

28 April 2025

Agriculture | Plantation

Sarawak Oil Palms (SOP MK)

Buy (Maintained)

Starting The Year On The Right Foot; Keep BUY

Target Price (Return): MYR4.80 (+61%)
Price (Market Cap): MYR2.98 (USD609m)
ESG score: 2.3 (out of 4)
Avg Daily Turnover (MYR/USD) 0.56m/0.13m

Analyst

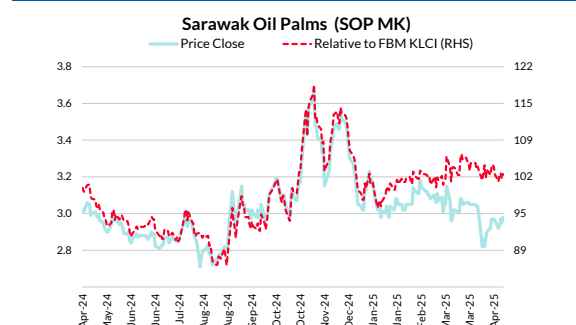
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- **Maintain BUY and MYR4.80 TP, 61% upside and c.4% yield.** 1Q25 earnings met our and consensus expectations. Moving forward, we expect Sarawak Oil Palms to deliver a consistent earnings track record, as output continues to improve, but it may be offset by moderating CPO prices. Given its position as a pure-play planter with an above-average EBIT/ha, we believe the valuation is currently undemanding, trading at 5.3x 2025F P/E, below its peer range of 7-11x.
- **1Q25 core profit fell 26% QoQ (+27% YoY) to MYR120.8m** – largely in line with our and Street estimates, at 24% and 27% of full-year forecasts. The decline in QoQ earnings was mainly due to the drop in FFB output (-12% QoQ) as well as lower CPO ASPs (-6% QoQ).
- **SOP recorded CPO ASP of MYR4,688 in 1Q25 (-6% QoQ, +20% YoY)**, while PK prices shot up by a larger 14% QoQ (+81% YoY) to MYR4,105, higher than the average Malaysian Palm Oil Board (MPOB) price (+13% premium). Consequently, SOP's PBT margin rose to 11% during the quarter vs 8.5% in 1Q24. We note that SOP does not engage in forward sales and we keep our FY25 CPO price assumption of MYR4,300/tonne.
- **1Q25 FFB output slipped 12% QoQ (+1.8% YoY)**, due to the low output season and heavy rainfall in January. While this is below our and management's guidance of 5-6%, SOP is still optimistic for output to recover as weather has started to normalise so far in April – maintaining its target for FY25. As such, we keep our FY25F-26F FFB growth unchanged at 5-6%, and +3% for FY27F.
- **Estimated unit costs rose 17% QoQ (+19.5% YoY)**, primarily due to lower FFB production. We note that SOP is now in the midst of securing 1H25 fertiliser requirements at prices that are flattish YoY (0-5% lower). We keep our unit cost assumptions unchanged, for now, as we expect output recovery in the coming quarters, which should bring down unit costs accordingly.
- **No disclosure for downstream**, but we are of the view the segment will face challenges, no thanks to the current volatility in the market. While Malaysia's PO may appear attractive compared to Indonesia's, thanks to lower US tariffs (24% vs 32%), this may be offset by Indonesia's more advantageous tax structure (at 17.9% vs Malaysia's 10%) – after assuming the recent proposal to revise export tax for PO by -5% and CPO levy by +2.5%. As such, we remain cautious on the segment's performance and keep our conservative estimates for the utilisation rate (75%) and margin assumptions of 3%.
- **We make no changes to our earnings**, as CPO prices continue to moderate (YTD price:MYR4,658/tonne). We keep our MYR4.80 TP unchanged, based on 10x 2025F P/E, with a 14% ESG discount built in.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.3)	(2.6)	(2.3)	(3.6)	(1.3)
Relative	1.8	(2.3)	1.8	3.2	2.5
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)	8.80	5.57	5.32	5.83	5.99
P/B (x)	0.8	0.7	0.6	0.6	0.5
P/CF (x)	7.20	4.11	3.63	3.95	4.02
Dividend Yield (%)	1.6	7.3	4.4	4.0	4.0
EV/EBITDA (x)	4.93	3.61	2.91	2.72	2.41
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.

