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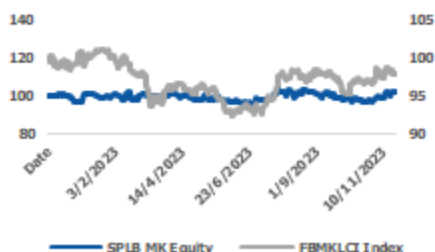
| | |
|-------------------------------|----------------|
| Recommendation: | HOLD |
| Current Price: | RM 2.14 |
| Previous Target Price: | RM 1.80 |
| Target Price: | RM 2.04 |
| Upside/Downside: | -4.7% |

Stock information

| | |
|--------------------------|----------------|
| Board | MAIN |
| Sector | Plantation |
| Bursa / Bloomberg Code | 5135 / SPLB MK |
| Syariah Compliant | Yes |
| FTSE4Good Index | No |
| FTSE ESG Rating | ☆☆☆☆★ |
| Bloomberg ESG Rating | #VALUE! |
| Shares issued (m) | 279.0 |
| Market Cap (RM' m) | 597.1 |
| 52-Week Price Range (RM) | 2.32-2.02 |
| Beta (x) | 1.1 |
| Free float (%) | 18.0 |
| 3M Average Volume (m) | 0.0 |
| 3M Average Value (RM' m) | 0.0 |

| | |
|---------------------------|------------|
| Top 3 Shareholders | (%) |
| Ta Ann Holdings Bhd | 29.4 |
| STATE FINANCIAL SECRETARY | 25.5 |
| YAYASAN SARAWAK | 4.2 |

Share Price Performance



| | 1M | 3M | 12M |
|--------------|-----------|-----------|------------|
| Absolute (%) | 3.4 | -0.5 | -5.7 |
| Relative (%) | 2.9 | -0.7 | -3.2 |

Sarawak Plantation Berhad

Exceed expectations

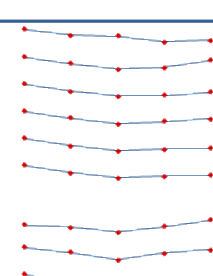
Summary

- **9MFY23 core net profit at RM48.4m exceeded our expectations, on the back of stronger-than-expected CPO and PK sales volume.**
- **Management has guided strong earnings for the remaining quarter as duration of peak crop season is anticipated to sustain until November.**
- **We revised recommendation to HOLD with a target price of RM2.04 by pegging PE multiple of 8.9x to FY24F EPS of RM0.23.**

Results Review

- **Results review.** 3QFY23 revenue and core net earnings stood at RM172.6m and RM27.3m respectively. Both figures experienced yoy growth, with revenue rising +6.7% and core net earnings by +36.5%. The positive trend was attributed to elevated sales volumes of CPO and PK, offsetting the effects of lower average selling prices for both commodities.
- **Within expectations.** 9MFY23 net profit of RM48.4m far exceeded our and consensus expectations, which accounted for 89% of our full year estimates and 82% of consensus estimates respectively. The variance was mainly due to stronger-than-expected sales volume of CPO and PK.
- **Operations Highlights.** Despite FFB production fell -3.3% yoy in 3QFY23, CPO and PK sales production were higher by 24.0% yoy and 29.6% yoy respectively, which transpires to improvement in OER as well as higher external purchases. During the quarter, the group achieved an impressive sales volume growth of +21.0% yoy and 23.4% yoy. On the other hand, average selling price of CPO and PK were down -10.2% yoy and -15.8% yoy respectively.
- **Industry Highlights.** In 3Q23, CPO price remained volatile, ranging from RM3,640/MT to a peak of RM3,805/MT. During the quarter, Malaysia palm oil inventories surged by +25.8% qoq to 6.17MT. This rise was attributed to increase in palm oil production (+25.2% qoq) outpacing the growth in palm oil exports (+13% qoq).
- **Outlook.** Management has guided strong earnings for the remaining quarter as duration of peak crop season is anticipated to sustain until November. Furthermore, optimism will stem from expectations that CPO prices have hit a bottom and expected to rebound over the near term.
- **Valuation.** Tweaked our earnings forecast for FY23F and FY24F by +5.6% and +5.0% higher respectively to account for the higher sales volume. We upgrade our recommendation to HOLD (previously SELL), with a target price of RM2.04 based on 8.9x PER FY24F at mean from its 3-year average forward PE.
- **Risk.** EU export ban and regulations, changing weather patterns affect FFB production, taxation and export ban in Indonesia threatens local CPO demand, shortage of labours and rising operational cost.

