

29 August 2019

Genting Plantations Berhad

Below Expectations

By Lavis Chong | lavis.chong@kenanga.com.my

2Q19 CNP* came in below expectations at RM15.7m (-57% YoY; -67% QoQ), bringing 1H19 CNP to RM62.8m (-43% YoY), forming 29% of consensus full-year estimate and 31% of ours. The disappointment likely stemmed from weaker-than-expected FFB growth of 11% vs. our FY19 forecast of 14%. An interim dividend of 3.5 sen was declared, consistent with our expectation. Trim FY19-20E CNP by 19-14% to RM163-239m. Maintain UP with a lower TP of RM8.80.

Below expectations. Genting Plantations Berhad (GENP)'s 2Q19 core net profit (CNP*) came in below expectations at RM15.7m (-57% YoY; -67% QoQ). This brought 1H19 CNP to RM62.8m (-43% YoY), accounting for only 29% of consensus full-year estimate and 31% of ours. The disappointment likely stemmed from weaker-than-expected FFB growth of 11% vs. our FY19 forecast of 14%. An interim dividend of 3.5 sen was declared, consistent with our expectation.

YoY, 1H19 Plantation EBIT tumbled 59% to RM67.6m as FFB growth of 11% failed to offset a 16% drop in the average CPO price to RM1,960/MT and a 37% plunge in the average PK price to RM1,194/MT. This was partially cushioned by a solid performance in Downstream segment, which saw EBIT turning from a loss of RM0.5m to a profit of RM29.0m on the back of higher off-take in both its refinery and biodiesel operations. **QoQ**, 2Q19 Plantation EBIT plummeted 72% to RM14.6m hit by a double whammy of lower FFB output (-7%) and average CPO price (-2% to RM1,934/MT). Additionally, Downstream EBIT halved to RM9.8m as margin moderated to 2.9% from a high base of 4.8% in 1Q19 due to stiffer competition.

Unexciting outlook. Management targets 10-15% FFB growth for FY19 vs. our new assumption of 11%. Our forecast is at the lower-end of the guided range as management insinuated that 4Q19 production in some of its Malaysian estates could be impacted by a dry spell encountered in January and August this year. On CPO prices, despite the recent recovery, we believe further upside is capped by burgeoning stockpiles in 4QCY19 and India's probe into Malaysian exports of refined palm oil (which, in a grey sky scenario, could lead to protectionism and lower palm oil imports from India). In the Downstream segment, we believe earnings could soften further as feedstock prices recover.

Trim FY19-20E CNP by 19-14% to RM163-239m as we cut our FFB forecasts from 2.37-2.49m MT (+14-5% YoY) to 2.32-2.45m MT (+11-6% YoY).

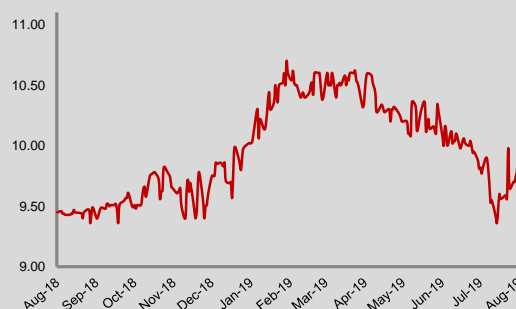
Maintain UNDERPERFORM with a lower Target Price of RM8.80 (from RM9.00 previously) based on CY20E PBV of 1.94x (switched from Sum-of-Parts valuation due to earnings volatility), implying -1.0SD given its unexciting outlook. Our TP translates into a CY20E PER of 35.0x due to its low-base earnings. At current price levels, we believe GENP's valuation is overstretched.

Risks to our call include: (i) higher-than-expected refinery utilisation, (ii) higher-than-expected CPO prices, and (iii) stronger-than-expected property sales.

