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Recommendation: **HOLD**

Current Price: **RM 1.71**

Previous Target Price: **RM 1.93**

Target Price: ↓ **RM 1.79**

Upside/Downside: 4.7%

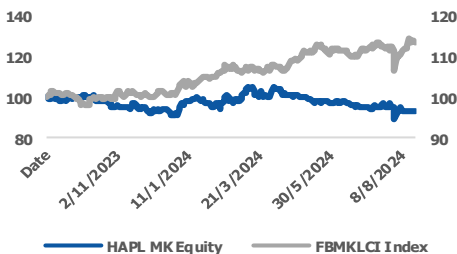
Stock information

Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	5138 / HAPL MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	799.7
Market Cap (RM' m)	1,367.5
52-Week Price Range (RM)	1.98-1.63
Beta (x)	0.8
Free float (%)	25.4
3M Average Volume (m)	0.3
3M Average Value (RM' m)	0.6

Top 3 Shareholders (%)

Hap Seng Consolidated Bhd	69.5
Public Smallcap Fund	2.0
Eastspring Inv Small Cap	1.5

Share Price Performance



	1M	3M	12M
Absolute (%)	-1.7	-4.5	-9.5
Relative (%)	-3.3	-5.7	-20.3

Hap Seng Plantations Holdings Berhad

Stellar performance

Summary










- **Hap Seng Plantations recorded CNP of RM32.1m (+136.3% yoy, +32.8% qoq) in 2QFY24, bringing 1HF24 CNP to RM56.3m (+62.9% yoy), which was above ours and consensus' expectations, accounting for 54% and 51% of forecasts respectively.**
- **We kept our earnings forecast unchanged in anticipation of softer CPO prices outlook.**
- **Downgrade to HOLD recommendation with a lower TP of RM1.79 based on 12.9x PE (from 13.4x) on FY25F EPS. Our lower P/E assumption is based on weaker earnings growth going forward due to our weaker CPO price assumptions.**

Results Review

- **Results review.** HAPL 2QFY24 core net profit (excluding FV loss on biological assets: RM4.5m) stood at RM32.1m, surging +32.8% qoq and +136.3% yoy respectively. During the quarter, EBIT margin improved significantly from 7.6% to 19.9% thanks to a sharp decline in fertiliser cost. Meanwhile, 1QFY24 revenue registered at RM182.8m, up +15.0% qoq and +8.3% yoy. The robust topline performance was primarily driven by increase in CPO and PK sales volumes and ASP of both products.
- **Results above expectation.** 1HFY24 CNP of RM56.3m was above both our and consensus expectation at 54% and 51% respectively as actual CPO price (RM4,135) was +6% higher-than-expectations.
- **Operations Highlights.** 2Q24 CPO and PK sales volume rose +1.7% yoy and +9.7% yoy despite the lower FFB production, due to timing of deliveries carried over from previous quarter. Meanwhile, average selling price of CPO and PK for 2QFY24 were at RM4,023/tonne (+6.8% yoy) and RM2,524/tonne (+16.4% yoy) respectively which is both higher as compared to 2QFY23.
- **Industry Highlights.** Malaysia's palm oil stock slid -5.4% mom in July, due to strong consumption from export market which surged by +39.9% mom. CPO production growth in July 2024 registered a whopping jump of +14% mom to 1.8m tonnes, compared to -5.2% mom in June 2024 at 1.6m tonnes.
- **Outlook.** We set our FFB production forecast to 652k mt for FY24, which is slightly below management guidance of 700k mt as we deemed it to be too optimistic. We foresee CPO price to soften in 2H24 heading towards RM3,800/tonne due to build up in inventory as palm oil production enters the peak cycle. All in, CPO price is expected to average at RM4,000/tonne in CY24.
- **Valuation.** We downgrade to our call to **HOLD** at a lower TP of RM1.79 based on 12.9x PE (from 13.4x) on FY25 EPS. Our lower P/E assumption is based on weaker earnings growth going forward due to our weaker CPO price assumptions.

