

21 November 2023

Agriculture | Agriculture

Sime Darby Plantation (SDPL MK)

Neutral (Maintained)

Improving ESG Ratings, Valuation Is Fair

- **Maintain NEUTRAL with new MYR4.35 TP from MYR4.20, 1% downside, after raising our ESG score to 3.0 from 2.8.** While we believe Sime Darby Plantation is one of the companies that will be well placed to comply with the European Union (EU) Deforestation Regulation (EUDR), we believe valuations are fair at current levels. SDPL is trading at 2024F P/E of 19.6x, which is at the high end of its peers' range of 16-20x.
- **The EUDR is not unsurmountable.** While there are a myriad of problems and issues in complying with the EUDR guidelines based on current regulations, we believe there are also numerous solutions. The Malaysian and Indonesian Governments working together with the EU to find solutions is a step in the right direction – especially if Malaysia and Indonesia are classified as “Low Risk”. Aligning definitions are key to achieving compliance and ensuring everyone is on the same page.
- **The EU needs to help, otherwise this problem will be shifted elsewhere.** At the end of the day, if the EU fails to help producing countries like Indonesia and Malaysia in complying with the EUDR, it will push producers to export more of their commodities to countries with weaker environmental regulations, thereby shifting the problem to other regions.
- **A short term solution** would be to ensure that whatever is sold to the EU is produced in segregated mills and refineries and traceable to plantation. This could mean redirecting smallholder crops that are not traceable to other mills to ensure there is no mixing of crops in each plant.
- **Uplifting smallholders means uplifting the sector.** As smallholders manage 40% of plantation areas in Indonesia and Malaysia, this sector will only progress if they are taken care of and well updated with the changes in laws and regulations. As discussed previously, the main hurdle of achieving traceability lies with obtaining data from third-party suppliers, including smallholders. In order to address this, continuous engagement with the smallholders is essential to educate them on the importance of establishing a sustainable business, while the necessary tools must be given to the smallholders to help them to achieve these goals.
- **We believe the sector in general is moving in the right direction** in terms of ESG standards, with more disclosure and targets being set. However, we note that there are some outliers which have yet to make any improvements to ESG disclosures as well as ESG targets.
- **We raise our ESG score for SDPL to 3.0 from 2.8** after lifting our score for the “Environment” pillar, as SDPL has managed to improve its GHG emissions intensity, energy efficiency, and certification levels.
- **Maintain NEUTRAL on SDPL with a higher TP of MYR4.35** after accounting for a higher ESG score. While we believe it is one of the companies that will be well placed to comply with the EUDR, its valuation is fair at current levels. SDPL is trading at 19.6x 2024F P/E, which is at the high end of its peer range of 16-20x.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	18,695	21,030	21,683	22,716	23,174
Recurring net profit (MYRm)	2,143	2,139	1,031	1,546	1,530
Recurring net profit growth (%)	135.9	(0.2)	(51.8)	50.0	(1.0)
Recurring P/E (x)	14.17	14.19	29.45	19.64	19.84
P/B (x)	2.0	1.9	1.8	1.7	1.7
P/CF (x)	8.72	8.33	12.84	10.38	10.17
Dividend Yield (%)	4.6	3.7	1.7	2.6	2.6
EV/EBITDA (x)	7.49	6.07	11.87	9.49	9.48
Return on average equity (%)	15.7	24.5	6.2	9.0	8.5
Net debt to equity (%)	36.1	32.5	32.4	29.0	25.7

Source: Company data, RHB

Target Price (Return):	MYR4.35 (-1%)
Price (Market Cap):	MYR4.39 (USD6,434m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	7.46m/1.59m

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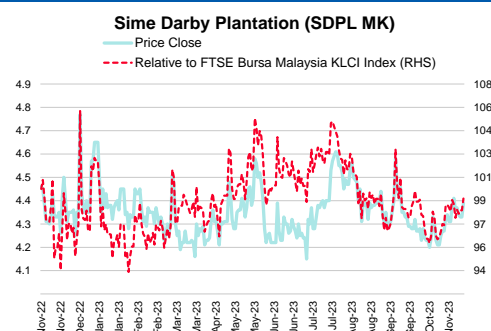


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	3.8	(2.0)	(1.6)	(1.6)
Relative	(2.7)	3.3	(1.6)	(3.6)	(0.8)
52-wk Price low/high (MYR)				4.15 – 4.77	



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: EXCELLENT

SDPL has reported a reduction in GHG emissions intensity since 2020 and has set a 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

60% of SDPL's board members are independent, which is an improvement over the previous year. 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

