

25 February 2022

Agriculture | Plantation

Sarawak Oil Palms (SOP MK)

Buy (Maintained)

Stellar Ending To The Year; BUY

- **Maintain BUY, new MYR6.35 TP from MYR4.10, 18% upside with c.2% yield.** Sarawak Oil Palms closed FY21 with outstanding results, at 118% to 123% of our and Street full-year forecasts. The minimal forward position was a main factor behind its stellar profits, allowing SOP to benefit from higher CPO spot prices. Its valuation remains attractive – the counter is trading at 6x FY22F P/E, vs peers' 6-10x.
- **FY21 earnings came in above expectations**, at 118-123% of our and Street FY21 estimates. Core net profit jumped 108% YoY to MYR461.6m, on the back of higher average palm oil and PK prices at MYR4,564/tonne (+64.2% YoY) and MYR3,297/tonne (+77.1% YoY) in FY21, which boosted profit significantly, given its sensitivity to CPO prices.
- **FFB growth for FY21 dropped by 8.3% YoY**, which was slightly above our -10% projection and management's -12% guidance for FY21. SOP's labour shortage remains an issue, at 30-35%. Management anticipates this shortage issue to only be resolved in 2H22 and is, therefore, guiding for flattish FFB growth in FY22. We cut our FFB growth assumptions to 1-5% for FY22-24 (from 5-6%).
- **Good year for downstream.** Management indicated that the downstream segment's performance has improved with very positive margins in FY21, on the back of higher prices as well as trading profits made during the year. However, its utilisation rate dropped to 80% from 90% in 2020, as focus was tilted more towards the upstream side – given SOP's sensitivity to CPO prices.
- **FY21 unit cost was at MYR1,600/tonne**, which was flattish YoY. This was likely due to lower fertiliser application and higher PK credits. Due to the labour shortage, management only applied 75% of its fertiliser requirements for FY21. Management anticipates that unit costs will be flattish YoY in FY22 despite rising fertiliser costs, as it is able to utilise some of the carried-forward FY21 fertilisers this year. SOP has contracted fertiliser prices for its 1H requirements, at 40-50% higher. We are more conservative, and have imputed a 10-15% YoY increase in unit costs in FY22.
- **We raise our CPO price assumptions per tonne** to MYR4,500 (from MYR3,700) for FY22, and to MYR3,600 (from MYR3,000) for FY23. We introduce our FY24F earnings, reflecting a CPO price of MYR3,500 per tonne. As such, our FY22-24F earnings are raised by 50-55%.
- **Reiterate BUY, with a higher TP of MYR6.35** (from MYR4.10) based on an unchanged 8x 2022F P/E. Its valuation remains inexpensive – this stock is trading at 6x FY22F P/E, at the low end of its peer range of 6-10x. Note that our TP has imputed a 16% ESG discount to account for SOP's ESG score of 2.22. Key risks include unfavourable CPO price movements, weather, as well as demand and supply dynamics of the vegetable oil industry.

Target Price (Return): MYR6.35 (+18%)
 Price (Market Cap): MYR5.37 (USD730m)
 ESG score: 2.22 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.12m/0.51m

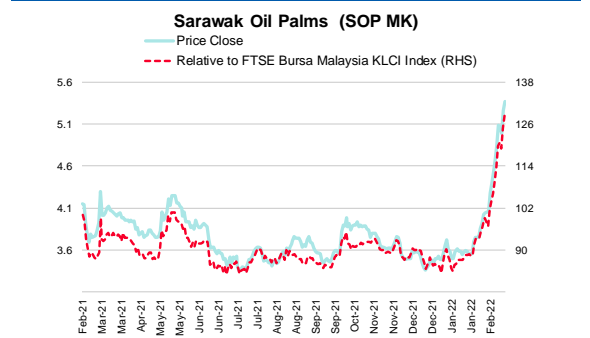
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	53.9	50.0	43.2	46.3	29.4
Relative	53.5	46.6	39.8	45.0	28.4
52-wk Price low/high (MYR)				3.35 – 5.37	



Source: Bloomberg

Overall ESG Score: 2.22 (out of 4)

E: MODERATE

While SOP is committed to no further development on peat areas, 65% 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, and is currently in amidst of a discussion to apply for the Roundtable for Sustainable Palm Oil certification.

