

12 August 2024

Agriculture | Agriculture

## SD Guthrie (SDG MK)

## Neutral (Maintained)

### Pioneer To The Diversification Game

- **Maintain NEUTRAL, with new MYR4.25 TP from MYR3.90, 5% downside.** The plantation industry is at a crossroads. With rising costs, falling yields, little chance for landbank expansion, where can growth come from? Planters now have to do much more to grow earnings – so is diversification the key? SD Guthrie would be a potential winner, given its strong R&D division and sizeable land for real estate development and land sales. Its plans to develop a green park for solar farms, and to bid for three new sites under LSS5 will contribute to earnings from FY26F onwards. However, its valuation is not attractive, trading at 22x FY25F, at the higher end of its peer range of 18-22x.
- **Face the hard facts, and adapt.** With headwinds like lower yields, older trees, environmental pressures, higher costs, labour issues and lower profitability, the sector has to find ways to circumvent these. CPO prices have risen to highs unseen in the last 10 years, but there is always a risk that extenuating circumstances can push prices down to below breakeven cost levels. We expect long-term CPO prices per tonne to be at the higher end of MYR3,000-3,500 and above (historical average: MYR1,800-2,000), but prices are likely to stay volatile. As this is not within the planters' control, they need to focus more on revenue growth, cost control and potential diversification efforts.
- **Diversification may be the name of the game, going forward.** Some planters have already diversified into other industries like property, fruit farming, glove manufacturing and dairy farming. In recent times, we have seen more ESG-friendly diversification like producing wood and fertiliser, etc and using palm oil waste. However, other than ventures that take advantage of their landbank like land sales and property development, none of these have moved the needle in terms of earnings contributions. With landbank monetisation like data centres or renewable energy ventures like solar farms now being a feasible diversification, this may change going forward if more planters opt to engage. We estimate profitability/ha/year for solar is 26x more than oil palm.
- **Other than diversifying earnings,** planters will need to increase mechanisation to raise efficiency and reduce their reliance on labour, spend more on R&D to produce better seedlings with higher yields and lower maintenance costs, and put more emphasis on ESG to attain ESG premiums.
- **We believe the sector is moving in the right direction in terms of ESG standards,** with more disclosure and more targets being set. We make no change to our 3.0 ESG rating for FY23. Our overall average sector ESG score has improved this year to 2.6 (from 2.5).
- **Maintain NEUTRAL, with new TP** after increasing our FY25F and FY26F earnings by 5%, and raising our downstream margins slightly given the improving outlook. We also rolled forward our valuations to FY25F (from FY24F) and raised our target P/E to 22x (from 20x), to be in line with its updated historical valuation averages.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	21,030	18,428	14,666	16,654	18,048
Recurring net profit (MYRm)	2,139	903	1,369	1,418	1,496
Recurring net profit growth (%)	(0.2)	(57.8)	51.6	3.6	5.5
Recurring P/E (x)	14.39	34.08	22.48	21.70	20.57
P/B (x)	1.9	1.7	1.7	1.7	1.6
P/CF (x)	8.44	10.01	8.83	11.29	10.58
Dividend Yield (%)	3.6	3.4	2.4	2.4	2.5
EV/EBITDA (x)	6.14	10.59	9.63	9.66	9.48
Return on average equity (%)	24.5	10.9	7.7	7.8	8.0
Net debt to equity (%)	32.5	24.5	24.5	28.4	31.3

Source: Company data, RHB

Target Price (Return):	MYR4.25 (-5%)
Price (Market Cap):	MYR4.45 (USD6,842m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	16.8m/3.58m

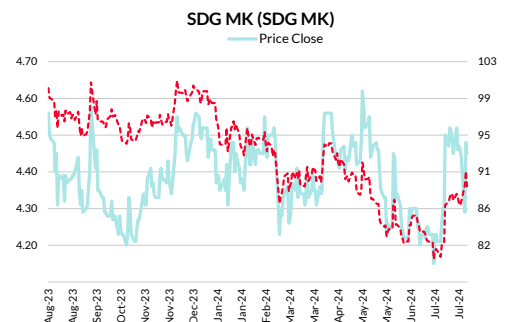
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.2)	5.2	(0.7)	(0.2)	(0.5)
Relative	(9.6)	6.4	0.2	(5.4)	(10.6)
52-wk Price low/high (MYR)				4.15	–4.62



