

IOI Corporation Bhd

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Downstream segment underperformed

KEY INVESTMENT HIGHLIGHTS

- **3QFY20 normalised earnings dropped by -54.9%yoy to RM77.0m, negatively impacted by downstream segment**
- **This led to 9MFY20 normalised earnings of RM479.5m (-11.2%yoy), below ours and consensus expectations**
- **Drastic decline in FFB yield remains a concern, which would limit the potential upside from recovery in CPO price**
- **Current valuation of close to 30x appears stretched at this juncture**
- **Downgrade to SELL with a revised TP of RM3.58**

9MFY20 earnings below expectation. IOI Corporation Bhd's (IOI) 3QFY20 normalised earnings came in at RM77.0m, a decrease of -54.9%yoy. This was despite higher revenue of RM2,033.9m (+7.6%yoy). The decline in earnings was mainly brought about by lower contribution from the resource-based manufacturing segment. This led to a -11.2%yoy contraction in 9MFY20 earnings to RM479.5m. All in, the group's 9MFY20 financial performance came in below ours and consensus expectation, accounting for 55.4% and 57.4% of full year FY20 earnings estimates respectively.

Plantation. 9MFY20 segment profit improved by +17.0%yoy to RM467.3m. This was mainly attributable to higher CPO price realised and improved oil extraction rate. Note that the average CPO price for 9MFY20 came in at RM2,294/mt (+12.5%yoy). However, FFB production reduced to 2.2m mt from 2.6m mt previously due to the delayed effects of the dry weather in 2018.

Resource-based Manufacturing. The resource-based manufacturing segment 9MFY20 underlying profit came in at RM294.6m, a decline of -27.2%yoy. This was mainly due to lower operation contributions from the oleochemical and refining sub-segments with reduction in margins and sale volume.

Impact to earnings. We are revising our CY20/21/22 CPO price target to RM2,300/2,450/2,600mt respectively. In addition, we also reduce the contribution stemming from the downstream segment. As a result, our FY20/21/22 earnings have been revised to RM609.0/786.0/874.1m respectively.

Target Price. Post our earnings adjustments, we are reducing our target price to **RM3.58** (previously RM4.30). This is premised on pegging revised FY21 eps of 12.5sen against forward PER of 28.6x.

Downgrade to SELL. The recovery in CPO price has supported the upstream segment. However, we are disappointed by the drastic drop in FFB yield which has led to double digit decline in FFB production. As such, we view that the positive impact of further recovery in CPO price would be limited in the coming quarters.

Downgrade to SELL

(previously NEUTRAL)

Revised Target Price: RM3.58

(previously RM4.30)

RETURN STATISTICS

Price @ 18 th Feb 2020 (RM)	4.50
Expected share price return (%)	-20.4
Expected dividend yield (%)	+2.3
Expected total return (%)	-18.1

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	18.4	11.7
3 months	12.5	9.5
12 months	6.6	17.4

KEY STATISTICS

FBM KLCI	1,391.38
Syariah compliant	Yes
Issue shares (m)	6,284.64
Estimated free float (%)	23.02
Market Capitalisation (RM'm)	28,201.83
52-wk price range (RM)	3.41– 4.82
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	11.02
Monthly volatility (%)	9.09
3-mth average daily volume (m)	4.66
3-mth average daily value (RM'm)	18.09
Top Shareholders (%)	
Progressive Holdings Sdn Bhd	48.19
Employees Provident Fund	12.64
Amanah Saham Nasional Bhd	4.73

Analyst

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In addition, we are also concerned with the performance of the resource-based manufacturing in view of the declining in sale volume and contraction in profit margin. This would further affect the earnings capability of the group. In terms of valuation, we view it is rather stretched for IOI at this juncture given the subdued performance. All factors considered, we are downgrading our recommendation for IOI to **SELL** from NEUTRAL previously. 

INVESTMENT STATISTICS

Financial year ending 30 th June (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	7,417.6	7,385.6	7,060.8	7,346.3	7,736.9
EBIT	1,560.6	806.8	807.5	1,037.6	1,153.8
PBT	1,570.7	872.6	812.1	1,039.1	1,152.1
PATANCI	3,068.3	617.6	609.0	786.0	874.1
Normalised PATANCI	971.2	717.7	609.0	786.0	874.1
Normalised EPS (sen)	15.5	11.4	9.7	12.5	13.9
Normalised EPS Growth (%)	24.2	(26.1)	(31.5)	29.1	11.2
PER (x)	29.1	39.4	46.4	36.0	32.4
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: 3QFY20 RESULTS SUMMARY

Financial year ending 30 th June (in RM'm, unless otherwise stated)	Quarterly results					
	3Q20	% YoY	% QoQ	2020	2019	%
Revenue	2,033.9	7.6	1.9	5,764.6	5,647.4	2.1
EBTIDA	172.4	-60.7	-46.4	768.5	1,018.3	-24.5
Depreciation and amortisation	-92.8	0.5	1.2	-276.9	-282.6	-2.0
EBIT	79.6	-77.0	-65.4	491.6	735.7	-33.2
Finance costs	-45.1	-2.4	6.9	-130.2	-136.7	-4.8
Finance income	16.3	-6.9	-14.7	53.1	57.2	-7.2
Share of results of associates	2.1	-95.7	-96.6	106.7	145.8	-26.8
Share of results of joint ventures	-0.3	-57.1	200.0	-0.7	-2.4	-70.8
Profit before tax	52.6	-85.6	-80.5	520.5	799.6	-34.9
Taxation	-49.7	-60.4	-10.3	-156.0	-222.8	-30.0
Profit after tax	2.9	-98.8	-98.6	364.5	576.8	-36.8
Non controlling interest	2.8	-148.3	600.0	1.9	-8.3	-122.9
PATANCI	0.1	-100.0	-100.0	362.6	585.1	-38.0
Normalised PATANCI	77.0	-54.9	-64.7	479.5	540.2	-11.2
Normalised EPS (sen)	1.2	-54.9	-64.7	7.6	8.6	-11.2
		+/- ppts	+/- ppts			+/- ppts
EBIT margin (%)	3.9	-14.4	-7.6	8.5	13.0	-4.5
Normalised PATANCI margin (%)	3.8	-5.2	-7.1	8.3	9.6	-1.2
Effective tax rate (%)	94.5	60.2	73.9	30.0	27.9	2.1

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.