

29 August 2019

IJM Plantations Berhad

1Q20 Below Expectations

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IJM Plantations Berhad (IJMPLNT)'s 1Q20 CNL of RM4.9m came in below both our and consensus' expectations, mainly due to lower-than-expected CPO prices and FFB output. No dividend was declared, as expected. Reduce FY20-21E CNP by 42-11% to RM8.9-24.6m. Upgrade to MARKET PERFORM with an unchanged Target Price of RM1.40 as most negatives have been priced in and we expect earnings to recover in subsequent quarters.

Below expectations. 1Q20 registered CNL* of RM4.9m, which was below both our and consensus' CNP forecast of RM15.3m and RM28.6m, respectively. The deviation stemmed from: (i) weaker-than-expected CPO prices at RM1,866/MT vs. our CY19E of RM2,000/MT and lower-than-expected FFB, and (ii) lower-than-expected FFB output at 20% of our FY19 forecast of 1.13m MT. No dividend was declared, as expected.

Results highlight. YoY, 3M20 recorded CNL of RM4.9m (vs. CNP of RM11.3m in 3M19) on the back of lower revenue (-27%) as average CPO prices declined (-16%) to RM1,866/MT, which was partially offset by 5% increase in FFB output (Malaysia: +20%; Indonesia: -5%). QoQ, 1Q20 turned to losses (vs. CNP of RM3.8m in 4Q19), attributed to a 7% decline in FFB output (Malaysia: -18%; Indonesia: +4%) due to the festive season in May-June.

Expecting Indonesian FFB output to increase. The group's long-term prospects remain encouraging as production is trending up, with solid double-digit growth in Indonesia to push group output beyond the 1.0m MT mark in FY20. We estimate that the group's breakeven CPO price to be c.RM1,950/MT and we expect cost structure improvements to lead to a better earnings outlook in FY20. Positively, the group has also locked in fertilizer requirements for FY20 at similar rates to FY19, crossing out one of the major cost concerns.

Reduce FY20-21E CNP by 42-11% to RM8.9-24.6m (low base effect) as we trimmed our slightly bullish FY20-21E FFB output by 9-6% to 1.03-1.08m MT.

Upgrade to MARKET PERFORM with an unchanged Target Price of RM1.40 based on PBV of 0.71x applied on CY20E BV/share of RM1.96. Despite the earnings miss, we believe at current price, most negatives have been priced in and subsequent quarters should see some recoveries in earnings as FFB output picks up. Our PBV reflects -1.5SD below the mean, which is at the lower-end of our universe's applied valuation range of -2.0SD to -1.0SD, given that IJMPLNT's earnings remain patchy and the TP implies a stretched 60x CY20E PER (partly due to low base earnings) even at -1.5SD level.

Risks to our call include: (i) sharp rise/drop in CPO prices, and (ii) a precipitous decrease/increase in labour/fertiliser/transportation cost.

MARKET PERFORM ↑

Price : **RM1.43**
Target Price : **RM1.40** ↔

Share Price Performance



KLCI 1,589.82
YTD KLCI chg -6.0%
YTD stock price chg 2.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJMP MK Equity
Market Cap (RM m)	1,259.2
Shares Outstanding	880.6
52-week range (H)	2.61
52-week range (L)	1.30
3-mth avg daily vol	122,491
Free Float	25%
Beta	1.0

Major Shareholders

IJM Corporation Bhd	56.2%
Employees Provident Fund Board	14.0%
Kumpulan Wang Persaraan	4.7%

Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	630.9	598.5	667.6
EBIT	7.4	54.6	71.8
PBT	(43.3)	13.8	34.8
Net Profit (NP)	(36.3)	8.9	24.6
Core NP	(10.6)	8.9	24.6
Consensus (CNP)	n.a.	28.6	50.2
Earnings Revision	n.a.	-42%	-11%
Core EPS (sen)	-1.2	1.0	2.8
Core EPS grwth (%)	-115.0	-184.0	177.8
NDPS (sen)	2.0	0.6	1.5
BV/Share (RM)	1.94	1.95	1.96
Core PER	n.m.	142.0	51.1
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	1.4	0.4	1.0

* 1Q20 CNL excludes total unrealised forex gains (RM0.17m).

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Results Highlights								
FY Mar	1Q20	4Q19	QoQ %	1Q19	YoY%	3M20	3M19	YoY%
Revenue	133.1	164.8	-19%	183.1	-27%	133.1	183.1	-27%
EBIT	1.1	11.4	90%	11.3	-90%	1.1	11.3	-90%
Pretax Profit	(5.4)	16.7	nm	(26.3)	-80%	(5.4)	(26.3)	-80%
Tax	0.3	(2.6)	nm	1.5	-82%	0.3	1.5	82%
MI	0.3	(0.6)	nm	5.2	-93%	0.3	5.2	-93%
Net Profit	(4.8)	13.5	nm	(19.6)	-76%	(4.8)	(19.6)	-76%
Core Net Profit	(4.9)	3.8	nm	11.3	nm	(4.9)	11.3	nm
EPS (sen)	(0.5)	1.5	nm	(2.2)	-76%	(0.5)	(2.2)	-76%
Net DPS (sen)	0.0	2.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	0.9%	6.9%		6.1%		0.9%	6.1%	
PBT margin	-4.0%	10.1%		-14.3%		-4.0%	-14.3%	
Tax rate	4.8%	15.3%		5.5%		4.8%	5.5%	
Weighted avg CPO Price	1,866	1,845	1%	2,395	-22%	1,866	2,225	-16%
FFB Prod ('000 MT)	232	249	-7%	221	5%	232	221	5%

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar	1Q20	4Q19	QoQ %	1Q19	YoY%	3M20	3M19	YoY%
Segmental Revenue								
Malaysia	65.4	85.3	-23%	100.6	-35%	65.4	100.6	-35%
Indonesia	67.7	79.5	-15%	82.5	-18%	67.7	82.5	-18%
Total Group	133.1	164.8	-19%	183.1	-27%	133.1	183.1	-27%
Segmental Profit	1Q20	4Q19	QoQ %	1Q19	YoY%	3M20	3M19	YoY%
Malaysia	2.4	4.0	-40%	5.6	-107%	2.4	5.6	-57%
Indonesia	(7.8)	12.7	nm	(31.9)	76%	(7.8)	(31.9)	76%
Total PBT	(5.4)	16.7	nm	(26.3)	80%	(5.4)	(26.3)	-80%

Source: Company, Kenanga Research

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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

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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.**

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