



**Plantation**

## **PRESS RELEASE**

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### **Sime Darby Plantation Registers Net Earnings of RM101 million for the Six Months Ended 30 June 2019**

Continuous improvements in operational efficiencies and steady earnings from Sime Darby Oils mitigated the adverse impact from weak CPO and PK prices

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**Kuala Lumpur, 30 August 2019** – For the six months ended 30 June 2019, Sime Darby Plantation (SD Plantation) Group reported net earnings of RM101 million, representing a 64 percent decrease against the corresponding period of the previous year. Improvements from a 4 percent year-on-year (YoY) rise in fresh fruit bunch (FFB) production, increase in oil extraction rate (OER) at 21.34 percent, as well as higher earnings from its recently rebranded Downstream segment, Sime Darby Oils (SDO), were not sufficient to mitigate the adverse impact of weaker crude palm oil (CPO) and palm kernel (PK) prices realised, which declined by 16 percent YoY from RM2,414 per MT to RM2,016 per MT and by 41 percent YoY from RM1,897 per MT to RM1,116 per MT respectively.

For the second quarter of its financial year ending 31 December 2019 (Q2 FY2019), the Group reported net earnings of RM27 million against net earnings of RM30 million in the corresponding quarter of the previous year. The current quarter continued to be adversely affected by weak CPO and PK prices, but partially cushioned by lower finance costs with the capitalisation of higher borrowing costs and lower net tax resulting from the recognition of deferred tax assets on losses suffered by some subsidiary companies. The average CPO price realised declined by 15 percent YoY from RM2,379 per MT to RM2,021 per MT whilst the average PK price realised was lower by 39 percent YoY from RM1,682 per MT to RM1,020 per MT.

The Group's FFB production of 2.43 million MT in Q2 FY2019 was comparable to the same quarter of 2018 of 2.44 million MT. It also recorded an improvement in OER from 21.11 percent to 21.27 percent. Nevertheless, the Group's earnings continued to be negatively impacted by weaker CPO and PK realised prices.

"Low commodity prices continue to impact the industry as well as SD Plantation's earnings. We have aggressively put in place measures that would help us navigate through the current market conditions. These include the strategy to balance the profit contribution from both our Upstream and Downstream segments as a mid-to-long term solution," said Mohamad Helmy Othman Basha, SD Plantation's Group Managing Director.

In further growing the Group's Downstream market reach, SDO recently entered into a strategic partnership with Abu Dhabi Vegetable Oil Company (ADVOC) to market oils and fats products in the Middle East and North Africa (MENA) region. Via the partnership, SDO and ADVOC will operate in the region as a single sales and marketing team, focusing on basic and specialty fats. The partnership aspires to support customers in the MENA region through bespoke solutions using the combined skills and understanding in the oils and fats category, product ideation, development and deployment.

Moody's Investors Services (Moody's) had on 3 July 2019 reaffirmed the Baa1 Issuer rating of SD Plantation with a stable outlook. According to Moody's, SD Plantation's ratings reflect its position as the largest global palm oil producer in terms of planted area and is expected to maintain efficient and profitable operations across the palm oil value chain as well as remaining prudent with its financial policies.

"The affirmation of Moody's ratings is a testament to SD Plantation's determination to maintain a healthy balance sheet despite operating in a trying business environment. In addition, the Group has also successfully maintained its position on the FTSE4Good Bursa Malaysia Index and FTSE4Good Emerging Index. We believe that the accreditation is a validation that the Group is on the right track where sustainability is concerned. This will further encourage us to enhance our standards and practices in line with our aspiration to continue producing palm oil responsibly," added Mohamad Helmy.

"We are also cognisant that the negative perception on palm oil due to deforestation has contributed to the decline of CPO prices. Pursuant to the launch of 'Crosscheck', the Group's pioneering initiative on supply-chain traceability, 'Working with Suppliers to Draw the Line on Deforestation' was also issued. The policy builds on SD Plantation's existing practices with the objective to ensure that its suppliers also adhere to the No Deforestation, No Peat, No Exploitation (NDPE) standards and deforestation-free palm oil commitment. The urgency to address the negative perception on oil palm due to deforestation requires strong and decisive initiatives. With Crosscheck and the aforementioned policy on suppliers, SD Plantation offers what we believe to be part of the solutions, towards a better palm oil industry," stated Mohamad Helmy.

### ***Second Quarter Ended 30 June 2019 versus Quarter Ended 30 June 2018 (YoY Comparison)***

Included in the net earnings of RM27 million for the current quarter, the Group recorded a non-recurring profit of RM9 million arising from the disposal of the Group's entire shareholding in a wholly-owned subsidiary, PT Mitra Austral Sejahtera (PT MAS), as compared to a non-recurring loss of RM283 million mainly due to impairment charges in the corresponding quarter of the previous year. The disposal of PT MAS, which was a loss-making subsidiary, is positive to the Group and aligns with the Group's strategy to monetise non-performing assets.

