

1 March 2024

Agriculture | Plantation

Sarawak Oil Palms (SOP MK)

Buy (Maintained)

Earnings Exceeded Expectations; Keep BUY

- **Maintain BUY, new MYR3.20 TP from MYR2.95, 13% upside with c.3% FY24F yield.** Sarawak Oil Palms' FY23 earnings beat expectations, accounting for 117-128% of our and Street full-year forecasts. In an environment of higher CPO prices, we like SOP for its upstream exposure. SOP is undervalued – it is trading at just 7.5x FY24F P/E (peer range 6-12x).
- **FY23 earnings exceeded expectations**, at 117% of our and 128% of Street forecasts. The deviation was mainly due to stronger-than-expected palm kernel (PK) prices and volumes and lower-than-expected production costs. 4Q23 core earnings rose 25% QoQ mainly due to lower operating costs, bringing FY23 core net profit to MYR291.6m (-42% YoY). The FY23 earnings decline was due to lower palm oil (-26% YoY) and PK prices (-35% YoY). No 4Q23 dividend was declared, but we expect a 2 sen final DPS, translating to total DPS of 6 sen ie FY23 dividend payout of 18% and 2.4% yield.
- **4Q23 FFB output slipped by 1% QoQ (+6% YoY)**, resulting in FY23 output rising by 2.7% YoY. This was below our 3.6% YoY FY23 FFB growth forecast and management's 7-8% YoY guidance. In 1M23, output rose by +10.5% YoY, above our initial FY24 +3.5% forecast. Management did not provide FFB production guidance for FY24, but we expect output growth to be better YoY, as labour shortage issues have largely resolved across the industry. We revised our FY24F FFB growth to +6.0% YoY.
- **We believe 4Q23 unit costs have decreased QoQ** on the back of lower operating costs, due to lower fertiliser application activities in 4Q. Regardless, SOP has managed to apply the amount of fertilisers close to 100% of its FY23 requirement. As it has likely finished applying the high-priced fertilisers in 2023, we anticipate fertiliser prices for 2024 to be 15-30% lower YoY. We make no changes to our cost assumption of MYR2,000/tonne for FY24, as we imputed the decrease in fertiliser prices already.
- **Downstream.** Although no disclosure was given, management indicated previously that the YoY weakness of this segment's performance in FY23 was also seen in that of other Malaysian downstream players. Furthermore, Indonesia's export tax and levy structure could result in increased competition, as Indonesian downstream players would have the upper hand – given the country's advantageous tax structure.
- **We increase FY24-25F earnings by 6-10%** after imputing a higher FFB output growth assumption, lower interest expenses, as well as housekeeping changes. We introduce FY26F earnings in this report with a CPO price assumption of MYR3,800 per tonne.
- **Our new TP of MYR3.20** is based on 10x 2024F P/E, with a 16% ESG discount built in to account for its ESG score of 2.2 out of 4. SOP is trading at 7.5x FY24F P/E, which is at the lower end of its peer range of 6-12x.

Target Price (Return): MYR3.20 (+13%)
Price (Market Cap): MYR2.84 (USD530m)
ESG score: 2.2 (out of 4)
Avg Daily Turnover (MYR/USD) 0.48m/0.10m

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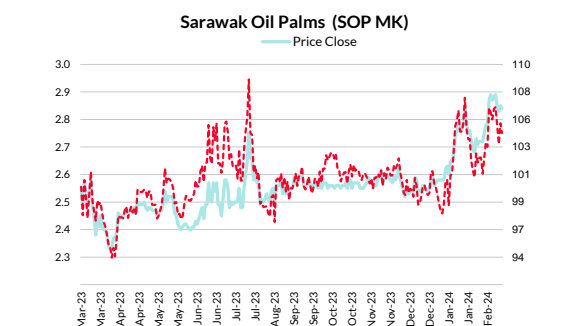


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.7	(0.4)	10.1	12.3	7.6
Relative	3.0	(2.8)	2.8	5.6	0.9
52-wk Price low/high (MYR)				2.33	–2.89



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	5,308	5,125	3,702	3,612	3,663
Recurring net profit (MYRm)	501	292	337	285	287
Recurring net profit growth (%)	8.9	(41.8)	15.6	(15.4)	0.5
Recurring P/E (x)	4.99	8.68	7.51	8.88	8.83
P/B (x)	0.8	0.7	0.7	0.6	0.6
P/CF (x)	3.36	7.08	3.32	5.01	5.01
Dividend Yield (%)	3.2	2.4	2.8	2.1	2.1
EV/EBITDA (x)	2.55	4.72	3.57	3.70	3.33
Return on average equity (%)	15.7	8.8	9.2	7.3	6.9
Net debt to equity (%)	net cash	1.8	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.2 (out of 4)

