

Outthink. Outperform.

Within expectations

HAPL's 1H17 core net profit increased by 68% yoy to RM62.4m, which came in largely within our and consensus expectations. The stronger earnings were mainly underpinned by higher CPO and PK ASPs as well as higher FFB production. No changes to our 2017-19 core earnings forecasts. Maintain HOLD rating on HAPL with an unchanged TP of RM2.74.

1H17 core net profit increased by 68.2% to RM62.4m

Hap Seng Plantation's (HAPL) 1H17 revenue increased by 29.3% yoy to RM277.6m while PBT increased by 67.3% yoy to RM85.1m. This was largely underpinned by higher CPO and PK ASPs as well as higher FFB production. EBITDA margin in 1H17 also improved to 35.2% as compared to 29.8% in 1H16, attributable to the higher CPO and PK prices. After excluding one-off items, HAPL's 1H17 core net profit increased by 68.2% yoy to RM62.4m. This was largely within expectations, accounting for about 45.4% of our and 45.9% of street's 2017 forecasts. HAPL announced an interim DPS of 5 sen (1H16: 3 sen).

Weaker sequentially due to lower ASPs

Sequentially, HAPL's 2Q17 revenue declined by 7.4% qoq to RM133.5m. This was attributable to lower CPO and PK prices but offset by higher FFB production. CPO and PK ASPs declined to RM2,897/MT (1Q17: RM3,268/MT) and RM2,142/MT (1Q17: RM3,282/MT), respectively. After excluding one-off items, core net profit declined by 14.1% qoq to RM28.8m.

Maintain HOLD rating on HAPL with an unchanged TP of RM2.74

We leave our 2017-19 core EPS forecasts unchanged as there were no major surprises for HAPL's results. We maintain our HOLD rating on HAPL with an unchanged target price of RM2.74, based on 15x PER applied to our 2018E EPS.

Key risks

Key upside/downside risks include: 1) a stronger/weaker economic growth leading to a higher/lower consumption of vegetable oils; 2) a sustained rebound/plunge in the CPO price; 3) higher/lower-than-expected FFB and CPO production; and 4) changes in policies.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	434.9	503.4	504.5	526.7	550.0
EBITDA (RMm)	148.5	195.3	213.5	225.4	238.0
Pretax profit (RMm)	120.2	167.1	188.5	200.4	213.0
Net profit (RMm)	96.4	124.1	137.6	146.3	155.5
EPS (sen)	12.1	15.5	17.2	18.3	19.4
PER (x)	21.6	16.8	15.1	14.2	13.4
Core net profit (RMm)	97.0	124.1	137.6	146.3	155.5
Core EPS (sen)	12.1	15.5	17.2	18.3	19.4
Core EPS growth (%)	(24.6)	28.0	10.9	6.3	6.3
Core PER (x)	21.4	16.8	15.1	14.2	13.4
Net DPS (sen)	8.0	11.0	11.0	11.0	11.0
Dividend Yield (%)	3.1	4.2	4.2	4.2	4.2
EV/EBITDA (x)	12.8	9.8	8.9	8.4	7.9
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

Hap Seng Plant

HAPL MK
Sector: Plantation

RM2.60 @ 23 August 2017

HOLD (maintain)

Upside: 5%

Price Target: RM2.74

Previous Target: RM2.74



Price Performance

	1M	3M	12M
Absolute	0.0%	0.0%	6.1%
Rel to KLCI	-0.8%	-0.3%	0.7%

Stock Data

Issued shares (m)	799.7
Mkt cap (RMm)/(US\$m)	2079.2/485.8
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.38-2.73
Est free float	12.5%
BV per share (RM)	2.51
P/BV (x)	1.03
Net cash/ (debt) (RMm) (2Q17)	147.8
ROE (2017E)	6.7%
Derivatives	No
Shariah Compliant	Yes

Top 3 Key Shareholders

Hap Seng Consolidated	53.0%
Innoprise Corporation	15.0%
EPF	8.5%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	qoq % chg	yoy % chg	1H17	yoy % chg	Comment
Revenue	133.5	(7.4)	20.8	277.6	29.3	2Q17: CPO and PK ASPs at RM2,897/MT (2Q16: RM2,661/MT) and RM2,142/MT (2Q16: RM2,411/MT), respectively
Op costs	(87.0)	6.4	(15.9)	(179.9)	(19.4)	
EBITDA	46.5	(9.0)	31.0	97.7	52.7	
EBITDA margin (%)	34.9	-0.6ppt	+2.7ppt	35.2	+5.4ppt	
Depn and amort	(9.1)	(1.6)	(12.6)	(18.1)	(13.6)	
EBIT	37.4	(11.3)	36.4	79.5	65.7	
Int expense	0.0	-	-	0.0	-	
Int and other inc	2.3	(18.4)	97.8	5.0	41.5	
Associates	0.0	-	-	0.0	-	
Exceptional items	0.0	(96.3)	n.m	0.6	n.m	
Pretax profit	39.7	(12.7)	41.9	85.1	67.3	2Q17: Stronger yoy mainly due to higher CPO and PK prices as well as higher sales volumes
Core pretax profit	39.6	(11.7)	38.8	84.5	64.0	Adjusted for exceptional items
Tax	(10.8)	4.6	(32.5)	(22.1)	(53.4)	
Tax rate (%)	27.2	+2.3ppt	-1.9ppt	26.0	-2.4ppt	Higher than the statutory rate due to certain expenses not allowed for tax purposes
MI	0.0	-	-	0.0	-	
Net profit	28.9	(15.4)	45.8	63.0	72.8	
EPS (sen)	3.6	(15.5)	45.6	7.9	72.6	
Core net profit	28.8	(14.1)	41.4	62.4	68.2	Largely within expectations

Source: Company data, Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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