

**Steven Chong**

(603) 7890 8888 (ext 2068)

[stevenchong@apexsecurities.com.my](mailto:stevenchong@apexsecurities.com.my)

<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 26.38</b>
<b>Previous Target Price:</b>	<b>RM 23.57</b>
<b>Target Price:</b>	<b>↑ RM 25.83</b>
<b>Upside/Downside:</b>	<b>-2.1%</b>

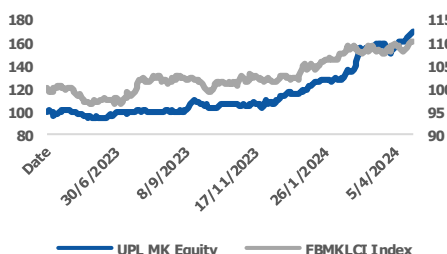
**Stock information**

Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	2089 / UPL MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	414.8
Market Cap (RM' m)	10,942.0
52-Week Price Range (RM)	26.48-14.48
Beta (x)	0.7
Free float (%)	34.1
3M Average Volume (m)	0.4
3M Average Value (RM' m)	8.9

**Top 3 Shareholders (%)**

Maximum Vista Sdn Bhd	43.7
Employees Provident Fund Board	6.3
Perbadanan Pembangunan Pertanian N	4.9

**Share Price Performance**



	1M	3M	12M
Absolute (%)	8.6	33.6	64.5
Relative (%)	6.4	28.3	48.2

## United Plantations Berhad

### Solid performance ahead

#### Summary

- **UP maintained its FFB yield targets at 28 mt/ha for Malaysian plantations and 25.5 mt/ha for Indonesia. Additionally, the Group plans to replant between 1,600 to 1,700 ha for FY24.**
- **Steadfast in leadership position, excelling not only in palm oil yield but also in quality. This advantage resulted in the Group to command superior selling prices against peers.**
- **We downgrade our recommendation to HOLD (previously BUY) with a TP of RM25.83 based on forward PE multiple of 16.0x and FY24F EPS of RM1.79 as recent share price appreciation has reflected their fundamentals.**

#### Results Review

- **No change in yield targets.** UP maintained its FFB yield targets at 28 mt/ha for its Malaysian plantations and 25.5 mt/ha for Indonesia. In addition, the Group plans to replant between 1,600 to 1,700 ha for FY24. In FY23, the refinery segment of UP attained an extraordinary profit margin, reaching a record high, despite facing challenges from elevated CPO prices, which usually erode profitability in the downstream business. We attribute the success primarily to UP's hedging strategy, which allows the Group to secure higher ASP. Nevertheless, we anticipate a decline in the refinery margin moving forward, as UP may continue to face hedging losses, should CPO prices remain elevated throughout the year.
- **UP competitive advantage still intact.** In addressing the competitive challenge presented by a peer's new high-yielding oil palm seed (GenomeSelect), management perceives it as being in its early stages. The assessment stems from the recognition that achieving high yields in a meticulously chosen small area differs significantly from replicating those outcomes across the entire planted region. UP remains steadfast in its leadership position, excelling not only in palm oil yield but also in quality. This advantage enables the Group to command superior selling prices against peers.
- **On sustainability matters.** In a bid to reduce herbicide usage in oil palm plantations, the Group introduced a distinctive approach aimed at controlling rat infestations by promoting biodiversity. This strategy involves employing barn owls, leopard cats, and cobra snakes as the first line of defense against these pest threat. Considering that rats make up a substantial portion of these predators' food sources, UP simultaneously increased their populations alongside the expansion of planted areas, all without incurring additional expenses for pesticides. Currently, UP's pesticide usage per tonne of oil produced is 5-8x lower compared to rapeseed and soybean farmers.
- **Valuation.** Following the appreciation in share price (+48.2% YTD), we downgrade our recommendation to **HOLD** (previously BUY) with a target price of **RM25.83** based on forward PE multiple of 16.0x and FY24F EPS of RM1.79.
- **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.

**Financial Highlights**
**Income Statement**

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Revenue</b>	<b>2033.5</b>	<b>2514.8</b>	<b>2014.2</b>	<b>2186.0</b>	<b>2253.2</b>
<b>Gross Profit</b>	<b>1337.7</b>	<b>1605.6</b>	<b>1433.7</b>	<b>1486.5</b>	<b>1509.6</b>
<b>EBITDA</b>	<b>777.2</b>	<b>939.9</b>	<b>1014.7</b>	<b>1065.2</b>	<b>1075.0</b>
Depreciation & Amortisation	100.5	102.7	107.0	106.2	112.0
<b>EBIT</b>	<b>676.7</b>	<b>837.2</b>	<b>907.7</b>	<b>959.0</b>	<b>963.0</b>
Net Finance Income/ (Cost)	6.8	9.3	25.8	24.0	24.8
Associates & JV	0.3	13.3	10.5	10.5	10.5
<b>Pre- tax Profit</b>	<b>683.5</b>	<b>846.5</b>	<b>933.5</b>	<b>983.0</b>	<b>987.7</b>
Tax	161.2	240.9	222.5	235.9	237.1
<b>Profit After Tax</b>	<b>514.5</b>	<b>597.8</b>	<b>704.5</b>	<b>739.3</b>	<b>742.9</b>
Minority Interest	-3.9	-3.9	-3.3	-3.9	-3.9
<b>Net Profit</b>	<b>518.4</b>	<b>601.7</b>	<b>707.8</b>	<b>743.2</b>	<b>746.8</b>
Exceptionals	1.7	-7.0	-16.9	0.0	0.0
<b>Core Net Profit</b>	<b>520.1</b>	<b>594.7</b>	<b>690.9</b>	<b>743.2</b>	<b>746.8</b>

