25 November 2015 | 2QFY16 Results review

IJM Plantations Berhad

Lower than expected Opex

***Maintain* NEUTRAL**

***Adjusted* Target Price (TP): RM3.65**
(*Previous* Target Price: RM3.50)

INVESTMENT HIGHLIGHTS

- **1HFY16 earnings above expectations on lower than expected operating expenses**
- **1HFY16 core net income fell 11%yoy**
- **Long term outlook positive due to young tree age profile**
- **Earnings forecasts revised upwards**
- **Maintain NEUTRAL with adjusted TP of RM3.65**

1HFY16 earnings above expectations on lower than expected operating expenses: IJM Plantations (IJMP)'s 1HFY16 core net income (CNI) of RM68.4m was higher than expectations at 60% and 57% of ours and consensus full year estimates. The Company's 1HFY16 operating expenses were lower than expected as it has declined 12%yoy to RM235.6m. As expected, no dividends were announced as IJMP historically pays dividend in the final quarter. Note that our CNI calculation excludes RM45.9m of forex loss.

1HFY16 core net income fell 11%yoy: IJMP's 1HFY16 revenue dropped 18%yoy, owing to lower CPO selling prices (-11%yoy to RM2105/MT). However, its performance was aided by lower operating expenses (-12%yoy) hence resulted in smaller decrease of -11%yoy in core net income. In 1HFY16, FFB production of IJMP was flattish on-year as higher FFB production from Kalimantan estates were offset by lower production in Sabah estates. We gather that Sabah estates have been affected by the dry weather.

Positive long term outlook: Near term FFB production outlook for IJMP is muted as management expects its crop production to be adversely impacted by the dry weather in Sabah. However, we believe that the long term outlook for IJMP remains positive due to its young tree age profile of 8.3 years with 61% of its total planted area is still below 7 years old. This would translate into good long term FFB growth prospect.

Earnings forecasts revised upwards. We revise upwards our earnings forecasts for FY16 and FY17 by 5.8% and 4.5% respectively as we lower our operating cost estimate. Core net income for FY16 is forecasted to be 13%yoy lower mainly due to lower CPO prices.

Maintain NEUTRAL with adjusted TP of RM3.65. Corresponding to the upwards revision in earnings, our Target Price is revised upwards to RM3.65, based on unchanged 18.6x Forward PER on higher FY17 EPS of 19.6sen. Despite the good set of results, the Company's upside may be limited by the short-term production hiccups from its Sabah estates.

RETURN STATS	
Price (24 Nov 2015)	RM3.55
Target Price	RM3.65
Expected Share Price Return	+2.8%
Expected Dividend Yield	+1.9%
Expected Total Return	**+4.7%**
STOCK INFO	
KLCI	1677.03
Bursa / Bloomberg	2216 / IJMP MK
Board / Sector	Main / Plantations
Syariah Compliant	Yes
Issued shares (mil)	880.58
Par Value (RM)	0.5
Market cap. (RM'm)	3,126
Price over NA	1.98
52-wk price Range	RM2.99 – RM3.82
Beta (against KLCI)	0.79
3-mth Avg Daily Vol	0.11m
3-mth Avg Daily Value	RM0.37m
Major Shareholders	
IJM Corp	55.19%
EPF	12.09%
Desa Plus Sdn Bhd	4.2%

INVESTMENT STATISTICS

FYE Mar	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	486	647	668	530	608
EBIT	159	153	141	162	217
PBT	157	109	89	154	209
Net Income	120	89	90	123	165
Core Net Income	129	109	142	123	165
EPS (sen)	14.9	11.1	10.7	14.6	19.6
Core EPS (sen)	16.0	13.7	16.8	14.6	19.6
Net DPS (sen)	7.0	7.0	6.0	6.6	8.8
Net Dvd Yield	2.0%	2.0%	1.7%	1.9%	2.5%
Core PER	16.0	13.7	16.8	14.6	19.6
NTA/share (RM)	1.74	1.73	1.91	1.78	1.88
P/NTA	2.04	2.06	1.86	2.00	1.89
ROE	8.6%	6.4%	5.6%	8.2%	10.4%
ROA	5.6%	4.0%	3.5%	5.8%	7.4%

Source: Company, MIDF Research Estimate

IJM Plantations: 2QFY16 RESULTS SUMMARY

FYE Mar (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY16	%YoY	%QoQ	6MFY15	%YoY	
Revenue	145.1	*-16%*	*2%*	286.9	*-18%*	*Due to lower CPO prices that dropped 11% to RM2105/MT*
EBIT	-12.5	*NA*	*NA*	26.6	*-69%*	
PBT	-32.3	*NA*	*NA*	-6.4	*NA*	
Net Income	-4.9	*NA*	*NA*	17.9	*-66%*	
Core Net Income	41.0	*21%*	*43%*	69.6	*-11%*	*Exclude RM45.91m forex loss*
EPS (sen)	-0.56	*NA*	*NA*	2.04	*-69%*	
Core EPS (sen)	3.25	*-21%*	*0%*	7.90	*-17%*	
Net DPS (sen)	0.00	*NA*	*NA*	0.00	*NA*	*As expected, no dividend in 2Q*
CPO Price (RM/MT)	2050	*-9%*	*-5%*	2105	*-12%*	
FFB Volume ('k MT)	235	*-4%*	*3%*	463	*0%*	*Higher production from Kalimantan estates (+24%yoy) offset lower production from Sabah estates (-9%yoy)*
EBIT Margin	*NA*	*NA*	*NA*	9.3%	*NA*	
PBT Margin	*NA*	*NA*	*NA*	*NA*	*NA*	

Source: Company

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 *rise* 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 *fall* 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.