02 March 2015 | 9MFY15 Results Review

IJM Plantations

Indonesian operations turning around

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM3.78**
(from RM3.30)

INVESTMENT HIGHLIGHTS

- **3QFY15 earnings dropped by -11%yoy to RM27.1m due to higher tax expenses. The pretax profit for the quarter was however up by +24%yoy**
- **Cumulatively, 9MFY15 surged >100%yoy to RM80.3m**
- **This was mainly boosted by higher crop production in the Indonesian operation.**
- **Strong FFB production in Indonesia is expected to continue. Hence, reducing its unit production cost**
- **Reiterate NEUTRAL call with revised TP of RM3.78 as we believe that the growth story has been priced in**

Revenue improved despite lower realised CPO price. IJM Plantations' (IJMP) 3QFY15 and 9MFY15 revenue increased to RM183m (+4.6%yoy) and RM535m (+16.5%yoy) respectively. Higher CPO sales from the operation in Malaysia and Indonesia have helped offset the decline in CPO prices.

Cumulative earnings were above expectations. Despite higher revenue recorded in 3QFY15, earnings for the said quarter fell by -11%yoy due to higher tax expenses. However, the cumulative 9M15 earnings was still higher year-over-year, surging by >100%yoy to RM80.3m. This includes net FX losses on borrowings of RM26.9m. Excluding this losses, the normalised earnings was approximately RM107m, far exceeding ours and consensus financial year-to-date estimates.

Higher FFB production drove earnings higher. The upbeat 9MFY15 earnings was mainly attributable to;

(i) higher FFB production in Malaysia (+10.6%yoy) and Indonesia (+118%yoy);

(ii) higher CPO sales volume from Malaysia (+8.7%yoy) and Indonesia (+39.3%yoy) operations and;

(iii) lower net FX losses of RM27m from the US Dollar borrowings (9MFY14: losses of RM56m). All IJMP's borrowings of RM674m are denominated in US Dollar.

Improving performance of Indonesian operation. Despite registering higher FFB production and CPO sales volume, the Indonesian operation is still loss making as of 9MFY15. The loss however was lower than the loss recorded in 9MFY14. During 3QFY15, operations in Indonesia recorded PBT of RM270,000. We are expecting Indonesian operation to make a turnaround very soon

RETURN STATS	
Price (27 Feb 2015)	RM3.80
Target Price	RM3.78
Expected Share Price Return	-0.53%
Expected Dividend Yield	+2.63%
Expected Total Return	**+2.10%**

STOCK INFO	
KLCI	1,821.21
Bursa / Bloomberg	2216/ IJMP MK
Board / Sector	Main/ Plantation
Syariah Compliant	Yes
Issued shares (mil)	880.6m
Par Value (RM)	0.50
Market cap. (RM'm)	3,346.2
Price over NA	2.16
52-wk price Range	RM3.12 – RM4.03
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM0.48m
Major Shareholders (%)	
IJM Corp	55.19
EPF	12.06

Key terms:
CPO – Crude Palm Oil
FFB – Fresh Fruit Bunches
PKO – Palm Kernel Oil
FX – Foreign Exchange

Revise earning forecast higher. Against this positive backdrop, we are revising upward our FY15 and FY16 earnings forecasts by +18.9% and 13.7% to RM 122m and RM131m respectively.

Maintain NEUTRAL. We believe that all the positive news and surprises have been priced in. Therefore, we are maintaining our **NEUTRAL** call on IJMP with a revised target price of **RM3.78** per share. Our target price is based on price-earnings (PE) multiple of 25.4x, which is its average three-year historical PER.

INVESTMENTS STATISTICS

FYE 31 MARCH	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	486.28	646.98	666.33	671.71	769.04
EBIT (RM'm)	159.47	153.08	179.03	182.06	195.07
Pre-tax Profit (RM'm)	156.61	109.08	157.03	172.06	185.07
Net Profit (RM'm)	119.57	88.64	121.65	131.04	144.65
EPS (sen)	14.91	11.04	13.81	14.88	16.41
EPS growth (%)	-24.01	-25.94	25.10	7.73	12.26
PER(x)	25.49	34.41	27.51	25.53	23.16
Dividend (sen)	7.00	7.00	8.00	10.00	10.00
Net Dividend Yield (%)	1.84	1.84	2.11	2.63	2.63