**Key Ratios**

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
EBITDA margin	38.2%	37.4%	50.4%	48.7%	47.7%
EBIT margin	33.3%	33.3%	45.1%	43.9%	42.7%
PBT margin	33.6%	33.7%	46.3%	45.0%	43.8%
PAT margin	25.3%	23.8%	35.0%	33.8%	33.0%
NP margin	25.5%	23.9%	35.1%	34.0%	33.1%
Core NP margin	25.5%	23.9%	35.1%	34.0%	33.1%
ROE	19.3%	20.7%	24.7%	25.1%	24.4%
ROA	16.4%	18.1%	21.7%	22.3%	21.8%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

**Key Assumptions**

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Production ('000)	242857.0	251601.0	254389.0	268796.9	268157.8
FFB Yield	27.8	27.2	28.0	27.2	27.2
OER	21.8%	21.3%	21.9%	22.8%	22.8%
CPO (RM)	3261	3739	3963	3880	3881

**Valuations**

	<b>FY24F</b>
Core EPS (RM)	1.792
P/E multiple (x)	14.4
<b>Fair Value (RM)</b>	<b>25.83</b>

Source: Company, Apex Securities

**Balance Sheet**

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Cash	299.7	537.2	579.9	540.3	557.4
Receivables	240.9	147.5	191.9	208.3	214.7
Inventories	139.3	219.5	245.9	266.9	275.1
Other current assets	463.0	342.2	168.2	168.2	168.2
<b>Total Current Assets</b>	<b>1142.8</b>	<b>1246.4</b>	<b>1186.0</b>	<b>1183.8</b>	<b>1215.4</b>
Fixed Assets	1209.9	1241.8	1250.8	1319.5	1387.7
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	800.4	830.6	826.8	826.8	826.8
<b>Total Non-current assets</b>	<b>2010.4</b>	<b>2072.4</b>	<b>2077.7</b>	<b>2146.3</b>	<b>2214.6</b>
Short-term Debt	0.0	0.2	0.0	0.0	0.0
Payables	24.2	25.6	19.2	21.1	22.1
Other Current Liabilities	270.0	183.3	167.6	167.6	167.6
<b>Total Current Liabilities</b>	<b>294.2</b>	<b>209.1</b>	<b>186.8</b>	<b>188.7</b>	<b>189.8</b>
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	173.5	204.9	209.4	209.4	209.4
<b>Total Non-current Liabilities</b>	<b>173.5</b>	<b>204.9</b>	<b>209.4</b>	<b>209.4</b>	<b>209.4</b>
Shareholder's equity	2674.8	2890.7	2850.4	2945.7	3044.6
Minority interest	10.7	14.0	17.0	17.0	17.0
<b>Equity</b>	<b>2685.5</b>	<b>2904.8</b>	<b>2867.4</b>	<b>2962.7</b>	<b>3061.6</b>

**Cash Flow**

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Pre-tax profit</b>	<b>683.5</b>	<b>846.5</b>	<b>933.5</b>	<b>983.0</b>	<b>987.7</b>
Depreciation & amortisation	100.5	102.7	107.0	106.2	112.0
Changes in working capital	-50.9	14.5	-112.6	-112.6	-13.6
Others	-202.6	-39.4	-237.0	-976.5	-272.3
<b>Operating cash flow</b>	<b>530.5</b>	<b>924.3</b>	<b>690.8</b>	<b>0.0</b>	<b>814.0</b>
Net capex	-114.4	-138.7	-109.4	-174.9	-180.3
Others	167.8	-51.7	222.3	0.0	0.0
<b>Investing cash flow</b>	<b>53.4</b>	<b>-190.4</b>	<b>112.9</b>	<b>-174.9</b>	<b>-180.3</b>
Changes in borrowings	0.0	0.0	0.0	0.0	0.0
Issuance of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	-398.3	-518.5	-746.6	-647.9	-647.9
Others	481.0	287.2	692.2	589.3	589.3
<b>Financing cash flow</b>	<b>82.7</b>	<b>-231.3</b>	<b>-54.4</b>	<b>-58.6</b>	<b>-58.6</b>
<b>Net cash flow</b>	<b>85.8</b>	<b>28.8</b>	<b>32.6</b>	<b>110.8</b>	<b>242.5</b>
Forex	0.0	0.0	0.0	0.0	0.0
Others	122.5	245.3	16.1	-112.0	-217.8
Beginning cash	91.7	263.2	500.5	541.5	532.7
<b>Ending cash</b>	<b>300.0</b>	<b>537.3</b>	<b>549.2</b>	<b>540.3</b>	<b>557.4</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 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><b>Petaling Jaya Office:</b> 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p><b>Institutional Dealing Team:</b> Siti Nur Nadhirah (ext 2032)</p> <p><b>PJ Office:</b> General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p><b>Head Office:</b> Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069)</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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