MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Sime Darby Plantation to Baa2; changes outlook to stable

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Singapore, April 06, 2020 -- Moody's Investors Service has downgraded the issuer rating of Sime Darby Plantation Berhad (SDP) to Baa2 from Baa1.

Moody's has also downgraded the rating on the $1.5 billion senior unsecured medium-term note programme of its wholly owned subsidiary, Sime Darby Global Berhad to (P)Baa2 from (P)Baa1, and backed senior unsecured debt rating on the sukuk issued by Sime Darby Global Berhad to Baa2 from Baa1.

At the same time, Moody's has revised the outlook on these ratings to stable from negative.

RATINGS RATIONALE

"The downgrade reflects our expectation that SDP's earnings growth and pace of debt reduction will remain materially slower than our previous expectations," says Maisam Hasnain, a Moody's Assistant Vice President and Analyst. "As a result, SDP's credit profile is more appropriately positioned at the Baa2 rating level".

"While SDP now expects to raise MYR1.0 billion in 2020 from asset sales, as opposed to its previous expectation of raising these funds in 2019, we believe asset sales will be challenging in the current financial market downturn," adds Hasnain, also Moody's Lead Analyst for SDP.

Based on Moody's medium-term price assumptions for crude palm oil of MYR2,100 per metric ton, and assuming SDP can raise around half of the targeted MYR1.0 billion in proceeds from its planned asset sales, Moody's expects SDP's adjusted leverage will decline to around 3.7x over the next 12 months from around 5.0x as of December 2019. Such high leverage levels would still not be supportive of its previous Baa1 rating.

Despite the downgrade, SDP's credit profile continues to reflect (1) its position as the largest listed palm oil plantation company by plantation area, and the largest global producer of certified sustainable palm oil; (2) its integrated operations spanning across the palm oil value chain; and (3) its commitment to adhering to prudent financial policies, including leverage reduction.

SDP's Baa2 rating also assume that its operations will not be materially disrupted by the coronavirus outbreak, and as such the current crisis is not a driver of this rating action. Aside from the temporary and limited closure of some plantation estates and crude palm oil mills in Sabah, Malaysia, SDP's operations across Asia, Europe and Africa have not been materially affected. Moody's considers such impacts are currently manageable within the company's ratings and stable outlook.

"However, given the uncertainty around the length or magnitude of the outbreak, we will continue to monitor for any potential disruptions to SDP's operations and supply chain which could further pressure its ratings," adds Hasnain.

Moody's expects SDP's liquidity over the next 12-15 months will remain weak because its cash balance as of 31 December 2019 and projected operating cash flow will be insufficient to meet scheduled debt maturities, capital spending and dividends.

However, refinancing risk is partially offset by its 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. For example, SDP refinanced around half of its total reported debt (MYR3.9 billion) in December 2019 at a slightly lower interest rate, despite its weak credit metrics.

Any delays or perceived difficulties in SDP being able to refinance its near-term debt maturities would result in a negative rating action.

The rating also considers SDP's exposure to environmental, social and governance (ESG) risks as follows.

Firstly, the rating considers the increasing stakeholder scrutiny around environmental and social risks associated with the palm oil sector. To help mitigate these risks, SDP has continued to strengthen its sustainability policies. It is the world's largest producer of certified sustainable palm oil, accounting for around 20% of global sustainable supply. It is also a founding member of the Roundtable of Sustainable Palm Oil (RSPO), an association of palm oil industry stakeholders that promotes the growth and use of sustainable palm oil products.

Secondly, with respect to governance, while SDP has a concentrated ownership structure, this is balanced by its listed status, a publicly stated dividend policy and Moody's view that PNB is a supportive shareholder. Moody's expects SDP to maintain conservative financial policies, including debt reduction via asset sales.

The outlook is stable, reflecting Moody's expectation that SDP's credit metrics will improve over the next 12 months on earnings growth and debt reduction, and that it will continue to refinance its upcoming debt maturities.

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

A ratings upgrade is unlikely over the next 12-18 months, given the ratings downgrade. However, the outlook could change to positive over time if SDP improves its credit metrics such that (1) adjusted debt/EBITDA falls below 3.0x, and (2) adjusted EBITA/interest expense rises above 5.0x on a sustained basis.

SDP's ratings could be downgraded if (1) its liquidity deteriorates, (2) its earnings remain weak, (3) it does not reduce its absolute debt levels, or (4) there are further delays in SDP executing its asset monetization plans, or if it uses the proceeds for purposes other than debt reduction.

Credit metrics indicative of a downgrade include (1) adjusted debt/EBITDA remaining above 4.0x, or (2) 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 May 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113389 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Sime Darby Plantation Berhad is an integrated plantation company with operations spanning across the entire palm oil value chain. It is also the largest listed oil palm plantation company by planted area.

As of 31 March 2020, SDP was 56.7% owned by Permodalan Nasional Berhad (PNB), which is a Malaysian government-linked investment company, and PNB's subsidiary, Amanah Saham Nasional Bhd. Another 14.6% of SDP was owned by Malaysia's Employees Provident Fund 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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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