30 May 2019 | 4QFY19 Results Review

IJM Plantations Berhad

FY19 results in the red

Maintain SELL

***Adjusted* Target Price: RM1.13**
(*Previously* RM1.25)

INVESTMENT HIGHLIGHTS

- **4QFY19 core earnings fell by -73.0%yoy to RM3.8m, leading to a total loss of -RM11.0m in FY19**
- **This was mainly attributable to lower average selling price (ASP) of CPO and higher production costs**
- **Earnings estimates for FY20 cut by -19.5% to RM43.4m**
- **Maintain SELL with an adjusted TP of RM1.13**

Continues to underperform. IJM Plantation Bhd's (IJMPLNT) 4QFY19 core earnings came in lower at RM3.8m against a core profit of RM14.0m in 4QFY18. Note that in the preceding two quarters were also in loss-making position of -RM5.6m and –RM17.1m as at 2QFY19 and 3QFY19 respectively. This was mainly caused by weaker-than-expected CPO price and higher production costs.

Full year FY19 results fell sharply. IJMPLNT's cumulative 12MFY19 core loss amounted to –RM11.0m as a result of the decline in CPO prices in both Malaysia and Indonesia to RM2,125/mt (-19.5%yoy) and RM1,846/mt (-22.4%yoy) respectively. The fall in CPO's ASP was at a faster pace as compared to the rise in its FFB and CPO production. In addition, the combined Malaysian and Indonesian operations produced a total FFB volume of 976,395mt in FY19, a mere increase of +4.7%yoy comparing against a high double-digit decline in CPO price. The plunge in earnings was further compounded by the higher production costs.

Production cost pressure. IJMPLNT incurred higher operating expenses in relative to its revenue for 12MFY19. While its revenue fell by -15.6%yoy, operating expenses only went down by -3.2%yoy. This was predominantly due to i) production cost pressure in the Malaysian operations from higher wages for harvesting tall palms, and ii) continued production cost pressures from the increased young mature areas incurring full plantation maintenance and overhead against a start-up yield in the Indonesian operations.

Earnings estimates. Premised on the weak CPO price environment and financial underperformance, we have reduced our FY20 earnings estimates by -19.5% to RM43.4m.

RETURN STATS	
Price (29th May 2019)	RM1.47
Target Price	RM1.13
Expected Share Price Return	-23.1%
Expected Dividend Yield	+2.0%
Expected Total Return	**-21.1%**
STOCK INFO	
KLCI	1623.67
Bursa / Bloomberg	IJMP MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	880.58
Market cap. (RM'm)	1294.4
Price over NA	0.97
52-wk price Range	RM1.30 – RM2.61
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	0.04m
3-mth Avg Daily Value	RM0.06m
Major Shareholders	
IJM CORP BHD	56.20%
EPF	14.01%

Table 1: PBT breakdown (RM'm)

Operations	FY19	FY18	Remarks
Malaysian	16.8	80.9	Lower ASP of CPO and lower PKO sales volume
Indonesian	-60.1	-30.1	Lower ASP of CPO and higher production cost

Source: Company, MIDFR.

Table 2: CPO Sales Volume breakdown (mt)

Operations	FY19	FY18
Malaysian	128.0	125.4
Indonesian	106.5	88.0

Source: Company, MIDFR.

Table 3: CPO ASP breakdown (RM/mt)

Operations	FY19	FY18
Malaysian	2,125	2,639
Indonesian	1,846	2,380

Source: Company, MIDFR.

Dividend. The group announced an interim dividend of 2sen per share for FY19 to be payable on 17th July 2019. This was a reduction of 3sen per share from FY18's dividend per share of 5sen in view of the poor financial performance in FY19. Moving forward, we forecast a dividend per share of 3sen in FY20 and FY21 in view of gradual earnings recovery.

Target price. Subsequent to our downward adjustments in FY20 earnings and CPO price assumption, we are lowering our target price to **RM1.13** (*previously RM1.25*). This is premised on pegging core FY20 EPS of 5.2sen against forward PER of 21.8x. Our target PER is the group's two year historical average.

Maintain SELL. Moving forward, we expect the CPO price to remain subdued in view of elevated stockpiles, record soybean inventory and increased tension of the US-China trade dispute. As such, the earnings prospect in the near term should continue to be bleak. In addition, we expect the elevated cost of production, maintenance, and fertilizer costs to continue to negatively impact the profit margin of the group's businesses. All factors considered, we are maintaining our **SELL** recommendation on IJMPLNT. Key upside risks would be significant improvement in CPO price and lower production costs.

INVESTMENT HIGHLIGHTS

FYE Mar (RM'm, unless otherwise stated)	FY17A	FY18A	FY19A	FY20F	FY21F
Revenue	754	747	631	651	698
EBIT	192	124	22	54	73
PBT	169	77	-43	46	66
Net Income	115.1	46.6	(36.0)	43.3	58.2
Core Net Income	119.1	70.3	(11.0)	43.3	58.2
EPS (sen)	13.1	5.3	(4.3)	5.1	6.9
Core EPS (sen)	13.5	8.0	(1.3)	5.2	6.9
Net DPS (sen)	7.0	5.0	2.0	3.0	3.0
Net Dvd Yield (%)	4.8	3.4	1.4	2.0	2.0
Core PER	10.9	18.4	(112.5)	28.6	21.3
NTA/share (RM)	2.12	1.93	1.87	1.87	1.89
P/NTA	0.69	0.76	0.79	0.79	0.78
ROE (%)	6.4	2.9	-2.3	2.7	3.7
ROA (%)	3.9	1.8	-1.4	1.6	2.2

Source: Company, MIDFR

DAILY PRICE CHART



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IJM Plantation: 3QFY19 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly			Cumulative		
FYE 31st Dec	**4QFY19**	**% YoY**	**% QoQ**	**12MFY19**	**12MFY18**	**%**
Revenue	164.8	16.6	15.4	631	747	-15.6
EBITDA	45.7	61.6	6.1	88	144	-38.5
Depreciation and amortisation	-25.7	-5.1	-9.9	-112	-122	-8.3
EBIT	20.0	1563.0	37.3	-23	22	-206.3
Finance costs	-4.4	-29.0	-75.3	-25	23	-207.5
Finance income	1.0	-24.1	-4.9	4	6	-23.8
Share of results of joint ventures	0.2	n.a	-43.7	0	0	n.a
PBT	16.7	-541.3	-932.3	-43	51	-185.3
Taxation	-2.6	-204.6	357.5	-1	-27	-96.6
MI	-0.6	-114.4	-210.5	8	4	93.7
PATAMI	13.5	333.5	-779.9	-36	28	-230.4
Normalised PATAMI	3.8	-72.8	-122.2	-11	52	-120.5
Normalised EPS (sen)	0.4	-72.8	-122.2	-1.2	5.9	-120
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	27.8	27.8	-2.4	0.0	0.0	0.0
EBIT margin (%)	12.1	11.3	1.9	-3.7	2.9	-6.6
Normalised PATAMI margin (%)	2.3	-7.6	14.2	-1.7	6.9	-8.6
Effective tax rate (%)	15.3	-49.3	43.2	-2.1	53.1	-55.3

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 *rise* 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 *fall* 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.