E: MODERATE

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

S: MODERATE

SOP 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: GOOD

30% of SOP's board members are independent, and 25% of its members are women. Additionally, it provides full disclosure on director remuneration, which includes salaries and bonuses on a named basis. The company has an in-house investor relations team and holds briefings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.57	0.33	0.38	0.32	0.32
Agriculture	DPS	0.09	0.07	0.08	0.06	0.06
Sarawak Oil Palms	BVPS	3.75	3.94	4.24	4.50	4.76
SOP MK	Return on average equity (%)	15.7	8.8	9.2	7.3	6.9
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
10x 2024F P/E, backed by an EV/ha of USD10,000/ha, which is at the mid-end of its peer range of USD8,000-15,000/ha.	Recurring P/E (x)	4.99	8.68	7.51	8.88	8.83
	P/B (x)	0.8	0.7	0.7	0.6	0.6
	FCF Yield (%)	24.7	8.1	21.7	11.0	10.5
	Dividend Yield (%)	3.2	2.4	2.8	2.1	2.1
	EV/EBITDA (x)	2.55	4.72	3.57	3.70	3.33
	EV/EBIT (x)	3.20	6.82	5.09	5.76	5.33
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price movement;	Total turnover	5,308	5,125	3,702	3,612	3,663
ii. FFB production output;	Gross profit	1,048	418	465	433	444
iii. Competitiveness of its downstream processing division vs that of peers.	EBITDA	847	584	642	561	564
	Depreciation and amortisation	(174)	(180)	(191)	(200)	(212)
	Operating profit	674	404	451	361	352
	Net interest	(2)	15	8	27	38
	Pre-tax profit	669	422	462	391	393
	Taxation	(165)	(108)	(111)	(94)	(94)
	Reported net profit	480	300	337	285	287
	Recurring net profit	501	292	337	285	287
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price movement;	Change in working capital	20	(107)	219	7	(5)
ii. Weather risks;	Cash flow from operations	742	357	761	505	506
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(127)	(152)	(212)	(226)	(240)
	Cash flow from investing activities	9	(825)	(212)	(226)	(240)
	Dividends paid	(80)	(61)	(71)	(53)	(53)
	Cash flow from financing activities	(296)	(9)	(350)	(332)	(332)
	Cash at beginning of period	797	1,254	779	978	924
	Net change in cash	456	(476)	198	(54)	(67)
	Ending balance cash	1,254	779	978	924	857
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sarawak Oil Palms is involved in oil palm cultivation and CPO refining in the state of Sarawak.	Total cash and equivalents	1,254	779	978	924	857
	Tangible fixed assets	2,519	2,486	2,507	2,533	2,562
	Total assets	4,894	5,213	5,145	5,106	5,075
	Short-term debt	315	622	483	343	204
	Total long-term debt	446	223	84	(56)	(195)
	Total liabilities	1,447	1,541	1,194	911	635
	Total equity	3,447	3,672	3,952	4,195	4,440
	Total liabilities & equity	4,894	5,213	5,145	5,106	5,075
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	19.8	(3.5)	(27.8)	(2.4)	1.4
	Recurrent EPS growth (%)	8.9	(42.5)	15.6	(15.4)	0.5
	Gross margin (%)	19.7	8.2	12.6	12.0	12.1
	Operating EBITDA margin (%)	16.0	11.4	17.3	15.5	15.4
	Net profit margin (%)	9.0	5.9	9.1	7.9	7.8
	Dividend payout ratio (%)	16.7	20.3	21.1	18.8	18.7
	Capex/sales (%)	2.4	3.0	5.7	6.3	6.6
	Interest cover (x)	23.0	12.2	16.0	21.1	59.6

Source: Company data, RHB

Results At a Glance

Figure 1: SOP's results review

FYE Dec (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	1,207.7	1,273.0	1,469.3	15.4	21.7	5,363.5	5,124.7	(4.5)	Due to lower CPO (-26% YoY) prices, offset by higher FFB production (+2.7% YoY).
EBIT	79.4	116.8	146.8	25.7	84.8	695.1	395.1	(43.2)	
EBIT margin (%)	6.6	9.2	10.0			13.0	7.7		
EI	(1.7)	9.3	7.5	(19.1)	543.8	(21.4)	8.9	141.5	EIs include a FV gain on derivatives of MYR7.3m, a reversal of impairment loss in investments in JVs amounting to MYR3.0m, and a FV gain on derivatives of MYR1.4m. These were offset by a FX loss of MYR1.7m.
Pretax profit	77.1	129.3	158.0	22.2	105.0	668.8	421.6	(37.0)	
Pretax margin (%)	6.4	10.2	10.8			12.5	8.2		
Tax	(26.9)	(30.4)	(40.3)	(32.4)	(49.4)	(164.5)	(107.7)	34.6	
Effective tax rate (%)	(34.9)	(23.5)	(25.5)			(24.6)	(25.5)		
Minority interest	(2.3)	(4.4)	(4.2)	4.4	(81.9)	(24.6)	(13.5)	45.0	
Net profit	47.9	94.6	113.6	20.2	137.3	479.7	300.5	(37.4)	Above our and Street expectations, at 117-128% of FY23 projections.
Core profit	49.6	85.2	106.1	24.5	114.0	501.0	291.6	(41.8)	
Net margin (%)	4.1	6.7	7.2			9.3	5.7		
Operational Stats									
FFB production	327,646	352,150	348,679	(1.0)	6.4	1,193,846	1,226,016	2.7	Below our projection of +3.6% YoY and management's guidance of +7-8% YoY.
CPO production	103,788	110,841	104,101	(6.1)	0.3	373,923	384,547	2.8	
PK production	22,959	24,630	23,024	(6.5)	0.3	83,005	83,858	1.0	
CPO price, MYR/tonne	3,833	3,863	3,778	(2.2)	(1.4)	5,200	3,876	(25.5)	
PK price, MYR/tonne	2,351	2,264	2,262	(0.1)	(3.8)	3,564	2,302	(35.4)	

