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Rating Action: Moody's affirms Sime Darby Plantation's Baa1 rating, confirms Sime Darby Global Berhad's Baa1 ratings

Global Credit Research - 26 May 2017

Singapore, May 26, 2017 -- Moody's Investors Service has affirmed the Baa1 issuer rating of Sime Darby Plantation Sdn Bhd (SDP).

At the same time, Moody's has confirmed the (P)Baa1 rating on the USD1.5 billion senior unsecured medium-term note programme of Sime Darby Global Berhad and the Baa1 senior unsecured debt rating on the sukuk issued by Sime Darby Global Berhad.

The ratings outlook is stable.

The rating action on Sime Darby Global Berhad concludes the review for downgrade initiated on 3 February 2017, after its previous obligor, Sime Darby Berhad (Baa1 under review for downgrade) announced plans to demerge and list its plantation and property businesses separately on Bursa Malaysia.

RATINGS RATIONALE

On 23 May 2017, Sime Darby Berhad announced: (1) completion of the cash repurchase of USD627.9 million sukuk, out of USD800 million, issued by Sime Darby Global Berhad; and (2) novation of the remaining USD172.1 million sukuk -- USD49.6 million due 2018 and USD122.5 million due 2023 -- and change in obligor from Sime Darby Berhad to SDP.

The cash repurchase of the tendered sukuk was funded by a USD430 million bridge facility at SDP's level and with cash balances of Sime Darby Berhad. Hence, the amount of debt allocated to SDP totaled approximately USD600 million.

"The affirmation of SDP's Baa1 ratings reflects that the debt allocation on the US dollar sukuk and the drawdown of bridge financing remains in line with our expectation, such that the company is on track to achieve improvement in its financial metrics over the next 12-18 months," says Jacintha Poh, a Moody's Vice President and Senior Analyst.

Moody's expects SDP's total adjusted debt will reach around MYR9.5-MYR10.2 billion in the financial year ending 30 June 2017 (FY2017) and FY2018, down from around MYR14.2 billion in FY2016.

Consequently, SDP's adjusted debt/EBITDA should improve to around 3.0x from 6.2x in FY2016, and adjusted EBITA/interest expense to around 3.5x from 2.1x, over the next 12-18 months.

"The confirmation of Sime Darby Global Berhad's ratings follows the successful change in its obligor, such that it is now a wholly-owned subsidiary of SDP, instead of Sime Darby Berhad," adds Poh.

The rating outlook is stable, reflecting Moody's expectation that SDP will successfully term out the USD430 million bridge financing and the 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 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 rises above 35%-40%, adjusted debt/EBITDA falls below 2.0x, and EBITA/interest expense rises above 6.0x.

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 protracted weakness in SDP's operations and credit profile.

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

The principal methodology used in these ratings 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 currently a wholly-owned subsidiary of Sime Darby Berhad but is expected to be listed as a standalone company on Bursa Malaysia through a dividend in specie distribution. If listed as such, SDP's ownership structure will be the same as that of Sime Darby Berhad, given that SDP and Sime Darby Berhad will become sister companies.

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).

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