

03 September 2018 | 4QFY18 Results Review

## Sime Darby Plantation Berhad

*Earnings beat our expectation*

**Maintain NEUTRAL**

**Adjusted Target Price: RM5.25**  
(Previously RM5.15)

### INVESTMENT HIGHLIGHTS

- **FY18 core earnings beat ours but met consensus'**
- **4Q headline net profit of RM30m (down 99%yoy) is caused by RM157m write-off and RM131m impairments**
- **FY18 CNP improved 4%yoy to RM1.29b**
- **FY19 CNP estimate increased by 5% to RM1.03b**
- **Maintain NEUTRAL with higher TP of RM5.25**

#### **FY18 core net profit above our expectation but met consensus.**

Sime Darby Plantation Berhad Group (SIMEPLT) FY18 Core Net Profit (CNP) of RM1.29b is above our expectation as it makes up 119% of our earnings estimate. This is caused by lower than expected operating expenses which has declined 13%yoy in 4QFY18 to RM2.97b. However, it is within consensus estimate at 101% of full year estimate. For our FY18 CNP calculation, we have excluded RM900m gain on disposals, RM226m write-offs, forex loss of RM39m and impairments of RM194m. As expected, total dividend of 14.0 sen was announced (final dividend 8.0 sen, cash interim dividend 3.0 sen and final dividend 3.0 sen).

**4Q headline net profit of RM30m (down 99%yoy) is caused by RM157m write-off and RM131m impairments.** Excluding these one off items, SIMEPLT core net profit in 4QFY18 is only lower by 32%yoy to RM285m. The RM157m write-off is due to impairment of Verdezyne Inc's (a US-based company operating in industrial biotechnology field). We gather that SIMEPLT has ceased further investment in Verdezyne. For the RM131m impairment, it is related to impairment in Liberia assets.

**FY18 CNP improved 4%yoy to RM1.29b:** The healthy earnings growth is supported by 5% growth in FFB volume, better downstream performance and lower loss from Liberia operations. These have more than offset the impact from lower CPO price which slipped 11%yoy to RM2546 per tonne.

**FY19 CNP estimate increased by 5% to RM1.03b.** We have assumed lower operating expenses for FY19. We also introduce our FY20 CNP of RM1.05b.

**Maintain NEUTRAL with higher TP of RM5.25:** The increase in TP is in line with higher earnings estimate for FY19. Our Target Price is based on Sum-of-Parts based valuation. Maintain NEUTRAL on the stock as we believe that the strong fundamental of SIMEPLT has been priced in into its current Forward PE valuation of 35x for FY19.

#### RETURN STATS

Price (30 Aug 2018)	RM5.36
Target Price	RM5.25
Expected Share Price Return	-2.1%
Expected Dividend Yield	+1.8%
<b>Expected Total Return</b>	<b>-0.3%</b>

#### STOCK INFO

FBMKLCI	1819.66
Bursa / Bloomberg	5285 / SDPL MK
Board / Sector	Main / Plantation
Syariah Compliant	Yes
Issued shares (mil)	6800.84
Market cap. (RM'm)	36,452.50
Price over NTA	2.67
52-wk price Range	RM4.58 - RM6
Beta (against KLCI)	NA
3-mth Avg Daily Vol	3.67m
3-mth Avg Daily Value	RM19.6m

#### Major Shareholders

Skim Amanah Saham Bumiputera	42.10%
EPF	14.00%
Yayasan Pelaburan Bumiputra	5.01%

## INVESTMENT STATISTICS


FYE Jun (RM m)	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	10,304	11,946	14,779	14,369	16,908	18,215
EBIT	1,571	1,268	4,538	2,536	1,764	1,759
PBT	1,316	839	4,031	2,377	1,416	1,422
Net Income	997	967	3,507	1,727	1,031	1,036
Core Net Income	697	963	944	1,286	1,031	1,036
EPS (sen)	14.66	14.22	51.57	25.39	15.16	15.23
Core EPS (sen)	10.24	14.15	13.89	18.91	15.16	15.23
Net DPS (sen)	NA	NA	NA	17.50	9.85	9.90
Net Dvd Yield	NA	NA	NA	3.3%	1.8%	1.8%
Core PER	52.3	37.9	38.6	28.3	35.4	35.2
NTA/share (RM)	0.92	0.99	1.38	1.60	1.62	1.67
P/NTA	5.85	5.40	3.87	3.36	3.31	3.21
ROE (%)	11.2%	10.1%	28.2%	12.6%	7.3%	7.2%
ROA (%)	3.6%	3.4%	11.9%	6.3%	3.2%	3.1%

Source: Company, MIDF Research Forecast

**More details were shared on its Papua New Guinea plantation land expansion.** SIMEPLT explained that the Enterprise Value (EV) per planted ha for the 4,018 ha of planted landbank is USD9084 (or RM37,234). The Company also shared that the age profile is 18 months for the planted area. In our view, the valuation is on the high side due to its young age profile. Note that MFCL owns in total 6,110 ha of agriculture land (4,018 ha planted) in Markham Valley, Papua New Guinea. In addition to the land, MFCL owns two copra mills (valued with EV of USD27.1m) with total copra throughput capacity of 55,000 tonnes per annum. The valuation for the copra mills is at EV/EBITDA of 3.6x.

