MALAYSIAN RATING CORPORATION BERHAD

PRESS RELEASES

MARC AFFIRMS RATINGS ON SIME DARBY PLANTATION

Friday, Sep 14, 2018

MARC has affirmed Sime Darby Plantation Berhad's (SD Plantation) corporate credit rating at **AAA**, and accordingly affirmed its Perpetual Subordinated Sukuk Programme (Perpetual Sukuk) of up to RM3.0 billion at **AA**$_{IS}$. The ratings outlook is **stable**. SD Plantation benefits from a one-notch rating uplift for implicit support from major shareholder Permodalan Nasional Berhad (PNB), a government-linked investment company.

The affirmed corporate credit rating is driven by SD Plantation's sizeable and geographically diversified oil palm plantations that support a strong cash flow generating ability to provide a healthy buffer against its financial obligations. The rating is moderated by susceptibility of earnings to crude palm oil (CPO) price movement, although its vertically-integrated business structure provides some mitigation against the impact of CPO price volatility. The stable rating outlook reflects MARC's expectations that the CPO price level would remain above RM2000/MT over the near term and that the group's productivity will remain supportive of its ability to balance its borrowing levels with capex requirements for its replanting and new planting activities.

SD Plantation's total cultivated oil palm plantation land stood at around 603,000 ha, of a total plantation land bank of about 1.0 million ha, making the group one of the world's largest palm oil producers and accounting for about 4% of global CPO production at end-2017. Additionally, as 98% of its palm oil is certified sustainable palm oil (CSPO), the group retains a competitive advantage as rising concerns on sustainable practices weigh on the palm oil industry. Further, SD Plantation's geographical diversity and the wide spectrum of its midstream and downstream operations mitigate key palm oil industry risks namely tariff imposition by local governments and weather conditions that affect fresh fruit bunch (FFB) yields.

For financial year ended June 30, 2018 (FY2018), group FFB production rose 5% y-o-y to 10.2 million MT on improved weather conditions in most of its geographies, with upstream Malaysian operations recovering most with a 10% variance y-o-y to 5.82 million MT. The overall improvement in FFB production helped to partly offset the 11% y-o-y decline in its realised CPO price of RM2,546/MT. For FY2018, recurring profit before interest and tax (PBIT) declined 9% y-o-y to RM2.0 billion on the back of a 3% y-o-y decline in revenue to RM14.4 billion.

Cash flow from operations (CFO) stood at a healthy RM2.7 billion, contributing to CFO interest cover of 12.2 times on lower interest costs in line with the decline in group borrowings to RM7.6 billion from about RM8.9 billion in the previous corresponding year. Net debt-to-equity declined to 0.48 times from 0.58 times. SD Plantation retains strong financial flexibility with sizeable undrawn credit facilities and the flexibility to monetise assets to reduce borrowings, if necessary.

MARC expects SD Plantation's annual cash generation to remain supportive of the group's capex programme of about RM1.7 billion annually, which includes an estimated RM800 million annually for replanting activities over the next three years to improve its overall tree maturity profile. While SD Plantation has a dividend payout policy of at least 50% of its net profits, the rating agency expects the group to continue maintaining discipline on dividend payout to meet the group's capex requirement without recourse to borrowings. The ongoing capex spending that covers replanting of about 5% of the total planted area annually is expected to reduce its overall average plantation age to 10 years by 2025.

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