IOI Corporation Berhad

(1961 | IOI MK) Main | Plantation

Maintain BUY

RBM Remain as A Supporting Key Pillar

Revised Target Price: RM4.89

(Previously RM5.40)

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Upstream; profit dragged by lower CPO ASP realised**
- **Downstream; a surprising decent profit**
- **Earnings estimates; Maintained**
- **Maintain BUY with revised TP of RM4.89**

Within expectation. IOI's 9MFY23 reported revenue and PATAMI came in within our estimates where sales were down by -18.7%Ytd to RM9.6b while earnings decelerated to RM1.1b (-9.0%Ytd), dragged by lower CPO and PK prices realized, cushioned by higher downstream contribution coming from resource-based manufacturing segment (downstream). In contrast, PBT margins was improved by +0.6 ppt to 14.9% from 14.3% in tandem with decent operating profit margins of 14.9% posted. Overall, reported PATAMI meet ours/consensus expectations, making up 77% and 72% of FY23F estimates respectively.

Plantation. Segment profit for the quarter declined -55.4%yoy to RM185.5m from RM415.7m in subsequent year. Owing to the lower share of associate results of RM108.9m as well lower CPO and PK prices realised coupled with higher cost of production, but mitigated by higher FFB production. Note that, average CPO and PK selling prices were lowered to RM4,181 per Mt (3Q22; 5,064 per Mt) and RM2,273 per Mt (2Q22; 4,588 per Mt) respectively.

Operationally, the FFB production and yield increased to 628,000 Mt (+4.8%yoy) and 4.4 Mt per Ha (+2.8%yoy) while OER softer to 20.74% impacted by uneven weather situation in this 1HCY23.

RBM. The resource-based manufacturing performance remains sturdy, with underlying profit of RM111.1m, an increase c. +76.0% as opposed RM63.2m prior year, after excluding the fair value loss on derivative financial instruments of RM60.3m. The earnings growth was mainly due higher margins contributions from the refining sub-segments, partly offset by lower sales volume from these Oleochemical sub-segment.

Earnings forecast. Maintain.

Recommendation. With the consolidation of CPO prices, we expect its RBM business will continue to operate as a safety net against any possible downside risk from plantation segment, hence minimizing earnings instability. All factors considered, we are maintaining our **BUY** recommendation with a revised **TP** of **RM4.45** based on PER of 22.0x nearly mean 5-year historical avg pegged on FY23F EPS of 22.2sen.

RETURN STATISTICS	
Price @ 30th May 2023 (RM)	3.91
Expected share price return (%)	+25.05
Expected dividend yield (%)	+3.07
Expected total return (%)	**+28.12**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.4	3.8
3 months	2.6	6.3
12 months	-7.6	3.9

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	12,847.2	11,585.4	10,159.9
EBITDA	1,997.6	1,531.7	1,487.5
Profit Before Tax	1,817.9	1,300.3	1,208.2
Core PATAMI	1,396.9	1,008.0	928.8
Core EPS	22.2	16.0	14.8
DPS	12.0	10.5	8.0
Dividend Yield	3.1%	2.7%	2.0%

KEY STATISTICS	
FBM KLCI	1,396.1
Issue shares (m)	6285.20
Estimated free float (%)	22.1
Market Capitalisation (RM'm)	24,266.8
52-wk price range	RM3.59 - RM4.33
3-mth average daily volume (m)	2.4
3-mth average daily value (RM'm)	9.3
Top Shareholders (%)	
Progressive Holdings Sdn Bhd	50.4
EPF	11.0
Amanah Saham Nasional Bhd	7.0

MIDF Research Team
research@midf.com.my

IOICorp: 3Q23 RESULTS SUMMARY

FYE June (RM'm)	Quarterly							
Income Statement	**3QFY22**	**2QFY23**	**3QFY23**	**QoQ**	**YoY**	**9MFY22**	**9MFY23**	**Ytd**
Revenue	4,097.9	3,303.4	2,661.0	*-19.4%*	*-35.1*	11,842.6	9,633.1	*-18.7%*
Operating profit	483.8	544.4	281.5	*-48.3%*	*-41.8*	1,594.3	1,433.2	*-10.1%*
Net Finance cost	-34.1	-29.3	-27.7	*-5.5%*	*-18.8*	-94.8	-85.7	*NM*
PBT	580.9	857.0	260.8	*-69.6%*	*-55.1*	1,694.2	1,432.9	*-15.4%*
Tax expense	-159.5	-141.9	-59.3	*NM*	*NM*	-475.3	-343.3	*NM*
PATAMI	411.2	712.1	197.4	*-72.3%*	*-52.0*	1,183.5	1,077.0	*-9.0%*
Core PATAMI	394.0	452.9	222.5	*-50.9%*	*-43.5*	1,359.4	1,293.9	*-4.8%*
Operating margin	11.8%	16.5%	10.6%	-5.9	-1.2	13.5%	14.9%	1.4
PBT margin	14.2%	25.9%	9.8%	-16.1	-4.4	14.3%	14.9%	0.6
Core PATAMI margin	9.6%	13.7%	8.4%	-5.3	-1.3	11.5%	13.4%	2.0

SEGMENTAL BREAKDOWN & OPERATIONAL STATS.

