

2Q FYE DEC 2017 RESULTS REPORT

28 August 2017

Name of PLC: Sarawak Oil Palms Berhad (SOPB)	Target Price:	RM 4.80
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 2,049.1m
	Current Price:	RM 3.59
	Market / Sector:	Plantation
	Stock Code:	5126
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Key Stock Statistics	2015	2016	2017F	2018F
EPS (sen)	19.0	23.2	30.3	31.7
P/E (x)	18.9	15.5	11.8	11.3
Net Dividend/Share (sen)	5.0	5.0	5.0	5.0
NTA/Share (RM)	3.00	2.99	3.24	3.51
Book Value/Share (RM)	3.01	3.29	3.54	3.80
Issued Capital (mil shares)	466.7	570.1	570.8	570.8
52-weeks Share Price Range (RM)			3.38 - 4.02	

Per Share Data	2015	2016	2017F	2018F
Year-end 31 Dec				
Book Value (RM)	3.01	3.29	3.54	3.80
Operating Cash Flow (sen) (19.5)	44.9	36.6	68.0	
EPS (sen)	19.0	23.2	30.3	31.7
Net Dividend/Share (sen)	5.0	5.0	5.0	5.0
Payout Ratio (%)	25.0	21.6	16.5	15.8
P/E (x)	18.9	15.5	11.8	11.3
P/Cash Flow (x)	(18.5)	8.0	9.8	5.3
P/Book Value (x)	1.2	1.1	1.0	0.9
Dividend Yield (%)	1.4	1.4	1.4	1.4
ROE (%)	6.5	8.1	8.9	8.6
Net Gearing (%)	47.3	25.0	41.8	26.4

P&L Analysis (RM mil)	2015	2016	2017F	2018F
Revenue	3,670.79	4,416.12	4,647.27	4,872.37
EBITDA	257.36	325.80	410.60	420.18
Depreciation & amort	(108.12)	(106.98)	(135.90)	(133.60)
Net interest income	(26.01)	(25.93)	(35.81)	(37.00)
Associate	0.53	3.08	5.00	5.00
Pre-tax Profit	123.76	195.96	243.90	254.58
Tax	(31.86)	(53.67)	(58.54)	(61.10)
Minority interest	(3.45)	(10.09)	(12.19)	(12.73)
Net Profit	88.45	132.20	173.17	180.75
EBITDA Margin (%)	7.0	7.4	8.8	8.6
Pre-tax Margin (%)	3.4	4.4	5.2	5.2
Net-Margin (%)	2.4	3.0	3.7	3.7

1. 2QFY17 Results Highlight

	2Q FY17 RMm	2Q FY16 RMm	Chg %
Revenue	1,216.51	953.60	27.6
Operating Profit	107.60	53.49	101.2
Finance cost	(15.75)	(9.76)	61.3
Associates	0.01	0.90	n.m.
Pre-tax Profit	91.86	44.62	105.9
Net Profit	67.06	33.56	99.8
Operating Margin (%)	8.8	5.6	
Pre-tax Margin (%)	7.6	4.7	
Net-Margin (%)	5.5	3.5	

- In 2QFY17, turnover grew by 27.6% to RM1.1bn due to higher production volumes and CPO prices.
- Due to operating leverage of higher CPO prices, PBT and net profit doubled to RM91.86m and RM67.06m respectively in 2QFY17.
- In 2QFY17, FFB and CPO production expanded by 36.7% and 29.7% to 330,702 mt and 101,170 mt. This was due mainly 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.

- PBT in 2QFY17 more than doubled to RM91.86m from RM44.62m in 2QFY16. PBT margin also expanded strongly to 7.6% (2QFY17) from 4.7% (2QFY16). This was attributed to the more favourable average palm products realised price. As an indication, its CPO prices realised for 2QFY17 was 7.9% higher at RM2,814/mt.

1HFY17 Results Highlight

	1H FY17	1H FY16	Chg
	RMm	RMm	%
Revenue	2,333.88	1,989.31	17.3
Operating Profit	221.71	92.76	139.0
Finance cost	(25.08)	(18.70)	34.1
Associates	(0.57)	2.19	n.m.
Pre-tax Profit	196.05	76.25	157.1
Net Profit	135.60	58.59	131.4
Operating Margin (%)	9.5	4.7	
Pre-tax Margin (%)	8.4	3.8	
Net-Margin (%)	5.8	2.9	

- In 1HFY17, turnover grew by 17.3% to RM2.3bn. PBT and net profit jumped by >100% to RM196.05m and RM135.60m. This was attributed to higher production volumes and CPO prices realised in 1HFY17.
- Due to the extra contribution from SOPM, FFB and CPO production increased strongly by 49.4% and 35.4% to 643,396 mt and 193,509 mt each. As an indication, average CPO prices realised for 1HFY17 was RM2,900/mt as compared with RM2,400/mt in 1HFY16.
- 1HFY17's profits were also aided by derivative gain of RM26.89m as compared with RM9.28m in 1HFY16.

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.
- SOPB's short-term earnings performance is very much driven by the fluctuation in CPO prices. Since rallying to about RM3,200/mt towards end-16, CPO price has been trending downwards during the most of 1H16. In the recent months, it has been ranging between RM2,500-2,800/mt. Its current price of around RM2,700/mt is at the upper band of the recent trading range.
- Longer-term, SOPB's earnings prospects will be underpinned by its favourable crop profile as 63.5% of its planted areas are in young palm categories, while 31.9% falls under prime oil palm category. The acquisition of SOPM has expanded its planted areas from 63,946 ha to 87,744 ha. Its FFB and CPO production are 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, offset by improving FFB yield of SOPM's estates.
- 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

- 1HFY17's net profit, on an annualized basis, is ahead our earnings forecast. Although its 1HFY17 profits benefited from higher CPO prices and production volumes, its stronger-than-expected profit margins might also be helped by forward sales of production volumes. Consequently, we have increased our earnings forecast for FY17 and FY18 by around 15%.
- Longer-term, we like SPOB'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 upgraded EPS forecast of 30.3 sen on an enlarged shares base of 570.79m shares, the stock is currently trading at a P/E of 11.8x for FY17. We have upped out target price to RM4.80 from 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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