### **Upstream Operations**

In Q2 FY2019, Upstream operations posted a recurring loss before interest and tax (LBIT) of RM64 million versus a recurring profit before interest and tax (PBIT) of RM403 million in the corresponding quarter of the previous year. The weaker performance was driven by the 15 percent and 39 percent YoY decline in average CPO and PK prices realised respectively, as well as lower sales volume which was in line with the 4 percent YoY decline in CPO and PK production.

Upstream Malaysia registered a recurring PBIT of RM43 million in comparison with RM243 million in the corresponding quarter of the previous year. The weaker performance was mainly due to the lower average CPO and PK prices realised, which was partially compensated by the higher FFB production and OER. Average CPO price realised in Q2 FY2019 declined by 16 percent YoY to RM2,031 per MT, whereas average PK price realised declined by 37 percent YoY to RM1,103 per MT. The 8 percent YoY increase in FFB production which stood at 1.31 million MT this quarter was primarily attributable to a higher percentage of trees moving into the higher yielding prime age, whereas the higher OER of 20.97 percent was due to improved oil-to-bunch ratio from prime maturity palms, as well as favourable weather conditions.

Upstream Indonesia reported a recurring LBIT of RM11 million as compared to a recurring PBIT of RM92 million in the corresponding quarter of the previous year primarily due to the lower average CPO and PK prices realised, which declined by 10 percent YoY to RM1,940 per MT, and 38 percent YoY to RM864 per MT, respectively. FFB production for the quarter under review was also lower at 0.60 million MT largely due to the heavy rainfall experienced in South Kalimantan which impeded the harvesting and evacuation activities. On the other hand, OER for the quarter was 0.55 percent higher YoY at 21.19 percent driven by better crop quality delivered to the mills as a result of larger mechanised area and the construction of all-weather roads.

Upstream Papua New Guinea (PNG) and Solomon Islands (SI) were not spared from the impact of lower CPO prices, registering a recurring LBIT of RM76 million in the quarter under review against a recurring PBIT of RM77 million in the corresponding quarter of the previous year. The average CPO price realised had declined by 18 percent YoY to RM2,115 per MT this quarter. FFB production for the quarter was also lower by 9 percent YoY at 0.50 million MT, while OER for the quarter declined by 0.40 percent YoY to 21.93 percent attributable to the heavy rainfall which hindered harvesting operations and crop evacuation, resulting in lower crop quality.

Upstream Liberia operations recorded a 8 percent YoY higher FFB production and 2.95 percent YoY increase in OER to 24.54 percent in the current quarter. Nevertheless, the operations reported a loss of RM20 million, as compared to a loss of RM9 million in the corresponding quarter last year, attributable to a 6 percent YoY lower average CPO price realised.

### **Downstream**

For the six months ended 30 June 2019, the Downstream segment reported a 2 percent YoY improvement in recurring PBIT from RM133 million to RM136 million. However, for the quarter under review, the Downstream segment posted a recurring PBIT of RM51 million as compared to RM68 million in the corresponding quarter of the previous year, representing a decline of 25 percent YoY. The lower profit was attributable to weaker contribution from the differentiated businesses in Asia Pacific, Middle East and Africa due to competitive market environment. The differentiated businesses in Europe suffered a decline in margins due to more stringent Glycidyl Ester (GE) compliance requirement resulting in higher processing costs. The decline in PBIT was partially compensated by improved results from the bulk businesses, which experienced higher sales volumes and better margins resulting from lower feedstock costs in the current quarter.

### **Other Operations**

Other operations registered a recurring PBIT of RM5 million in the current quarter compared to RM1 million in the corresponding quarter of the previous year due to improved results reported by associates and joint ventures in the quarter under review.

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About Sime Darby Plantation

Sime Darby Plantation is the world's largest oil palm plantation company by planted area, producing about 4 percent of the global CPO output. It is also the world's largest producer of Certified Sustainable Palm Oil (CSPO), with a CSPO production capacity of over 2.46 million MT.

As a globally integrated plantation company, Sime Darby Plantation is involved in the full spectrum of the palm oil value chain, from upstream to downstream activities, R&D, renewables and agribusiness. Its upstream operations which consist predominantly of oil palm cultivation, harvesting and milling are spread across Malaysia, Indonesia, Papua New Guinea, the Solomon Islands and Liberia. Its downstream business, known as Sime Darby Oils, spanning across 14 countries worldwide, involves the manufacturing as well as the sales and marketing of oils and fats products, oleochemicals, palm oil-based biodiesel, nutraceuticals and other derivatives. Sime Darby Plantation is also involved in rubber and sugarcane plantations, as well as cattle rearing.

With a workforce of over 95,000 employees and a strong focus on operational excellence, research, innovation and sustainability, Sime Darby Plantation is one of the largest companies on Bursa Malaysia with a market capitalisation of RM33.60 bn (USD7.95 bn) as at 29 August 2019.