MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Baa1 rating to Sime Darby Plantation; outlook stable

Global Credit Research - 18 Apr 2017

Singapore, April 18, 2017 -- Moody's Investors Service has assigned a first-time Baa1 issuer rating to Sime Darby Plantation Sdn Bhd (SDP).

The rating outlook is stable.

RATINGS RATIONALE

"SDP's Baa1 issuer rating reflects its market leadership position, firstly, as the largest listed oil palm plantation company by planted area and crude palm oil production, and secondly, as the leading producer globally of certified sustainable palm oil," says Jacintha Poh, a Moody's Vice President and Senior Analyst.

"At the same time, the rating is constrained by SDP's exposure to volatile crude palm oil prices," adds Poh.

At 30 June 2016, SDP's land bank totaled around one million hectares, of which, 603,254 comprised an oil palm planted area across five countries: Malaysia, Indonesia, Papua New Guinea, Liberia and Solomon Islands.

For its fiscal year ended 30 June 2016 (FY2016), SDP produced around 2.4 million metric tons of crude palm oil, which represented approximately 4% of global production. Of the 2.4 million metric tons, around 2.2 million represented certified sustainable palm oil, and which was equivalent to approximately 21% of global production.

SDP is an established integrated palm oil producer, with operations along the entire value chain, including the production and sale of upstream byproduct — such as crude palm oil and palm kernel oil — as well as downstream products such as edible oils and fats, oleochemicals, biodiesel and renewables.

While SDP's downstream operations continue to grow and contributed to three-quarters of revenue in FY2016, its upstream operations — which generate higher margins — contributed more than three-quarters of total EBIT. Over the next 12-18 months, Moody's expects that the EBIT margins of SDP's upstream operations will register around 40% and downstream operations around 3%.

SDP's rating also takes into account its importance to the Malaysian economy and implicit support from its government-linked shareholders, Permodalan Nasional Berhad and Employees Provident Fund. Moody's expects that SDP will receive support from these two shareholders, even after it lists on a standalone basis on Bursa Malaysia.

Moody's explains that on 27 February 2017, SDP's parent, Sime Darby Berhad (Baa1 review for downgrade), announced a plan to create three standalone businesses by listing its plantation and property businesses separately through a dividend in specie, while retaining its motors, industrial, logistics and other businesses. Consequently, the shareholders for SDP and Sime Darby Property Berhad (unrated) will be similar to that of Sime Darby Berhad.

Moody's points out that SDP's leverage profile was elevated in FY2015 and FY2016, as a result of its heavily debt-funded acquisition of New Britain Palm Oil Ltd (unrated) in March 2015. Moody's expects that SDP's leverage will improve substantially in FY2017, on debt reduction and earnings improvement.

Sime Darby Berhad is clearing the intercompany loan owing from SDP via allocating a portion of its external borrowings to SDP and offsetting the rest through a transfer of assets, such that SDP will likely register a total adjusted debt of around MYR9.5-MYR10.2 billion in FY2017 and FY2018, lowered from around MYR14.2 billion in FY2016.

Over the next 12-18 months, together with earnings improvement led by a higher CPO prices, Moody's expects SDP's adjusted debt/EBITDA to improve to around 3.0x from 6.2x in FY2016 and adjusted EBITA/interest expense to improve to around 3.5x from 2.1x.

The rating outlook is stable, reflecting Moody's expectation that SDP's management will maintain a prudent and conservative approach towards further investments, as the company pursues growth.

A rating upgrade is unlikely over the near to medium term, but a positive momentum could build, if SDP successfully executes its business plans and grows its scale, generates strong positive operating cash flows, and demonstrates sustained improvement in its financial profile, such that cash flows from operations/net debt is above 35%-40%, adjusted debt/EBITDA is below 2.0x, and EBITA/interest expense is above 6.0x.

However, SDP's rating could face downward pressure if: (1) the company fails to implement its business plan, such that its financial profile differs from Moody's expectation; and/or (2) there is a deterioration in palm oil prices, leading to a protracted weakness of SDP's operations and credit profile.

Moody's considers an adjusted debt/EBITDA above 3.5x and an adjusted EBITA/interest expense of less than 3.0x on a sustained basis, as indications that a rating downgrade could be necessary.

The principal methodology used in this rating was Global Protein and Agriculture Industry published in May 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Sime Darby Plantation Sdn Bhd (SDP) is an integrated plantation company with a business that spans the entire palm oil value chain. It is a wholly-owned subsidiary of Sime Darby Berhad (Baa1 review for downgrade) but will likely be listed as a standalone company on Bursa Malaysia, through a dividend in specie distribution. If listed as such, the shareholders of SDP will be similar to that of its parent.

At 31 March 2017, Sime Darby Berhad was 6% directly-owned by Permodalan Nasional Berhad (PNB, unrated), 43% by Skim Amanah Saham Bumiputera (unrated), 7% by other PNB-managed funds, and 11% by Malaysia's Employees Provident Fund (unrated).

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Jacintha Poh
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.

50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Laura Acres
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.