- **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)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	182.8	168.8	8.3	159.0	15.0	328.7	341.8	4.0		Robust revenue due increase in sales volume and ASP
EBITDA	57.6	34.5	67.1	69.7	(17.3)	87.6	127.3	45.3		
Pre-tax profit	36.8	13.2	179.1	48.5	(24.1)	44.7	85.3	90.9		Margin boosted by lower fertiliser costs
Net profit	27.7	9.4	193.7	36.5	(24.3)	32.8	64.2	95.5		
Core net profit	32.1	13.6	136.3	24.2	32.8	34.6	56.3	62.9		
Core EPS (sen)	4.0	1.7	136.3	3.0	32.8	4.3	7.0	62.9		
EBITDA margin (%)	31.5	20.4		43.8		26.6	37.2			
PBT margin (%)	20.1	7.8		30.5		13.6	24.9			
Core PATMI margin (%)	17.6	8.1		15.2		10.5	16.5			

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	814.6	667.8	640.9	645.5	640.2
Operating Profit	271.1	117.4	131.4	140.4	136.5
EBITDA	351.4	205.4	219.6	227.6	222.7
Depreciation & Amortisation	86.5	85.9	86.0	84.9	83.9
EBIT	264.9	119.5	133.6	142.7	138.8
Net Finance Income/ (Cost)	0.9	-0.7	3.4	3.4	3.4
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	264.0	120.2	137.0	146.0	142.2
Tax	53.7	28.9	32.9	35.1	34.1
Profit After Tax	210.3	91.4	104.1	111.0	108.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	210.3	91.4	104.1	111.0	108.1
Exceptionals	10.4	8.1	0.0	0.0	0.0
Core Net Profit	220.7	99.4	104.1	111.0	108.1

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	43.1%	30.8%	34.3%	35.3%	34.8%
EBIT margin	32.5%	17.9%	20.8%	22.1%	21.7%
PBT margin	32.4%	18.0%	21.4%	22.6%	22.2%
PAT margin	25.8%	13.7%	16.2%	17.2%	16.9%
NP margin	25.8%	13.7%	16.2%	17.2%	16.9%
Core NP margin	25.8%	13.7%	16.2%	17.2%	16.9%
ROE	10.9%	4.7%	5.2%	5.5%	5.2%
ROA	8.7%	3.8%	4.2%	4.4%	4.3%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations

	FY25F
Core EPS (RM)	0.14
P/E multiple (x)	12.9
Fair Value (RM)	1.79

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	166.3	135.8	195.1	254.1	307.0
Receivables	9.2	12.6	12.1	12.2	12.1
Inventories	119.5	100.9	96.8	97.5	96.7
Other current assets	393.2	443.7	443.7	443.7	443.7
Total Current Assets	688.3	693.0	747.7	807.6	859.5
Fixed Assets	1732.2	1734.0	1712.1	1691.7	1671.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	1732.2	1734.0	1712.1	1691.7	1671.8
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	613	44.8	415	411	410
Other Current Liabilities	10.1	9.7	9.7	9.7	9.7
Total Current Liabilities	71.4	54.5	51.2	50.8	50.7
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	419.9	419.9	419.9	419.9	419.9
Total Non-current Liabilities	419.9	419.9	419.9	419.9	419.9
Shareholder's equity	1929.3	1952.6	1988.8	2028.6	2060.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	1929.3	1952.6	1988.8	2028.6	2060.8

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	264.0	120.2	137.0	146.0	142.2
Depreciation & amortisation	86.5	85.9	86.0	84.9	83.9
Changes in working capital	-13.9	-1.3	12	-1.1	0.8
Others	-90.5	-35.1	-32.9	-35.1	-34.1
Operating cash flow	246.1	169.8	191.3	194.8	192.7
Net capex	-79.0	-78.2	-64.1	-64.5	-64.0
Others	51.8	-43.2	0.0	0.0	0.0
Investing cash flow	-27.3	-121.4	-64.1	-64.5	-64.0
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	-163.9	-68.0	-68.0	-71.2	-75.9
Others	-9.6	-11.0	0.0	0.0	0.0
Financing cash flow	-173.5	-79.0	-68.0	-71.2	-75.9
Net cash flow	45.3	-30.6	59.3	59.1	52.9
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	121.0	166.3	135.8	195.1	254.1
Ending cash	166.3	135.8	195.1	254.1	307.0

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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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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