

Sarawak Oil Palms (SOP MK)

In a solid balance sheet position

Undervalued. BUY!

While SOP has revised down its FFB output guidance for FY21E, it is still anticipating better HoH output in 2H21. And SOP will likely continue to enjoy the high CPO ASP thus far in 2H21 given its minimal forward sales. We are keeping our earnings forecasts, and TP of MYR5.80 on unchanged 14x FY22E PER peg, its 5Y mean. It trades at just 8x FY21E PER and unadjusted EV/ha of MYR28,000 (near replacement cost). BUY.

Briefing takeaways

We hosted a briefing for SOP last week. Key takeaways: (1) SOP has minimal forward sales. It will continue to reap the benefits of high spot CPO prices presently; (2) FY21E's FFB output target is now revised down to 1.25m-1.30mt (MKE: 1.32mt) from 1.40mt due to shortage of harvesters. This revised forecast translates to 1H:2H output ratio of 47-49:51-53; (3) Overall, SOP is experiencing a 30-35% shortage in workers; (4) It has decided to stop its replanting plan for 2021 (2020: 419 ha) to capture the high CPO ASP; (5) SOP expects to be in a net cash position by year end (June-21: 6% net gearing); (6) With improving balance sheet and limited capex planned (FY21E: MYR100m-150m), it will likely establish a dividend policy soon to reward shareholders; (7) Downstream margins will be more challenging in 2H21 compared to 1H21.

Major shareholder has further raised its stake to 46%

SOP's major shareholder, the Shin Yang Group, has further raised its stake to 46.4% in Apr 2021 (May 2020: 45.3%; Mar 2019: 43.3%) whereas the State Government of Sarawak has maintained its 2nd spot at 28%.

SOP is clearly undervalued

Although we doubt there is any impending plan to privatise SOP, the gradual accumulation of stocks by the major shareholder is a testament of SOP's undervaluation. We believe the formulation of a generous dividend policy will help to re-rate SOP's equity value over time. The market is currently attaching zero value for the property development potential of its 4,858ha Taniku Estate, located at the fringe of Miri city.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,916	2,759	3,164	2,925	2,959
EBITDA	308	489	568	504	531
Core net profit	82	197	273	237	259
Core EPS (sen)	14.4	34.5	47.8	41.5	45.4
Core EPS growth (%)	21.1	139.3	38.5	(13.3)	9.4
Net DPS (sen)	5.0	6.0	14.3	12.4	13.6
Core P/E (x)	28.4	11.6	7.7	8.9	8.1
P/BV (x)	1.1	1.0	0.8	0.8	0.7
Net dividend yield (%)	1.2	1.5	3.9	3.4	3.7
ROAE (%)	4.1	8.8	11.0	8.9	9.2
ROAA (%)	2.0	4.7	6.2	5.2	5.4
EV/EBITDA (x)	9.3	5.3	3.9	4.0	3.4
Net gearing (%) (incl perps)	17.6	6.6	net cash	net cash	net cash
Consensus net profit	-	-	298	255	246
MKE vs. Consensus (%)	-	-	(8.2)	(7.2)	5.3

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BUY

Share Price	MYR 3.68
12m Price Target	MYR 5.80 (+62%)
Previous Price Target	MYR 5.80

Company Description

Sarawak Oil Palms is a Sarawak-based integrated palm oil producer with refinery and biodiesel plants in Malaysia.

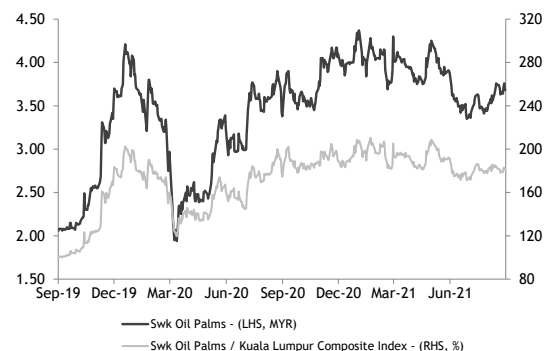
Statistics

52w high/low (MYR)	4.37/3.35
3m avg turnover (USDm)	0.1
Free float (%)	31.0
Issued shares (m)	570
Market capitalisation	MYR2.1B USD507M

Major shareholders:

Shin Yang Group of Cos.	46.4%
State of Sarawak	28.2%

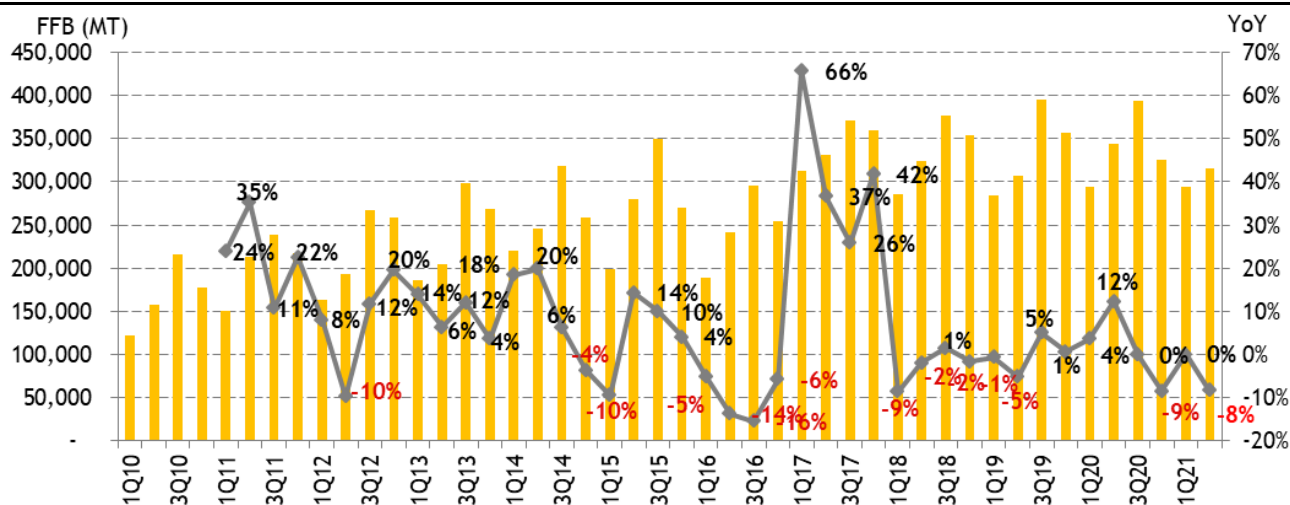
Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(6)	8
Relative to index (%)	1	(5)	2

