

07 June 2016 | Corporate Update

IOI Corporation Berhad

Withdraws RSPO suspension challenge

Upgrade to BUY

Adjusted Target Price: RM4.82
(Previously RM4.25)

INVESTMENT HIGHLIGHTS


- **Withdraws RSPO suspension challenge.**
- **Separately, IOICORP has submitted its Memorandum on sustainability initiatives to RSPO.**
- **Positively surprised by the news.**
- **Upgrade to BUY with higher Target Price of RM4.82.**

Withdraws RSPO suspension challenge. IOI Corporation (IOICORP) has announced that the Company is withdrawing its challenge proceeding against the RSPO Board's suspension decision in the Zurich District Court of Switzerland. We gather that the withdrawal will be formalised during a conciliatory hearing before the Justice of Peace on 14 June 2016.

Background. Recall that IOICORP's RSPO membership was suspended on 29-March. Subsequently, the company has filed a challenge with Zurich district court of Switzerland on the RSPO's board decision on 9-May.

Separately, IOICORP has submitted its Memorandum on sustainability initiatives to RSPO. Separately, IOICORP has continued its engagement with the stakeholders (customers, NGOs and RSPO) to resolve the matter. We are glad to know that IOICORP has submitted to RSPO on 30 May 2016 a Memorandum on its sustainability policy initiatives. In the Memorandum, IOICORP has volunteered to adopt the more stringent RSPO Next certification system. If RSPO is satisfied with the Memorandum as well as the actions that IOICORP has taken, it is possible that the membership suspension on IOICORP would be lifted.

Positively surprised by the news. We believe that IOICORP suspension may be lifted in less than a year given its proactive stance. The Company had also abandoned the court process in which we believe will be more complicated and consume more time.

Upgrade to BUY with higher TP of RM4.82. We have increased our Forward PE valuation to 23.1x (Mean valuation) from 20.4x (-0.5 Standard Deviation) as we believe that the time line for the RSPO suspension to be lifted has declined significantly post the withdrawal of the challenge in court. Hence, our Target Price has been increased to RM4.82 (from RM4.25). We like IOICORP due to: i) good earnings with 9MFY16 core earnings +25% to RM1.14b, ii) it is the most liquid proxy to Malaysia plantation sector to ride the CPO price uptrend, and iii) limited downside seen due to share purchase in the open market by Tan Sri Dato' Lee family. 

RETURN STATS	
Price (6 Jun 2016)	RM4.27
Target Price	RM4.82
Expected Share Price Return	+12.8%
Expected Dividend Yield	+4.2%
Expected Total Return	+17.0%

STOCK INFO	
KLCI	1648.99
Bursa / Bloomberg	1961 / IOI MK
Board / Sector	Main / Plantations
Syariah Compliant	Yes
Issued shares (mil)	6288.21
Par Value (RM)	0.10
Market cap. (RM'm)	26,850.64
Price over NA	5.25
52-wk price Range	RM3.7 - RM5.04
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	9.65m
3-mth Avg Daily Value	RM43.0m
Major Shareholders	
VERTICAL CAPACITY	47.07%
EPF	6.73%

INVESTMENT STATISTICS

FYE Jun	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	12,199	11,911	11,621	12,159	12,522
EBIT	1,719	1,800	1,347	1,781	1,957
PBT	1,604	1,671	457	1,686	1,868
Net Income	1,280	1,255	168	1,324	1,470
Core Net Income	1,233	1,391	1,054	1,324	1,470
EPS (sen)	20.03	19.69	2.65	20.86	23.15
Core EPS (sen)	19.29	21.83	16.60	20.86	23.15
Net DPS (sen)	15.50	20.00	9.00	17.73	19.68
Net Dvd Yield	3.6%	4.7%	2.1%	4.2%	4.6%
Core PER	22.1	19.6	25.7	20.5	18.4
NTA/share (RM)	2.07	0.88	0.72	1.09	1.12
P/NTA	2.06	4.88	5.89	3.93	3.81
ROE	9.4%	20.8%	3.3%	17.9%	19.3%
ROA	5.4%	8.2%	1.3%	8.0%	9.0%

Source: Company, MIDF Research Forecast

DAILY PRICE CHART



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Source: Bloomberg

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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	<i>Negative</i> 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.