

Sarawak Plantation Berhad

(5135 | SPLB MK) Main | Plantation

FFB Production to Remain Stable

KEY INVESTMENT HIGHLIGHTS

- **Production to remain stable for the whole year**
- **Management remains committed with mechanization program in harvesting activities**
- **Earnings estimates maintain**
- **Maintain NEUTRAL with a TP of RM2.20**

Meeting with Sarawak Plantation. We met Sarawak Plantation management recently during our Sarawak's visit and reaffirmed on the stable prospect for its operation divisions in the near-term. Key takeaways from the meeting as below:

FFB Production to remain stable. Operational wise, due to replanting program in northern area, as well low manuring activities carried in the past 2 years, harvestable area hectarage and FFB production dropped by -4%yoy and -12%yoy respectively, resulting the FFB yield to be around 3.64Mt/Wha in the 2QFY23. Nonetheless, its external purchased remains stable at nearly 80,000 Mt pushing the FFB processing to stay above 134,000 Mt, as a result OER level remained decent at 20.48% (+3.0%yoy) during the quarter.

The management anticipate FFB production catch-up in the remaining months and surge by +2%yoy to 336,000 for the whole year (inline w our estimates), following resolved in foreign labour issues aided by better weather conditions during the 3 quarter until October (November-December normally wet seasons in eastern areas). The cost of production on the other hand, has now cooled off to approximately RM2,900-RM3,200/Mt versus in early of the year attributable to a combination of declined in fertilizer price and higher CPO production volume.

Mechanization through R&D initiatives to boost FFB production over the next 5 years. Note that Sarawak Plant's is a small-mid cap company with a relatively small planted area versus its peers at circa 34,236 Ha, while the company has started to embark R&D program in pre-pandemic with a government assistance grant of RM2.0m. Over FY21-FY23, the management had allocated RM9.0m (33% of average annual CAPEX) for this mechanization program and has received 5 harvesting and planting machines (out of 10 machines) for the field testing.

The company anticipate to upscale this machines usage in next 5 years to reduce labour dependency as well increase its harvesting efficiency from average 2.5Mt/daily to 3.5-4.0Mt/daily to achieve annual FFB output target baseline c.500-600Mt in mentioned period.

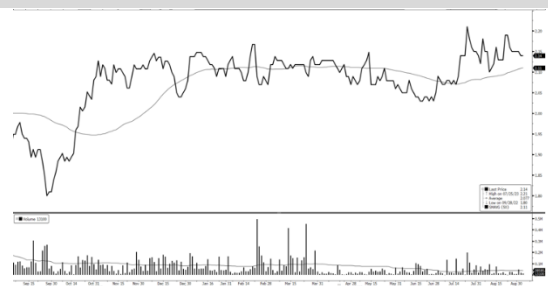
Maintain NEUTRAL

Unchanged Target Price: RM2.20

RETURN STATISTICS

Price @ 5 th Sep 2023 (RM)	2.14
Expected share price return (%)	+2.80
Expected dividend yield (%)	+5.61
Expected total return (%)	+8.41

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.8	-2.5
3 months	5.4	-3.6
12 months	2.4	4.7


INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	532.1	457.7	382.7
EBITDA	111.8	96.2	71.4
PBT	101.2	86.4	62.3
Core PATAMI	75.9	66.6	48.0
EPS (sen)	27.2	23.9	17.2
DPS (sen)	12.0	12.0	10.0
Dividend yield (%)	5.6%	5.6%	4.7%

KEY STATISTICS

FBM KLCI	1,454.83
Issue shares (m)	340.97
Estimated free float (%)	18.00
Market Capitalisation (RM'm)	597.0
52-wk price range	RM1.91 – RM2.32
3-mth average daily volume (m)	0.04
3-mth average daily value (RM'm)	0.07
Top Shareholders (%)	
Ta Ann Holdings Bhd	29.41
STATE FINANCIAL	25.52
Urusharta Jamaah Sdn Bhd	4.16

Earnings forecast. We are maintaining our forecast, as we expect decent performance in subsequent quarters and year on account of better FFB production output anticipated amidst sticky cost of production (average cost of production now for planters hinged on the high side for FY23 which circa RM2,800/Mt to RM3,200/Mt).

Maintain NEUTRAL. We maintain our **NEUTRAL** call with a TP of **RM2.20** based on PER of 8.1x which nearly 2y avg mean by pegging FY23F EPS of 27.2sen. Note that SPB is purely an upstream player, and the share price is highly connected with CPO movement c. 0.89 correlation. Hence our NEUTRAL call as we expect CPO price to be comparatively soft. However, any upward trajectory in CPO prices would provide trading opportunity in the stock, which is well supported by a dividend yield of 5.6% for FY23. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue*	790.5	710.9	532.1	457.7	382.7
EBITDA	188.9	160.8	111.8	96.2	71.4
PBT	168.4	134.2	101.2	86.4	62.3
PATAMI	127.8	96.7	75.9	66.6	48.0
Core PATAMI	127.8	96.7	75.9	66.6	48.0
EPS (sen)	45.8	34.7	27.2	23.9	17.3
PER (x)	4.7x	6.2x	7.9x	9.0x	12.4x
DPS (sen)	20.0	15.0	12.0	12.0	10.0
Dividend yield (%)	9.3%	7.0%	5.6%	5.6%	4.7%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	263.8	262.7	258.1	255.3	252.9
Bearer plants	330.6	330.2	330.2	330.2	330.2
Right-of-use assets	95.1	95.2	95.2	95.2	95.2
Non-current assets	695.0	693.3	688.7	685.9	683.5
Biological assets	64.0	56.8	56.8	56.8	56.8
Inventories	19.5	18.2	13.6	11.7	10.1
Trade and other receivables	13.7	13.5	9.2	8.0	6.6
Current assets	279.6	257.4	279.5	308.7	325.3
Total Assets	974.7	950.7	968.3	994.5	1,008.9
Trade and other payables	69.4	64.9	48.5	41.7	35.9
Loans and Borrowings	64.8	10.3	10.3	10.3	10.3
Current liabilities	179.9	118.0	101.5	94.7	89.0
Deferred tax liabilities	126.0	123.0	123.0	123.0	123.0
Loans and Borrowings	1.9	1.3	1.3	1.3	1.3
Non-current liabilities	130.2	126.8	126.8	126.8	126.8
Equity	664.6	706.0	740.0	773.0	793.1
Total Liabilities & equity	974.7	950.7	968.3	994.5	1,008.9

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	168.4	134.2	101.2	86.4	62.3
Cash flow from operations	173.36	132.35	82.30	76.86	58.90
Cash flow from investing	(75.76)	(6.84)	(9.55)	(11.06)	(11.41)
Cash flow from financing	(66.02)	(113.14)	(41.85)	(33.48)	(27.90)
Net cash flow	31.6	12.4	30.9	32.3	19.6
Net cash/(debt) b/f	82.0	113.6	126.0	156.9	189.2
Net cash/(debt) c/f	113.6	125.985	156.9	189.2	208.8

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	23.9%	22.6%	21.0%	21.0%	18.7%
EBIT margin	18.7%	16.7%	18.4%	18%	15%
PBT margin	21.3%	18.9%	19.0%	18.9%	16.3%
Core PATMI margin	16.2%	13.6%	14.3%	15%	13%

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

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	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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology