Genting Plantations Berhad

Maintain BUY

(2291 | GENP MK) Plantation | Plantation

Higher CPO price to buoy profit margin

***Revised* Target Price: RM12.10**

(previously RM11.80)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings rose by +57.3%yoy to RM74.2m, within our and consensus' expectations**
- **GENP registered higher CPO and CPKO price of RM2,619/mt (+33.0%yoy) and RM1,593/mt (+24.0%yoy) respectively**
- **FFB production expected to improve due to larger harvesting area and better age profile**
- **Anticipated resumption of economic activities to support the property segment in 2HFY20**
- **Maintain BUY with a revised TP of RM12.10**

Commendable 1QFY20 earnings. Genting Plantations Berhad's (GENP) 1QFY20 normalised earnings jumped by +57.3%yoy to RM74.2m, primarily driven by higher CPO price. Nonetheless, this came in within our and consensus's expectation as it accounted for about 27.2% and 27.5% of the full year FY20 earnings forecasts. Moving forward, we expect the elevated CPO price would further support the earnings growth momentum in the coming quarters.

Margin expansion due to higher CPO price. The higher 1QFY20 earnings were mainly attributable to the recovery in average selling price (ASP) of CPO and CPKO to RM2,619/mt (+33.0%yoy) and RM1,593/mt (+24.0%yoy) respectively. This led to an expansion in EBIT margin by +5.9ppts yoy to 17.1%, albeit the group posted a lower revenue by -8.5%yoy at RM569.0m. We are of the view that the group will able to continue to maintain a healthy profit margin given the anticipated higher CPO price on a year-over-year basis.

Expecting FFB production to trend higher. The group's 1Q20 FFB production fell by -19.0%yoy to 449k mt, largely caused by the lagged effects of adverse conditions in 2019. Note that this was in line with the industry trend of the lower yields of 3.35tonnes/ha in 1QCY20 vs 4.28tonnes/ha in 1QCY19. Nonetheless, we opine that the group's FFB yield to be gradually improving from an increase in harvesting area and a better age profile primarily from its Indonesian estate.

Gradual recovery of property segment in 2HCY20. While this segment recorded an improved performance in 1QFY20 *(refer to Table 1)*, we are expecting subdued property sales and income in the 2QCY2 as caused by the Covid-19 led movement control order (MCO) and weakening economic indicators. However, we foresee a gradual rebound in 2HCY20 on the anticipated resumption of economic activities.

Downstream segment. EBITDA for the segment declined by -35.6%yoy to RM14.1m in 1QFY20*(refer to table 1)*. This was predominantly due to lower sales of refined palm products as affected by the virus outbreak. Nonetheless, we posit that potentially narrower POGO spread in 2HCY20 if oil price gradually recovers could help to support demand for refined palm products from its refinery.

RETURN STATISTICS	
Price @ 20th May 2020 (RM)	9.66
Expected share price return (%)	+22.1
Expected dividend yield (%)	+1.3
Expected total return (%)	**+23.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+0.6	-0.9
3 months	+1.7	+2.5
12 months	-6.4	+4.7

KEY STATISTICS	
FBM KLCI	1,435.12
Syariah compliant	Yes
Issue shares (m)	897.36
Estimated free float (%)	20.25
Market Capitalisation (RM'm)	8,666.93
52-wk price range	RM 7.99 – RM11.1
Beta vs FBM KLCI (x)	0.70
Monthly velocity (%)	11.02
Monthly volatility (%)	6.33
3-mth average daily volume (m)	0.74
3-mth average daily value (RM'm)	6.89
Top Shareholders (%)	
Genting Bhd	55.15
EPF	10.06
Kumpulan Wang Persaraan	6.70

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Table 1: EBITDA breakdown (RM'm)

Segment	1FY20	1FY19	Variance (%)	Remarks
Plantation	118.5	107.0	+10.7	Higher margin due to higher CPO and CPKO price
Property	5.5	3.7	+48.6	Progress of construction works albeit sales declined
Downstream manufacturing	14.1	21.9	-35.6	Lower sales volume of refined palm products

Source: Company, MIDFR.

Earnings estimates. We are revising our earnings forecast for FY20, FY21, and FY22 to RM236.5m, RM332.1m and RM360.4m respectively, mainly in view of our revised assumption of lower CPO target price to RM2,300/mt, RM2,450/mt and RM2,550/mt respectively.

