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MARC AFFIRMS RATINGS ON SIME DARBY PLANTATION

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MARC has affirmed Sime Darby Plantation Berhad's (SD Plantation) corporate credit rating at **AAA** with a **stable** outlook. The rating agency has concurrently affirmed its **AA_{1S}/Stable** rating on SD Plantation's Perpetual Subordinated Sukuk Programme (Perpetual Sukuk) of up to RM3.0 billion.

The affirmed ratings are driven by SD Plantation's strong cash flow generating ability from its sizeable geographically-diversified and integrated oil palm operations, and improvement in financial profile that has benefitted from strong crude palm oil (CPO) prices since 4Q2020. The rating also benefits from a one-notch uplift for implicit support from parent Permodalan Nasional Berhad, a government-linked investment company.

In 1H2021, SD Plantation recorded a higher average CPO price of RM3,422/MT (1H2020: RM2,475/MT) which led to a 29.1% y-o-y increase in group revenue to RM8.1 billion. Cash flow from operations (CFO) rose by 10.6% y-o-y to RM1.3 billion, providing a sharp improvement in CFO interest coverage to 19.7x (2020: 15.1x). Its adjusted borrowings rose to RM8.1 billion as at end-June 2021 from RM7.8 billion at end-2020, translating to gross and net debt-to-equity (DE) ratios of 0.51x and 0.46x. Notwithstanding the stronger liquidity position over the last two years, we understand that the group will continue with its asset disposal programme, proceeds of which will be utilised to pare down borrowings.

SD Plantation remains the world's largest oil palm plantation player with a total planted area of 581,472 ha as at end-June

2021, of which Malaysia and Indonesia accounted for 84.3% with the remaining in Papua New Guinea/Solomon Islands. In terms of its tree maturity profile, about 26.6% comprises prime age trees and about 42.6% comprises immature and young matured trees. This will support growth of fresh fruit bunch (FFB) production over the medium term. The group is currently replanting about 5% of its total plantation area p.a. for which it expects to incur a replanting cost of about RM900 million p.a. out of a projected RM2.5 billion in capex. The capex has been funded internally and the current healthy CFO generation provides further headroom to undertake replanting activities on a larger scale.

The susceptibility of the group's performance to CPO price movement remains the key moderating factor. We also note that the group has faced labour shortage issues in Malaysia due to the impact of pandemic restrictions on the recruitment of foreign workers. The labour shortage has resulted in a 5% y-o-y lower FFB production during 1H2021. For downstream operations undertaken by Sime Darby Oils International Limited, it recorded a 38.7% y-o-y higher revenue of RM6.8 billion in 1H2021, attributable to the higher selling price and stronger demand, particularly from the Asia Pacific region. However, operating profit margin remains thin at 3.7% for the downstream segment.

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