Source: Bloomberg

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

##### E: EXCELLENT

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	Recurring EPS	0.31	0.13	0.20	0.21	0.22
Agriculture	DPS	0.16	0.15	0.11	0.11	0.11
<b>SD Guthrie</b>	BVPS	2.37	2.57	2.61	2.66	2.72
SDG MK	Return on average equity (%)	24.5	10.9	7.7	7.8	8.0
Neutral						
	<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)	14.39	34.08	22.48	21.70	20.57
SOP, applying 22x 2025F P/E to its plantation earnings and 18x P/E for its downstream division	P/B (x)	1.9	1.7	1.7	1.7	1.6
	FCF Yield (%)	6.2	3.2	5.5	3.0	3.6
	Dividend Yield (%)	3.6	3.4	2.4	2.4	2.5
<b>Key drivers</b>	EV/EBITDA (x)	6.14	10.59	9.63	9.66	9.48
i. CPO price movement;	EV/EBIT (x)	7.98	18.44	16.31	16.28	15.69
ii. FFB production output;						
iii. Competitiveness of its downstream processing division vs peers.						
	<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 risks</b>	Total turnover	21,030	18,428	14,666	16,654	18,048
i. CPO price movement;	Gross profit	10,305	9,030	7,187	8,161	8,844
ii. Weather risks;	EBITDA	5,959	3,362	3,709	3,786	3,937
iii. Demand and supply dynamics of the global vegetable oil industry.	Depreciation and amortisation	(1,373)	(1,432)	(1,518)	(1,539)	(1,558)
	Operating profit	4,586	1,930	2,190	2,248	2,379
	Net interest	(122)	(175)	(189)	(198)	(228)
	Pre-tax profit	4,865	2,752	2,013	2,080	2,185
<b>Company Profile</b>	Taxation	(809)	(719)	(483)	(499)	(524)
SD Guthrie is the largest listed plantations company on Bursa Malaysia, with more than 600,000ha of oil palm landbank.	Reported net profit	3,861	1,860	1,369	1,418	1,496
	Recurring net profit	2,139	903	1,369	1,418	1,496
	<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>
	Change in working capital	393	723	563	(269)	(185)
	Cash flow from operations	3,644	3,075	3,487	2,727	2,908
	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	1,529	1,468
	Net change in cash	32	201	699	(62)	86
	Ending balance cash	635	830	1,529	1,468	1,553
	<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>
	Total cash and equivalents	635	830	1,529	1,468	1,553
	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	31,339	32,068	32,738
	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	12,826	13,168	13,405
	Total equity	16,785	18,175	18,512	18,900	19,332
	Total liabilities & equity	31,148	31,886	31,339	32,068	32,738
	<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)	(20.4)	13.6	8.4
	Recurrent EPS growth (%)	(0.2)	(57.8)	51.6	3.6	5.5
	Gross margin (%)	49.0	49.0	49.0	49.0	49.0
	Operating EBITDA margin (%)	28.3	18.2	25.3	22.7	21.8
	Net profit margin (%)	18.4	10.1	9.3	8.5	8.3
	Dividend payout ratio (%)	28.7	55.8	54.3	52.4	52.0
	Capex/sales (%)	8.3	11.4	12.3	10.8	10.0
	Interest cover (x)	34.0	9.8	10.4	9.4	8.9

