

12 November 2024

Agriculture | Agriculture

## SD Guthrie (SDG MK)

**Buy** (Maintained)

### Strategic Plans Positive For The Medium Term; BUY

Target Price (Return): MYR5.75 (+15%)  
 Price (Market Cap): MYR4.99 (USD7,835m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 12.7m/2.95m

- **Maintain BUY, with new SOP-based MYR5.75 TP from MYR5.35, 15% upside and c.2% FY25F yield.** With CPO prices crossing the MYR5,000/tonne mark amidst a combination of fundamental and speculative factors, we believe share prices have yet to catch up with CPO prices. SD Guthrie may not be a pure planter but its diversification strategies are expected to boost its valuation in the medium term.
- **CPO prices continue rising; now at >MYR5,000/tonne (+15% in the past month).** We believe this run-up is due to four catalysts: i) The spike in crude oil prices (+18% in two months) due to heightened geopolitical tensions; ii) weather issues in South America resulting in slower-than-expected soybean planting progress in the initial few weeks of planting – although this has since caught up. This raised soybean oil prices by 14% in the last three weeks; iii) the Thai Government’s ban on palm oil exports until year-end to try to control rising prices of cooking oil. Although Thailand is not a huge producer or exporter of palm oil, this has affected sentiment; iv) (more speculative in nature) Donald Trump’s win in the US General Elections. In the 2016 election when Trump won, soybean and PO prices rallied 17% and 28% a few months before the election. Post-election, prices rose further, by 10% and 11% to a peak of USD832/tonne and MYR3,306/tonne from end-2016 to early 2017.
- **Rest of 2024 to be susceptible to speculative activities...** We believe prices are unlikely to decline to <MYR4,000/tonne in the near future as geopolitical risks remain very much in play, which would also keep crude oil prices elevated and speculative forces active. In addition, once Trump’s 2.0 policies are made known, prices may settle down and come off their highs.
- **...while fundamentals for 2025 are improving,** we believe the culmination of the low output and stock levels in Indonesia in 2024, increasing biodiesel mandates in Indonesia in 2025, and tightening supplies of sunseed and rapeseed & canola in 2025, will lead to a more apparent deficit in global oils and fats in 2025. This will, in turn, lead to stronger vegetable oil prices in 2025, with stock/usage ratio for the 17 oils & fats falling to a 15-year low of 12.4% in 2025 (vs the historical average of 13.6%).
- **As such, we raise our CPO price assumptions** for 2024 to MYR4,100/tonne (from MYR3,900), for 2025 to MYR4,300/tonne (from MYR3,800), and for 2026 to MYR4,100/tonne (from MYR3,800). Overall, we expect prices to stay higher in 1H25, trading at MYR4,400-4,800/tonne before moderating in 2H25 to MYR4,000-4,400/tonne during the seasonal peak. We also update earnings for new in-house forex assumptions and new export tax levies.
- **Maintain BUY with MYR5.75 TP,** after raising our FY24F-26F earnings by 12%, 16% and 11%. Our TP includes a 0% ESG premium/discount. SDG’s diversification strategies are expected to bear fruit in the medium term, boosting earnings and its valuation.

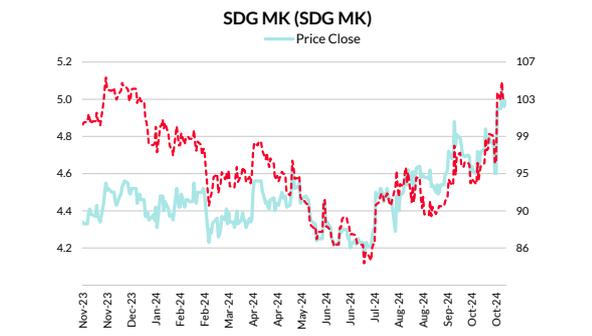
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.9	6.4	13.4	8.0	14.2
Relative	0.3	7.2	11.3	6.8	2.8
52-wk Price low/high (MYR)				4.15	-5.05



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: EXCELLENT

SDG has recorded a marginal increase in GHG emissions intensity in 2023 by 1% as compared to 2022. It maintains its target to reduce its GHG emission by 50% by 2030 against 2020 baseline.

##### S: GOOD

Labour concerns highlighted by the US CBP have since been allayed with the clearance of forced labour allegations. SDG submitted the independent consultant's report and has made changes to its policies, in line with its commitments to International Labour Organisations Conventions and Free and Fair Labour Principles for all its employees.