## Details of MFCL deal:

### The acquisition of 100% Equity Interest in Markham Farming Company Limited (MFCL)



KEY VALUATION METRICS

Total Enterprise Value (EV) = USD63.6mn (RM260.7mn)

### OIL PALM

EV = USD36.5mn (RM149.6mn)

Land in Use	Area (ha)	EV/ha	
		in USD	in RM
Total Planted Area (1)	4,018	9,084	37,234
Remaining Plantable Area (2)	1,695	-	-
<b>Total Plantable Area (1)+(2)</b>	<b>5,713</b>	<b>6,389</b>	<b>26,188</b>
Non-Plantable Area (3)	397	-	-
<b>Total Land Bank (1)+(2)+(3)</b>	<b>6,110</b>	<b>5,974</b>	<b>24,487</b>

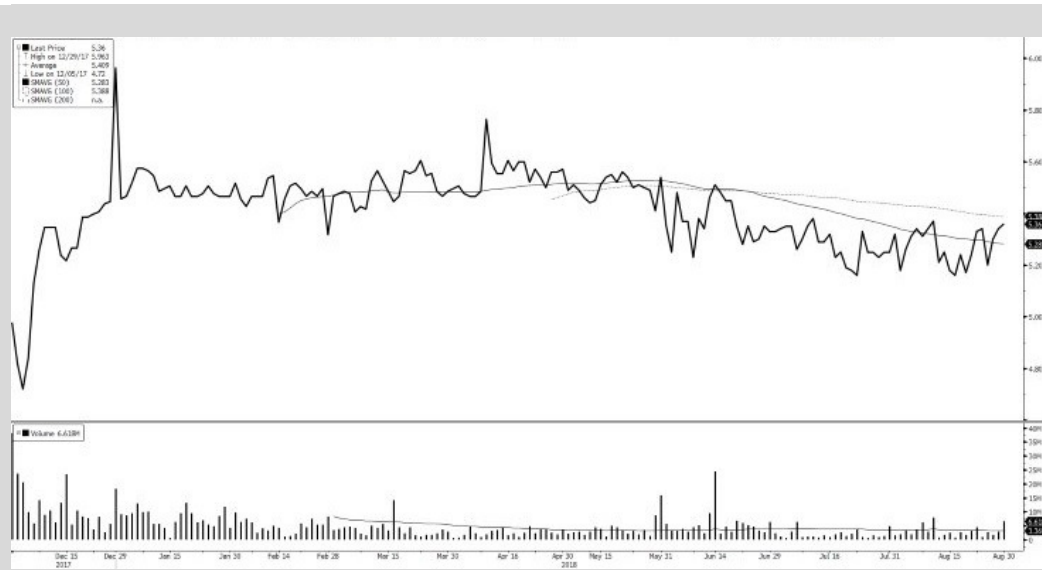
### COPRA

EV = USD27.1mn (RM111.1mn)

	Madang Copra Mill	Buka Copra Mill
Year Commissioned	2012	2013
Processing Capacity	20,000 MT	35,000 MT
EV/EBITDA <small>(based on Jan-Dec 2017)</small>	3.6x	

Source: Company

## DAILY PRICE CHART



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Source: Company

## SIMEPLT: 4QFY18 RESULTS SUMMARY

FYE Jun (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY18	%YoY	%QoQ	12MFY18	%YoY	
Revenue	3084	-16%	-16%	14369	-3%	
EBIT	189	0%	-53%	2536	-43%	
Net Income	30	-99%	-88%	1727	-51%	
Core Net Income	285	-32%	8%	1286	4%	We have excluded RM900m gain on disposals, RM226m writeoffs, forex loss of RM39m and impairments of RM194m.
EPS (sen)	0.4	-99%	-88%	25.4	-51%	Above our expectations as it makes up 119% of our full year earnings estimate. This is caused by lower than expected operating expenses which has declined 13% yoy in 4QFY18 to RM2.97b. However, it is within consensus estimate at 101% of full year estimate.
Core EPS (sen)	4.2	-32%	8%	18.9	4%	Core earnings improved 4% yoy to RM1.29b due to better downstream performance and lower loss from Liberia operations.
Net DPS (sen)	14.0	NA	NA	17.5	NA	
CPO Price (RM/MT)	2379	-15%	-3%	2546	-11%	
FFB Volume ('k MT)	2437	-1%	4%	10233	5%	
EBIT Margin	6.1%	NA	NA	17.6%	NA	

Source: Company

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.