Source: Company data, RHB

Figure 2: Key assumptions

	FY22	FY23	FY24F	FY25F	FY26F
FFB production, tonnes	1,193,846	1,226,016	1,300,138	1,306,883	1,345,126
% change	-4.2%	2.7%	6.0%	0.5%	2.9%
Effective CPO price (MYR)	5,136	3,832	3,900	3,800	3,800

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2022, Scope 1 emissions increased to 282k tonnes of CO₂e (2021: 237k tonnes of CO₂e) while Scope 2 emissions increased to 38.7k tonnes of CO₂e (2021: 31.9k tonnes of CO₂e)

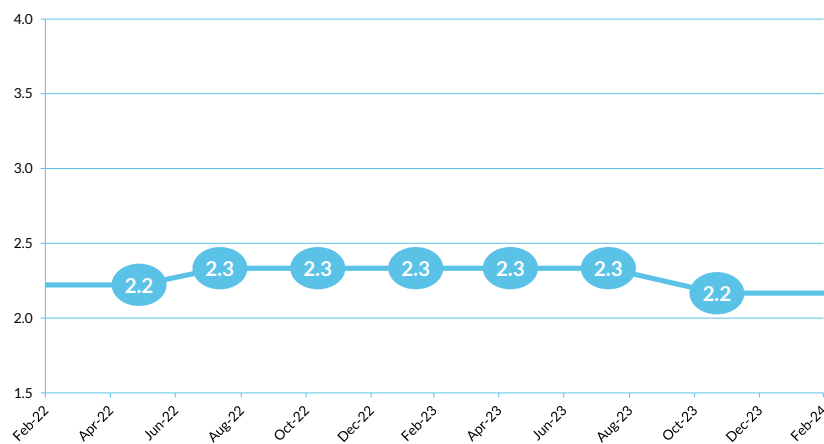
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	237,413	281,756	na
Scope 2	31,877	38,742	na
Scope 3	na	na	na
Total emissions	269,290	320,498	na

Source: Company data, RHB

Latest ESG-Related Developments

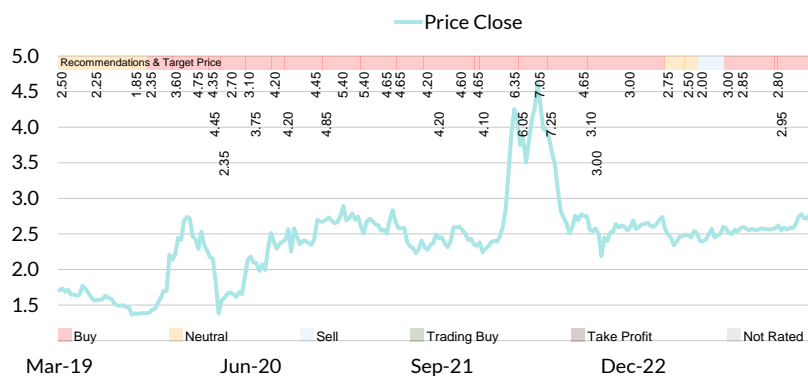
- **Sustainability certification:** As of end-2022, 100% of SOP's operations are MSPO-certified.
- **Traceability:** As of end-2022, SOP managed to achieve 47% traceability to plantation for its CPO and 44% for its PK.
- **Reducing GHG emissions:** SOP has committed to reducing GHG emissions with the installation of methane capture facilities to reduce emissions at all mills.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-09-11	Buy	3.00	2.54
2022-08-28	Buy	3.10	2.75
2022-08-10	Buy	4.65	2.68
2022-05-24	Buy	7.25	3.93
2022-04-26	Buy	7.05	4.32
2022-03-16	Buy	6.05	3.65
2022-02-25	Buy	6.35	3.93

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
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Not Rated:	Stock is not within regular research coverage

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