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.31	0.31	0.15	0.22	0.22
Agriculture	DPS	0.20	0.16	0.08	0.11	0.11
Sime Darby Plantation	BVPS	2.20	2.37	2.44	2.55	2.66
SDPL MK	Return on average equity (%)	15.7	24.5	6.2	9.0	8.5
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	14.17	14.19	29.45	19.64	19.84
	P/B (x)	2.0	1.9	1.8	1.7	1.7
	FCF Yield (%)	6.8	6.3	1.2	3.7	3.9
	Dividend Yield (%)	4.6	3.7	1.7	2.6	2.6
	EV/EBITDA (x)	7.49	6.07	11.87	9.49	9.48
	EV/EBIT (x)	10.32	7.89	22.19	15.35	15.60
Valuation basis						
SOP, applying 20x 2024F P/E to its plantation earnings and 18x P/E for its downstream division.						
Key drivers						
i. CPO price movement;						
ii. FFB production output;						
iii. Competitiveness of its downstream processing division vs peers.						
Key risks						
i. CPO price movement;						
ii. Weather risks;						
iii. Demand and supply dynamics of the global vegetable oil industry.						
Company Profile						
Sime Darby Plantation is the largest listed plantations company on Bursa Malaysia, with more than 600,000ha of oil palm landbank.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	18,695	21,030	21,683	22,716	23,174
	Gross profit	9,161	10,305	10,625	11,131	11,355
	EBITDA	4,856	5,959	3,064	3,801	3,766
	Depreciation and amortisation	(1,329)	(1,373)	(1,426)	(1,453)	(1,478)
	Operating profit	3,528	4,586	1,639	2,348	2,288
	Net interest	(74)	(122)	(108)	(112)	(104)
	Pre-tax profit	3,603	4,865	1,582	2,288	2,236
	Taxation	(1,109)	(809)	(396)	(572)	(537)
	Reported net profit	2,257	3,861	1,031	1,546	1,530
	Recurring net profit	2,143	2,139	1,031	1,546	1,530
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(821)	393	(123)	(119)	(69)
	Cash flow from operations	3,483	3,644	2,365	2,925	2,984
	Capex	(1,413)	(1,742)	(2,000)	(1,800)	(1,800)
	Cash flow from investing activities	(1,243)	(1,215)	(2,000)	(1,800)	(1,800)
	Dividends paid	(938)	(1,548)	0	0	0
	Cash flow from financing activities	(1,884)	(2,397)	(619)	(878)	(878)
	Cash at beginning of period	309	603	635	381	628
	Net change in cash	355	32	(254)	247	306
	Ending balance cash	603	635	381	628	934
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	603	635	381	628	934
	Tangible fixed assets	17,248	17,800	18,375	18,722	19,045
	Total investments	55	68	68	68	68
	Total assets	30,336	31,148	31,899	32,550	33,334
	Short-term debt	2,232	2,464	2,464	2,464	2,464
	Total long-term debt	4,019	3,633	3,533	3,433	3,333
	Total liabilities	14,711	14,363	14,571	14,408	14,395
	Total equity	15,625	16,785	17,329	18,142	18,939
	Total liabilities & equity	30,336	31,148	31,899	32,550	33,334
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	42.9	12.5	3.1	4.8	2.0
	Recurrent EPS growth (%)	134.8	(0.2)	(51.8)	50.0	(1.0)
	Gross margin (%)	49.0	49.0	49.0	49.0	49.0
	Operating EBITDA margin (%)	26.0	28.3	14.1	16.7	16.3
	Net profit margin (%)	12.1	18.4	4.8	6.8	6.6
	Dividend payout ratio (%)	62.1	29.4	50.3	50.3	50.8
	Capex/sales (%)	7.6	8.3	9.2	7.9	7.8
	Interest cover (x)	41.2	34.0	13.2	19.3	19.1

Source: Company data, RHB

Figure 1: SDPL's progress on ESG factors

		2020	2021	2022
ENVIRONMENT				
GHG emissions	Emissions (tCO ₂ e)	17,207,318	19,292,190	18,977,158
GHG emissions	Intensity (tCO ₂ e per tonne of palm product)	3.44 (Scope 1 & 2 only)	3.73 (Scope 1 & 2 only)	4.05 (Scope 1 & 2 only)
Waste treatment	Recycling/Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m3) and intensity (m3/tonne of palm product)	34,132,012 Intensity: 1.45	29,183,723 Intensity: 1.38	28,353,614 Intensity: 1.28
Energy efficiency	Energy consumption and intensity	30,929,844	29,483,843	Not provided
Certifications	RSPO/MSPO/ISPO certified (%)	RSPO: 100% MSPO: 100% estates, mills ISPO: 100% Upstream	RSPO: 100% mills, downstream, >90% CPO MSPO: 100% ISPO: 100% Upstream	RSPO: 100% upstream MSPO: 100% ISPO: 100% Upstream
Use of peat land	Peat land (%)	6.3%	5.7%	5.7%
Fire accidents	Number of accidents	281	425	Not provided
Usage of renewable energy	% of renewable energy used	86%	87%	Not provided
Traceability	Traceable to mills (%)	96.70%	95.40%	94.80%
Traceability	Traceable to plantation (%)	64.40%	73.50%	72.70%
SOCIAL				
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
GOVERNANCE				
Board composition	At least half of the board being independent directors	5/11 are independent	6/11 are independent	6/10 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	30.0%	27.3%	30.0%
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

