

16 August 2019

IOI Corporation Berhad

Downstream Loses Steam

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IOICORP's 4Q19 CNP* came in below expectations at RM125m (-19% YoY; -39% QoQ), bringing FY19 CNP to RM761m (-21% YoY), which accounted for 94% of consensus full-year estimate and only 87% of ours. The disappointment stemmed from lower-than-expected FFB output. A dividend of 4.5 sen was proposed, bringing FY19 total dividend to 8.0 sen, slightly above our 7.0 sen forecast. Trim FY20E CNP by 6% to RM944m and we introduce FY21E CNP of RM964m. Maintain MP with a lower TP of RM4.10.

Below expectations. IOI Corporation (IOICORP)'s 4Q19 core net profit (CNP*) came in below expectations at RM125m (-19% YoY; -39% QoQ), bringing FY19 CNP to RM761m (-21% YoY). The full-year CNP accounted for 94% of consensus full-year estimate and only 87% of ours. The disappointment stemmed from lower-than-expected FFB output of 3.40m MT vs. our 3.59m MT forecast. A final dividend of 4.5 sen was proposed, bringing FY19 total dividend to 8.0 sen, slightly above our 7.0 sen forecast.

Downstream lost steam. YoY, FY19 CNP fell 21% as Plantation profit plummeted 64% on the back of a 10% decline in the average CPO price to RM2,025/MT, exacerbated by a 3% dip in FFB output. This was partially offset by a 13% improvement in Downstream profit, thanks to cheaper feedstock, higher sales volume and higher share of associate results from Bunge Loders Croklaan Group B.V. (Loders). **QoQ,** despite a marginal improvement in the average CPO price (+1%), Plantation profit fell 36% on the back of an 11% drop in FFB output. Additionally, Downstream posted a 55% plunge in profit as refining margins waned from high bases in previous quarters. Overall, these led to a drastic 39% drop in 4Q19 group CNP.

Better year ahead. Moving into FY20, management anticipates CPO price to recover as demand from China and India picks up, while rising biodiesel uptake in Malaysia and Indonesia continues to absorb supply. In addition, the group expects FFB production to improve slightly in FY20 with sturdy output from young Indonesian palms offsetting the temporary loss in Sabah due to aggressive replanting efforts recently. We concur with management's views, forecasting CPO price to improve 4% to RM2,100/MT and FFB output to grow marginally by 1% to 3.43m MT in FY20.

Trim FY20E CNP by 6% to RM944m after lowering Downstream EBIT margin assumption from 7.0% to 6.0% to be conservative; **and we introduce FY21E CNP of RM964m** based on flat CPO price forecast of RM2,100/MT and FFB output of 3.50m MT (+2%).

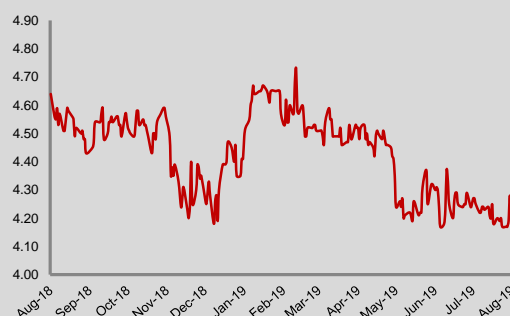
Maintain MARKET PERFORM with a lower Target Price of RM4.10 (previously RM4.35) based on an unchanged Fwd. PER of 27.2x (-1.0SD) but a lower CY20E EPS of 15.2 sen post-earnings adjustment. Despite unexciting CPO prices, IOICORP's earnings should remain relatively stable thanks to its solid Downstream. At the current level, IOICORP appears fully valued at CY20E PER of 26.3x (-0.5SD).

Risks to our call are sharp rises and falls in CPO prices and a precipitous rise/fall in fertiliser/labour/transportation costs.

MARKET PERFORM ↔

Price : RM4.23
Target Price : RM4.10 ↓

Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	-4.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK Equity
Market Cap (RM m)	26,584.0
Shares Outstanding	6,284.6
52-week range (H)	4.74
52-week range (L)	4.10
3-mth avg daily vol:	1,814,777
Free Float	37%
Beta	0.8