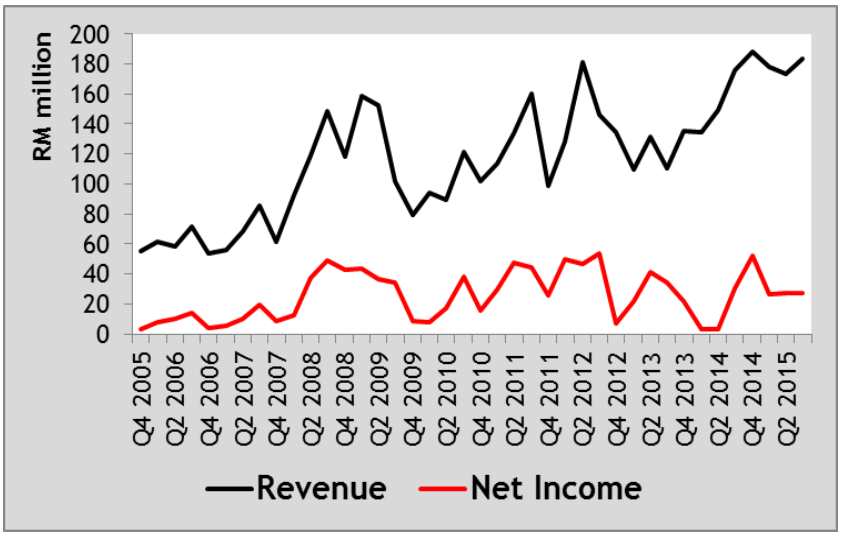
Source: Company, Forecast by MIDFR

IJMP 9MFY15 RESULTS SUMMARY

	Quarterly Results			Cumulative		Comments
FYE Mar (RM m)	**3QFY15**	***YoY (%)***	***QoQ (%)***	**9MFY15**	***YoY (%)***	
Revenue	183.4	*4.6*	*5.6*	534.9	*16.5*	Higher FFB production and sales volume
Operating expenses	-139.7	*10.3*	*-2.8*	-424.7	*13.2*	Higher unit production cost relative to lower crop yield in Indonesian operation
Operating profit	49.9	*-2.3*	*12.8*	136.8	*50.3*	
Finance costs	-11.2	*-44.0*	*13.4*	-32.6	*-46.4*	
Pre-tax profit	38.7	*24.4*	*12.6*	104.2	*244.3*	
Tax	-12.4	*338.3*	*45.4*	-28.5	*396.2*	Higher tax due to non-deductibility of certain expenses
Net Profit	27.1	*-11.1*	*0.1*	80.3	*121.7*	Partly attributable to lower net unrealized exchange loss from the US Dollar borrowings
EPS (sen)	3.2	*-17.1*	*-4.0*	9.7	*114.4*	Significant improvement from Indonesian operation boost up earnings
		+/- ppts	***+/- ppts***		***+/- ppts***	
Op margin	27.19%	-1.92	1.73	25.57%	5.74	
Tax rate	31.98%	41.06	7.23	27.37%	8.38	

Source: Company, MIDFR

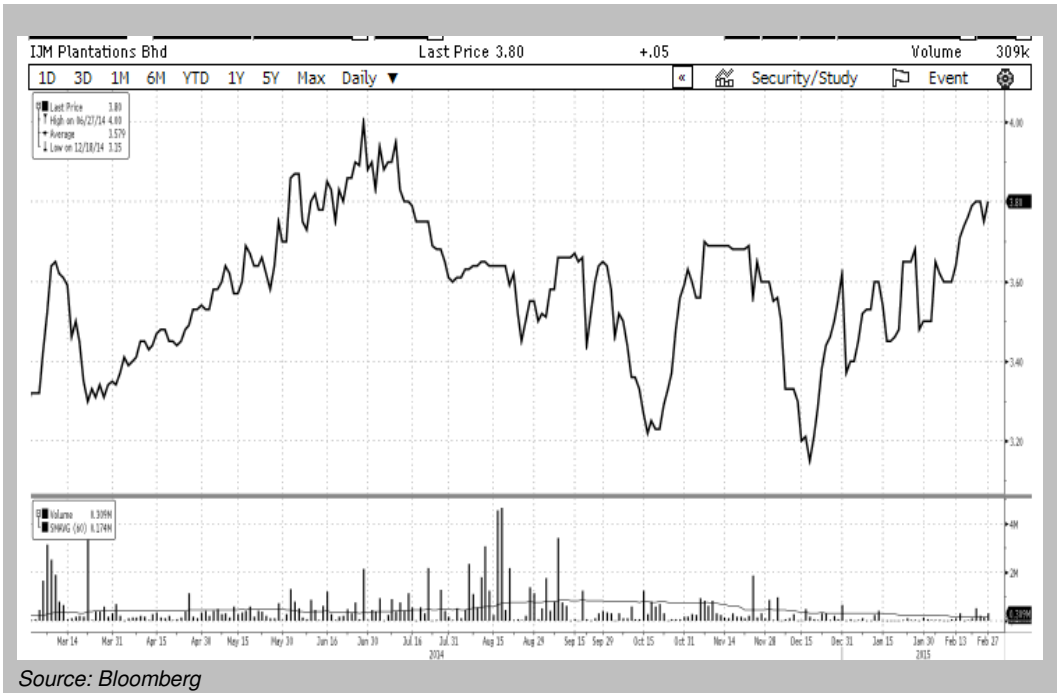
IJMPs' quarterly revenue and earnings (RM million)



Source: Bloomberg

Revenue increase in tandem with the increase in FFB production, particularly from operation in Indonesia. However, the rise in revenue does not translated into higher earnings as the company needed to incur higher cost for the immature and young trees.

DAILY PRICE CHART



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 *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.