MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Sime Darby Plantation's Baa2 ratings; outlook remains stable

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Singapore, September 01, 2022 -- Moody's Investors Service has affirmed the Baa2 issuer rating of Sime Darby Plantation Berhad (SDP).

Moody's has also affirmed the (P)Baa2 rating on the USD1.5 billion backed senior unsecured medium-term note programme of its wholly owned subsidiary, Sime Darby Global Berhad, and the Baa2 backed senior unsecured rating on the sukuk issued by Sime Darby Global Berhad.

At the same time, Moody's has maintained the stable outlook on the ratings.

"The ratings affirmation reflects our expectation that SDP will maintain solid credit metrics over the next 12-18 months despite a contraction in palm oil prices, and will adhere to conservative financial policies including maintaining low leverage levels," says Maisam Hasnain, a Moody's Vice President and Senior Analyst.

"The outlook is stable, reflecting our expectation that SDP will maintain profitable operations, achieve its leverage reduction target, and continue to enhance its sustainability policies and practices over the next 12-18 months," adds Hasnain, who is also Moody's lead analyst for SDP.

RATINGS RATIONALE

SDP's credit quality is supported by the company's position as the largest listed palm oil plantation company by planted area and largest global producer of certified sustainable palm oil, with integrated operations spanning the palm oil value chain.

Moody's expects SDP's earnings to contract over the next 12-18 months as crude palm oil (CPO) prices moderate from record-high levels. However, while SDP's leverage – as measured by adjusted debt/EBITDA - will increase from 1.5x as of June 2022, it will remain solid at around 2.2x – 2.4x. Such leverage levels are supportive of its Baa2 ratings. Its leverage could be lower if the company raises funds from asset sales, which Moody's expects will be prioritized for debt reduction.

SDP's Baa2 ratings are premised on the company maintaining a prudent approach toward investments and shareholder distributions. The company has also made progress toward its publicly stated policy of achieving gross debt/equity of 30% by the end of 2023. This ratio has declined to 36% as of June 2022 versus 49% in December 2019.

At the same time, SDP's ratings incorporate its susceptibility to a fluctuation in credit metrics due to volatile palm oil prices and increasing stakeholder scrutiny around ESG risks associated with the palm oil sector.

Moody's expects SDP will continue to strengthen its sustainability practices and engage with U.S. Customs to resolve its forced labor findings and take corrective actions to protect and enhance workers' rights.

SDP's liquidity is inadequate because its cash sources will be insufficient to meet uses including scheduled debt maturities, capital spending and dividends over the next 12-18 months. This is primarily due to SDP's large outstanding short-term working capital facilities that are rolled over each year.

However, its liquidity risk is partially offset by SDP's strong access to funding from domestic and international banks, particularly due to its government of Malaysia-linked shareholders -- Permodalan Nasional Berhad (PNB) and Malaysia's Employees Provident Fund.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the ratings if SDP strengthens its business profile by reducing the earnings reliance from its upstream operations, which are highly susceptible to changes in crude palm oil prices; improves its capital structure by reducing its reliance on short-term funding; and continues to pursue conservative financial policies including maintaining strong credit metrics and moderated shareholder returns.

Credit metrics supportive of an upgrade include adjusted debt/EBITDA remaining below 3.0x, and its adjusted EBITA/interest expense remaining above 5.0x, both on a sustained basis.

Moody's could downgrade the ratings if (1) SDP is unable to roll over its short-term debt maturities or experiences a reduction in its undrawn credit facilities; (2) it pursues aggressive financial policies, including large debt-funded investments or shareholder returns; or (3) there is protracted weakness in SDP's credit metrics.

Credit metrics indicative of a downgrade include adjusted debt/EBITDA remaining above 4.0x, or adjusted EBITA/interest expense falling below 2.5x on a sustained basis.

The principal methodology used in these ratings was Protein and Agriculture published in November 2021 and available at https://ratings.moodys.com/api/rmc-documents/356422. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Sime Darby Plantation Berhad is an integrated plantation company with operations spanning the entire palm oil value chain. As of 30 June 2022, SDP was 56% owned by Permodalan Nasional Berhad, which is a Malaysian government-linked investment company, and its subsidiary, Amanah Saham Nasional Bhd. Malaysia's Employees Provident Fund owned another 13% of SDP as of the same date.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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