Target Price. We are rolling forward our valuation base year to FY21 and derive a new target price of **RM12.10** (previously RM11.80). This is based on sum-of-part valuation methodology as shown in *Table 2* below.

Maintain BUY. We continue to believe that the recovery in CPO price above the RM2,000/mt level would help in recording a more favourable profit margin for the group. We also expect a gradual recovery in FFB yield that could possibly outperform the industry average. This is predicated on the improving age profile at its Indonesia plantations where FFB yield would increase as trees come into maturity soon. All in, we expect these factors to support the group's earnings in the coming quarters. Although the on-going COVID-19 outbreak and unfavourable POGO spread might dampen demand in the intermediate term, we believe that the group will still be able to capitalize on the favourable CPO prices, its resilient FFB growth as well as the higher biodiesel mandate in driving earnings momentum at its mainstay plantation segment. In addition, we also expect the property segment to continue to record steady upward performance in anticipation of resumption in economic activities. All factors considered, we are maintaining our **BUY** recommendation on GENP.

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	**FY18A**	**FY19A**	**FY20E**	**FY21F**	**FY22F**
Revenue	1,902.9	2,266.4	2,130.5	2,301.7	2,553.5
EBIT	240.7	239.7	339.4	435.6	448.1
PBT/(LBT)	207.7	185.5	311.2	397.4	412.9
PATANCI/(LATANCI)	164.9	130.4	236.5	332.1	360.4
Normalised PATANCI/(LATANCI)	**148.7**	**140.2**	**236.5**	**332.1**	**360.4**
Normalised EPS (sen)	17.4	16.2	27.7	38.8	42.2
Normalised EPS Growth (%)	-58.4	-7.1	71.2	40.4	8.5
Dividend Per Share (sen)	13.0	13.0	13.0	13.0	13.0
Dividend Yield (%)	1.30	1.30	1.35	1.35	1.35
PER (x)	57.5	61.9	34.9	24.9	22.9
NTA/share (RM)	5.1	5.2	5.4	5.7	5.9
P/NTA	2.0	1.9	1.9	1.8	1.7
Return on Equity (%)	3.4	3.1	5.1	6.8	7.1
Return on Assets (%)	1.9	1.6	2.8	3.9	4.3

Source: Company, MIDFR

Table 2: SOP-based Valuations

SOP Valuations	Valuation Basis	Value (RM'm)	RM/share
Plantations	FY21 PE 28.1x	8,866.0	9.88
Property	10% discount to RNAV	3,200.0	3.56
Net cash/ (Debt) as of 31st March 2020		-1,200	-1.34
Weighted average number of ordinary shares (m)			897.2
Fully Diluted SOP			**12.10**

Source: Company, MIDFR

GENTING PLANTATIONS BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	**1Q19**	**4Q19**	**%YoY**	**%QoQ**
Revenue	**569.0**	**621.7**	**643.6**	**-8.5**	**-11.6**
EBITDA	155.1	127.1	142.2	22.0	9.0
Depreciation and amortisation	-57.9	-57.7	-58.6	0.3	-1.2
EBIT	**97.2**	**69.4**	**83.6**	**40.0**	**16.2**
Finance costs	-21.4	-26.4	-25.8	-18.9	-17.0
Finance income	6.7	6.2	8.1	8.1	-17.3
Joint ventures and associates	8.3	10.7	15.2	-22.8	-45.6
PBT	**90.7**	**59.9**	**81.1**	**51.4**	**11.8**
Taxation	-20.0	-17.8	-24.1	12.1	-17.1
MI	20.6	-0.4	4.7	n.m.	n.m.
PATANCI	91.3	41.7	61.7	119.0	48.0
Normalised PATANCI	**74.2**	**47.2**	**62.6**	**57.3**	**18.4**
Normalised EPS (sen)	8.3	5.3	7.0	49.9	12.8
				+/- ppts	+/- ppts
EBITDA margin (%)	27.3	20.4	22.1	6.8	5.1
EBIT margin (%)	17.1	11.2	13.0	5.9	4.1
Normalised PATAMI margin (%)	13.0	7.6	9.7	5.4	3.3
Effective tax rate (%)	22.1	29.8	29.8	-7.7	-7.7

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.