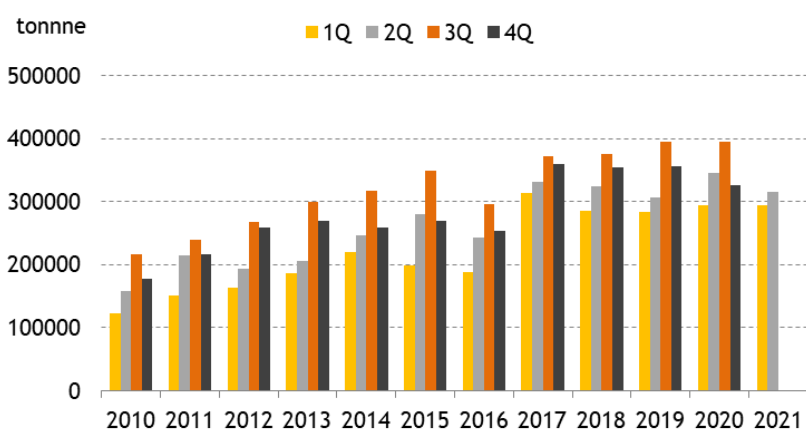
Source: FactSet

Fig 1: SOP's quarterly FFB output & YoY growth



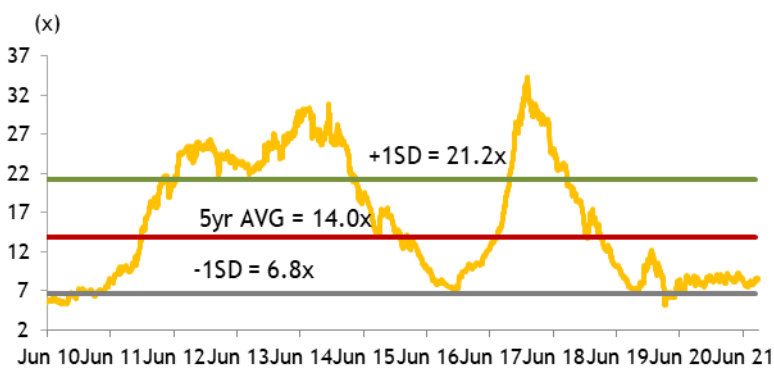
Source: Company

Fig 2: SOP's historical quarterly output trend



Source: Company

Fig 3: SOP's 12M forward PER



Sources: Bloomberg, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Sarawak Oil Palms (SOP). Key risks to the palm oil sector and SOP are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Malaysian and Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	15.9	9.5	7.7	8.9	8.1
Core P/E (x)	28.4	11.6	7.7	8.9	8.1
P/BV (x)	1.1	1.0	0.8	0.8	0.7
P/NTA (x)	1.1	1.0	0.8	0.8	0.7
Net dividend yield (%)	1.2	1.5	3.9	3.4	3.7
FCF yield (%)	13.9	13.3	13.2	14.1	13.9
EV/EBITDA (x)	9.3	5.3	3.9	4.0	3.4
EV/EBIT (x)	18.1	7.7	5.3	5.6	4.7
INCOME STATEMENT (MYR m)					
Revenue	2,915.5	2,759.4	3,164.5	2,925.0	2,958.9
EBITDA	308.3	488.9	567.7	504.3	531.4
Depreciation	(149.9)	(153.7)	(147.7)	(148.6)	(149.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	158.4	335.2	420.1	355.7	381.7
Net interest income / (exp)	(30.9)	(20.9)	(15.8)	(13.1)	(9.7)
Associates & JV	(0.4)	(14.0)	(2.0)	0.0	2.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	127.2	300.3	402.2	342.5	374.0
Income tax	(35.1)	(82.0)	(105.5)	(89.4)	(97.1)
Minorities	(2.3)	(16.1)	(23.7)	(16.5)	(18.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	89.8	202.2	273.0	236.7	258.9
Core net profit	82.4	197.1	273.0	236.7	258.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	830.2	947.1	1,139.8	1,361.0	1,571.7
Accounts receivable	206.3	214.7	246.2	227.5	230.2
Inventory	253.7	276.8	321.4	299.2	299.5
Property, Plant & Equip (net)	2,617.2	2,569.8	2,542.1	2,523.5	2,503.8
Intangible assets	168.3	168.3	168.3	168.3	168.3
Investment in Associates & JVs	39.9	23.3	21.3	21.3	23.3
Other assets	65.0	57.9	57.9	57.9	57.9
Total assets	4,180.6	4,257.8	4,497.0	4,658.7	4,854.7
ST interest bearing debt	435.6	392.3	392.3	392.3	392.3
Accounts payable	216.0	210.3	244.2	227.3	227.5
LT interest bearing debt	803.0	719.5	719.5	719.5	719.5
Other liabilities	410.0	435.0	435.0	435.0	435.0
Total Liabilities	1,865.0	1,756.8	1,790.7	1,773.8	1,774.0
Shareholders Equity	2,203.7	2,376.7	2,567.8	2,733.4	2,914.7
Minority Interest	111.9	124.3	138.5	151.4	165.9
Total shareholder equity	2,315.6	2,501.0	2,706.3	2,884.9	3,080.6
Total liabilities and equity	4,180.6	4,257.8	4,497.0	4,658.7	4,854.7
CASH FLOW (MYR m)					
Pretax profit	127.2	300.3	402.2	342.5	374.0
Depreciation & amortisation	149.9	153.7	147.7	148.6	149.6
Adj net interest (income)/exp	30.9	20.9	40.0	42.2	44.5
Change in working capital	118.0	(35.4)	(66.4)	(5.1)	(37.5)
Cash taxes paid	3.3	(60.6)	(105.5)	(89.4)	(97.1)
Other operating cash flow	52.0	37.5	0.0	0.0	0.0
Cash flow from operations	450.7	409.5	398.1	425.7	421.8
Capex	(125.8)	(105.1)	(120.0)	(130.0)	(130.0)
Free cash flow	324.9	304.4	278.1	295.7	291.8
Dividends paid	(28.5)	(28.5)	(81.9)	(71.0)	(77.7)
Equity raised / (purchased)	(0.5)	0.0	0.0	0.0	0.0
Change in Debt	(35.4)	(129.6)	0.0	0.0	0.0
Other invest/financing cash flow	(4.7)	(3.5)	(3.5)	(3.5)	(3.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	255.8	142.8	192.7	221.2	210.6

