

3 March 2025

Agriculture | Plantation

Sarawak Oil Palms (SOP MK)

Buy (Maintained)

Finishing The Year On a High Note; Keep BUY

Target Price (Return): MYR4.80 (56.3%)
Price (Market Cap): MYR3.07 (USD615m)
ESG score: 2.3 (out of 4)
Avg Daily Turnover (MYR/USD) 0.80m/0.18m

- **Keep BUY, new MYR4.80 TP (from MYR4.15), 56% upside and c.4% yield.** Sarawak Oil Palms' FY24 earnings were above expectations. We expect SOP to deliver stronger YoY earnings growth in 2025, backed by higher CPO prices and improving output. Given its position as a pure-play planter with an above-average EBIT/ha, we highlight that the valuation is currently undemanding, trading at 5.5x 2025F P/E, below its peer range of 7-11x.
- **4Q24 core profit grew 44% QoQ (+53% YoY),** leading FY24 core profit to MYR476m (+63% YoY), at 116% and 117% of full-year forecasts. The earnings beat was driven by higher CPO prices realised (MYR4,308 vs our assumption of MYR4,100/tonne), and buoyed by lower-than-expected interest and operating expenses.
- **CPO ASPs of MYR4,955 in 4Q24 (+18% QoQ, 31% YoY)** were higher than the average MPOB price of MYR4,840 (+3% premium), while PK prices rose by a larger 22% QoQ (+59% YoY). This brought SOP's PBT margin to 12% for FY24 (FY23: 8%). Management continues to sell on spot, expecting to benefit from the elevated CPO price environment as stock levels remain low. We keep our FY25 CPO price assumption of MYR4,300/tonne.
- **4Q24 FFB output slipped c.3% QoQ (-5% YoY),** bringing FY24 output growth to +2% YoY, below management's guidance of +5-6% but in line with our +3% estimate. In 1M25, FFB output fell 9% YoY due to the low output season. SOP is hoping for output to recover in 2H25, targeting high single-digit growth, driven by better weather conditions than FY24. We remain conservative and keep our FY25-FY26F FFB growth estimate at +5-6%.
- **Calculated unit costs rose 14% QoQ (+2% YoY),** bringing FY24 unit cost down 3% YoY in line with guidance of a -3 to -6% decline in FY24. We understand that SOP achieved 100% fertiliser application in FY24 and is now in the midst of securing 1H25 fertiliser requirements at prices that are flattish YoY (0-5% lower). We tweaked our unit cost assumptions down accordingly for FY25-26F.
- **No disclosure for downstream,** but management hinted that the segment remained profitable in FY24, thanks to the second plant, which marketed higher quality oils at a premium of +5%. Given the possibility of another revision in Indonesia's tax structure, which could intensify competition, we remain cautious on the segment's performance and keep our conservative estimates for the utilisation rate (75%) and margin assumptions of 3%.
- **We revise FY25-26F earnings up by 28% and 23% after factoring in** lower interest, operating expenses, and slightly lower unit cost assumptions. We also introduce FY27 forecasts, assuming a CPO price of MYR4,100/tonne. Our new TP is based on 10x 2025F P/E, with a 14% ESG discount built in.

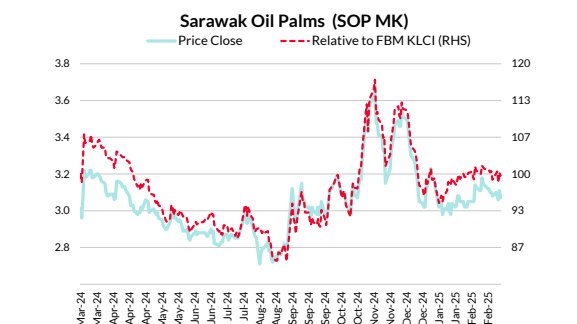
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	1.7	(9.7)	9.6	7.7
Relative	0.6	0.3	(8.3)	15.6	5.8
52-wk Price low/high (MYR)				2.71	-3.66



