

SECTOR UPDATE

Plantation – Malaysia

ESG Assessment Of Plantation Companies

We invited ZSL to share its SPOTT with us, which we believe is a good reference point/tool for financial institutions to assess plantation companies using ESG. We observe that some companies with better ESG ranking/disclosure have a higher valuation. We believe that companies with better ESG practices and disclosure are favoured by financial institutions and funds. Maintain MARKET WEIGHT.

WHAT'S NEW

- The plantation sector has been in the limelight due to environmental, social and governance (ESG) issues mostly related to deforestation and the more recent labour issue. With the increased adoption of sustainability-focused investing, we notice that:
 - Plantation companies' share price trade sideways despite rising CPO prices.
 - Foreign shareholdings in plantation companies have been declining over the years.
- An ESG scorecard for investment reference.** On 10 Mar 21, we invited the Zoological Society of London (ZSL) to share with us its Sustainability Policy Transparency Toolkit (SPOTT), which we believe would be a good reference point for financial institutions to assess plantation companies on ESG. SPOTT also assesses the transparency and content of companies' disclosure regarding the organisation, policy and practice. ZSL conducts an annual review of this scoring by engaging with companies under assessment by getting the companies' comments and feedback.
- What is ZSL?** ZSL is an independent International conservation charity based in London. ZSL also works with the financial sector to integrate biodiversity into responsible, sustainable and impact-oriented ESG investment instruments and decisions while enabling engagement with portfolio companies.
- Better ESG disclosure and engagement.** With the increasing concern over companies with ESG issues from stakeholders, companies are more willing to engage with ZSL to further improve their ESG disclosure. The number of companies that engaged with ZSL (from the SPOTT list) has grown from 20%, when ZSL started in 2016, to 50%. From our virtual conference with ZSL, we observed that plantation companies are taking this matter very seriously with good participation.
- Premium for better ESG ranking/disclosure?** Based on the SPOTT website, we did a further study into the companies' ESG ranking/disclosure and their valuations. We observed that some of the companies with better ESG ranking/disclosure had higher valuations as compared with their peers.
- With the ESG theme starting to creep into financial and investment decisions by financial institutions, we expect companies with better ESG practices and disclosure to be favoured by financial institutions and funds.

ACTION

- Maintain MARKET WEIGHT.** Our CPO price assumption is RM3,000/tonne for 2021, but we remain concerned about potential price weakness due to the strong production recovery in 2H21 and demand rationing due to high CPO prices. In addition, we are also concerned about the earnings leverage of CPO prices where the high CPO prices may not be reflected in the companies' earnings if they locked in forward sales at lower pricing towards end-20. Having said that, we expect CPO prices to still trade at a high range in 1H21 as a result of stock levels and the tight supply in 1H21.

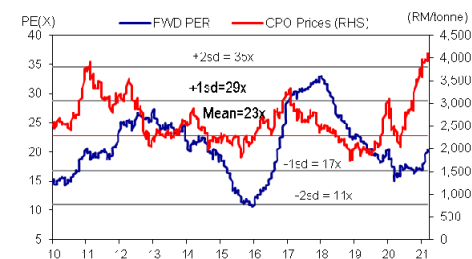
PEER COMPARISON

Company	Ticker	Rec	Price @ 12 Mar 21	Target Price	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2021F Div (sen)	Div Yield (%)
						2020 (x)	2021F (x)	2022F (x)				
			(RM)	(RM)								
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.90	2.70	369	16.8	10.5	19.2	5.4	0.9	11.0	5.8
Kim Loong	KIML MK	BUY	1.49	1.80	338	11.2	9.3	11.0	5.6	1.8	8.8	5.9
KL Kepong	KLK MK	BUY	23.12	26.00	6,055	32.0	21.6	21.0	7.3	2.3	93.6	4.0
Sarawak Oil Palms	SOP MK	BUY	4.01	5.20	556	11.3	11.5	18.2	4.1	1.0	19.1	4.8
Genting Plantations	GENP MK	HOLD	9.22	9.80	2,009	32.5	22.6	32.9	5.2	1.7	25.0	2.7
IOI Corporation	IOI MK	HOLD	4.23	4.40	6,433	44.1	25.8	23.9	6.5	2.8	8.5	2.0
IJM Plantations	IJMP MK	HOLD	1.87	1.85	400	16.3	18.3	23.4	(5.0)	1.3	5.1	2.7
Sime Darby Plantation	SDPL MK	HOLD	4.87	4.90	8,141	39.6	23.9	31.8	9.7	2.5	8.0	1.6

Source: UOB Kay Hian

MARKET WEIGHT (Maintained)

PLANTATION COMPANIES SHARE PERFORMANCE VS CPO PRICES



Source: Bloomberg, UOB Kay Hian

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- **Prefer Hap Seng Plantation (HAP MK/BUY/TP: RM2.70)** on the back of its higher earnings sensitivity towards CPO prices. On top of that, its Roundtable on Sustainable Palm Oil (RSPO) and International Sustainability & Carbon Certification (ISCC) certification has given it a slight premium of about 5% as compared to its peers.

ESSENTIALS

- **How does SPOTT assess companies?** There are 10 categories based on which they assess the transparency of companies to get the ESG score:

- Sustainability policy and leadership
- Landbank, maps and traceability
- Deforestation and biodiversity
- HCV,HCS and impact assessments
- Soils, fire and GHG emissions
- Water, chemicals and pest management
- Community, land and labour rights
- Certification standards or sustainability initiatives
- Smallholders and suppliers
- Governance and grievances

- **Adopting zero-burning policy.** Most major plantation companies who are Roundtable on Sustainable Palm Oil (RSPO)-certified are in compliance with a no-burning policy which is one of the strictest requirements under RSPO regulations and they are also in compliance with the ASEAN Policy on Zero Burning (2003). All plantation companies based in Malaysia and Indonesia will need to be Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) certified respectively. MSPO and ISPO regulations do not allow the use of burning for clearing new areas and for replanting.

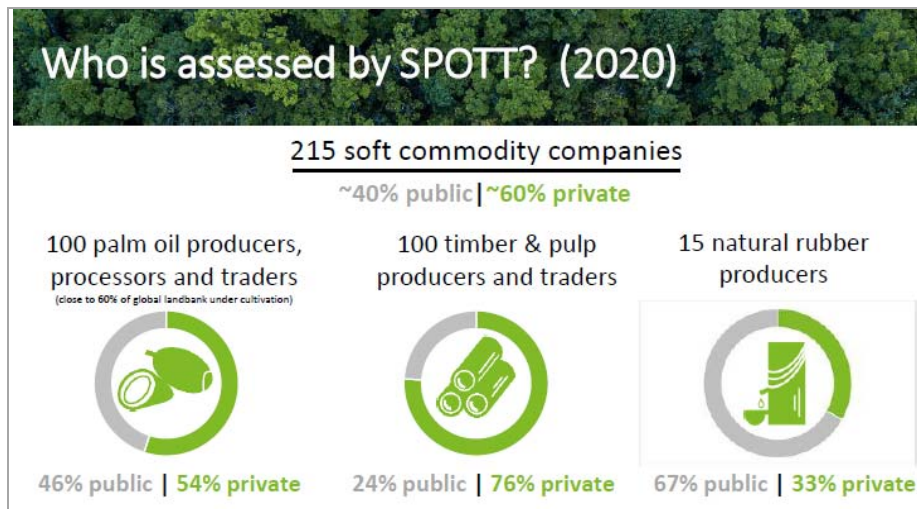
ASSUMPTION CHANGES

- **We maintain our CPO price assumptions of RM3,000/tonne** and RM2,600/tonne for 2021 and 2022 respectively. We expect CPO prices to still trade at a high range in 1H21 as a result of stock levels and the tight supply in 1H21.

