

HLIB Research

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BUY (Maintain)

Target Price: **RM6.49**
Previously: **RM6.49**
Current Price: **RM5.62**

Capital upside	15.5%
Dividend yield	2.7%
Expected total return	18.2%

Sector coverage: Plantation

Company description: SDG produces and distributes agricultural products.

Share price


Historical return (%)	1M	3M	12M
Absolute	0.4	6.0	14.9
Relative	-1.7	-0.4	7.0

Stock information

Bloomberg ticker	SDG MK
Bursa code	5285
Issued shares (m)	6,916
Market capitalisation (RM m)	38,866
3-mth average volume ('000)	9,238
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★

Major shareholders

Amanah Saham Nasional	49.8%
Employees Provident Fund	14.8%
Kumpulan Wang Persaraan	7.7%

Earnings summary

FYE (Dec)	FY24	FY25F	FY26F
PATMI - core (RMm)	1,487	1,962	1,898
EPS - core (sen)	21.5	28.4	27.5
P/E (x)	26.1	19.8	20.5

SD Guthrie

Investor Day highlights

During SDG's Inaugural Investor Day, management highlighted growth in upstream productivity through replanting and favourable conditions, and downstream competitiveness via sustainability, supply chain security, and product innovation. Key strategies include feedstock security, market expansion, non-food diversification, and landbank monetisation (including renewable energy). Maintain BUY rating with an unchanged SOP-derived TP of RM6.49.

During SDG's Inaugural Investor Day, the management team across key business segments outlined their strategic plans and outlook, while Julian McGill (Managing Director of Glenauk Economics) shared his near-term CPO price views.

CPO price outlook. Julian McGill shared his subdued near-term CPO price outlook, projecting prices to remain below RM4,000/mt over the next 3-4 months, given (i) his expectations of a slow inventory drawdown in Malaysia amid competition from other palm-producing countries (notably Thailand and Columbia) and improved palm productivity in Malaysia (arising from more conducive weather pattern and labour availability), (ii) the delay in Indonesia's B50 biodiesel mandate, and (iii) impact from land seizures in Indonesia will likely be muted in 2026.

Upstream: replanting and recovery phase fuelling productivity gains. The decent palm productivity growth recorded in FY25 is expected to sustain into FY26 (if not better), supported by (i) accelerated replanting efforts since 2016, particularly in Indonesia, which is set to be the key driver of SDG's output growth over the next two years. Productivity is also supported by favourable weather conditions and improved labour availability, especially across Malaysia estates. Management noted that it is refining its replanting targets to optimise FFB yields, and as the planted area reaches a more optimal age profile over the next 2-3 years, production growth of >5% is expected.

Downstream: the growth engine going forward. Management noted that the company's focus on sustainability, supply chain security (through consistent, reliable supply and a diversified global footprint), food safety and quality, and product innovation will continue to provide its downstream business with a competitive edge over peers. SDG has identified four key growth pillars for its downstream segment, and these include (i) feedstock security and supply chain – by securing supply of CPO and other oils to maximise plant capacity and expand supply chain participation, (ii) product innovation and development, by enhancing technical capabilities to enter higher margin, high value-add food markets, (iii) expanding existing products into underserved global food markets, and (iv) diversifying into non-food capabilities, leveraging on the growing demand for sustainable animal feed, biofuel and oleochemical products.

Unlocking the best use of Guthrie's land whilst supporting the national agenda.

SDG shared that it will continue to unlock value of its strategically located landbank through (i) planned developments within the country's key growth corridors (including Kulim Industrial Corridor, Malaysia Vision Valley 2.0, and Johor-Singapore Special Economic Zone), and (ii) a diversification into renewable energy where it is actively exploring large scale solar developments and strategic partnerships to accelerate its 1GW target.

Forecast. Maintain.

Maintain BUY with unchanged TP of RM6.49. We maintain our BUY rating on SDG with an unchanged SOP-derived TP of RM6.49 (see Figure #1). We continue to

favour SDG for its (i) ongoing efforts to diversify its earnings drivers (particularly through expansion into RE and industrial property developments by leveraging on its prime landbank), (ii) improving balance sheet, and (iii) decent dividend yield of 3-4%.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY23A	FY24A	FY25F	FY26F	FY27F
Cash	830	625	966	1,828	2,895
Receivables	2,266	2,470	3,121	3,275	3,215
Inventories	2,664	2,842	3,590	3,768	3,698
PPE	21,381	21,576	21,680	21,776	21,864
Others	4,745	4,534	4,506	4,479	4,451
Assets	31,886	32,047	33,864	35,126	36,124
Payables	2,442	2,437	3,079	3,231	3,172
Debt	5,516	5,320	5,320	5,320	5,320
Others	3,522	3,129	3,129	3,129	3,129
Liabilities	11,480	10,886	11,528	11,680	11,621
Shareholder's equity	17,743	18,486	19,618	20,687	21,704
Perpetual sukuk	2,231	2,231	2,231	2,231	2,231
Minority interests	433	443	486	527	567
Equity	20,406	21,161	22,335	23,445	24,503

Income Statement

FYE Dec	FY23A	FY24A	FY25F	FY26F	FY27F
Revenue	18,428	19,831	25,054	26,293	25,810
EBITDA	4,319	4,739	4,480	4,399	4,328
EBIT	2,887	3,286	3,052	2,963	2,884
Net finance cost	(175)	(119)	(101)	(102)	(96)
Associates & JVs	40	(28)	5	5	5
Profit before tax	2,752	3,139	2,956	2,866	2,793
Tax	(719)	(796)	(826)	(801)	(781)
Profit from continuing operations	2,033	2,344	2,130	2,065	2,013
Profit from discontinued operations	-	-	-	-	-
Perpetual sukuk	(124)	(125)	(125)	(125)	(125)
Minority interests	(49)	(55)	(43)	(41)	(40)
Reported PATMI	1,860	2,164	1,962	1,898	1,847
Exceptionals	(865)	(677)	-	-	-
Core PATMI	995	1,487	1,962	1,898	1,847
Consensus core PATMI			1,898	1,861	1,776
HLIB/ Consensus			103.4%	102.0%	104.0%

