

# Equity Beat

01 March 2010

## 9MFY10 Results Review

## IJM Plantations Berhad

*Banking on Indonesian expansion*

**Upgrade to NEUTRAL (from TRADING SELL)**

**Maintain Target Price (TP): RM2.30**

- **IJMP registered a net profit of RM63.7 million in 9MFY10, a decline of 44.4%yoy. The result is within expectation and represents 74% and 75% of ours and consensus FY10 forecasts respectively.**
- **Performance was impacted by lower average CPO selling price (9MFY10: RM2,205/MT; 9MFY09: RM2,874/MT) and lower year-to-date FFB (-1.9%yoy) output.**
- **However we expect IJMP to perform satisfactorily in the coming quarters owing to the current firmer undertone in CPO prices. Hence we upgrade our recommendation to NEUTRAL with a target price of RM2.30, pegged at 17x of FY11 earnings.**

### STOCK INFO

Price (25 Feb 10)	RM2.45	KLCI	1,270.78
Issued shares (mil)	801.3	Bursa / Bloomberg	2216/IJMP MK
Par Value (RM)	0.50	Board / Sector	Main/ Plantation
Market cap. (RM'm)	1,963.3	Syariah Compliant	Yes
Price over NTA	2.01		
52-wk price Range	RM1.83– RM2.92	Major Shareholders	
Beta (against KLCI)	1.20	IJM Corp	55.14%
3-mth Avg Daily Vol	0.53m	EPF	10.83%
3-mth Avg Daily Value	RM1.33m	Desa Plus S/B	5.77%


**Revenue and earnings declined, due to lower selling price and output.** IJMP's 9MFY10 revenue of RM304.7 million was lower by 26.1% than the RM412.6 million achieved in the corresponding period of the preceding year. The decline was due to lower products selling price and lower tonnage of palm produced. The average CPO selling price of RM2,205/mt in 9MFY10 was 23.3% lower as compared to RM2,874/mt recorded in the same period last year. The average price of PKO also decreased by 27.3% from RM3,361/mt to RM2,443/mt. Year-to-date FFB production was 1.9% lower at 463,780 metric tons than that of the same period of the prior year. The decline in 9MFY10 FFB production was due to the impact of adverse weather pattern on oil palm crop output particularly in the Sabah region during the 2<sup>nd</sup> and 3<sup>rd</sup> calendar quarters (April to September) of last year. Due to the above factors, the 9MFY10 net profit of RM63.7 million was 44.4% lower than RM114.7 million recorded in the same period of the previous year.

**Indonesian expansion is banked on to generate future growth.** IJMP is doubling the size of its plantation land bank with the purchase of 40,000 hectares in Indonesia during last year. The estimated cost of developing the oil palm plantation in Indonesia is about RM700 million of which around RM184 million has been incurred up to end-2009. IJMP has raised nearly half or RM336 million of the required amount via the recently completed rights issue. The balance may be comfortably raised via borrowings as IJMP balance sheet is lowly leveraged with debt/equity ratio of mere 0.08x as of end-2009. IJMP is relying on its Indonesian project to generate sustained growth into the future.

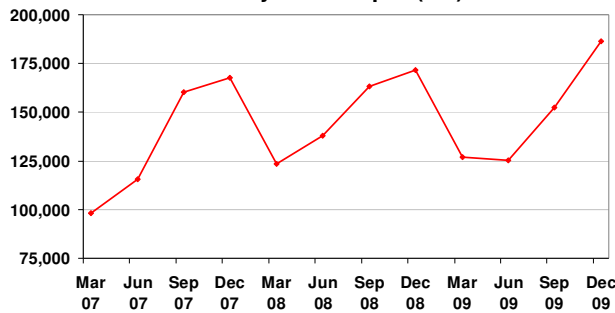
**We upgrade IJMP to a NEUTRAL with target price of RM2.30.** For FY10, IJMP's management expects "an increase in palm produce production despite the lower year-to-date [9MFY10] production". There is an even chance of

FYE 31 Mar	FY08	FY09	FY10E	FY11F
Revenue (RM'm)	480.7	494.8	405.7	461.0
EBIT (RM'm)	196.0	164.2	123.2	154.7
Pretax Profit (RM'm)	190.0	160.5	116.7	147.7
Net Profit (RM'm)	142.1	123.2	86.3	109.3
EPS (sen)	23.8	19.2	10.8	13.6
EPS growth (%)	187.7%	-19.4%	-43.9%	26.6%
PER(x)	10.3	12.8	22.7	18.0
Net Dividend (sen)	12.0	9.8	8.0	8.0
Net Dividend Yield (%)	4.9%	4.0%	3.3%	3.3%

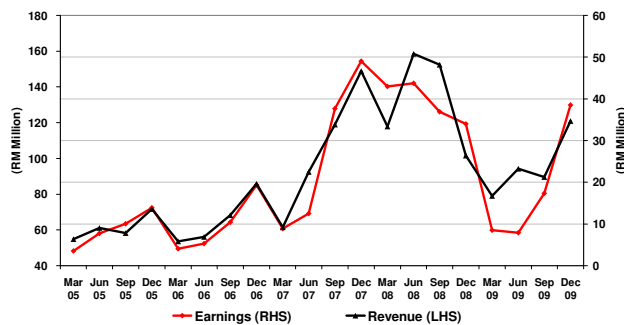
Source: Company, Forecasts by MIDFR

that happening if the fairly strong FFB output growth of 8.5%yoy as recorded in 3Q10 (due to favorable change in cropping pattern and more areas reaching prime age in Sugut region) were to continue into 4Q10. We are confident that IJMP's financial results will remain satisfactory in the coming quarters mainly attributable to the current firmer undertone in CPO prices. Hence we upgrade our recommendation on the stock to **NEUTRAL** with a target price of RM2.30, based on FY11 earnings of 17x, which is comparable to IJMP's historical average PER. 

