



Sarawak Oil Palms Berhad

“Challenging Times Ahead for Plantation Sector”

Bloomberg: SOP MK | Reuters: SOPS.KL | Stock Code: 5126

Valuation / Recommendation

1H22 PATMI of RM349.5m blew past our expectations reaching approximately 96.1% of our previous full year FY22 PATMI estimate. Despite the stronger than expected PATMI, we are reducing our price target for SOP to RM2.79 from RM3.89 previously (adjusted to reflect the bonus issue of 1 bonus share for every 2 existing ordinary shares which was completed on 19 July 2022) and downgrading the stock to a HOLD due to the challenging outlook for the plantation sector in terms of the recent decline in CPO prices and our expectations that ongoing labour issues will result in persistently high costs and suboptimal productivity. Our target price is based on a PE of 17x our FY23 EPS forecast.

Investment Highlights

2Q22 revenue surged 47.5% yoy to RM1.4 bn (2Q21: RM949.0m). The increase in revenue was driven by higher average realised prices of palm products sold. Average realized prices for palm oil products and palm kernel products stood at RM6,469 per MT and RM3,992 per MT respectively in 2Q22 compared to RM4,414 per MT and RM3,106 per MT respectively in 2Q21.

2Q22 PATMI leaped 57.1% yoy to RM154.5m (2Q21: RM98.3m). The increase in PATMI came on the back of higher revenue and in spite of lower gross profit margin of 15.3% in 2Q22 (2Q21: 19.8%).

Revising FY22 PATMI expectations upwards. Due to the strong results in 1H22, we are now forecasting PATMI of RM392.0m (previous: RM363.8m).

Outlook. We opine that the period of supernormal profits for palm oil plantation companies are coming to an end. We expect CPO prices to stay around current levels or potentially trend lower due to elevated palm oil product inventory in Indonesia and higher CPO inventory in Malaysia compared to the previous year. The decline in crude oil prices (which has a positive correlation with CPO prices) from its highs this year is another factor that we think will put a cap on the upside for CPO prices.

Risk factors. CPO prices could fall to depressed levels in the long-term in the event of overplanting in response to this period of strong prices. Labour issues as well as the potential for further cost inflation could erode margins.

Share Information	Top 3 Shareholders (%)		
Market Cap (RM bn)	2.45	Shin Yang Plantation Sdn Bhd	27.4
Issued Shares (m)	883.5	LCDA Holdings	19.5
52W High (RM)	4.81	DBS Group Holdings Ltd	11.1
52W Low (RM)	2.23		
Estimated Free Float (%)	32.6		
Adjusted Beta vs FBMKLCI	1.3		
65-Day Average Vol. ('000)	972		

Sources: Mercury Securities, Bloomberg, Wall Street Journal

**MAIN MARKET
PLANTATION**

HOLD
TP: RM2.79
Price: RM2.75

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RESULTS (RM m) FY Dec 31	2Q22	1Q22	qoq %	2Q21	yoy %
Revenue	1399.5	1434.6	(2.4)	949.0	47.5
EBITDA	254.7	313.6	(18.8)	188.1	35.5
Depn & Amortization	(43.9)	(41.2)	-	(38.0)	-
EBIT	210.8	272.4	(22.6)	150.1	40.5
Net Finance Costs	(1.6)	(2.7)	-	(3.1)	-
Profit Before Tax	209.3	268.6	(22.1)	146.6	42.8
Tax	(46.2)	(62.9)	-	(38.7)	-
Profit After Tax	163.2	205.7	(20.7)	107.9	51.2
Minority Interests	8.7	10.7	-	9.6	-
PATMI	154.5	195.0	(20.8)	98.3	57.1
EPS (sen)*	17.5	22.7	(23.1)	11.3	54.4

*EPS adjusted to reflect completed bonus issue

Business Overview

Sarawak Oil Palms Berhad is involved primarily in the cultivation of oil palms and the operation of palm oil mills. The Group has 87,205 Ha planted with oil palm, seven palm oil mills, a refinery and fractionation plant, a kernel crushing plant, a biodiesel plant, and a phytonutrient plant in Sarawak. Production of FFB stood at 1.2 million MT in FY21. SOPB also has a property development segment.

Stock Return Information

FBMKLCI (pts)	1,501.57
Expected Share Return (%)	1.5
Expected Dividend Yield (%)	3.6
Expected Total Return (%)	5.1

Price Performance

	1M	3M	12M
Absolute (%)	(0.4)	(27.4)	13.2
Relative to FBMKLCI (%)	(1.0)	(24.5)	18.7

Sources: Mercury Securities, Company

INVESTMENT STATISTICS FY Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM m)	2,971.9	2,778.6	4,433.0	4,743.6	3,145.3
EBITDA (RM m)	313.2	487.7	907.5	798.1	389.8
PATMI (RM m)	89.5	204.1	511.2	392.0	145.1
EPS (sen) ¹	10.4	23.8	59.6	44.4	16.4
EPS Growth (%)	43.1	128.1	150.2	(25.6)	(63.0)
PE (x) ²	25.7	11.1	4.6	6.2	16.8
Dividend Yield (%) ²	1.3	1.5	2.4	2.9	3.6
Net Gearing /(net cash) (%) ^{3,4}	18.4	6.8	(0.5)	(9.8)	(19.0)
ROA (%)	2.1	4.8	11.0	7.8	2.9
ROE (%)	4.1	8.6	18.2	12.6	4.6
NA per share (RM)	2.6	2.8	3.3	3.5	3.6

Sources: Mercury Securities, Company

¹FY19-FY21 EPS adjusted to take into account the completed bonus issue

²PE and dividend yield for FY19-20 are based on the closing share price on the last trading day of 2019 and 2020

³Net cash includes other investments and cash & cash equivalents

⁴Net gearing is calculated as: (total debt - cash and bank balances - other investments)/shareholder's equity

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