S: 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: GOOD

50% of SOP's board members are independent, but only two 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.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	2,779	4,433	5,225	4,266	4,225
Recurring net profit (MYRm)	219	462	541	423	422
Recurring net profit growth (%)	105.1	111.1	17.3	(21.9)	(0.3)
Recurring P/E (x)	14.03	6.67	5.68	7.27	7.30
P/B (x)	1.3	1.1	0.9	0.8	0.8
P/CF (x)	7.59	6.67	3.93	4.55	5.08
Dividend Yield (%)	1.0	2.1	2.0	1.7	1.7
EV/EBITDA (x)	7.50	3.86	3.26	3.37	2.85
Return on average equity (%)	8.9	19.7	17.8	12.2	11.0
Net debt to equity (%)	18.6	6.5	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.38	0.81	0.94	0.74	0.74
Agriculture	DPS	0.06	0.11	0.11	0.09	0.09
Sarawak Oil Palms	BVPS	4.16	4.89	5.73	6.37	7.02
SOP MK	Return on average equity (%)	8.9	19.7	17.8	12.2	11.0
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
We apply a target P/E of 8x on Dec-2022F earnings, backed up by an EV/ha of USD10,000/ha, at the mid end of its peer range of USD8,000-15,000/ha.	Recurring P/E (x)	14.03	6.67	5.68	7.27	7.30
	P/B (x)	1.3	1.1	0.9	0.8	0.8
	FCF Yield (%)	9.8	9.9	17.5	18.1	15.7
	Dividend Yield (%)	1.0	2.1	2.0	1.7	1.7
	EV/EBITDA (x)	7.50	3.86	3.26	3.37	2.85
	EV/EBIT (x)	10.84	4.65	3.81	4.16	3.58
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price movement;	Total turnover	2,779	4,433	5,225	4,266	4,225
ii. FFB production output;	Gross profit	531	841	938	729	713
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	488	883	912	743	735
	Depreciation and amortisation	(150)	(150)	(131)	(141)	(149)
	Operating profit	338	732	781	601	587
	Net interest	(21)	(16)	(15)	(3)	10
	Pre-tax profit	303	714	766	598	597
	Taxation	(82)	(171)	(184)	(144)	(143)
	Reported net profit	205	511	541	423	422
	Recurring net profit	219	462	541	423	422
Key risks	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price movement;	Change in working capital	(41)	(273)	71	80	3
ii. Weather risks;	Cash flow from operations	404	461	784	676	606
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(103)	(157)	(247)	(119)	(123)
	Cash flow from investing activities	(313)	(91)	(247)	(119)	(123)
	Dividends paid	(32)	(64)	(63)	(52)	(52)
	Cash flow from financing activities	(197)	(188)	(163)	(152)	(152)
	Cash at beginning of period	756	642	826	1,200	1,605
	Net change in cash	(106)	183	374	405	331
	Ending balance cash	642	826	1,200	1,605	1,936
Company Profile	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Sarawak Oil Palms is involved in oil palm cultivation and CPO refining in the state of Sarawak.	Total cash and equivalents	642	826	1,200	1,605	1,936
	Tangible fixed assets	2,571	2,567	2,683	2,661	2,635
	Total assets	4,258	4,665	5,088	5,338	5,638
	Short-term debt	394	690	590	490	390
	Total long-term debt	715	328	328	328	328
	Total liabilities	1,755	1,725	1,629	1,476	1,374
	Total equity	2,503	2,940	3,459	3,862	4,264
	Total liabilities & equity	4,258	4,665	5,088	5,338	5,638
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(6.5)	59.5	17.9	(18.4)	(1.0)
	Recurrent EPS growth (%)	104.9	110.5	17.3	(21.9)	(0.3)
	Gross margin (%)	19.1	19.0	17.9	17.1	16.9
	Operating EBITDA margin (%)	17.6	19.9	17.4	17.4	17.4
	Net profit margin (%)	7.4	11.5	10.4	9.9	10.0
	Dividend payout ratio (%)	15.7	12.6	11.6	12.2	12.2
	Capex/sales (%)	3.7	3.5	4.7	2.8	2.9
	Interest cover (x)	8.01	22.42	23.06	19.79	21.83