FYE Dec (RM'm)	Quarterly							
Revenue	**3QFY22**	**2QFY23**	**3QFY23**	**QoQ**	**YoY**	**9MFY22**	**9MFY23**	**Ytd**
Plantation	119.6	83.2	77.0	*-7.5%*	*-35.6%*	325.7	241.3	*-25.9%*
Resource-based Manufacturing	3,971.1	3,213.4	2,580.0	*-19.7%*	*-35.0%*	11,502.9	9,376.0	*-18.5%*
Other Operations	7.2	6.8	4.0	*-41.2%*	*-44.4%*	14.0	15.8	*12.9%*
Operating Profit								
Plantation	415.7	324.8	185.5	*-42.9%*	*-55.4%*	1,345.8	804.8	*-40.2%*
Resource-based Manufacturing	63.8	248.1	96.3	*-61.2%*	*50.9%*	335.5	651.6	*94.2%*
Other Operations	2.7	2.1	-1.6	*NM*	*NM*	8.1	0.9	*-88.9%*
Operating Margin %								
Plantation	347.6	390.4	240.9	-106.7	-149.5	413.2	333.5	-79.7
Resource-based Manufacturing	1.6	7.7	3.7	2.1	-4.0	2.9	6.9	4.0
Other Operations	37.5	30.9	-40.0	-77.5	-70.9	57.9	5.7	-52.2
CPO Price realised (RM/Mt)								
CPO	5,064	4,294	4,181	*-2.6%*	*-17.4%*	4,518	4,181	*-7.5%*
PK	4,588	2,330	2,273	*-2.4%*	*-50.5%*	3,521	2,273	*-35.4%*

Source: IOI Corp, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	11,251.7	15,578.7	12,847.2	11,585.4	10,159.9
EBITDA	1,572.3	2,511.6	1,997.6	1,531.7	1,487.5
PBT	1,739.8	2,352.6	1,817.9	1,300.3	1,208.2
PATAMI	1,394.3	1,725.3	1,396.9	1,008.0	928.8
Core PATAMI	1,101.0	1,950.5	1,396.9	1,008.0	928.8
EPS (sen)	17.5	31.0	22.2	16.0	14.8
PER (x)	22.3x	12.6x	17.6x	24.4x	26.5x
DPS (sen)	10.5	14.0	12.0	10.5	8.0
Dividend yield (%)	2.7%	3.6%	3.1%	2.7%	2.0%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	8,608.7	8,709.2	8,741.1	8,759.5	8,764.4
Intangible Assets	423.4	416.0	407.6	399.2	390.8
Deferred tax assets	31.5	95.1	95.1	95.1	95.1
Non-current assets	12,317.9	12,488.4	12,879.7	13,203.9	13,464.1
Inventories	1,296.6	1,601.5	1,511.4	1,363.0	1,195.3
Trade receivables	1,427.2	1,607.6	1,605.9	1,448.2	1,270.0
Derivative assets	372.3	534.5	534.5	534.5	534.5
Current assets	5,337.8	6,679.4	6,866.4	6,978.6	7,063.4
Total Assets	**17,655.7**	**19,167.8**	**19,746.1**	**20,182.5**	**20,527.5**
Loans & borrowings	3,919.0	2,155.4	2,155.4	2,155.4	2,155.4
Trade & other payables	767.8	940.8	856.5	772.4	677.3
Current liabilities	6,500.1	7,452.4	7,039.9	6,799.0	6,658.2
Lease liabilities	58.2	56.9	56.9	56.9	56.9
Deferred tax liabilities	1,172.5	1,167.7	1,167.7	1,167.7	1,167.7
Non-current liabilities	2,303.7	4,131.7	4,131.7	4,131.7	4,131.7
Equity	10,314.4	11,284.5	11,947.1	12,467.6	12,907.7
Liabilities & equity	**17,655.7**	**19,167.8**	**19,746.1**	**20,182.5**	**20,527.5**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,739.8	2,352.6	1,817.9	1,300.3	1,208.2
Cash flow from operations	671.6	1,799.9	1,480.2	1,374.2	1,386.5
Cash flow from investing	-276.2	-222.8	-450.0	-450.0	-450.0
Cash flow from financing	-682.4	-1,059.2	-748.4	-502.8	-502.8
Net cash flow	-287.0	517.9	281.8	421.4	433.7
Net cash/(debt) b/f	2,313.0	2,024.9	2,552.9	2,834.7	3,256.0
Net cash/(debt) c/f	2,024.9	2,552.9	2,834.7	3,256.0	3,689.7

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	14.0%	16.1%	15.5%	13.2%	14.6%
PBT margin	15.5%	15.1%	14.2%	11.2%	11.9%
Core PATAMI margin	9.8%	12.5%	10.9%	8.7%	9.1%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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