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	5,124	5,314	5,255	5,098	5,044
Recurring net profit (MYRm)	302	476	499	455	443
Recurring net profit growth (%)	(39.8)	57.9	4.7	(8.7)	(2.7)
Recurring P/E (x)	9.06	5.74	5.48	6.00	6.17
P/B (x)	0.8	0.7	0.7	0.6	0.6
P/CF (x)	7.42	4.24	3.74	4.07	4.14
Dividend Yield (%)	1.5	7.1	4.2	3.9	3.9
EV/EBITDA (x)	5.07	3.72	3.01	2.83	2.52
Return on average equity (%)	8.8	12.2	12.4	10.4	9.4
Net debt to equity (%)	1.8	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.3 (out of 4)

E Score: 2.3 (GOOD)

S Score: 2.0 (MODERATE)

G Score: 2.7 (GOOD)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
In 2023, Scope 1 emissions decreased to 269k tonnes of CO2 equivalents (2022: 282k tonnes of CO2 equivalents) and Scope 2 emissions also decreased to 24.5k tonnes of CO2 equivalents (2022: 38.7k tonnes of CO2 equivalents)	Scope 1	281,756	269,481	na	na
	Scope 2	38,742	24,956	na	na
	Scope 3	na	-	na	na
	Total emissions	320,498	294,437	na	na

Source: Company data, RHB

Latest ESG-Related Developments

Sustainability certification: As of end 2023, 100% of SOP's operations are MSPO certified.

Traceability: As of end-2023, SOP managed to achieve 45.0% traceability to plantation for CPO and 47.0% for PK and getting all their POMs ISCC re-certified.

Reducing GHG emissions: SOP commits to reduce GHG emissions with the installation of methane capture facilities (5 more to be completed from 2024 onwards) to reduce emissions at all mills.

ESG Unbundled

Overall ESG Score: 2.3 (out of 4)

Last Updated: 12 August 2024

E Score: 2.3 (GOOD)

While Sarawak Oil Palms is committed to no further development on peat areas, 45% of its landbank is still planted on peat. The company has reported a reduction in greenhouse gas (GHG) emission intensity since 2017 for its estates but has seen an increase of such from its milling and downstream operations. The company is fully Malaysian Sustainable Palm Oil-certified for its mills and estates.

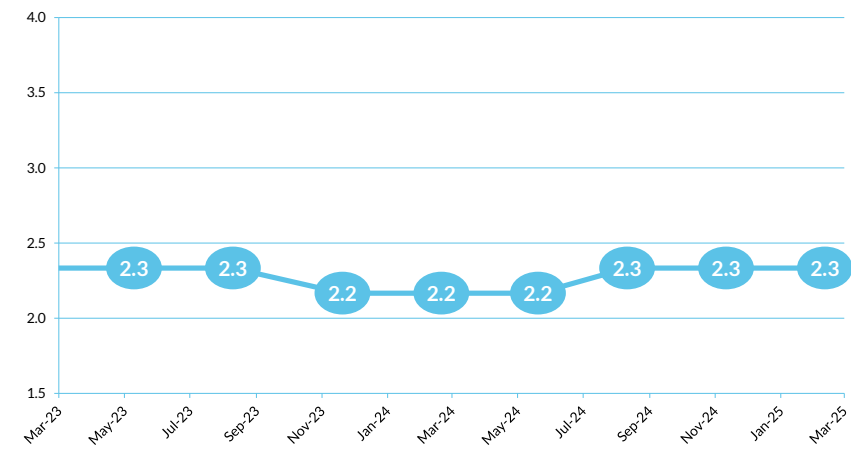
S Score: 2.0 (MODERATE)

Sarawak Oil Palms is committed to free, prior and informed consent for all its employees. Its fatality accident rate has remained low, while the lost time injury frequency rate continues to trend lower. The company has not had any major labour issues in the last two years.

G Score: 2.7 (GOOD)

33% of SOP's board members are independent, and 44% of its members are women. Additionally, it provides full disclosure on director remuneration, which includes salaries and bonuses and on a named basis. The company has an in-house investor relations team and holds briefings regularly, embodying good transparency and disclosure practices.

