

3 February 2023

Agriculture | Agriculture

## Sime Darby Plantation (SDPL MK)

**Neutral** (Maintained)

### WRO To Be Lifted Soon

Target Price (Return): MYR4.80 (7.8%)  
Price (Market Cap): MYR4.45 (USD7,247m)  
ESG score: 2.78 (out of 4)  
Avg Daily Turnover (MYR/USD) 12.3m/2.78m

- **Still NEUTRAL, higher MYR4.80 TP from MYR4.60, 8% upside.** The US Customs & Border Protection (CBP) ban on Sime Darby Plantation's Malaysian products should be lifted soon, as it has been established that it no longer uses forced labour. While this is positive, we believe the share price has already reflected this – to a certain extent – given the recovery seen over the last few months. We raise our ESG rating to 2.8 from 2.6.
- **SDPL's products are no longer produced with forced labour.** The CBP has determined that palm oil and derivative products made wholly or in part with palm oil produced by SDPL are no longer being produced via the use of forced labour. The US federal agency has established that it has satisfactory evidence that the company no longer uses such labour to produce its palm oil products.
- **Positive on the news, Withhold Release Order (WRO) to be lifted soon.** Based on this determination, we are positive on this news, as this could mean that the finding issued by the CBP in Jan 2022 on SDPL could be lifted. We understand the modification is scheduled to be published on 3 Feb (Washington DC time).
- **SDPL has made the necessary changes to its operations.** We believe the company has put in the work to bring its labour standards up to scratch in accordance with global labour guidelines. Changes include: i) Installing passport lockers within each worker's bedroom, ii) putting in place grievance channels in the many different languages of its foreign workforce, and iii) ensuring regular communication with foreign workers' representatives via meetings amongst other measures. Note: We have yet to see the document published by independent consultant Impactt to see the full range of issues that caused the initial International Labour Organisation or ILO breach.
- **The share price has reflected the lifting of the WRO – to a certain extent.** We believe SDPL's share price has, to a certain extent, already reflected this soon-to-be lifting of the WRO, given that the share price has moved up by 16% to current levels from its lows in Oct 2022.
- **We make no changes to our earnings forecasts,** as we believe the WRO's impact on SDPL's earnings have been relatively immaterial. We understand that it had previously channelled some of its sales to the US from its Papua New Guinea and Indonesian operations instead of from Malaysia – to ensure that revenue was not materially affected. Additionally, we understand that US customers did not break off relationships with SDPL, choosing instead gave it time to resolve its labour issues. Note: The WRO was only in regards to its local operations.
- **Maintain NEUTRAL with higher TP of MYR4.80.** We lift our ESG score to 2.8 from 2.6 after lifting our score on the "Social" pillar to 2.3 from 1.7. With this, our TP is lifted to a higher mark.

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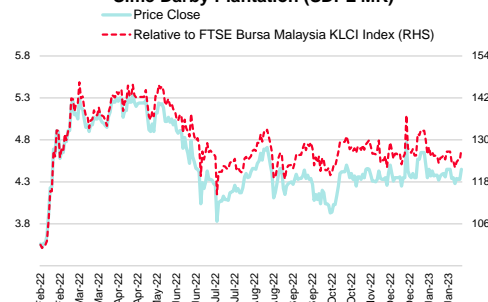
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.3)	(4.3)	1.8	2.3	26.1
Relative	(3.9)	(3.9)	(0.8)	2.7	27.6
52-wk Price low/high (MYR)				3.52 – 5.34	

Sime Darby Plantation (SDPL MK)



Source: Bloomberg

### Overall ESG Score: 2.78 (out of 4)

#### E: GOOD

SDPL has reported a reduction in GHG emissions intensity since 2016 and has set a target to reduce tCO<sub>2</sub>-e/mt CPO produced by 40% by 2030 against a 2009 baseline.

#### S: GOOD

Labour concerns, which have been highlighted recently, are currently being investigated by the US CBP. Nevertheless, 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

55% 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.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	13,081	18,695	20,079	19,704	19,283
Recurring net profit (MYRm)	909	2,143	2,261	1,844	1,781
Recurring net profit growth (%)	573.9	135.9	5.5	(18.4)	(3.4)
Recurring P/E (x)	33.71	14.36	13.61	16.69	17.28
P/B (x)	2.2	2.0	1.9	1.8	1.8
P/CF (x)	12.64	8.95	8.95	9.35	9.47
Dividend Yield (%)	2.6	4.6	4.7	3.8	3.4
EV/EBITDA (x)	13.39	7.58	7.72	8.56	8.59
Return on average equity (%)	10.0	14.9	15.3	12.1	11.2
Net debt to equity (%)	45.4	36.2	29.5	22.9	16.2

