

Genting Plantations Berhad

(2291 | GENP MK) Plantation | Plantation

Maintain BUY

Elevated CPO price to support earnings momentum

Unchanged Target Price: RM11.80

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings rose by +230.3%yoy to RM62.6m, mainly due to higher CPO price (+23.0%yoy)**
- **FY19 normalised earnings of RM140.2m (-5.7%yoy) came in within ours and consensus expectations**
- **Resilient FFB production growth and an elevated CPO price to drive FY20 earnings momentum**
- **Downstream segment is expected to continue to lend support to the group's earnings**
- **Maintain BUY with an unchanged TP of RM11.80**

Strong recovery in 4QFY19 earnings. Genting Plantations Berhad's (GENP) 4QFY19 normalised earnings jumped by +230.3%yoy to RM62.6m, primarily driven by higher CPO price. Meanwhile, the group's FY19 normalised earnings fell marginally by -5.7%yoy to RM140.2m as a result of sustained weaker CPO price for the first nine months of CY19. To recall, the ASP of CPO for FY19 was RM2,048/mt (-3.0%yoy). Nonetheless, this came in within expectation as it accounted for about 101.5% and 99.2% of both our and consensus full year FY19 earnings forecasts. Moving forward, we expect the current elevated CPO price and expected healthy FFB production growth would further support the earnings growth momentum in the coming quarters.

Margin expansion. The higher 4QFY19 earnings were mainly attributable to the recovery in CPO's ASP by +23.0%yoy to RM2,278/mt. This was in spite of the fact that ASP is lower than the spot price of about RM3,000/mt in the same quarter due to the group's earlier forward selling exercises. In addition, the downstream and property segments' profit before tax also grew by >+100.0%yoy and +62.0% to RM13.8m and RM15.2m respectively. As a result, this led to an expansion in EBIT margin by +8.0ppts yoy to 13.0%.

Expected resilient FFB output growth in FY20. The group's FY19 FFB production grew by +5.0%yoy to 2.2m mt. However, this was still insufficient to make up for the fall in the ASP of CPO and CPKO. In FY20, we opine that the group's FFB production to continue to grow at similar pace, predicating on the higher yields from its Indonesian plantations. Note that the group's FFB production growth remains stellar in the industry despite the unfavourable weather condition. Coupled with a higher CPO price, we expect this will further improve earnings growth.

Downstream segment to remain encouraging. EBITDA for the segment rose significantly by +421.4%yoy to RM58.4m in FY19 (*refer to table 1*). This was predominantly due to higher sales volume and capacity utilization as well as improved profit margins for both its biodiesel and refinery operations. We opine that the implementation of B20 mandate in FY20 to be a further boost for this segment despite the current unfavourable POGO spread might partially dampen the demand for biodiesel in the near term.

RETURN STATISTICS

Price @ 27 th Feb 2020 (RM)	10.00
Expected share price return (%)	+18.0
Expected dividend yield (%)	+1.3
Expected total return (%)	+19.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.9	-2.1
3 months	-5.5	+0.5
12 months	-5.8	+8.3

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	805.73
Estimated free float (%)	22.48
Market Capitalisation (RM'm)	8,971.98
52-wk price range	RM 9.17 – RM11.1
Beta vs FBM KLCI (x)	0.67
Monthly velocity (%)	11.02
Monthly volatility (%)	6.33
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	8.63
Top Shareholders (%)	
Genting Bhd	54.44
EPF	9.06
Skim Amanah Saham Bumiputera	7.05

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Table 1: EBITDA breakdown (RM'm)


Segment	FY19	FY18	Variance (%)	Remarks
Plantation	336.9	389.9	-13.6	Lower margin due to weak CPO and CPKO price
Property	37.9	36.2	+4.7	Better overall margin for its projects
Downstream manufacturing	58.4	11.2	+421.4	Higher demand for refinery and biodiesel products

Source: Company, MIDFR.