Quarterly FFB Output (MT)

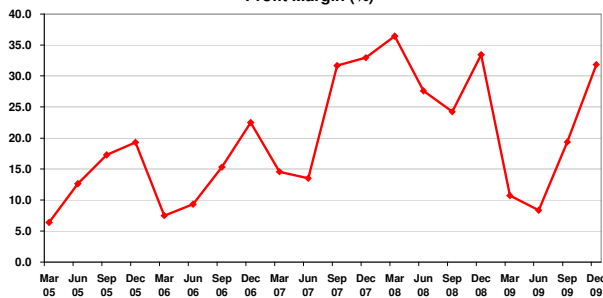


FFB output grew by 8.5%yoy in 3Q10. But expect output to show sequential decline in the coming quarters due to seasonal factor.

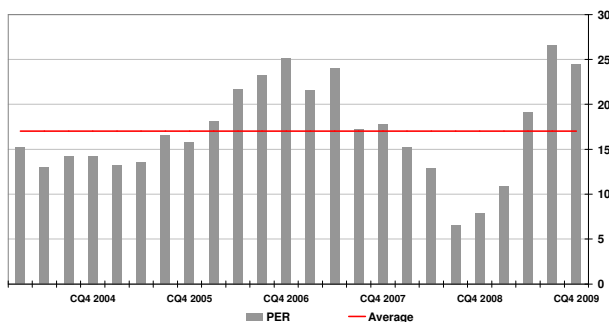


Revenue and earnings rose QoQ in tandem with higher output (crop production moved into peak season and more areas reaching prime age in Sugut region) and higher selling price.

Profit Margin (%)



Profit margin moved back to its upper band region of more than 30%



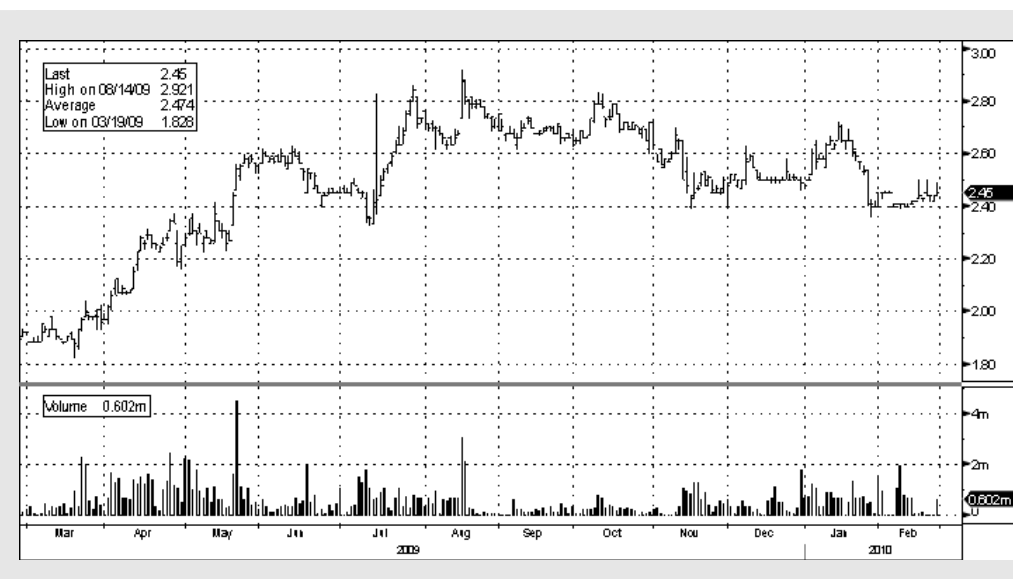
Historical average PER of 17x.

## IJM Plantations: 9MFY10 RESULTS SUMMARY

FYE Mar (RM m)	Quarterly Results			Cumulative		Comments
	3Q10	%YoY	%QoQ	9MFY10	%YoY	
Revenue	120.9	18.9%	35.1%	304.7	-26.1%	Lower CPO selling prices and reduction in FFB output
Operating expense	-70.7	31.5%	8.4%	-219.4	-16.4%	
Operating profit	52.4	7.1%	102.8%	89.6	-41.5%	Lower CPO selling prices and reduction in FFB output boosted unit cost
Finance costs	-1.5	-273.3%	37.7%	-3.3	4.9%	
Associate	0.2	-112.4%	-293.1%	0.8	-76.3%	
Pre-tax profit	51.6	12.2%	116.3%	86.8	-43.3%	As above
Tax	13.1	-207.9%	-303.8%	-22.9	-40.4%	
Net Profit	38.5	13.3%	122.1%	63.7	-44.4%	As above
EPS (sen)	5.2	3.0%	92.6%	9.2	-46.3%	
		<b>+/- ppts</b>	<b>+/- ppts</b>		<b>+/- ppts</b>	
Op margin (%)	43.3%	-4.8	14.5	29.4%	-7.7	
Tax rate (%)	-25.4%	-51.8	-52.4	26.4%	1.2	
<b>Plantation Stats:</b>						
CPO IJMP (RM/MT)	2,202	-5.4%	1.8%	2,205	-23.3%	Lower average selling price
CPO Market (RM/MT)	2,318	44.5%	3.4%	2,362	-10.1%	
FFB production (MT)	186,320	8.5%	22.4%	463,780	-1.9%	Weather-impacted decline in output

Source: Company, MIDFR

## 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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.