

SD GUTHRIE

(SDG MK EQUITY, SDGU.KL)

BUY

(Maintained)

Price: RM5.65

Target Price (% return): RM6.90 (22%)

52-week High/Low: RM5.93/RM4.42

Plantation

Rationale for report: Company Update

No more labour shortage in Malaysia

SD Guthrie (SDG) held an Investor Day recently, which affirms our BUY recommendation (TP: RM6.90/share). In the upstream unit, the average age of the group's oil palm trees is envisaged to decline to 10 years in three years' time from 11.4 years currently due to the replanting exercise carried out in the past couple of years. This should help improve FFB yields in the long-term. The downstream business is expected to enjoy positive profit margins underpinned by premium sustainable palm products. Finally, SDG's asset monetisation exercise is anticipated to continue as the group seeks to dispose 10,000 acres of land in the coming five years.

- BUY with a higher TP of RM6.90/share vs. RM6.20/share originally.** We have assumed a FY26F PE of 20x instead of 18x to derive SDG's TP. The PE of 20x is the five-year average for big-cap planters. Previously, we had applied a lower PE to reflect risks in the downstream industry. However, SDG's downstream unit has proven to be resilient backed by premium products and it has not recorded losses yet.
- Labour shortage in Malaysia is no longer an issue.** The labour requirements of SDG's East Malaysia upstream unit were finally fulfilled in late-FY25. In Peninsular Malaysia, SDG has completed the upkeep work, which was not fully carried out during the post-Covid lockdown period due to a labour shortage. In Indonesia, CPO output may reach one million tonnes in the coming years (FY24: 589,978 tonnes) driven by improved FFB yields and a favourable age profile of trees. Overall, we forecast SDG's FFB production to grow by 4.5% in FY26F vs. 2.5% in FY25F.
- Downstream EBIT margins to sustain between 3% and 5%.** We believe that this would be supported by positive demand for SDG's sustainable products. We understand that the USA and China are growing markets for specialty palm products. SDG is also prepared for EUDR, which will be implemented on 31 December 2026. The group sent trial shipments of EUDR compliant products to the EU in late-2024.
- Land disposal gains of RM364mil locked in for FY26F.** The proposed disposal was announced in December 2025, and it is expected to be completed in FY26F. We envisage another disposal of land in FY26F, which would bring in proceeds of more than RM800mil and gains of more than RM400mil.

Analyst (s)

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Key Changes

Target Price:

EPS:

Stock and Financial Data

Shares Outstanding (million)	6,915.70
Market Cap (RMmil)	39,073.7
Book Value (RM/Share)	3.06
P/BV (x)	1.8x
ROE (%)	12.4
Net Gearing (%)	36.3
Free Float	54.4
Avg Daily Value (RMmil)	50.3

Major Shareholders

ASB	45.6%
EPF	16.5%
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Price performance

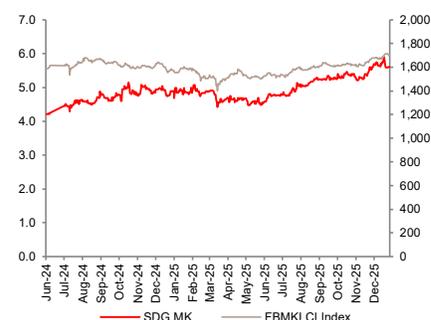
	3mth	6mth	12mth
Absolute (%)	+0.4	+18.3	+14.7
Relative (%)	+0.2	+5.4	+6.8

Source: SD GUTHRIE, AmInvestment Bank

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	19,831.0	22,272.9	24,026.2	25,264.5
Core net profit (RM mil)	2,163.8	2,294.2	2,382.0	2,487.5
FD Core EPS (sen)	31.3	33.2	34.4	36.0
FD Core EPS growth (%)	16.3	6.0	3.8	4.4
Consensus Net Profit (RM mil)		2,113.0	2,111.0	2,018.0
DPS (sen)	16.4	17.0	18.0	19.0
PE (x)	18.1	17.0	16.4	15.7
EV/EBITDA (x)	9.8	9.4	9.6	9.6
Div yield (%)	2.9	3.0	3.2	3.4
ROE (%)	12.4	12.0	12.2	12.7
Net Gearing (%)	36.3	33.0	46.3	59.4

Source: SD GUTHRIE, AmInvestment Bank

Price Chart



Company profile

SD Guthrie (SDG) is involved in upstream and downstream segments of the palm oil supply chain. Apart from these, SDG sells palm oil seedlings.

