.5	+12.0	-
Affin/Consensus (x)			1.1	0.7	0.5

Source: Company, Bloomberg, Affin Hwang forecasts

Key risks

Key upside/downside risks include: 1) stronger/weaker economic growth leading to a higher/lower consumption of vegetable oils; 2) a sustained rebound/plunge in CPO prices; 3) higher-/lower-than-expected FFB and CPO production; and 4) changes in policies.

Fig 2: Results Comparison

FYE Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	Comments
Revenue	3,044	3,639	3,673	*0.9*	*20.7*	1Q21: Higher revenue from downstream segment by 33.2% yoy to RM3.1bn but partially offset by lower revenue (external sales only) from upstream plantation segment by 21.2% yoy to RM538m
Op costs	(2,462)	(2,722)	(2,630)	*(3.4)*	*6.8*	
EBITDA	582.0	917.0	1,043.0	*13.7*	*79.2*	
EBITDA margin (%)	*19.1*	*25.2*	*28.4*	*3.2*	*9.3*	Driven by higher CPO and PK prices
Depn and amort	(313.0)	(289.0)	(319.0)	*10.4*	*1.9*	
EBIT	269.0	628.0	724.0	*15.3*	*169.1*	
EBIT margin (%)	*8.8*	*17.3*	*19.7*	*2.5*	*10.9*	
Int expense	(38.0)	(23.0)	(14.0)	*(39.1)*	*(63.2)*	1Q21: Lower due to reduction in interest rates
Int and other inc	3.0	8.0	2.0	*(75.0)*	*(33.3)*	
Associates	1.0	0.0	1.0	*n.m*	*0.0*	
EI	372.0	(59.0)	63.0	*(206.8)*	*(83.1)*	Mainly attributable to forex, fair value losses from commodities contracts, gains on disposal of assets and impairments
Pretax profit	**607.0**	**554.0**	**776.0**	*40.1*	*27.8*	
Tax	**(180.0)**	**(106.0)**	**(165.0)**	*55.7*	*(8.3)*	
Tax rate (%)	*29.7*	*19.1*	*21.3*	*2.1*	*(8.4)*	Lower tax rate as 1Q21 includes gain on government acquisition of land which was not subject to tax
MI	(33.0)	(63.0)	(49.0)	*(22.2)*	*48.5*	
Discontinued operations (D.O)	74.0	(236.0)	0.0	*n.m*	*n.m*	
Net profit (inc D.O)	**468.0**	**149.0**	**562.0**	*277.2*	*20.1*	
Net profit (exc D.O)	**394.0**	**385.0**	**562.0**	*46.0*	*42.6*	
EPS (sen)	**5.7**	**5.6**	**8.2**	*46.0*	*42.6*	
Core profit (inc D.O)	**122.0**	**208.0**	**499.0**	*139.9*	*309.0*	
Core profit (exc D.O)	48.0	444.0	499.0	*12.4*	*939.6*	Above our expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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