Source: Company data, RHB

Figure 1: SDPL's progress on ESG factors

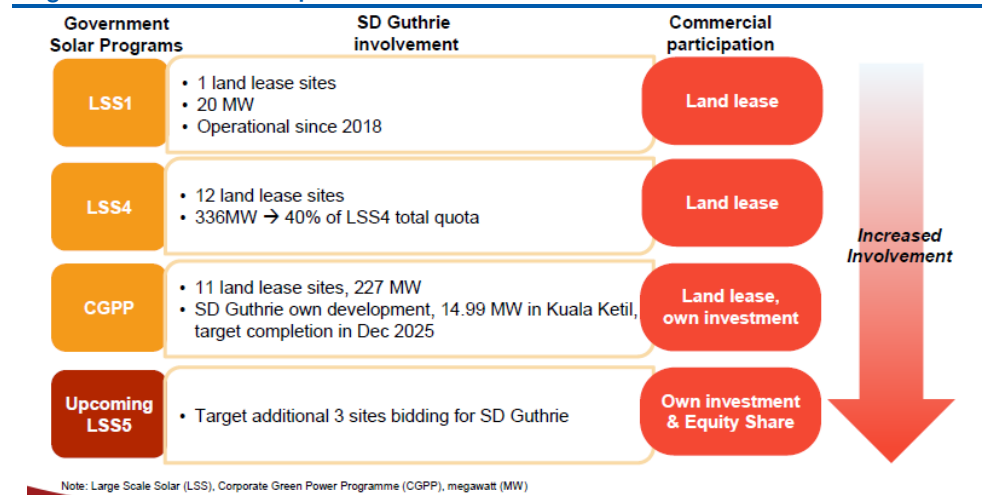
		2021	2022	2023
<b>ENVIRONMENT</b>				
GHG emissions	Emissions (tCO <sub>2</sub> e)	19,292,190	18,868,288	18,675,679
GHG emissions	Intensity (tCO <sub>2</sub> e per tonne of palm product)	3.73 (S1&2 only)	4.05 (S1&2 only)	4.1 (S1 &2 only)
Waste treatment	Recycling/Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m3) and intensity (m3/tonne of palm product)	29,183,723	28,353,614	23,649,124
Energy efficiency	Energy consumption and intensity	29,483,843	28,513,353	28,978,121
Certifications	RSPO/MSPO/ISPO certified (%)	RSPO: 100% mills, downstream, >90% CPO MSPO: 100% ISPO: 100% Upstream	RSPO: 100% upstream MSPO: 100% ISPO: 100% Upstream	RSPO: 100% upstream MSPO: 100% ISPO: 100% Upstream
Use of peat land	Peat land (%)	5.7%	5.7%	Not provided
Fire accidents	Number of accidents	425	198	812
Usage of renewable energy	% of renewable energy used	87%	Not provided	88%
Traceability	Traceable to mills (%)	95.40%	94.80%	93.00%
Traceability	Traceable to plantation (%)	73.50%	72.70%	70.90%
<b>SOCIAL</b>				
Channels for workers to raise concerns	Existence of grievance channels to raise concerns	Yes	Yes	Yes
Whistleblowing policy	Policies to protect whistleblowers	Yes	Yes	Yes
Employees' professional/personal development	Provision of training and education	Yes	Yes	Yes
Policy for smallholders	Policy in place for training, yield improvement and RSPO certification	Yes	Yes	Yes
Employees' welfare	Accommodation and amenities provided	Yes	Yes	Yes
<b>GOVERNANCE</b>				
Board composition	At least half of the board being independent directors	6/11 are independent	6/10 are independent	5/10 are independent
Limiting to nine years (for independent directors)	Limitation of tenure to nine years (for independent directors)	Yes	Yes	Yes
Gender inclusivity	Female representation in the board	27.3%	30.0%	40.0%
Emphasis of sustainability at board level	Formation of a sustainability group	Yes	Yes	Yes
Remuneration transparency	Full disclosure of fees and benefits on named basis	Yes	Yes	Yes

Source: Company data, RHB

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Figure 2: SD Guthrie's RE plans



Source: Company data

Figure 3: SD Guthrie's Kerian Integrated Green Industrial Park

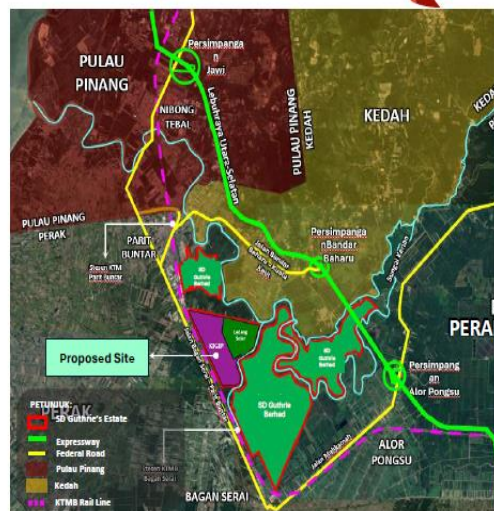
### SD Guthrie supports Government Initiatives to develop Kerian Integrated Green Industrial Park (KIGIP)

#### SD Guthrie to develop land and solar for KIGIP

- New business vertical kicks off with plan to co-develop KIGIP
- SD Guthrie to be the RE developer and operator for KIGIP

