IOI Corporation Berhad

(1961 | IOI MK) Plantation | Plantation

Maintain BUY

Downstream continues supplement earnings stability

***Revised* Target Price: RM5.00**

(Previously RM6.00)

KEY INVESTMENT HIGHLIGHTS

- **Topline 1QFY23 marginally higher +1% to RM3.7b**
- **Downstream segment continues supplement earnings stability**
- **1QFY23 earnings came in within expectation**
- **FY23/24's earnings estimates were tweak lower in consideration of new lower average CPO target price**
- **Maintain BUY with revised TP of RM5.00**

Within expectation. IOI's 1QFY23 revenue marginally higher by 1% yoy to RM3.7b, supported by better performance from its RBM segment however partially offset by lower FFB production amidst higher cost of production. EBITDA margin dropped to 9.7% (-7.2 ppts qoq, -4.0 ppts yoy) due to aforementioned above. Core earnings were in line with our expectations at RM326.8m (-44.7% qoq, +15.8% yoy) mainly attributed to the downstream segment's contribution, making up 27% and 20% of our and consensus FY23F estimates respectively.

Plantation. Segment profit for the quarter decreased -27.8%yoy to RM351.8m from RM487.0m in corresponding period last year. Dragged down by the biological assets, which resulted in a net loss of -RM10.9m, lower FFB output, and higher production costs. However, despite decreasing FFB output, average CPO selling prices achieved were higher at RM4,496/mt (+11.5%yoy).

RBM. The resource-based manufacturing performance remained steadfast during the year, with underlying profit of RM321.5m, an increase c. +108% as opposed RM154.8m prior year, after excluding the fair value loss on derivative financial instruments of RM193.0m. The roared in earnings was mainly due higher margins from oleochemical and refining sub-segments, partly offset by lower sales volume from these sub-segments.

Earnings forecast. In consideration of year-to-date average CPO price of RM5,262/Mt and tougher market environment on CPO prices, we slash our earnings estimates by -9%/-4% for FY23/FY24 based on new average CPO price RM3,500/RM3,000, as well as lowered assumptions on productions and margin.

Recommendation. With the consolidation of CPO prices, we expect its RBM business will continue to operate as a safety net against any posibble downside risk from plantation segment, hence minimizing earnings instability. All factors considered, we are maintaining our **BUY** recommendation. Our revised TP of **RM5.00** based on PER of 28x nearly +1SD of its 5-year historical avg pegged on FY23F EPS of 17.8sen, implies expected total return of +27.4%.

RETURN STATISTICS	
Price @ 25th Nov 2022 (RM)	3.98
Expected share price return (%)	+25.16
Expected dividend yield (%)	+2.26
Expected total return (%)	+27.42

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.7	2.7
3 months	6.8	2.4
12 months	7.3	8.2

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	6,248.77
Estimated free float (%)	22.47
Market Capitalisation (RM'm)	26,029.79
52-wk price range (RM)	RM3.57 - RM4.76
Beta vs FBM KLCI (x)	1.02
Monthly velocity (%)	0.46
Monthly volatility (%)	23.39
3-mth average daily volume (m)	3.18
3-mth average daily value (RM'm)	12.93
Top Shareholders (%)	
Progressive Holdings Sdn Bhd	50.41
Employees Provident Fund	10.12
Amanah Saham Nasional Bhd	6.99

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INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2021	2022	2023F	2024F	2025F
Revenue	**11,251.7**	**15,578.0**	**11,210.0**	**9,358.1**	**8,547.2**
EBIT	1,337.2	2,140.0	1716.1	1432.6	1308.4
PBT	1,416.3	2,352.6	1692.9	1413.3	1290.8
PATANCI	1,394.3	1,725.3	1118.2	930.4	816.3
Normalised PATANCI	**1,242.2**	**1,862.6**	**1118.2**	**930.4**	**816.3**
Normalised EPS (sen)	19.8	29.6	17.8	14.8	13.0
Normalised EPS Growth (%)	64.4	49.9	-40.0	-16.8	-12.3
PER (x)	20.1	13.4	22.4	26.9	30.6
Dividend Per Share (sen)	10.5	14.0	10.5	9.0	8.0
Dividend yield (%)	2.6	3.5	2.6	2.3	2.0

Source: Company, MIDFR

IOI CORPORATION BHD: 4QFY22 RESULTS SUMMARY

FYE 30tt June (All in RM'm, unless otherwise stated)	Quarterly					Cumulative		
	1Q21	4Q22	1Q23	% QoQ	% YoY	1QFY23	1QFY22	% YoY
Revenue	**3,632.4**	**3,736.1**	**3,668.7**	**-1.8**	**1.0**	**3,668.7**	**3,632.4**	**1.0**
EBITDA	498.0	629.9	355.7	-43.5	-28.6	355.7	498.0	-28.6
EBIT	408.0	539.5	263.9	-51.1	-35.3	263.9	408.0	-35.3
PBT	446.8	658.4	315.1	-52.1	-29.5	315.1	446.8	-29.5
PATANCI	277.6	541.8	167.5	-69.1	-39.7	167.5	277.6	-39.7
Normalized PATANCI	**282.3**	**590.6**	**326.8**	**-44.7**	**15.8**	**326.8**	**282.3**	**15.8**
Normalised EPS (sen)	4.5	9.5	5.3	-44.7	16.2	5.3	4.5	16.2
				+/- ppts				+/- ppts
EBITDA margin (%)	13.7	16.9	9.7	-7.2	-4.0	9.7	13.7	-29.3
EBIT margin (%)	11.2	14.4	7.2	-7.2	-4.0	7.2	11.2	-36.0
Normalised PATAMI margin (%)	7.8	15.8	8.9	-6.9	1.1	8.9	7.8	14.6
Effective tax rate (%)	35.2	16.5	45.1	28.6	9.9	45.1	35.2	28.3

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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology