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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. Concurrently, the rating agency has affirmed its **AA_{1S}/Stable** rating on SD Plantation's Perpetual Subordinated Sukuk Programme (Perpetual Sukuk) of up to RM3.0 billion.

SD Plantation's sizeable, geographically-diversified and integrated palm oil operations remain key rating drivers. The rating also benefits from a one-notch uplift for implicit support from parent Permodalan Nasional Berhad, a government-linked investment company. SD Plantation's exposure to crude palm oil (CPO) price movement that leads to cash flow volatility remains a moderating factor. Given the group's commitment to spend an average of RM800 million p.a. on replanting, the decline in cash flow generation from lower CPO price in recent years has weighed on its ability to reduce its debt obligations from internally generated funds.

SD Plantation has instead relied on proceeds from land disposals to pare down its borrowings; following some delays, land parcel sales totalling RM438 million were completed by end-1H2020. SD Plantation's adjusted borrowings were lower at RM8.7 billion (1H2019: RM8.9 billion), translating to a debt-to-equity (DE) ratio of 0.55x (net DE: 0.51x). On completion of the full disposal of land parcels with the proceeds utilised to reduce borrowings, group leverage is expected to improve to about 0.52x.

For 1H2020, SD Plantation recorded a higher average CPO price of RM2,475/MT (1H2019: RM2,016/MT). Correspondingly cash flow from operations was substantially higher at RM1.2 billion (1H2019: RM594 million). Meanwhile, its fresh fruit bunch production has been on a declining trend, recording 4.59 million MT in 1H2020 (1H2019: 4.95 million MT) largely on adverse weather conditions in Malaysia, Papua New Guinea and Solomon Islands. Its oil extraction rate, however, has been steady at 21.58% and is targeted to achieve 23% by 2023. The improved extraction rate benefits from higher-yielding seedlings used in replanting and technological improvement at the mills. SD Plantation is currently replanting at least 4% of its plantations but at a higher rate for its Indonesian plantations, ranging from 5% to 7%, given their older age; about 27% of SD Plantation's total cultivated oil palm plantation of 583,766 ha are currently in the prime ages (from nine to 18 years) as at end-2019.

SD Plantation's downstream operations branded as Sime Darby Oils (SDO) accounted for about 15.5% of total operating profit of RM727 million in 1H2020. SDO was created to highlight the group's focus on specialty products, premium quality oils and other differentiated products that command higher margins and would boost the characteristically thin operating profit margins of its downstream operations of below 3%. As a fully certified sustainable palm oil (CSPO) producer, the group is in good stead to further penetrate the global fast-moving consumer goods industry.

Contacts:

Lim Wooi Loon, +603-2717 2943/ wooiloon@marc.com.my;

(<mailto:wooiloon@marc.com.my>;)Taufiq Kamal, +603-2717 2951/ taufiq@marc.com.my (<mailto:taufiq@marc.com.my>)

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