Figure 1: Results Comparison

| FYE Dec (RM m) | 3QFY23 | 3QFY22 | YoY (%) | 2QFY23 | QoQ (%) | 9MFY22 | 9MFY23 | YoY (%) | 5 Quarters Trend | Comments |
|-----------------------|--------|--------|---------|--------|---------|--------|--------|---------|---|--|
| Revenue | 172.6 | 161.8 | 6.7 | 127.4 | 35.6 | 552.8 | 411.5 | (25.6) |  | Strong sales volume in CPO and PK outpacing the decline in ASP |
| EBITDA | 45.7 | 34.9 | 30.8 | 42.6 | 7.3 | 153.1 | 113.6 | (25.8) | | |
| Pre-tax profit | 36.5 | 24.5 | 49.1 | 22.4 | 62.9 | 123.1 | 74.9 | (39.1) | | |
| Net profit | 27.2 | 18.2 | 49.8 | 16.8 | 62.6 | 92.1 | 56.1 | (39.1) | | |
| Core net profit | 27.3 | 20.0 | 36.5 | 11.9 | 128.9 | 86.5 | 48.4 | (44.0) | | |
| Core EPS (sen) | 9.8 | 7.2 | 36.5 | 4.3 | 128.9 | 31.0 | 17.3 | (44.0) | | |
| EBITDA margin (%) | 26.5 | 21.6 | | 33.4 | | 27.7 | 27.6 | | | |
| PBT margin (%) | 21.1 | 15.1 | | 17.6 | | 22.3 | 18.2 | | | |
| Core PATMI margin (%) | 15.8 | 12.4 | | 9.4 | | 15.6 | 11.8 | | | |

Source: Company, Apex Securities

Financial Highlights
Income Statement

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 465.7 | 790.5 | 710.9 | 547.7 | 595.1 |
| Gross Profit | 110.7 | 211.6 | 205.2 | 136.9 | 148.8 |
| EBITDA | 114.1 | 208.3 | 173.6 | 115.7 | 125.6 |
| Depreciation & Amortisation | 31.2 | 41.2 | 41.9 | 41.7 | 42.9 |
| EBIT | 82.9 | 167.1 | 131.7 | 74.0 | 82.7 |
| Net Finance Income/(Cost) | 0.2 | 1.3 | 2.5 | 2.4 | 2.5 |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 83.1 | 168.4 | 134.2 | 76.4 | 85.2 |
| Tax | 21.4 | 40.1 | 36.9 | 18.3 | 20.4 |
| Profit After Tax | 61.6 | 128.3 | 97.3 | 58.0 | 64.7 |
| Minority Interest | 0.2 | 0.5 | 0.6 | 0.6 | 0.6 |
| Net Profit | 61.4 | 127.8 | 96.7 | 57.4 | 64.1 |
| Exceptionals | -15.8 | -19.4 | -6.8 | 0.0 | 0.0 |
| Core Net Profit | 45.6 | 108.4 | 89.9 | 57.4 | 64.1 |

Key Ratios

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|----------------|-------|-------|--------|--------|--------|
| EBITDA margin | 24.5% | 26.3% | 24.4% | 21.1% | 21.1% |
| EBIT margin | 17.8% | 21.1% | 18.5% | 13.5% | 13.9% |
| PBT margin | 17.8% | 21.3% | 18.9% | 13.9% | 14.3% |
| PAT margin | 13.2% | 16.2% | 13.7% | 10.6% | 10.9% |
| NP margin | 13.2% | 16.2% | 13.6% | 10.5% | 10.8% |
| Core NP margin | 13.2% | 16.2% | 13.6% | 10.5% | 10.8% |
| ROE | 10.7% | 19.2% | 13.7% | 7.9% | 8.5% |
| ROA | 8.7% | 18.4% | 13.9% | 8.2% | 9.2% |
| Net gearing | 3.8% | -7.1% | -16.2% | -17.0% | -20.2% |

