IOI Corporation Berhad

(1961 | IOI MK) Plantation | Plantation

Maintain BUY

RBM subsegment a key pillar to earnings stability

***Revised* Target Price: RM5.40**

(Previously RM5.00)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were above our expectation**
- **RBM subsegment remained a key pillar, as profit surged >100%**
- **We raise our FY22/23 forecasts**
- **Maintain BUY with revised TP of RM5.40**

RETURN STATISTICS	
Price @ 28th Feb 2023 (RM)	3.83
Expected share price return (%)	+42.17
Expected dividend yield (%)	+3.13
Expected total return (%)	+45.30

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.3	0.8
3 months	-6.9	1.0
12 months	-18.0	-9.4

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	6285.20
Estimated free float (%)	22.31
Market Capitalisation (RM'm)	23,401.05
52-wk price range (RM)	RM3.59 - RM4.76
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	0.46
Monthly volatility (%)	24.51
3-mth average daily volume (m)	3.27
3-mth average daily value (RM'm)	12.59
Top Shareholders (%)	
Progressive Holdings Sdn Bhd	50.42
Employees Provident Fund	10.78
Amanah Saham Nasional Bhd	6.99

Above expectations. IOI's 2QFY23 posted a mixed bag of results where sales were down by -19.7%yoy to RM3.7b while earnings improved to RM712.1 (+43.9%yoy), thanks to the higher contribution from its RBM segment however partially offset by lower CPO and PK prices realised. Following on that, EBITDA margin improved to 28.5% (+18.8ppts qoq, +14.6ppts yoy). Overall, earnings were above expectations at RM879.6m (+13.9%Ytd) mainly attributed to the downstream segment's contribution, making up 80% and 64% of ours and consensus FY23F estimates respectively.

Plantation. Segment profit for the quarter decreased -43.0%yoy to RM328.2m from RM576.0m in subsequent year. Owing to the lower share of associate results of RM2.2m, but cushioned by better operating profit at operating level which derived from better FFB production. Nonetheless, average CPO and PK selling prices achieved lowered to RM4,127 per Mt (2Q22; 4,565 per Mt) and RM2,163 per Mt (2Q22; 3,678 per Mt) respectively.

RBM. The resource-based manufacturing performance remained sturdy, with underlying profit of RM281.7m, an increase c. >100% as opposed RM98.3m prior year, after excluding the fair value gain on derivative financial instruments of RM182.6m. 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 better performance of its RBM subsegment and lower cost of production, we raise our earnings estimates by +25%/+8% for FY23/FY24 estimates.

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 **RM5.40** based on PER of 24.5x nearly +1SD of its 5-year historical avg pegged on FY23F EPS of 22.2sen.

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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**	**15,578.7**	**12,847.2**	**11,585.4**	**10,159.9**
EBIT	1,211.8	2,152.8	1,571.1	1,091.7	1,034.0
PBT	1,739.8	2,352.6	1,817.9	1,300.3	1,208.2
PATANCI	1,394.3	1,725.3	1,396.9	1,008.0	928.8
Normalised PATANCI	**1,101.0**	**1,950.5**	**1,396.9**	**1,008.0**	**928.8**
Normalised EPS (sen)	17.5	31.0	22.2	16.0	14.8
Normalised EPS Growth (%)	45.7	77.2	-28.4	-27.8	-7.9
PER (x)	21.9	12.3	17.2	23.9	25.9
Dividend Per Share (sen)	10.5	14.0	12.0	10.5	8.0
Dividend yield (%)	2.7	3.7	3.1	2.7	2.1

Source: Company, MIDFR

IOI CORPORATION BHD: 2QFY23 RESULTS SUMMARY

FYE 30tt June (All in RM'm, unless otherwise stated)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	% QoQ	% YoY	1HFY23	1HFY22	% YoY
Revenue	4,112.3	3,668.7	3,304.0	-9.9	-19.7	6,972.7	7,744.7	-10.0
EBITDA	572.9	355.7	942.9	165.1	64.6	1,298.6	1,248.7	4.0
EBIT	661.8	263.9	850.5	222.3	28.5	1,114.4	1,069.8	4.2
PBT	666.5	315.1	857.0	172.0	28.6	1,172.1	1,113.3	5.3
PATANCI	494.7	167.5	712.1	325.1	43.9	879.6	772.3	13.9
Normalized PATANCI	532.2	618.5	406.0	-34.4	-23.7	1,024.5	965.4	6.1
Normalised EPS (sen)	8.6	10.0	6.5	-34.3	-23.6	16.5	15.5	6.4
				+/- ppts				+/- ppts
EBITDA margin (%)	13.9	9.7	28.5	18.8	14.6	18.6	16.1	15.5
EBIT margin (%)	16.1	7.2	25.7	18.5	9.6	16.0	13.8	15.7
Normalised PATAMI margin (%)	12.9	16.9	12.3	-4.6	-0.7	14.7	12.5	17.9
Effective tax rate (%)	23.8	45.1	16.6	-28.5	-7.3	24.2	28.4	-14.6

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