

# IOI Corporation Berhad

(1961 | IOI MK) Plantation | Plantation

## Maintain NEUTRAL

### Weaker-than-anticipated earnings recovery

**Revised Target Price: RM4.30**  
(previously RM4.67)

#### KEY INVESTMENT HIGHLIGHTS

- **Improvement in 2QFY20 normalised earnings lifted 1HFY20 normalised earnings to RM402.5m (+9.0%yoy)**
- **Plantation division recorded double digit growth in 1HFY20 due to favourable CPO price of RM2,218/mt (+2.3%yoy)**
- **However, FFB production declined by -5.7%yoy to 1.6m mt as yield dropped to 10.87tonnes/ha**
- **Declared higher dividend of 4sen in 2QFY20, in-tandem with higher earnings achieved**
- **Maintain Neutral with a revised TP of RM4.30**

**1HFY20 earnings below expectation.** IOI Corporation Bhd's (IOI) 2QFY20 normalised earnings came in at RM218.0m, an increase of +4.9%yoy. The improvement in earnings was mainly premised on higher contribution across all segments. This led to a +9.0%yoy expansion in 1HFY20 normalised earnings to RM402.5m. All in, the group's 1HFY20 financial performance came in below ours and consensus expectation, accounting for 42.0% and 45.4% of full year FY20 earnings estimates.

**Plantation.** 1HFY20 segment profit improved by +13.2%yoy to RM301.9m. This was mainly attributable to higher CPO price realised, improved oil extraction rate and favourable fair value changes on biological asset. Note that the average CPO price for 1HFY20 came in at RM2,128/mt (+2.3%yoy). However, FFB production reduced to 1.6m mt from 1.7m mt previously due to the decline in FFB yield to 10.87tonnes/ha (vs 1HFY19: 11.37tonnes/ha).

**Resource-based Manufacturing.** The resource-based manufacturing segment recorded a -38.0%yoy decline in 1HFY20 profit to RM166.4m. This was mainly due to fair value loss on derivative financial instrument as well as lower sales volume and margins from the oleochemical sub-segment.

**Impact to earnings.** We are lowering FY20 and FY21 FFB production forecasts to better reflect the group's performance thus far. As a result, FY20 and FY21 earnings estimates have been reduced to RM865.1m and RM951.1m respectively.

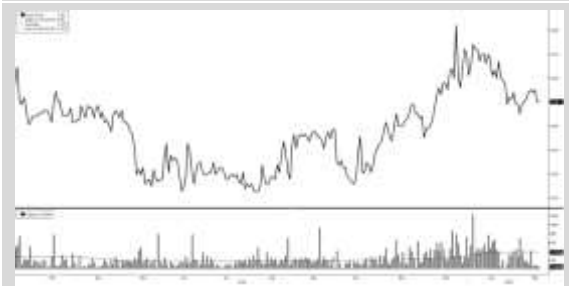
**Target Price.** Post our earnings adjustment, we are reducing our target price to **RM4.30** (previously RM4.67). This is premised on pegging revised FY21 eps of 15.1sen against forward PER of 28.5x which represents one standard deviation above the two-year historical average.

**Dividend.** Inline with healthier earnings the group declared 2QFY20 dividend of 4sen as compared to 3.5sen declared in 1FY20.

#### RETURN STATISTICS

Price @ 18 <sup>th</sup> Feb 2020 (RM)	4.50
Expected share price return (%)	-4.4
Expected dividend yield (%)	+2.3
<b>Expected total return (%)</b>	<b>-2.1</b>

#### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-2.8	0.9
3 months	-2.4	6.1
12 months	-3.8	6.8

#### KEY STATISTICS

FBM KLCI	1,537.08
Syariah compliant	Yes
Issue shares (m)	6,284.64
Estimated free float (%)	24.70
Market Capitalisation (RM'm)	28,282.52
52-wk price range (RM)	4.10– 4.82
Beta vs FBM KLCI (x)	0.84
Monthly velocity (%)	17.38
Monthly volatility (%)	7.76
3-mth average daily volume (m)	3.71
3-mth average daily value (RM'm)	17.19
Top Shareholders (%)	
Progressive holdings Sdn Bhd	47.94
Employees Provident Fund	11.26
Skim Amanah Saham Bumiputera	4.72

#### Analyst

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**Maintain NEUTRAL.** The notable recovery in commodity prices from October 2019 onwards is expected to have positive impact on the group's plantation division. Nonetheless, the expectancy of stagnant FFB production in FY20 could limit the earnings upside. Coupled with steady contribution from the downstream segment, we expect the group's overall earnings in the upcoming quarter to improve further. On another note, given the stretched valuation, we view that there is no upside on the share price. Taking all factors into consideration, we are maintaining our **NEUTRAL** recommendation on the stock. Further catalyst to rerate the stock would be acquisition of brownfield plantation asset. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	7,417.6	7,385.6	7,932.2	8,385.8	8,798.0
EBIT	1,560.6	806.8	1,175.7	1,275.9	1,332.3
PBT	1,570.7	872.6	1,112.0	1,219.5	1,283.4
PATANCI	3,068.3	617.6	865.1	951.1	1,002.2
<b>Normalised PATANCI</b>	971.2	717.7	865.1	951.1	1,002.2
Normalised EPS (sen)	15.5	11.4	13.8	15.1	15.9
Normalised EPS Growth (%)	24.2	(26.1)	(2.7)	9.9	5.4
PER (x)	29.1	39.4	32.7	29.7	28.2
Dividend Per Share (sen)	20.5	8.0	10.0	10.5	11.0
Dividend yield (%)	4.6	1.8	2.2	2.3	2.4

Source: Company, MIDFR

**IOI CORPORATION BHD: 2QFY20 RESULTS SUMMARY**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly results					
	2Q20	% YoY	% QoQ	2020	2019	%
Revenue	1,995.2	6.1	12.4	3,730.7	3,756.3	-0.7
EBTIDA	321.9	3.1	17.4	596.1	579.6	2.8
Depreciation and amortisation	-91.7	-5.8	-0.8	-184.1	-190.3	-3.3
EBIT	230.2	7.1	26.6	412.0	389.3	5.8
Finance costs	-42.2	-3.2	-1.6	-85.1	-90.5	-6.0
Finance income	19.1	-19.4	7.9	36.8	39.7	-7.3
Share of results of associates	62.3	36.3	47.3	104.6	97.4	7.4
Share of results of joint ventures	-0.1	-94.1	-66.7	-0.4	-1.7	-76.5
Profit before tax	269.3	12.7	35.6	467.9	434.2	7.8
Taxation	-55.4	27.6	8.8	-106.3	-97.4	9.1
Profit after tax	213.9	9.4	44.8	361.6	336.8	7.4
Non controlling interest	0.4	300.0	-130.8	-0.9	-2.5	-64.0
PATANCI	213.5	9.2	43.3	362.5	339.3	6.8
Normalised PATANCI	218.0	4.9	18.2	402.5	369.4	9.0
Normalised EPS (sen)	3.5	4.9	18.2	6.4	5.9	9.0
		+/- ppts	+/- ppts			+/- ppts
EBIT margin (%)	11.5	0.1	1.3	11.0	10.4	0.7
Normalised PATANCI margin (%)	10.9	-0.1	0.5	10.8	9.8	1.0
Effective tax rate (%)	20.6	2.4	-5.1	22.7	22.4	0.3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.