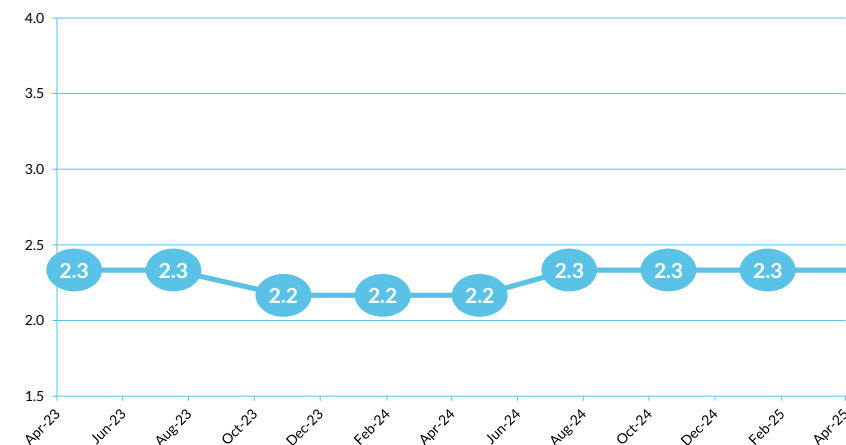
S Score: 2.0 (MODERATE)

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 peer average of USD8,000-15,000/ha.	Recurring P/E (x)	8.80	5.57	5.32	5.83	5.99
	P/B (x)	0.8	0.7	0.6	0.6	0.5
	FCF Yield (%)	8.3	15.8	19.3	16.6	15.6
	Dividend Yield (%)	1.6	7.3	4.4	4.0	4.0
	EV/EBITDA (x)	4.93	3.61	2.91	2.72	2.41
	EV/EBIT (x)	7.12	4.73	3.70	3.59	3.26
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
Sarawak Oil Palms 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

28 April 2025

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Figure 1: SOP's results review

FYE Dec (MYRm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)	Comments
Revenue	1,325.5	1,467.4	1,442.0	(1.7)	8.8	Thanks to higher FFB production (+2% YoY) and higher CPO ASPs (+20% YoY).
EBIT	121.7	200.5	161.5	(19.4)	32.7	
EBIT margin (%)	9.2	13.7	11.2			
EI	(15.3)	(23.4)	(7.0)	69.9	54.1	1Q25 EIs mainly includes FV loss on derivatives of -MYR3m
Pretax profit	112.4	189.1	163.4	(13.6)	45.4	
Pretax margin (%)	8.5	12.9	11.3			
Tax	(28.9)	(42.6)	(44.2)	(3.7)	(53.1)	
Effective tax rate (%)	(25.7)	(22.5)	(27.1)			
Minority interest	(4.0)	(6.7)	(5.4)	19.4	(33.4)	
Net profit	79.5	139.8	113.8	(18.6)	43.2	
Core profit	94.8	163.2	120.8	(26.0)	27.4	In line with our and Street estimates, at 24% and 27% of full year forecasts
Net margin (%)	7.2	11.1	8.4			
Operational Stats						
FFB production	286,086	330,583	291,276	(11.9)	1.8	Below our and management's guidance of +5 to +6%
CPO production	94,909	98,564	84,484	(14.3)	(11.0)	
PK production	20,771	20,775	18,458	(11.2)	(11.1)	
CPO price, MYR/tonne	3,913	4,995	4,688	(6.1)	19.8	
PK price, MYR/tonne	2,267	3,599	4,105	14.1	81.1	

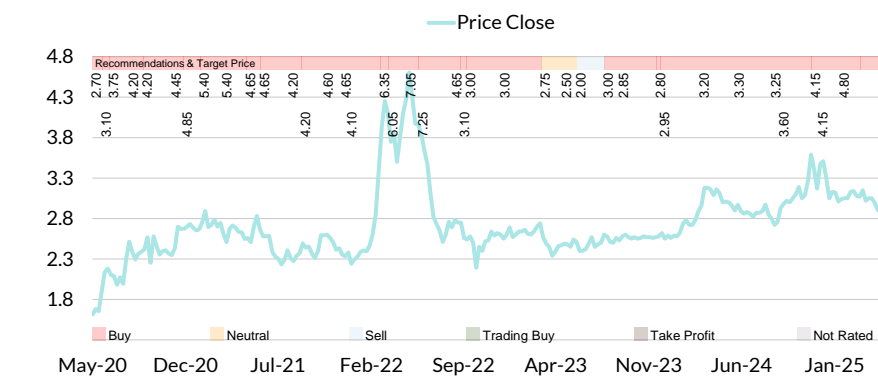
Source: Company data, RHB

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
2025-03-03	Buy	4.80	3.09
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

Source: RHB, Bloomberg

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