Key Assumptions

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|-------------------|----------|----------|----------|----------|----------|
| Production ('000) | 341065.0 | 319999.0 | 328450.0 | 371708.5 | 379142.6 |
| FFB Yield | 17.5 | 15.7 | 16.4 | 18.0 | 18.0 |
| OER | 19.5% | 19.7% | 19.8% | 22.0% | 21.0% |
| CPO (RM) | 2704 | 4388 | 4981 | 3400 | 3400 |

Valuations

| | FY24f |
|------------------------|-------------|
| Core EPS (RM) | 0.230 |
| P/E multiple (x) | 8.9 |
| Fair Value (RM) | 2.04 |

Balance Sheet

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 82.0 | 113.6 | 126.0 | 160.2 | 208.8 |
| Receivables | 8.7 | 13.7 | 13.5 | 10.4 | 11.3 |
| Inventories | 16.8 | 19.5 | 18.2 | 14.0 | 15.2 |
| Other current assets | 65.6 | 132.8 | 99.8 | 99.8 | 99.8 |
| Total Current Assets | 173.1 | 279.6 | 257.4 | 284.3 | 335.1 |
| Fixed Assets | 273.0 | 263.8 | 262.7 | 270.3 | 269.0 |
| Intangibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-current assets | 432.0 | 431.2 | 430.6 | 430.6 | 430.6 |
| Total Non-current assets | 704.9 | 695.0 | 693.3 | 700.9 | 699.6 |
| Short-term Debt | 57.6 | 64.8 | 10.3 | 34.9 | 55.8 |
| Payables | 51.2 | 69.4 | 64.9 | 53.0 | 57.4 |
| Other Current Liabilities | 21.4 | 45.6 | 42.8 | 42.8 | 42.8 |
| Total Current Liabilities | 130.2 | 179.9 | 118.0 | 130.7 | 155.9 |
| Long-term Debt | 46.1 | 1.9 | 1.3 | 1.3 | 1.3 |
| Other non-current liabilities | 126.5 | 128.3 | 125.4 | 125.4 | 125.4 |
| Total Non-current Liabilities | 172.7 | 130.2 | 126.8 | 126.8 | 126.8 |
| Shareholder's equity | 585.1 | 671.1 | 712.0 | 733.8 | 758.1 |
| Minority interest | -10.0 | -6.5 | -6.0 | -6.0 | -6.0 |
| Equity | 575.1 | 664.6 | 706.0 | 727.8 | 752.1 |

Cash Flow

| FYE Dec (RM m) | FY20 | FY21 | FY22 | FY23F | FY24F |
|-----------------------------|--------------|--------------|---------------|--------------|--------------|
| Pre-tax profit | 83.1 | 168.4 | 134.2 | 76.4 | 85.2 |
| Depreciation & amortisation | 31.2 | 41.2 | 41.9 | 41.7 | 42.9 |
| Changes in working capital | 2.8 | 10.4 | -2.9 | -4.7 | 2.2 |
| Others | -26.8 | -46.6 | -40.8 | -19.0 | -21.1 |
| Operating cash flow | 90.3 | 173.4 | 132.4 | 94.5 | 109.2 |
| Net capex | -29.3 | -30.2 | -33.1 | -49.3 | -41.7 |
| Others | -14.7 | -45.5 | 26.3 | 0.0 | 0.0 |
| Investing cash flow | -44.0 | -75.8 | -6.8 | -49.3 | -41.7 |
| Changes in borrowings | -19.0 | -40.0 | -57.2 | 24.6 | 20.8 |
| Issuance of shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 1.9 | -0.2 | 0.0 | 0.0 |
| Others | -14.0 | -27.9 | -55.8 | -35.7 | -39.8 |
| Financing cash flow | -32.9 | -66.0 | -113.2 | -11.0 | -19.0 |
| Net cash flow | 13.4 | 31.6 | 12.4 | 34.2 | 48.6 |
| Forex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Beginning cash | 68.7 | 82.0 | 113.6 | 126.0 | 160.2 |
| Ending cash | 82.0 | 113.6 | 126.0 | 160.2 | 208.8 |

Source: Company, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

| APEX SECURITIES BHD | DEALING TEAM | RESEARCH TEAM |
|--|--|---|
| <p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p> | <p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> | <p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069) Aiman Kamil (ext 2071)</p> |
| <p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> | <p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p> | |

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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