Dividend. The group has recommended a final single-tier dividend of 9.5sen per share, bringing the expected total dividend to 13.0sen per share for FY19. To recall, the group has previously announced an interim dividend of 3.5sen per share. This is within our expectation and represented a dividend payout ratio of about 80.0% in FY19, as compared to 75% in FY18.

Earnings estimates. We are maintaining our earnings estimates for FY20 and FY21 as well as introducing our forecasts for FY22.

Target Price. We are maintaining our target price of **RM11.80** through the sum-of-parts valuation method. This is premised on attaching a PER of 27.3x to the plantation segment which is 1.0x SD above its two-year historical average.

Maintain BUY. We believe that the recent upsurge in CPO price to above RM2,500/mt would help in supporting the group's earnings growth momentum. The healthy FFB production growth in the single-digit domain of about 5% as compared to its peers and higher demand for its downstream segment would enable the group to have a higher sales volume. This is predicated on the improving age profile at its Indonesia plantations where FFB yield would increase as trees come into maturity soon. Coupled with elevated CPO price, this would bode well with the group's earnings in coming quarters. Although the on-going COVID-19 outbreak and tough geopolitical front might dampen demand, we believe that the group will still be able to capitalize on the high CPO prices and sales demand from other regions. All factors considered, we are maintaining our **BUY** recommendation on GENP. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	1,902.9	2,266.4	2,354.3	2,460.8	2,707.9
EBIT	240.7	239.7	354.2	429.1	428.1
PBT/(LBT)	207.7	185.5	346.4	436.4	439.3
PATANCI/(LATANCI)	164.9	130.4	273.1	368.6	373.0
Normalised PATANCI/(LATANCI)	148.7	140.2	273.1	368.6	373.0
Normalised EPS (sen)	17.4	16.2	32.0	43.1	43.6
Normalised EPS Growth (%)	-58.4	-7.1	97.7	34.9	1.2
Dividend Per Share (sen)	13.0	13.0	13.0	13.0	13.0
Dividend Yield (%)	1.30	1.30	1.30	1.30	1.30
PER (x)	57.5	61.9	31.3	23.2	22.9
NTA/share (RM)	5.1	5.2	5.4	5.7	6.0
P/NTA	2.0	1.9	1.8	1.8	1.7
Return on Equity (%)	3.4	3.1	5.8	7.5	7.2
Return on Assets (%)	1.9	1.6	3.2	4.4	4.4

Source: Company, MIDFR

GENTING PLANTATIONS BHD: 4QFY19 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	FYE 31 st Dec	4Q19	% YoY	% QoQ	FY19	FY18
Revenue	643.6	33.4	35.4	2,266.4	1,902.9	19.1
EBITDA	142.2	71.3	75.0	438.1	451.1	-2.9
Depreciation and amortisation	-58.6	-0.5	-0.5	-230.6	-210.4	9.6
EBIT	83.6	246.4	273.6	207.5	240.7	-13.8
Finance costs	-25.8	-11.9	0.5	-104.1	-109.6	-5.0
Finance income	8.1	12.5	-17.3	32.2	33.6	-4.2
Share of results of joint ventures	15.2	18.5	26.0	49.9	43.0	15.9
PBT	81.1	446.5	337.6	185.5	207.7	-10.7
Taxation	-24.1	427.1	327.8	-55.0	-60.8	-9.4
MI	4.7	n.m.	n.m.	11.7	17.9	n.m.
PATANCI	61.7	332.3	247.0	142.1	164.9	-13.8
Normalised PATANCI	62.6	230.3	250.5	140.2	148.7	-5.7
Normalised EPS (sen)	7.3	230.3	244.7	16.4	17.4	-5.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	22.1	4.9	5.0	19.3	23.7	-4.4
EBIT margin (%)	13.0	8.0	8.3	9.2	12.6	-3.5
Normalised PATANCI margin (%)	9.7	5.8	6.0	6.2	7.8	-1.6
Effective tax rate (%)	29.8	-1.1	-0.7	29.7	29.3	0.4

Source: Company, MIDFR

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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 <i>rise</i> 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 <i>fall</i> 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.