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.1)	(5.4)	14.7	(7.6)	1.2
EBITDA growth	4.7	58.5	16.1	(11.2)	5.4
EBIT growth	5.8	111.6	25.3	(15.3)	7.3
Pretax growth	16.7	136.2	33.9	(14.8)	9.2
Reported net profit growth	43.7	125.1	35.0	(13.3)	9.4
Core net profit growth	21.1	139.3	38.5	(13.3)	9.4
Profitability ratios (%)					
EBITDA margin	10.6	17.7	17.9	17.2	18.0
EBIT margin	5.4	12.1	13.3	12.2	12.9
Pretax profit margin	4.4	10.9	12.7	11.7	12.6
Payout ratio	31.8	16.9	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	3.1	7.3	8.6	8.1	8.8
Revenue/Assets (x)	0.7	0.6	0.7	0.6	0.6
Assets/Equity (x)	1.9	1.8	1.8	1.7	1.7
ROAE (%)	4.1	8.8	11.0	8.9	9.2
ROAA (%)	2.0	4.7	6.2	5.2	5.4
Liquidity & Efficiency					
Cash conversion cycle	39.2	36.4	36.7	40.9	39.2
Days receivable outstanding	29.6	27.5	26.2	29.2	27.8
Days inventory outstanding	42.3	45.6	43.8	49.0	47.2
Days payables outstanding	32.7	36.7	33.2	37.2	35.9
Dividend cover (x)	3.1	5.9	3.3	3.3	3.3
Current ratio (x)	1.9	2.2	2.5	2.8	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.4	2.5	2.6	2.7
Net gearing (%) (incl perps)	17.6	6.6	net cash	net cash	net cash
Net gearing (%) (excl. perps)	17.6	6.6	net cash	net cash	net cash
Net interest cover (x)	5.1	16.0	26.5	27.1	39.3
Debt/EBITDA (x)	4.0	2.3	2.0	2.2	2.1
Capex/revenue (%)	4.3	3.8	3.8	4.4	4.4
Net debt/ (net cash)	408.5	164.7	(28.0)	(249.2)	(459.9)

Source: Company; Maybank

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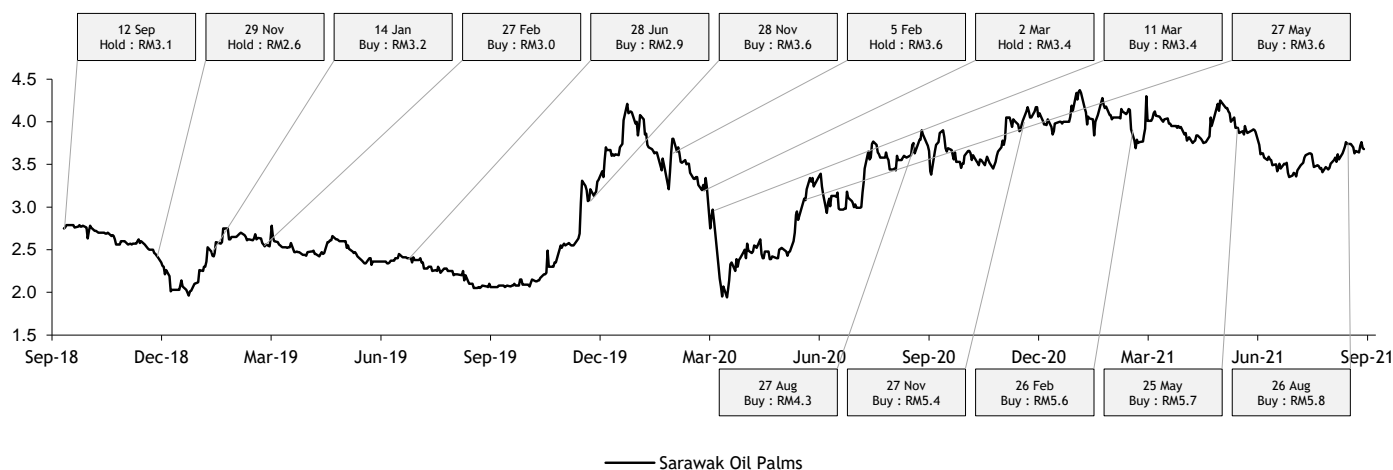
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Historical recommendations and target price: Sarawak Oil Palms (SOP MK)



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