MALAYSIAN RATING CORPORATION BERHAD

PRESS RELEASES

MARC AFFIRMS RATINGS ON SIME DARBY PLANTATION

Monday, Dec 16, 2019

MARC has affirmed Sime Darby Plantation Berhad's (SD Plantation) corporate credit rating at **AAA**, and its Perpetual Subordinated Sukuk Programme (Perpetual Sukuk) of up to RM3.0 billion at **AA***IS*. The ratings outlook is **stable**.

The affirmed corporate credit rating is driven by SD Plantation's strong cash flow generating ability from its sizeable, geographically-diversified and integrated oil palm operations. The key moderating factor is the susceptibility of the group's performance to crude palm oil (CPO) price movement, which in recent years has exerted pressure on its financial metrics. The rating benefits from a notch uplift for implicit support from parent Permodalan Nasional Berhad, a government-linked investment company that has historically extended support to the plantation company.

SD Plantation is one of the largest palm oil plantation groups globally with significant upstream operations in Malaysia, Indonesia, Papua New Guinea and Solomon Islands and sizeable downstream operations domestically and in the Netherlands, the UK, South Africa, Indonesia and Thailand, among others. The impending exit from Liberia where SD Plantation has 10,263 ha or 1.7% of total planted area of 603,146 ha is regarded as not material to the group's operations. Given the group had faced considerable challenges in Liberia since beginning operations there, the full divestment of its loss-making Liberian operations would strengthen its focus on its key Malaysian and Indonesian plantations.

SD Plantation's accelerated replanting programme since 2015, particularly in Indonesia, has led to an overall improvement in its plantation maturity profile: around 30% of its oil palms are currently in the prime maturity stage (aged nine to 18 years) with an average palm tree age of 12.1 years as at end-9M2019. About RM700 million p.a. of an expected capex spending of RM1.5 billion p.a. over the next three years has been earmarked for replanting activities, notwithstanding the challenging CPO price environment.

During 9M2019, SD Plantation recorded lower average CPO price of RM2,007/MT for its continuing operations, leading to lower revenue of RM8.7 billion (9M2018: RM2,322/MT; RM9.8 billion). Cash flow from operations (CFO) declined to RM1.2 billion (9M2018: RM1.9 billion). Its adjusted borrowings since assuming debt from its related entities during the demerger exercise have remained high, at RM8.9 billion while its debt-to-equity ratio was at 0.60x as at end-9M2019. MARC understands SD Plantation will address the group's weakening debt metrics through proceeds from impending disposals of non-core land parcels amounting to about RM1 billion. The divestment of its Liberian operations is also part of the group's exercise to dispose of underperforming assets. The group recorded an impairment of RM256 million during 9M2019 and could recover some of its investment through the disposal of its Liberian operations. With the proceeds from asset sales, group leverage is expected to improve to about 0.5x.

The rating agency also notes that SD Plantation's strong upstream operational performance and improving downstream financial performance provide some mitigation against CPO price challenges. For 9M2019, the improvement in maturity profile contributed to higher fresh fruit bunch (FFB) yield per mature hectare for continuing operations to 15.25MT/ha (9M2018:15.05MT/ha) and higher oil extraction rate (OER) to 21.50% (9M2018: 21.08%). SD Plantation's cash generation ability is expected to be sustainable as the group's production cost remains competitive owing largely to its large-scale operations.

Notwithstanding the group's dividend payout policy of at least 50% of its net profit, SD Plantation is expected to maintain a disciplined dividend payout approach to meet the group's capex requirement without any recourse to borrowings. The stable outlook factors in expectations of debt reduction through proceeds from asset sales. However, if there is no visible progress towards this end or if a prolonged low CPO price environment impacts its cash flow metrics, the rating would come under pressure.

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