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	0.13	0.31	0.33	0.27	0.26
Agriculture	DPS	0.12	0.20	0.21	0.17	0.15
<b>Sime Darby Plantation</b>	BVPS	1.98	2.20	2.31	2.41	2.52
SDPL MK	Return on average equity (%)	10.0	14.9	15.3	12.1	11.2
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	33.71	14.36	13.61	16.69	17.28
SOP, applying 20x 2023F P/E to its plantation earnings and 12x P/E for its downstream division	P/B (x)	2.2	2.0	1.9	1.8	1.8
	FCF Yield (%)	3.6	6.6	7.3	6.8	6.7
	Dividend Yield (%)	2.6	4.6	4.7	3.8	3.4
<b>Key drivers</b>	EV/EBITDA (x)	13.39	7.58	7.72	8.56	8.59
i. CPO price movement;	EV/EBIT (x)	23.87	10.44	10.71	12.59	12.76
ii. FFB production output;						
iii. Competitiveness of its downstream processing division vs peers.						
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	13,081	18,695	20,079	19,704	19,283
i. CPO price movement;	Gross profit	6,410	9,161	9,839	9,655	9,449
ii. Weather risks;	EBITDA	2,789	4,856	4,682	4,124	4,005
iii. Demand and supply dynamics of the global vegetable oil industry.	Depreciation and amortisation	(1,225)	(1,329)	(1,307)	(1,318)	(1,309)
	Operating profit	1,564	3,528	3,375	2,806	2,696
	Net interest	(99)	(74)	(81)	(93)	(71)
	Pre-tax profit	1,990	3,489	3,329	2,748	2,660
	Taxation	(466)	(1,109)	(832)	(687)	(665)
	Reported net profit	1,347	2,143	2,385	1,969	1,905
	Recurring net profit	909	2,143	2,261	1,844	1,781
<b>Company Profile</b>						
Sime Darby Plantation is the largest listed plantations company on Bursa Malaysia, with more than 600,000ha of oil palm landbank						
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(261)	(855)	(240)	39	69
	Cash flow from operations	2,425	3,439	3,439	3,293	3,249
	Capex	(1,307)	(1,413)	(1,200)	(1,200)	(1,200)
	Cash flow from investing activities	(817)	(1,222)	(1,200)	(1,200)	(1,200)
	Dividends paid	(346)	(938)	0	0	0
	Cash flow from financing activities	(1,730)	(1,888)	(1,552)	(1,276)	(1,137)
	Cash at beginning of period	431	309	589	1,276	2,093
	Net change in cash	(123)	329	687	817	912
	Ending balance cash	309	589	1,276	2,093	3,005
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	309	589	1,276	2,093	3,005
	Tangible fixed assets	17,283	17,211	17,104	16,986	16,877
	Total investments	50	55	55	55	55
	Total assets	28,321	30,338	31,361	32,164	32,862
	Short-term debt	2,285	2,232	2,232	2,232	2,232
	Total long-term debt	4,397	4,019	3,919	3,819	3,719
	Total liabilities	14,282	14,710	14,813	14,855	14,720
	Total equity	14,038	15,628	16,548	17,309	18,142
	Total liabilities & equity	28,321	30,338	31,361	32,164	32,862
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	8.4	42.9	7.4	(1.9)	(2.1)
	Recurrent EPS growth (%)	573.9	134.8	5.5	(18.4)	(3.4)
	Gross margin (%)	49.0	49.0	49.0	49.0	49.0
	Operating EBITDA margin (%)	21.3	26.0	23.3	20.9	20.8
	Net profit margin (%)	10.3	11.5	11.9	10.0	9.9
	Dividend payout ratio (%)	59.0	65.4	60.9	59.7	54.4
	Capex/sales (%)	10.0	7.6	6.0	6.1	6.2
	Interest cover (x)	13.4	41.2	35.4	22.4	21.9

Source: Company data, RHB

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Figure 1: SDPL's forecast assumptions

FYE	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CPO Price (MYR/tonne)	2,532	3,711	5,100	3,900	3,500
FFB Production (m tonnes)	9.3	9.1	8.0	8.7	9.2
Downstream margin (%)	3.6	3.4	3.2	3.2	4.0

Source: RHB

Figure 2: SOP valuation

	Basis	Valuation (MYRm)
Plantations upstream	20x 2023F P/E	30,563
Plantations downstream	12x 2023F P/E	3,793
<b>TOTAL</b>		<b>34,356</b>
Number of issued shares (m)		6,916
<b>SOP/share (MYR)</b>		<b>4.97</b>
ESG premium/(discount)	(4%)	-0.20
<b>TP (MYR)</b>		<b>4.77</b>

Source: RHB

## Recommendation Chart

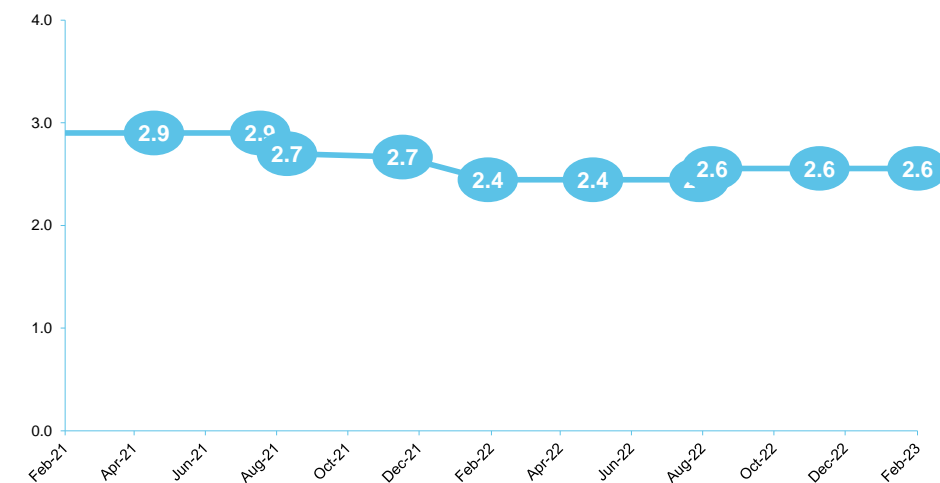


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-07-29	Neutral	3.90	3.63
2021-05-20	Neutral	4.85	4.45
2021-04-21	Neutral	4.80	4.43
2021-02-18	Neutral	4.90	4.95
2020-11-23	Neutral	4.80	5.17
2020-11-01	Neutral	4.50	4.84

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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