About 82% of SDG's FY24 operating profit came from the upstream division i.e. sale of CPO and PK (palm kernel). Another 19% came from the downstream unit i.e trading and sale of bulk and differentiated products.

SDG's upstream customers are refineries and cooking oil companies in India, Africa and EU. SDG's downstream customers are consumer companies in the EU, Africa and Asia Pacific.

SDG's operations are in Malaysia, Indonesia, Papua New Guinea, United Kingdom and Africa.

SDG's competitive advantage is its diversified upstream operations, which smoothens out smoothens our seasonal volatility and differentiated downstream products, which have higher margins and more resilient demand

Investment thesis and catalysts

We have a BUY on SDG due to its land monetisation exercise, which would generate cash of more than RM600mil per year. These would be used to finance new solar projects, capex and working capital.

Share price catalysts are a rise in CPO prices and improved outlook for the downstream operations.

Valuation methodology

We have applied a FY26F PE of 20x to arrive at our target price of RM6.90/share for SDG. The PE of 20x is the five-year average of 20x for big-cap plantation companies.

Risk factors

Key risks are a drop in CPO prices and fall in demand for palm products, which would affect earnings of the downstream division.

We estimate that a RM100/tonne decline in CPO price would affect SDG's net profit by 3% to 5% assuming everything else remains the same.

EXHIBIT 1. VALUATIONS

Target PE (x)	20 (from 18 previously)
CY26F EPS	34.4
ESG premium	-
12-month target price	6.90

EXHIBIT 2. ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	RSPO certification	100% certification	25%	*	*	*			100% of mills certified; 42% of smallholders were certified in FY24 vs. 36% in FY23
2	Supply chain auditing	100% traceable	25%	*	*	*			84.9% (FY23: 81.5%) traceable to plantation and 96.9% (FY23: 95.7%) traceable to mills in FY24
3	Fires	Zero incidences	25%	*	*	*			44 fires (FY23: 67) in concession areas and 276 (FY23: 745) outside concession areas in FY24
4	GHG emissions	Net zero by 2050F	25%	*	*	*			18.6mil tonnes of CO2e under Scope 1, 2 and 3 in FY24 vs. 19.5mil in FY23
	Weighted score for environmental assessment		100%	*	*	*			
	Social assessment								
1	Migrant workers welfare	Number of Workers grievances	40%	*	*	*			364 cases in FY24 vs. 566 in FY23
2	Work site safety	Zero fatal fatalities	30%	*	*	*			2 work-related fatalities in FY24 vs. 5 in FY23
3	Lost Time Injury Frequency	Below 5	30%	*	*	*			5.9 in FY24 vs. 8.7 in FY23
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Related party transactions	Value of RPTs	40%	*	*	*			RM60.1mil in FY24, mainly purchase of heavy equipment from sister companies
2	Women in workforce	% in workforce	30%	*	*	*			19.5% of women in workforce in FY24 vs. 17.5% in FY23
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*			RM13.5mil in FY24 vs. RM10.4mil in FY23
	Weighted score for governance assessment		100%	*	*	*			

Source: Company, AmInvestment Bank Bhd

Financial Summary

Income Statement (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue	18,427.9	19,831.0	22,272.9	24,026.2	25,264.5
EBITDA	1,779.2	3,267.8	4,672.9	4,846.5	5,131.3
Depreciation/Amortisation	(1,387.8)	(1,408.8)	(1,482.6)	(1,530.2)	(1,665.7)
Operating income (EBIT)	391.5	1,859.0	3,190.2	3,316.2	3,465.7
Other income & associates	1,431.5	820.3	240.0	240.0	240.0
Net interest	(197.5)	(144.9)	(140.2)	(146.7)	(152.6)
Exceptional items	1,127.0	605.0	-	-	-
Pretax profit	2,752.5	3,139.3	3,290.0	3,409.5	3,553.1
Taxation	(719.1)	(795.8)	(789.6)	(818.3)	(852.7)
Minorities/pref dividends	(173.3)	(179.7)	(206.3)	(209.2)	(212.8)
Net profit	1,860.0	2,163.8	2,294.2	2,382.0	2,487.5

Balance Sheet (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	19,145.3	19,364.7	20,382.0	22,882.0	25,382.0
Intangible assets	3,054.7	2,995.1	2,995.1	2,995.1	2,995.1
Other long-term assets	3,477.5	3,292.0	3,466.7	3,468.7	3,470.7
Total non-current assets	25,677.5	25,651.8	26,843.8	29,345.8	31,847.8
Cash & equivalent	830.4	625.4	2,392.7	1,775.4	1,805.2
Stock	2,663.9	2,841.7	2,929.0	3,159.6	3,322.4
Trade debtors	2,207.6	2,408.2	2,440.9	2,633.0	2,768.7
Other current assets	507.0	520.0	520.0	520.0	520.0
Total current assets	6,208.9	6,395.2	8,282.6	8,088.0	8,416.3
Trade creditors	2,800.2	2,404.5	2,716.1	2,948.4	3,103.1
Short-term borrowings	1,700.6	1,741.9	2,264.4	2,943.8	3,826.9
Other current liabilities	289.7	272.9	398.6	398.6	398.6
Total current liabilities	4,790.5	4,419.3	5,379.1	6,290.8	7,328.6
Long-term borrowings	3,581.7	3,360.2	4,368.3	5,678.8	7,382.4
Other long-term liabilities	3,107.9	3,106.8	3,017.6	3,017.6	3,017.6
Total long-term liabilities	6,689.6	6,467.0	7,385.9	8,696.4	10,400.0
Shareholders' funds	17,742.6	18,486.0	19,604.5	19,604.5	19,604.5
Minority interests	2,663.9	2,674.7	2,756.9	2,842.1	2,931.0
BV/share (RM)	2.95	3.06	3.23	3.25	3.26

Cash Flow (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	2,752.5	2,343.5	3,290.0	3,409.5	3,553.1
Depreciation/Amortisation	1,432.0	1,452.8	1,482.6	1,530.2	1,665.7
Net change in working capital	(307.2)	(1,296.0)	(619.5)	(1,004.9)	(987.1)
Others	(802.3)	258.4	(40.0)	(40.0)	(40.0)
Cash flow from operations	3,075.0	2,758.6	4,113.2	3,894.9	4,191.6
Capital expenditure	(2,096.5)	(1,967.9)	(2,500.0)	(2,500.0)	(2,500.0)
Net investments & sale of fixed assets	1,466.0	726.8	20.0	20.0	20.0
Others	0.6	(41.2)	3.5	3.5	3.5
Cash flow from investing	(629.8)	(1,282.2)	(2,476.5)	(2,476.5)	(2,476.5)
Debt raised/(repaid)	(1,028.7)	(70.7)	522.6	679.3	883.1
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(696.5)	(1,155.9)	(587.8)	(622.4)	(657.0)
Others	(518.9)	(457.6)	196.0	(2,092.5)	(1,911.5)
Cash flow from financing	(2,244.1)	(1,684.3)	130.7	(2,035.6)	(1,685.4)
Net cash flow	201.0	(207.9)	1,767.4	(617.3)	29.7
Net cash/(debt) b/f	634.9	830.3	625.3	2,392.7	1,775.4
Forex	(5.7)	2.9	0.0	0.0	0.0
Net cash/(debt) c/f	830.3	625.3	2,392.7	1,775.4	1,805.2

Key Ratios

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-12.4	7.6	12.3	7.9	5.2
EBITDA growth (%)	-12.6	9.8	3.1	3.5	5.7
Pretax margin (%)	0.1	0.2	0.1	0.1	0.1
Net profit margin (%)	0.1	0.1	0.1	0.1	0.1
Interest cover (x)	21.6	32.4	34.5	34.2	34.7
Effective tax rate (%)	26.1	25.3	24.0	24.0	24.0
Dividend payout (%)	55.8	52.3	51.2	52.3	52.8
Debtors turnover (days)	45	44	44	40	40
Stock turnover (days)	48	53	52	48	48
Creditors turnover (days)	49	61	51	52	52

Source: Company, AmInvestment Bank

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