ESG Rating History



Source: RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Malaysia	Recurring EPS	0.34	0.53	0.56	0.51	0.50
Agriculture	DPS	0.05	0.22	0.13	0.12	0.12
Sarawak Oil Palms	BVPS	3.95	4.29	4.72	5.11	5.48
SOP MK	Return on average equity (%)	8.8	12.2	12.4	10.4	9.4
Buy						
Valuation basis	Valuation metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
We apply a target P/E of 10x on Dec-2025F earnings, backed up by an EV/ha of USD10,000/ha, at the mid end of its peers average of USD8,000-15,000/ha.	Recurring P/E (x)	9.06	5.74	5.48	6.00	6.17
	P/B (x)	0.8	0.7	0.7	0.6	0.6
	FCF Yield (%)	8.1	15.3	18.8	16.1	15.1
	Dividend Yield (%)	1.5	7.1	4.2	3.9	3.9
	EV/EBITDA (x)	5.07	3.72	3.01	2.83	2.52
	EV/EBIT (x)	7.32	4.87	3.83	3.73	3.41
Key drivers	Income statement (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
i. CPO price movement;	Total turnover	5,124	5,314	5,255	5,098	5,044
ii. FFB production output;	Gross profit	744	644	683	639	643
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	583	762	814	755	734
	Depreciation and amortisation	(179)	(180)	(173)	(182)	(192)
	Operating profit	404	582	641	573	542
	Net interest	14	34	34	50	63
	Pre-tax profit	421	616	677	624	607
	Taxation	(106)	(150)	(162)	(150)	(146)
	Reported net profit	301	447	499	455	443
	Recurring net profit	302	476	499	455	443
Key risks	Cash flow (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
i. CPO price movement;	Change in working capital	(113)	(3)	43	15	6
ii. Weather risks;	Cash flow from operations	368	645	730	671	660
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(148)	(227)	(217)	(232)	(247)
	Cash flow from investing activities	(832)	(299)	(217)	(232)	(247)
	Dividends paid	(42)	(193)	(116)	(107)	(107)
	Cash flow from financing activities	(12)	(523)	(328)	(319)	(319)
	Cash at beginning of period	1,254	779	599	784	905
	Net change in cash	(475)	(177)	185	121	94
	Ending balance cash	779	599	784	905	999
Company Profile	Balance sheet (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
SOP is involved in oil palm cultivation and CPO refining in the state of Sarawak.	Total cash and equivalents	779	599	784	905	999
	Tangible fixed assets	2,485	2,503	2,548	2,597	2,651
	Total assets	5,213	5,211	5,392	5,541	5,680
	Short-term debt	622	308	202	96	(10)
	Total long-term debt	223	220	114	8	(98)
	Total liabilities	1,541	1,225	1,007	788	573
	Total equity	3,672	3,986	4,385	4,752	5,107
	Total liabilities & equity	5,213	5,211	5,392	5,541	5,680
	Key metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
	Revenue growth (%)	(3.5)	3.7	(1.1)	(3.0)	(1.1)
	Recurrent EPS growth (%)	(40.5)	57.9	4.7	(8.7)	(2.7)
	Gross margin (%)	14.5	12.1	13.0	12.5	12.7
	Operating EBITDA margin (%)	11.4	14.3	15.5	14.8	14.6
	Net profit margin (%)	5.9	8.4	9.5	8.9	8.8
	Dividend payout ratio (%)	14.0	43.3	23.2	23.5	24.1
	Capex/sales (%)	2.9	4.3	4.1	4.5	4.9
	Interest cover (x)	12.1	30.5	60.8	109.3	(8,955.6)