##### G: GOOD

50% of SDG’s board members are independent. Additionally, SDG provides full disclosure on director remuneration, which includes salaries and bonuses and on named basis. SDG has an in-house investor relations team and holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	21,030	18,428	15,035	17,404	18,554
Recurring net profit (MYRm)	2,139	903	1,520	1,647	1,659
Recurring net profit growth (%)	(0.2)	(57.8)	68.4	8.3	0.7
Recurring P/E (x)	16.13	38.21	22.70	20.95	20.80
P/B (x)	2.1	1.9	1.9	1.8	1.8
P/CF (x)	9.47	11.22	9.59	11.85	11.11
Dividend Yield (%)	3.2	3.0	2.2	2.2	2.3
EV/EBITDA (x)	6.77	11.70	10.05	9.79	9.78
Return on average equity (%)	24.5	10.9	8.5	8.9	8.7
Net debt to equity (%)	32.5	24.5	23.7	26.3	28.0

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.31	0.13	0.22	0.24	0.24
Agriculture	DPS	0.16	0.15	0.11	0.11	0.11
<b>SD Guthrie</b>	BVPS	2.37	2.57	2.63	2.71	2.79
SDG MK	Return on average equity (%)	24.5	10.9	8.5	8.9	8.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	16.13	38.21	22.70	20.95	20.80
SOP, applying 20x 2025F P/E to its plantation earnings, 18x P/E for its downstream division, and RNAV for its property landbank.	P/B (x)	2.1	1.9	1.9	1.8	1.8
	FCF Yield (%)	5.5	2.8	5.2	3.2	3.8
	Dividend Yield (%)	3.2	3.0	2.2	2.2	2.3
	EV/EBITDA (x)	6.77	11.70	10.05	9.79	9.78
	EV/EBIT (x)	8.79	20.38	16.43	15.68	15.66
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key drivers</b>	Total turnover	21,030	18,428	15,035	17,404	18,554
i. CPO price movement;	Gross profit	10,305	9,030	7,367	8,528	9,091
ii. FFB production output;	EBITDA	5,959	3,362	3,913	4,092	4,149
iii. Competitiveness of its downstream processing division vs peers.	Depreciation and amortisation	(1,373)	(1,432)	(1,518)	(1,539)	(1,558)
	Operating profit	4,586	1,930	2,395	2,553	2,591
	Net interest	(122)	(175)	(189)	(195)	(219)
	Pre-tax profit	4,865	2,752	2,218	2,388	2,404
	Taxation	(809)	(719)	(532)	(573)	(577)
	Reported net profit	3,861	1,860	1,520	1,647	1,659
	Recurring net profit	2,139	903	1,520	1,647	1,659
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. CPO price movement;	Change in working capital	393	723	520	(317)	(155)
ii. Weather risks;	Cash flow from operations	3,644	3,075	3,599	2,912	3,105
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(1,742)	(2,096)	(1,800)	(1,800)	(1,800)
	Cash flow from investing activities	(1,215)	(630)	(1,800)	(1,800)	(1,800)
	Dividends paid	(1,548)	(642)	(642)	(642)	(642)
	Cash flow from financing activities	(2,397)	(2,244)	(988)	(988)	(1,023)
	Cash at beginning of period	603	635	830	1,641	1,766
	Net change in cash	32	201	811	124	283
	Ending balance cash	635	830	1,641	1,766	2,048
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
SD Guthrie is the largest listed plantations company on Bursa Malaysia, with more than 600,000ha of oil palm landbank.	Total cash and equivalents	635	830	1,641	1,766	2,048
	Tangible fixed assets	17,800	19,145	19,427	19,688	19,931
	Total investments	68	60	60	60	60
	Total assets	31,148	31,886	31,487	32,475	33,304
	Short-term debt	2,464	1,701	1,701	1,701	1,701
	Total long-term debt	3,633	3,582	4,359	5,136	5,913
	Total liabilities	14,363	13,711	12,820	13,185	13,415
	Total equity	16,785	18,175	18,668	19,289	19,889
	Total liabilities & equity	31,148	31,886	31,487	32,475	33,304
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	12.5	(12.4)	(18.4)	15.8	6.6
	Recurrent EPS growth (%)	(0.2)	(57.8)	68.4	8.3	0.7
	Gross margin (%)	49.0	49.0	49.0	49.0	49.0
	Operating EBITDA margin (%)	28.3	18.2	26.0	23.5	22.4
	Net profit margin (%)	18.4	10.1	10.1	9.5	8.9
	Dividend payout ratio (%)	28.7	55.8	48.9	45.1	46.9
	Capex/sales (%)	8.3	11.4	12.0	10.3	9.7
	Interest cover (x)	34.0	9.8	11.3	10.7	9.7

