

26 August 2016 | 2QFY16 Earnings Review

## Genting Plantations Berhad

*Hurt by weak FFB production*

**Maintain NEUTRAL**

**Unchanged Target Price: RM9.72**

### INVESTMENT HIGHLIGHTS

- Earnings within our expectation but below consensus'
- 2QFY16 earnings marginally higher on sequential basis
- Lower cumulative earnings on weak FFB production
- Muted earnings outlook
- Maintain Neutral with unchanged TP of RM9.72

#### 1HFY16 earnings within our expectation but below consensus'.


Genting Plantations Berhad (GENP) 1HFY16 core net earnings of RM71.6m was within our expectation despite meeting only 35% of our full year estimate as we anticipate seasonally stronger quarters ahead. Meanwhile, 1HFY16 earnings were below consensus expectation (at 25% of consensus full year estimate). We believe consensus may have underestimated the FFB production decline in 1HFY16 caused by the lagged impact of El Nino weather phenomenon.

**2QFY16 earnings marginally higher on sequential basis.** Revenue for 2QFY16 climbed 18%qoq due to higher CPO prices (+14%qoq) and seasonally higher FFB production. FFB production increased by 4.3%qoq to 329k MT as higher FFB production from Malaysia operations (+24%qoq) mitigated lower FFB production from Indonesian operations (-34%qoq). Note that 2QFY16 FFB production in Indonesia estates was adversely impacted by lagged impact of drought. Meanwhile, core net profit growth was flattish on quarter at +1%qoq, as Indonesian operations dipped into the red owing to higher manuring cost and lower FFB production which outstripped the impact of higher CPO prices.

**Lower cumulative earnings on weak FFB production.** On a yearly basis, 2QFY16 core net profit shed 21%yoy, bringing 1HFY16 core net profit to RM71.6m (-37%yoy). The lower earnings were mainly attributed to lower earnings contribution from both plantation and property division. PBT of plantation division fell 21%yoy due to the sharp fall in FFB production (-15%yoy) which more than enough to offset the increase in CPO prices (+11%yoy). Meanwhile, PBT of property division declined 47%yoy as last year's earnings were boosted by land sales.

**Muted earnings outlook.** We maintain our earnings forecasts for FY16/FY17. We are estimating FY16 earnings to decline 3.3% on the back of our assumption of 5% FFB production contraction which is also in line with management expectation of 5%-6% production decline.

RETURN STATS	
Price (25 Aug 2016)	RM10.64
Target Price	RM9.72
Expected Share Price Return	-8.6%
Expected Dividend Yield	+0.6%
<b>Expected Total Return</b>	<b>-8.0%</b>
STOCK INFO	
KLCI	1,680.30
Bursa / Bloomberg	2291 / GENP MK
Board / Sector	Main / Plantations
Syariah Compliant	Yes
Issued shares (mil)	779.61
Par Value (RM)	0.50
Market cap. (RM'm)	8,422.97
Price over NA	1.96
52-wk price Range	RM8.93 – RM11.50
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	0.48m
3-mth Avg Daily Value	RM5.07m
Major Shareholders	
Genting Bhd	51.42%
EPF	12.93%

**Maintain Neutral with unchanged TP of RM9.72.** We maintain our Neutral call on GENP with unchanged TP of RM9.72, based on sum-of-parts valuation. Earnings outlook for GENP is unexciting as its FFB production has been severely hit by the lagged impact of El-Nino induced drought while recovery in FFB production may take longer than expected. 

## INVESTMENT HIGHLIGHTS

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	1,384	1,643	1,375	1,308	1,539
EBIT	287	513	276	305	365
PBT	300	520	247	283	359
Net Income	228	377	190	203	263
Core Net Income	330	382	210	203	263
EPS (sen)	30.0	49.3	24.8	26.6	34.3
Core EPS (sen)	43.5	50.0	27.5	26.6	34.3
Net DPS (sen)	35.8	10.0	5.5	6.6	8.6
Net Dvd Yield	3.4%	0.9%	0.5%	0.6%	0.8%
Core PER	24.5	21.3	38.7	40.0	31.0
NTA/share (RM)	4.30	4.89	5.31	5.03	5.29
P/NTA	2.47	2.18	2.00	2.12	2.01
ROE	6.6%	9.7%	4.5%	5.1%	6.3%
ROA	4.7%	6.7%	3.7%	3.8%	4.7%

## GENP: 2QFY16 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY16	%YoY	%QoQ	FY16	%YoY	
Revenue	309.1	1%	18%	570.0	-10%	Due to lower FFB production
EBIT	63.3	5%	29%	112.5	-11%	
PBT	52.2	-6%	36%	90.7	-26%	
Net Income	40.8	2%	51%	67.8	-27%	
Core Net Income	35.9	-21%	1%	71.6	-37%	Exclude forex gain/loss.
EPS (sen)	5.3	2%	51%	8.8	-27%	
Core EPS (sen)	4.6	-21%	1%	9.3	-37%	Earnings lower due to weak FFB production and lower earnings contribution from property division.
Net DPS (sen)	0.0	NA	NA	0.0	N/A	
CPO Price (RM/MT)	2588.0	19%	14%	2444.0	11%	
FFB Volume ('k MT)	329.5	-19%	4%	645.2	-15%	Lagged impact from El-Nino weather phenomenon.
EBIT Margin	20.5%	NA	NA	19.7%	NA	
PBT Margin	16.9%	NA	NA	15.9%	NA	

## Sum-of-Parts Valuation

Divisions	Valuation	Note	Fair Value (RM 'm)
Plantation	24.7x FY17E earnings	24.7x is valuation between IOICORP and KLK.	6,325
Property	RNAV	Mainly land in Johor & Kedah	1,109
<b>Sum-Of-Parts (RM m)</b>			<b>7,434</b>
<b>No of shares (m)</b>			765
<b>Target Price (RM)</b>			<b>9.72</b>

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.