

1Q FYE DEC 2017 RESULTS REPORT

30 May 2017

Name of PLC: Sarawak Oil Palms Berhad (SOPB)	Target Price:	RM 4.20
Business Summary: Cultivation of oil palms, operations of palm oil mills and downstream refinery		
Major Shareholders:		
Tan Sri Datuk Ling Chiong Ho and deemed interest		35.5%
Pelita Holdings Sdn Bhd & State Financial Secretary		28.1%
Exempt An for DBS Bank Ltd (as at 31-Mar-17)		9.4%
PLC Website : www.sop.com.my	Recommendation:	BUY
	Market Capitalisation:	RM 2,054.8m
	Current Price:	RM 3.60
	Market / Sector:	Plantation
	Stock Code:	5126
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Key Stock Statistics	2015	2016	2017F	2018F
EPS (sen)	19.0	23.2	26.3	27.8
P/E (x)	19.0	15.5	13.7	12.9
Net Dividend/Share (sen)	5.0	5.0	5.0	5.0
NTA/Share (RM)	3.00	2.99	3.20	3.43
Book Value/Share (RM)	3.01	3.29	3.50	3.73
Issued Capital (mil shares)	466.7	570.1	570.8	570.8
52-weeks Share Price Range (RM)			3.30 - 4.02	

Per Share Data	2015	2016	2017F	2018F
Year-end 31 Dec				
Book Value (RM)	3.01	3.29	3.50	3.73
Operating Cash Flow (sen) (19.5)	44.9	37.5	51.2	
EPS (sen)	19.0	23.2	26.3	27.8
Net Dividend/Share (sen)	5.0	5.0	5.0	5.0
Payout Ratio (%)	25.0	21.6	19.0	18.0
P/E (x)	19.0	15.5	13.7	12.9
P/Cash Flow (x)	(18.5)	8.0	9.6	7.0
P/Book Value (x)	1.2	1.1	1.0	1.0
Dividend Yield (%)	1.4	1.4	1.4	1.4
ROE (%)	6.5	8.1	7.7	7.7
Net Gearing (%)	47.3	25.0	42.0	31.3

P&L Analysis (RM mil)	2015	2016	2017F	2018F
Revenue	3,670.79	4,416.12	4,347.27	4,572.37
EBITDA	257.36	325.80	353.10	372.41
Depreciation & amort	(108.12)	(106.98)	(111.25)	(115.73)
Net interest income	(26.01)	(25.93)	(35.73)	(37.94)
Associate	0.53	3.08	5.00	5.00
Pre-tax Profit	123.76	195.96	211.12	223.74
Tax	(31.86)	(53.67)	(50.67)	(53.70)
Minority interest	(3.45)	(10.09)	(10.56)	(11.19)
Net Profit	88.45	132.20	149.90	158.86
EBITDA Margin (%)	7.0	7.4	8.1	8.1
Pre-tax Margin (%)	3.4	4.4	4.9	4.9
Net-Margin (%)	2.4	3.0	3.4	3.5

1. 1QFY17 Results Highlight

	1Q FY17 RMm	1Q FY16 RMm	Chg %
Revenue	1,117.37	1,035.71	7.9
Operating Profit	114.11	39.27	190.6
Finance cost	(9.34)	(8.94)	4.5
Associates	(0.58)	1.29	n.m.
Pre-tax Profit	104.19	31.63	229.4
Net Profit	68.54	25.03	173.8
Operating Margin (%)	10.2	3.8	
Pre-tax Margin (%)	9.3	3.1	
Net-Margin (%)	6.1	2.4	

- In 1QFY17, turnover improved by 7.9% to RM1.12b. PBT and net profit expanded substantially to RM104.19m and RM68.54m respectively.
- This was attributed mainly to higher FFB and CPO production volume as well as higher palm products price realised.
- In addition, profits were also boosted by fair value gain on derivative financial instruments.

- In 1QFY17, FFB and CPO production increased by 65.8% and 42.4% to 312,694 mt and 92,339 mt due to additional contribution from SOP Plantations (Murum) Sdn. Bhd. (SOPM) (formerly known as Shin Yang Oil Palm (Sarawak) Sdn Bhd) and a recovery in FFB production. The acquisition of SOPM was completed on 22-Dec-16.
- The substantially improved profitability in 1QFY17 was due to higher CPO price realised. In 1QFY17, its realised CPO price was at RM3,153/mt as compared with RM2,251/mt.
- In addition, SOPB also recorded a higher fair value gain on derivatives financial instruments amounting to RM45.89m (1QFY17) from RM16.70m (1QFY16).

2. Earnings Outlook

- Sarawak Oil Palms Berhad (SOPB) is a Miri-based mid-sized plantation company. Its principle business activity is the cultivation of oil palm and the operation of palm oil mills for the processing of palm oil and palm kernel. It ventured into downstream refinery operation in Jul-12.
- On 22-Dec-16, SOPB completed the acquisition of SOPM for RM873.0m via internal funds, borrowings and a rights issue. The rights issue of 2 rights at an issue price of RM2.80/share for every 7 shares had gone ex on 11-Nov-16.
- Longer-term, we are positive on the SOPB's earnings prospects. The acquisition of SOPM expanded its planted areas from 63,946 ha to 87,744 ha. With the enlarged group, SOPB has a much favourable crop profile with 63.5% of its planted areas in young palm categories, while 31.9% falls under prime oil palm category. FFB production is expected to increase due to immature areas coming into maturity and rising yield of young palm.
- However, its earnings per share will be temporarily impacted by dilution effect from the 29% increase in enlarged shares capital to 570m shares. Profits will also be affected by higher interest expense, higher production cost for rehabilitation programme.
- Currently, SOPM's reported a lower FFB yield of 14.69 mt/ha as compared with SOPB's 18.55 mt/ha (FY15). As more immature and young palms progresses into maturity and coupled with rehabilitation efforts, the overall FFB yield is expected to improve over the longer-term.
- Another 6,772 ha of SOPM's landbank has been identified to be suitable for the cultivation of oil palms, which provides a platform for future new planting.

3. Valuation and Recommendation

- Excluding the fair value gain, 1QFY17's net profit, on an annualized basis, is ahead our earnings forecast. However, we are maintaining our forecast. Since rallying to about RM3,200/mt towards end-16, CPO price has been trending downwards and is currently hovering around RM2,500/mt due to expected increase in FFB production.
- Longer-term, we like SOPB's long-term prospects, underpinned by a favourable age profile, improving production yield, ample landbank for future planting and long-term benefits arising from enlarged SOPB group.
- Based on our EPS forecast of 26.3 sen on an enlarged shares base of 570.79m shares, the stock is currently trading at a P/E of 13.7x for FY17. We have arrived at a target price of RM4.20 by ascribing discount P/E of 16x.

Share Price Chart



Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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