Source: Company data, RHB

Figure 1: SDG's forecast assumptions

FYE	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
CPO price - Malaysia (MYR/tonne)	4,456	3,772	4,100	4,300	4,100
FFB production (m tonnes)	8.2	8.7	9.3	9.7	9.9
Downstream margin (%)	4.3	3.5	3.5	4.5	4.5

Source: RHB

Figure 2: SOP valuation

	Basis	Valuation (MYRm)
Plantations (Upstream)	2025F P/E Target of 20x	24,011
Plantations (Downstream)	2025F P/E Target of 18x	8,036
Property development	75% Discount to RNAV	7,677
<b>TOTAL</b>		<b>39,724</b>
No. issued shares (m)		6,916
<b>SOP/share (MYR)</b>		<b>5.74</b>
ESG Premium/(discount)	0%	0.00
<b>TP (MYR)</b>		<b>5.74</b>

Source: RHB

Figure 3: RNAV of SDG's landbank (freehold land only)

	Acres	BV (MYRm)	MV (MYRm)	Net surplus (MYRm)
Johor	133,891	1,537	11,665	7,089
Perak	90,624	1,168	7,895	4,709
Negeri Sembilan	88,967	804	7,751	4,863
Selangor	86,796	1,297	17,014	11,002
Kedah	46,290	411	2,016	1,124
Malacca	36,368	309	2,376	1,447
Pahang	23,008	325	1,002	474
<b>Total RNAV</b>				<b>30,708</b>
Discount to RNAV				75%
<b>Discounted RNAV</b>				<b>7,677</b>

Source: Company update, RHB

## Emissions And ESG

### Trend analysis

In FY23, Scope 1 emissions decreased to 9.4m tonnes of CO2 equivalents (FY22: 9.7m tonnes of CO2 equivalents) while Scope 2 slightly increased to 167.7k tonnes of CO2 equivalents (FY22: 164.2k tonnes of CO2 equivalents)

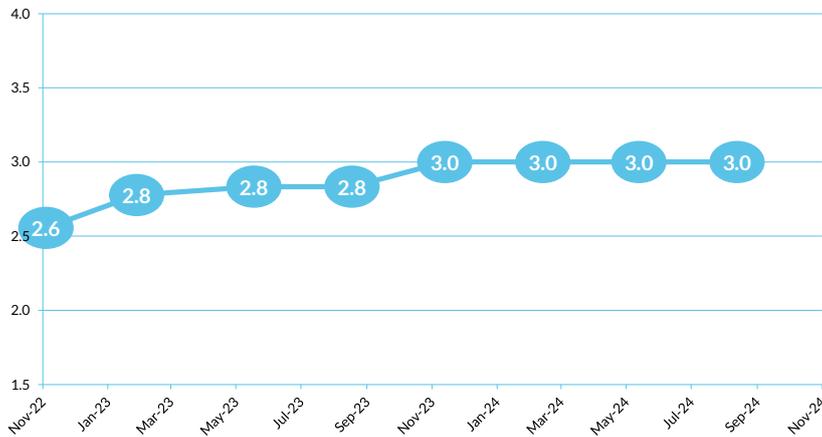
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	10,659,136	9,742,966	9,379,764
Scope 2	226,280	164,201	167,688
Scope 3	8,406,774	8,961,121	9,128,227
Total emissions	19,292,190	18,868,288	18,675,679

Source: Company data, RHB

## Latest ESG-Related Developments

- **Achieving Net Zero:** SDG has developed a three-pronged approach achieve Net Zero Emission target by 2050 ie i) accelerating renewables programme; ii) land use transformation; iii) enhancing supplier engagements.
- **Traceability:** in 2023, SDG managed to achieve 70.9% traceability to plantation.
- **Sustainability certifications:** in 2023, 100% of SDG's upstream operations are RSPO certified.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-22	Buy	5.35	4.58
2024-08-12	Neutral	4.25	4.50
2024-06-02	Neutral	3.90	4.25
2024-02-22	Neutral	4.15	4.50
2023-11-26	Neutral	4.55	4.34
2023-11-19	Neutral	4.35	4.38
2023-08-23	Neutral	4.20	4.32
2023-07-23	Neutral	4.40	4.53
2023-05-24	Neutral	4.00	4.41
2023-02-19	Neutral	4.55	4.35
2023-02-09	Neutral	4.80	4.31
2023-02-03	Neutral	4.80	4.43
2022-11-22	Neutral	4.60	4.33
2022-08-23	Neutral	4.60	4.40
2022-08-10	Neutral	4.80	4.52

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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