Figure 2: SDPL's forecast assumptions

FYE	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
CPO price (MYR/tonne)	3,711	4,456	3,900	3,900	3,800
FFB production (m tonnes)	9.1	8.2	8.6	9.0	9.4
Downstream margin (%)	3.4	4.3	3.5	3.5	3.5

Source: RHB

Figure 3: SOP valuation

	Basis	Valuation (MYRm)
Plantations upstream	2024F P/E target of 20x	22,564
Plantations downstream	2024 P/E target of 18x	7,522
TOTAL		30,086
No. issued shares (m)		6,916
SOP/share (MYR)		4.35
ESG premium/(discount)	0%	0.00
TP (MYR)		4.35

Source: RHB

Emissions And ESG

Trend analysis

In FY22, Scope 1 emissions decreased to 10.4m tonnes of CO₂ equivalents (tCO₂e) (FY21: 10.7m tCO₂e) while Scope 2 decreased to 225.7k tCO₂e (FY21: 226.2k tCO₂e).

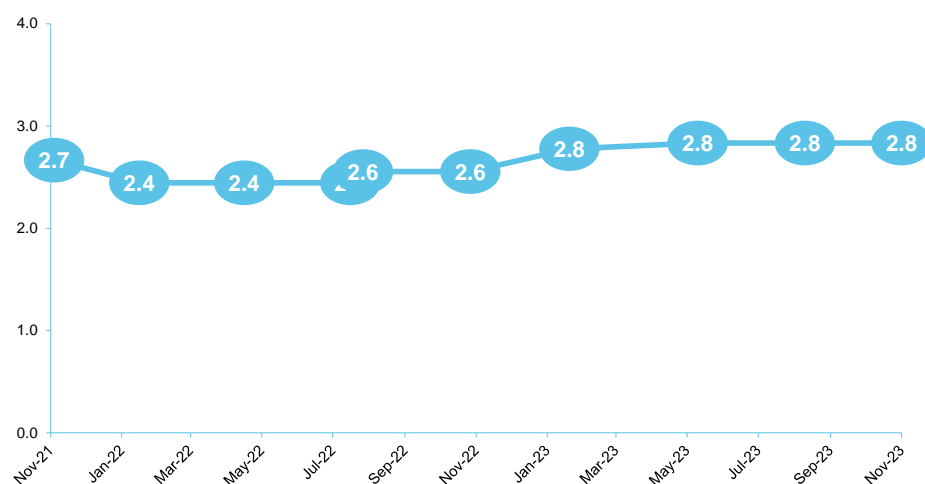
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	9,887,727	10,659,136	10,375,646
Scope 2	153,384	226,280	225,722
Scope 3	7,166,207	8,406,774	8,375,789
Total emissions	17,207,318	19,292,190	18,977,157

Source: Company data, RHB

Latest ESG-Related Developments

- **Achieving Net Zero:** SDPL has developed a three-pronged approach to achieve its net-zero emissions target by 2050 ie i) accelerating renewables programme, ii) land use transformation, iii) enhancing supplier engagements
- **Traceability:** In 2022, SDPL managed to achieve a 72.7% traceability to plantation
- **Sustainability certifications:** In 2022, 100% of SDPL's upstream operations are RSPO certified

ESG Rating History

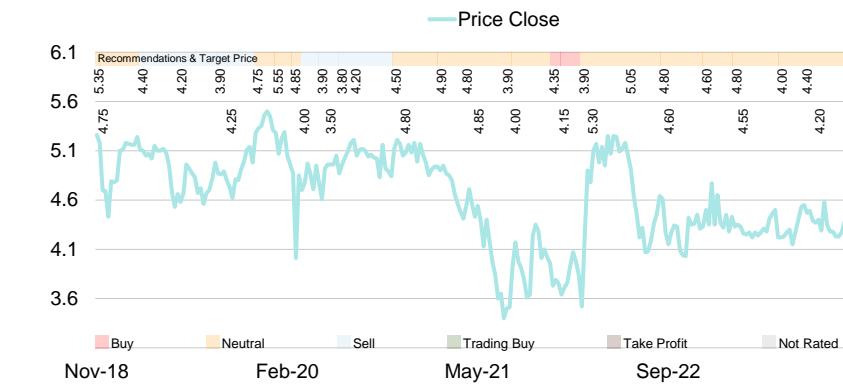


Source: RHB

21 November 2023

Agriculture | Agriculture

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-01-30	Neutral	3.90	3.83
2021-12-12	Buy	4.15	3.75
2021-11-18	Buy	4.35	3.96
2021-08-18	Neutral	4.00	3.85

Source: RHB, Bloomberg

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