UNDERPERFORM ↔

Price : **RM10.00**
Target Price : **RM8.80** ↓

Share Price Performance



KLCI 1,589.82
YTD KLCI chg -6.0%
YTD stock price chg 1.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GENP MK Equity
Market Cap (RM m)	8,972.0
Shares Outstanding	897.2
52-week range (H)	10.78
52-week range (L)	9.06
3-mth avg daily vol:	466,162
Free Float	29%
Beta	0.6

Major Shareholders

Genting Bhd	54.4%
Employees Provident Fund Board	10.1%
Skim Amanah Saham Bumiputera	6.4%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1,903	1,928	2,050
EBIT	284	219	322
PBT	208	193	295
Net Profit (NP)	165	163	239
Core NP	143	163	239
Consensus (CNP)	N.A.	215	277
Earnings Revision	N.A.	-19%	-14%
Core EPS (sen)	17.7	18.6	25.2
Core EPS grwth (%)	-57.2	14.0	46.9
NDPS (sen)	13.0	10.0	14.0
BV/Share (RM)	5.1	4.8	4.5
Core PER	56.4	53.9	39.8
Price/BV (x)	2.0	2.1	2.2
Net Gearing (x)	0.25	0.30	0.32
Net Dvd Yield (%)	1.3	1.0	1.4

*2Q19 CNP excludes forex gain (RM1.8m), PP&E disposal gain (<RM0.1m) and net surplus arising from government acquisition (RM3.2m).

29 August 2019

Results Highlights								
FY Dec	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Revenue	525.7	621.7	-15%	402.6	31%	1,147.4	931.7	23%
Op Profit	40.2	75.6	-47%	54.9	-27%	115.8	201.8	-43%
Pretax Profit	25.9	59.9	-57%	37.2	-30%	85.8	167.8	-49%
Tax	(7.6)	(17.8)	57%	(12.4)	39%	(25.5)	(48.6)	48%
MI	2.4	(0.4)	nm	1.3	-85%	2.0	7.9	74%
Net Profit	20.7	41.7	-50%	26.1	-21%	62.4	127.1	-51%
Core Net Profit	15.7	47.2	-67%	36.6	-57%	62.8	109.5	-43%
FD EPS (sen)	1.9	5.7	-66%	4.4	-57%	7.6	13.3	-43%
Net DPS (sen)	3.5	0.0	nm	4.8	-26%	3.5	4.8	nm
EBIT %	7.6%	12.2%		13.6%		10.1%	21.7%	
PBT%	4.9%	9.6%		9.2%		7.5%	18.0%	
Tax %	29.4%	29.8%		33.3%		29.7%	29.0%	
CPO Avg	1,934	1,974	-2%	2,291	-16%	1,960	2,336	-16%
PK Avg	1,082	1,283	-16%	1,723	-37%	1,194	1,908	-37%
FFB Prod ('000 mt)	515	554	-7%	479	8%	1,069	965	11%

Source: Company, Kenanga Research

Segmental Breakdown								
FY Dec	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Segmental Revenue								
- Plantation	150.6	200.6	-25%	182.8	-18%	351.2	403.3	-13%
- Downstream Mfg.	343.9	398.5	-14%	194.6	77%	742.4	476.5	56%
- Property	31.2	22.6	38%	25.3	23%	53.8	51.9	4%
- Biotech & Others	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Total Group	525.7	621.7	-15%	402.6	31%	1,147.4	931.7	23%
Segmental Profit								
- Plantation	14.6	53.0	-72%	50.1	-71%	67.6	165.4	-59%
- Downstream Mfg.	9.8	19.2	-49%	1.8	449%	29.0	(0.5)	nm
- Property	19.3	13.9	38%	13.8	40%	33.2	32.3	3%
- Biotech & Others	0.3	(6.0)	nm	(10.4)	nm	(5.7)	4.3	nm
Total Op Profit	44.0	80.1	-45%	55.2	-20%	124.1	201.5	-38%

Source: Company, Kenanga Research



29 August 2019

Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.840	425.4	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.4	13.2	9.1	0.6	0.6	4.4%	4.8%	0.850	MP
FGV HOLDINGS BHD	0.950	3,465.7	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.9	0.9	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.4	53.9	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.43	1,259.2	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	142.0	51.1	0.7	0.7	0.5%	0.4%	1.40	MP
IOI CORPORATION BHD	4.22	26,521.2	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	34.9	28.1	27.5	2.9	2.7	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.48	25,005.4	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.0	37.6	29.8	2.4	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	23.0	22.1	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.86	33,459.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	285.9	121.5	48.6	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.61	494.3	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.5	21.5	18.0	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.16	951.4	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.5	13.6	0.7	0.7	2.4%	1.9%	2.20	MP
TSH RESOURCES BHD	0.890	1,228.4	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.8	26.9	18.5	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.2%	10.1%	-39.8%	20.0%	54.8	61.1	36.1	1.3	1.3	3.1%	1.4%		

Source: Bloomberg, Kenanga Research

29 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