SECTOR CATALYSTS

- Lower-than-expected global vego oil supply due to the impact of La Nina.
- Strong biodiesel demand due to recovery in crude oil prices or higher mandate from producing countries.
- Stronger-than-expected commodity cycle.

SECTORS THAT ASSESSED BY SPOTT



Source: SPOTT, ZSL

RSPO-CERTIFIED PLANTATION COMPANIES

Companies	RSPO
GENP MK	√
IOI MK	√
KLK MK	√
SDPL MK	√
HAPL MK	√
IJMP MK	x
SOP MK	x
KIML MK	x

Source: RSPO

PLANTATION COMPANIES IN FTSE4GOOD INDEX

Companies	ESG Grading Band
FGV Holdings	****
Genting Plantations	****
IOI Corporation	****
KL Kepong	****
Sime Darby Plantations	****

Source: FTSE Russell

SPOTT SCORING AND VALUATION OF PALM OIL PLANTATION COMPANIES

Company	Ranking	Scores				2021F PE (x)
		Total	E	S	G	
Malaysia						
New Britain Palm Oil Ltd*	1	94%	93.3%	97.6%	89.6%	23.9
United Plantations	4	87%	84.9%	89.4%	82.8%	NA
Sime Darby Plantation	8	83%	78.8%	84.9%	78.3%	23.9
Kuala Lumpur Kepong	11	81%	77.5%	81.8%	73.7%	21.6
IOI Corporation	14	77%	72.7%	78.4%	71.2%	25.8
Hap Seng Plantation Holdings	19	74%	70.9%	77.4%	71.7%	10.5
Genting Plantations	21	73%	68.3%	75.2%	58.6%	22.6
FGV Holdings	23	70%	63.0%	71.2%	58.6%	20.3
IJM Plantations	30	63%	59.4%	58.1%	46.3%	18.3
TSH Resources	34	59%	53.3%	62.7%	49.7%	18.5
Boustead Plantations	40	53%	43.3%	61.6%	49.1%	37.5
Sarawak Oil Palms	48	46%	41.4%	48.0%	40.9%	11.5
BLD Plantation	66	25%	19.5%	25.7%	15.0%	NA
Jaya Tiasa Holdings	69	22%	17.1%	21.9%	18.2%	8.15
QL Resources	74	13%	7.0%	15.7%	17.8%	56.6
Singapore						
Wilmar International	3	88.90%	87.30%	89.90%	84.40%	14.5
Golden Agri Resources	10	81.20%	76.20%	85.40%	79.70%	8.2
Olam International	14	77.10%	74.70%	79.60%	69.90%	9.4
Bumitama Agri	25	68.30%	66.10%	74.00%	53.30%	6.8
First Resources	28	64.80%	61.10%	67.70%	58.20%	10.1
Indofood Agri Resources	35	55.00%	47.30%	56.80%	37.00%	NA
Mewah Group	43	48.30%	43.60%	58.20%	59.80%	NA
Kencana Agri	64	30.70%	26.10%	29.50%	19.60%	NA
Indonesia						
Dharma Satya Nusantara	16	75.30%	71.80%	80.60%	59.00%	14.1
Austindo Nusantara Jaya	26	68.10%	62.50%	69.00%	53.50%	NA
Eagle High Plantations	31	62.60%	55.50%	66.50%	53.10%	NA
Sawit Sumbermas Sarana	37	54.40%	49.60%	55.90%	33.00%	25.0
Sampoerna Agro	45	47.80%	43.60%	48.50%	37.90%	16.9
Astra Agro Lestari	52	41.80%	36.40%	40.70%	28.90%	18.7
Bakrie Sumatera Plantations	56	38.20%	35.40%	36.10%	28.20%	NA
Tunas Baru Lampung	70	14.20%	12.20%	13.00%	9.60%	6.7

* Owned by Sime Darby Plantation Berhad
Source: SPOTT, ZSL

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