#### SD Guthrie's proposal for KIGIP development

- Green Solutions:** Renewable energy sources, waste management systems, Energy-efficient buildings
- Strategic Location & Accessibility:**
  - Near Penang International Airport (71km), attractive for E&E investors.
  - Close to Parit Buntar and Bagan Serai railway station and North-South Expressway
- Spillover effect:** Well positioned to capture spillover demand from Penang and Kulim Hi-Tech Park
- Development in Phases:** Conversion of project in phases depending on product uptake



Note: Electrical and Electronics (E&E) Renewable Energy (RE)

Source: Company data

Figure 4: SDPL's forecast assumptions

FYE	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
CPO price (MYR/tonne)	4,456	3,772	3,900	3,800	3,800
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 5: SOP valuation

	Basis	Valuation (MYRm)
Plantations upstream	2025F P/E Target of 22x	21,597
Plantations downstream	2025 P/E Target of 18x	7,860
<b>TOTAL</b>		<b>29,456</b>
No. issued shares (m)		6,916
<b>SOP/share (MYR)</b>		<b>4.25</b>
ESG premium/(discount)	0%	0.00
<b>TP (MYR)</b>		<b>4.25</b>

Source: 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)

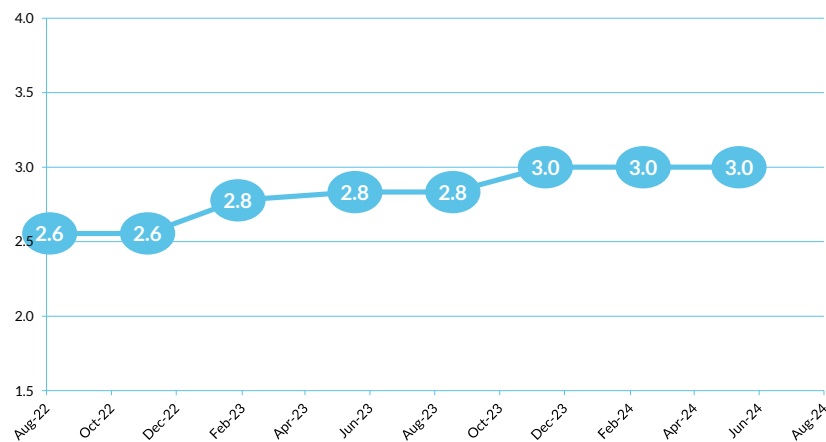
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	10,659,136	9,742,966	9,379,764
Scope 2	226,280	164,201	167,688
Scope 3	8,406,774	8,961,121	9,128,227
Total emissions	19,292,190	18,868,288	18,675,679

Source: Company data, RHB

## Latest ESG-Related Developments

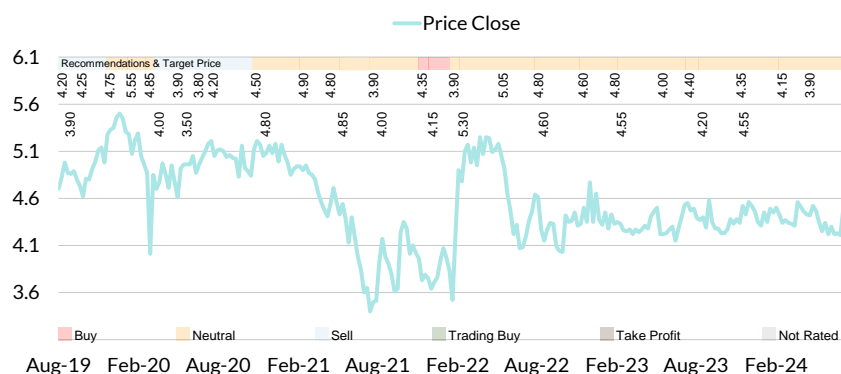
- **Achieving Net Zero:** SDG has developed a three-pronged approach achieve Net Zero Emission target by 2050: i) Accelerating renewables programme, ii) land use transformation, and iii) enhancing supplier engagements.
- **Traceability:** In 2023, SDG managed to achieve 70.9% traceability to plantation.
- **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
2024-06-02	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
2022-05-22	Neutral	5.05	5.18
2022-02-20	Neutral	5.30	4.90

Source: RHB, Bloomberg

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