Source: Company data, RHB

Results At a Glance

Figure 1: SOP's results review

FYE Dec (MYRm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Revenue	839.6	1,301.5	1,394.1	7.1	66.0	2,778.6	4,433.0	59.5	Higher CPO prices (+64.2% YoY), and dragged slightly by lower FFB production (-8.3% YoY).
EBIT	120.5	170.2	252.6	48.4	109.6	366.4	682.8	86.3	
<i>EBIT margin (%)</i>	14.4	13.1	18.1			13.2	15.4		
EI	(47.6)	10.7	29.1	171.7	161.1	(17.9)	49.7	378.2	Mainly consists of fair value gains on biological assets of MYR9.0m and fair value gains on derivatives of MYR43.5m.
Pretax profit	47.5	175.4	279.0	59.0	487.9	302.2	714.1	136.3	
<i>Pretax margin (%)</i>	5.7	13.5	20.0			10.9	16.1		
Tax	(19.6)	(43.3)	(62.6)	(44.3)	(218.7)	(82.0)	(171.0)	(108.5)	
<i>Effective tax rate (%)</i>	(41.4)	(24.7)	(22.4)			(27.1)	(24.0)		
Minority interest	(7.1)	(6.6)	(8.1)	(22.7)	(14.2)	(16.0)	(23.8)	(48.0)	
Net profit	20.7	125.5	208.3	66.0	904.7	204.1	302.9	48.4	
Core profit	68.3	114.8	179.3	56.2	162.5	222.0	461.5	107.9	Above estimates, at 118-123% of FY21F.
<i>Net margin (%)</i>	8.1	8.8	12.9			8.0	10.4		
Operational Stats									
FFB production	325,944	320,215	315,481	(1.5)	(3.2)	1,358,393	1,245,230	(8.3)	Above our and management's revised guidance of -10 and -12%.
CPO production	96,506	97,308	102,208	5.0	5.9	390,475	385,719	(1.2)	
PK production	19,983	21,524	22,925	6.5	14.7	84,475	84,395	(0.1)	
CPO price, MYR/tonne	3,235	4,490	5,468	21.8	69.0	2,779	4,564	64.2	
PK price, MYR/tonne	2,177	2,919	4,272	46.4	96.2	1,862	3,297	77.1	

Source: Company data, RHB

Figure 2: Key assumptions

	FY20	FY21	FY22F	FY23F	FY24F
FFB production, tonnes	1,358,393	1,245,230	1,261,580	1,325,610	1,391,889
% change	1.2%	-8.3%	1.3%	5.1%	5.0%
Effective CPO price (MYR)	2,686	4,564	4,500	3,600	3,500
Refinery utilisation rate	100%	65%	80%	80%	80%

Source: Company data, RHB

Recommendation Chart

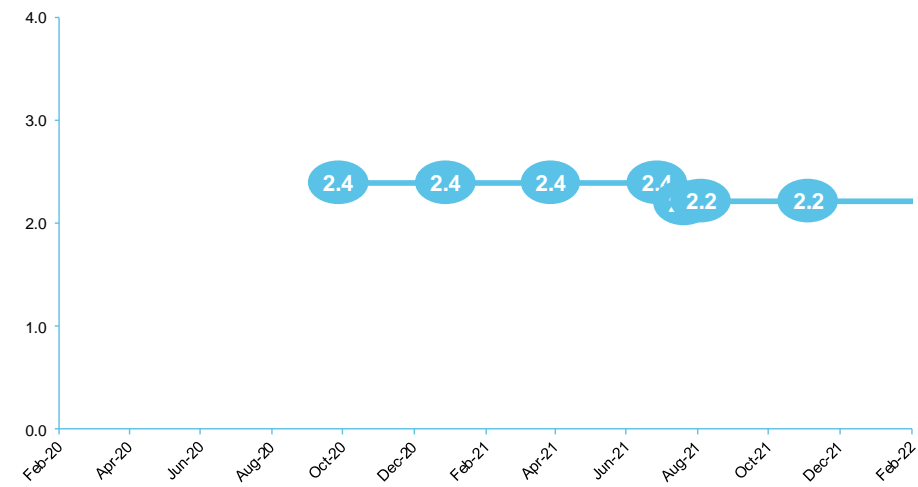


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-12	Buy	4.10	3.57
2021-11-29	Buy	4.65	3.52
2021-10-18	Buy	4.60	3.90
2021-07-29	Buy	4.20	3.55
2021-04-21	Buy	4.65	3.78
2021-01-05	Buy	5.40	4.00
2020-11-27	Buy	4.85	4.01
2020-11-01	Buy	4.45	3.52
2020-07-26	Buy	4.20	3.77
2020-06-09	Buy	3.75	3.37
2020-05-24	Buy	3.10	2.85

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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