Source: Company data, RHB

3 March 2025

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Figure 1: SOP's results review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	1,468.3	1,381.6	1,467.4	6.2	(0.1)	5,123.7	5,314.0	3.7	Thanks to higher FFB production (+2% YoY) and higher CPO ASPs (+11% YoY).
EBIT	146.9	153.6	200.5	30.6	36.5	395.2	611.4	54.7	
EBIT margin (%)	10.0	11.1	13.7			7.7	11.5		
EI	7.5	8.5	(23.4)	(374.4)	(410.5)	8.9	(29.4)	(431.8)	FY24 EIs mainly include bearer plants written off of MYR31m
Pretax profit	157.1	170.0	189.1	11.2	20.4	420.7	616.2	46.5	
Pretax margin (%)	10.7	12.3	12.9			8.2	11.6		
Tax	(38.9)	(43.3)	(42.6)	1.4	(9.5)	(106.3)	(150.2)	(41.2)	
Effective tax rate (%)	(24.8)	(25.4)	(22.5)			(25.3)	(24.4)		
Minority interest	(4.2)	(4.9)	(6.7)	(34.9)	(60.1)	(13.5)	(19.3)	(43.0)	
Net profit	114.0	121.8	139.8	14.8	22.6	300.9	446.7	48.5	
Core profit	106.5	113.3	163.2	44.1	53.3	292.0	476.2	63.1	Above our and Street expectations, at 116-117% of FY24 projections.
Net margin (%)	7.3	8.2	0.0			5.7	9.0		
Operational Stats									
FFB production	348,679	338,983	330,583	(2.5)	(5.2)	1,226,016	1,250,346	2.0	In line with our projection of +3% YoY but below management's guidance of +5-6% YoY.
CPO production	104,101	108,766	98,564	(9.4)	(5.3)	384,580	397,047	3.2	
PK production	23,024	23,325	20,775	(10.9)	(9.8)	83,858	84,615	0.9	
CPO price, MYR/tonne	3,778	4,205	4,955	17.8	31.2	3,876	4,308	11.1	
PK price, MYR/tonne	2,262	2,960	3,599	21.6	59.1	2,302	2,913	26.5	

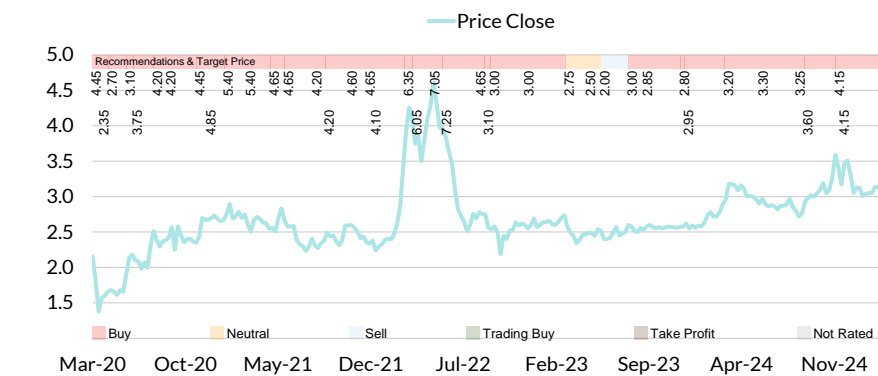
Source: Company data, RHB

Figure 2: Key assumptions

	FY23	FY24	FY25F	FY26F	FY27F
FFB production, tonnes	1,226,566	1,250,346	1,326,931	1,388,115	1,424,204
% change	2.7%	1.9%	6.1%	4.6%	2.6%
Effective CPO price (MYR)	3,832	4,100	4,300	4,100	4,100

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-28	Buy	4.15	3.40
2024-11-11	Buy	4.15	3.61
2024-10-07	Buy	na	3.14
2024-08-30	Buy	3.60	2.93
2024-08-12	Buy	3.25	2.83
2024-05-19	Buy	3.30	2.90
2024-02-29	Buy	3.20	2.84
2023-11-29	Buy	2.95	2.58
2023-11-20	Buy	2.80	2.59
2023-08-28	Buy	2.85	2.55
2023-07-23	Buy	3.00	2.60
2023-05-22	Sell	2.00	2.46
2023-04-18	Neutral	2.50	2.46
2023-03-01	Neutral	2.75	2.55
2022-11-28	Buy	3.00	2.60

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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