Major Shareholders

Progressive Hlds Sdn Bhd	47.7%
Employees Provident Fund Board	12.4%
Kumpulan Wang Persaraan Diperbadankan	3.0%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	7386	6815	6820
EBIT	909	1120	1121
PBT	873	1162	1188
Net Profit (NP)	632	944	964
Core NP	761	944	964
Consensus (CNP)	813	947	1032
Earnings Revision	NA	-6%	NA
Core EPS (sen)	12.1	15.0	15.3
EPS growth (%)	-19%	24%	2%
NDPS (sen)	8.0	9.0	9.0
BV/Share (RM)	1.48	1.54	1.60
Core PER	34.9	28.2	27.6
Price/BV (x)	2.86	2.75	2.64
Net Gearing (x)	0.24	0.20	0.16
Net Dvd Yield (%)	1.9%	2.1%	2.1%

* 4Q19 CNP excludes net FX loss (RM78m)

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Results Highlights

FYE Jun	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	YoY%
Revenue	1,738.2	1,891.1	(8%)	1,802.1	(4%)	7,385.6	7,417.6	(0%)
Operating Profit	146.5	289.2	(49%)	156.0	(6%)	908.9	1,242.3	(27%)
Pretax	73.0	365.4	(80%)	67.0	9%	872.6	1,570.7	(44%)
Taxation	(32.2)	(125.4)	(74%)	(54.2)	(41%)	(255.0)	(334.0)	(24%)
Minority	5.8	5.8	0%	4.3	35%	14.1	(7.8)	N.M.
Net Profit	46.6	245.8	(81%)	17.1	173%	631.7	1,228.9	(49%)
Core Net Profit	124.5	204.6	(39%)	153.9	(19%)	760.7	967.0	(21%)
EPS (sen)	0.7	3.9	(81%)	0.6	30%	10.1	19.9	(49%)
Core EPS (sen)	2.0	3.3	(39%)	2.4	(19%)	12.1	15.4	(21%)
DPS (sen)	4.5	0.0	N.M.	4.5	0%	8.0	9.0	(11%)
Avg CPO (RM)	1,988	1,971	1%	2,409	(17%)	2,025	2,252	(10%)
FFB ('000 mt)	804.7	897.6	(10%)	761.9	6%	3,398.8	3,514.9	(3%)
Op Profit %	8%	15%		9%		12%	17%	
PBT %	4%	19%		4%		12%	21%	
Effective Tax %	44%	34%		81%		29%	21%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Jun	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	YoY%
Segmental Revenue								
- Plantation	45.3	46.0	(2%)	49.6	(9%)	185.6	257.6	(28%)
- Resource Based	1,689.0	1,842.7	(8%)	1,748.9	(3%)	7,184.3	7,147.0	1%
- Other Ops	3.9	2.4	63%	3.6	8%	15.7	13.0	21%
Group Revenue	1,738.2	1,891.1	(8%)	6,495.0	(73%)	7,385.6	12,110.5	(39%)
Segment Profit								
- Plantation	84.5	132.6	(36%)	149.2	(43%)	483.9	1,034.0	(53%)
- Resource Based	88.3	196.6	(55%)	84.7	4%	553.4	383.7	44%
- Other Ops	1.7	(1.9)	N.M.	0.7	143%	2.9	4.6	(37%)
Group Op Profit	174.5	327.3	(47%)	234.6	(26%)	1,040.2	1,422.3	(27%)

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	0.940	476.1	Y	12/2019	7.6%	36.3%	-9.4%	35.0%	9.4	10.4	7.7	0.7	0.6	6.2%	4.3%	1.10	OP
FGV HOLDINGS BHD	1.06	3,867.0	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	9.98	8,954.0	Y	12/2019	2.4%	6.2%	40.6%	39.1%	56.2	43.6	34.0	1.9	2.1	4.8%	1.3%	9.00	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	1.39	1,224.0	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	79.8	44.1	0.7	0.7	0.9%	0.7%	1.40	UP
IOI CORPORATION BHD	4.23	26,584.0	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	34.9	28.2	27.6	2.9	2.7	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.90	25,452.7	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.5	29.6	26.1	2.2	2.1	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.68	26,574.2	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.1	22.8	21.9	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.81	33,114.8	Y	12/2019	71.7%	11.1%	88.6%	154.0%	282.9	120.3	48.1	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.68	503.9	Y	03/2020	5.1%	15.5%	-41.1%	20.2%	13.7	23.2	19.3	0.9	0.8	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.09	920.6	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	11.3	14.5	10.8	0.7	0.7	4.7%	3.8%	2.40	MP
TSH RESOURCES BHD	0.890	1,228.8	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	5.12	1,073.6	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.3	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					9.2%	11.0%	-33.5%	3.7%	53.1	52.2	34.4	1.3	1.3	3.4%	1.5%		

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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