Cash Flow Statement

FYE Dec	FY23A	FY24A	FY25F	FY26F	FY27F
PAT	2,033	2,344	2,130	2,065	2,013
D&A	1,432	1,453	1,428	1,437	1,444
Working capital	723	(644)	(757)	(180)	70
Taxation	(1,010)	(614)	(826)	(801)	(781)
Others	(104)	221	821	796	776
CFO	3,075	2,759	2,796	3,317	3,522
Capex	(2,129)	(2,042)	(1,500)	(1,500)	(1,500)
Others	1,499	760	-	-	-
CFI	(630)	(1,282)	(1,500)	(1,500)	(1,500)
Changes in debt	(1,207)	(244)	(125)	(125)	(125)
Shares issued	-	-	-	-	-
Dividends	(642)	(1,134)	(830)	(830)	(830)
Others	(395)	(306)	-	-	-
CFF	(2,244)	(1,684)	(955)	(955)	(955)
Net cash flow	201	(208)	341	862	1,067
Forex	(6)	3	-	-	-
Others	-	-	-	-	-
Beginning cash	635	830	625	966	1,828
Ending cash	830	625	966	1,828	2,895

Valuation & Ratios

FYE Dec	FY23A	FY24A	FY25F	FY26F	FY27F
Core EPS (sen)	14.4	21.5	28.4	27.5	26.7
P/E (x)	39.1	26.1	19.8	20.5	21.0
EV/EBITDA (x)	10.5	9.6	10.1	10.3	10.5
DPS (sen)	15.0	16.4	15.0	15.0	15.0
Dividend yield	2.7	2.9	2.7	2.7	2.7
BVPS (RM)	2.6	2.7	2.8	3.0	3.1
P/B (x)	2.2	2.1	2.0	1.9	1.8
EBITDA margin	23.4%	23.9%	17.9%	16.7%	16.8%
EBIT margin	15.7%	16.6%	12.2%	11.3%	11.2%
PBT margin	14.9%	15.8%	11.8%	10.9%	10.8%
Net margin	5.4%	7.5%	7.8%	7.2%	7.2%
ROE	4.9%	7.0%	8.8%	8.1%	7.5%
ROA	3.1%	4.6%	5.8%	5.4%	5.1%
Net gearing	23.0%	22.2%	19.5%	14.9%	9.9%

Assumptions

FYE Dec	FY25F	FY26F	FY27F
FFB yield (mt/ha)	18.4	19.5	20.3
OER (%)	21.0	21.1	21.4
PKER (%)	4.6	4.7	4.7

Average selling prices (RM/mt)

CPO	4,101	4,011	3,915
PK	2,418	2,365	2,310

Figure #1 **Sum-of-parts TP**

	Basis	Value (RM/share)
Plantation (upstream & downstream)	Based on 23x FY26 core EPS of 27.5 sen	6.31
NPV of land sale gain	Assuming land sale gain of RM500m p.a. over the next 3 years (discount rate of 10.8%)	0.18
		6.49

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ESG Snapshot

F4GBM Index member	:	Yes
FTSE Russell ESG rating	:	★ ★ ★
MSCI ESG rating	:	AA

The goal of this section is to provide an overview of SDG's ESG trends and developments. Information presented here are from financial year FY24 and will only be updated when new data are available. Overall, we find the group has no glaring ESG issues.

Environmental (E) indicators

- Commit to implementation of No Deforestation, No New Planting on Peat and No Social Exploitation (NDPE).
- Has 19 biogas plants as of FY24 (vs. 15 as of FY23). On track to achieve 45 biogas plants by 2030 with the aims of achieving net-zero emissions across its value chain by 2050.
- Continues to explore the feasibility of using EFB, PKS and Briochar to further reduce carbon emission.
- Fully compliant with all major palm-oil relates sustainability standards globally, i.e. Roundtable of Sustainable Palm Oil (RSPO), Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) certifications.
- Achieved 96.9% Traceability to Mill (vs. 95.7% in FY23) and 84.9% traceability to Plantation (vs. 81.5% in FY23), as well as 100% traceability to plantation for SDG-owned mills.
- SPOTT ranking improved from #4 to #3, the highest ranking since the inception of the benchmarking in 2014.

Comments: We applaud the improvement in sustainability commitments score. We deem the other indicators fairly reasonable.

Social (S) indicators

- Composition of female board of directors stood at 27% (vs. 40% in FY23).
- Female accounts for 28% of the group's senior management posts (vs. 28% in FY23 and 27% in FY22).
- Responsible recruitment practices including "No Recruitment Fee" policy, no retention of documents, and no contract substitution.
- Launched employee wellness programme, NEW, in Malaysian operations which provides employees access to various services to promote physical and mental health. In the midst of exploring the possibility of extending wellness support to other countries where it operates.

Comments: No significant change in indicators.

Governance (G) indicators

- Board size of 11 directors (from 10 in FY23), where 55% (6) were independent (from 50% in FY22). None of the independent directors has served on the board for more than 9 years.
- The percentage of executive & non-executive directors' pay to total income stood at 0.6% in FY24 (similar to FY23).

Comments: No significant change in indicators.

Bursa, HLIB Research

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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