

24 July 2023

Agriculture | Plantation

IOI Corp (IOI MK)

Buy (Maintained)

Undemanding Valuations; BUY

Target Price (Return): MYR4.75 (22.4%)
Price (Market Cap): MYR3.88 (USD5,302m)
ESG score: 2.8 (out of 4)
Avg Daily Turnover (MYR/USD) 6.43m/1.41m

• **BUY, with a new MYR4.75 TP (from MYR4.35), 22% upside, 3% yield.** We like IOI Corp for its integrated business model with stable earnings base while its valuations are currently attractive as it is trading at 16.4x FY24F PE, at the lower end of its peers' range of 16-19x.

• **We see more upside risk for the sector now**, with the looming *El Nino* and potentially escalating geopolitical risks relating to the Russia-Ukraine war and grains corridor. However, notwithstanding a strong *El Nino* and an inability to export any crops from the Black Sea, the fundamental outlook remains relatively unexciting. Supply is expected to come in strongly in 2024, while demand remains somewhat lacklustre. Stock/usage ratios are still comfortably above historical averages in 2024F.

• **2023 price assumptions unchanged, 2024 assumptions raised.** While there is a high chance *El Nino* will be confirmed soon, we expect the impact on palm oil (PO) output to only be seen in 2024. As such, we make no changes to our 2023 CPO price assumption of MYR3,900/tonne. For 2024, if the *El Nino* is a moderate one, there would be an impact on supply – although not very significant – while prices could continue to be held back by lacklustre demand. We believe prices could be higher in 2H24 vs 1H24, as the impact of *El Nino* would only be seen from May/June onwards. We are therefore raising our 2024 and 2025 price assumptions to MYR3,900/tonne and MYR3,800/tonne respectively. If the *El Nino* turns out to be a strong one, we will review our price assumptions.

• **We maintain our NEUTRAL sector weighting**, with a tactically positive trading strategy. We believe higher CPO prices in 2024 would mean purer players would be looked upon more positively than integrated players. However, integrated players would provide a more stable earnings base and consistent dividend returns. Also, not all pure players would benefit equally, given the Indonesian tax structure and deteriorated exchange rate. Pure Indonesian planters would not benefit as much as pure Malaysian planters.

• **We raise our FY23-25F earnings by 1-13% post CPO price assumption revisions and after updating our latest in-house FX assumptions.**

• **Valuation targets rolled forward.** We retain our P/E targets for the large-cap Malaysian planters but roll forward our valuation targets to 2024. We assign an unchanged 18-20x P/E to the plantation divisions of the big-cap Malaysian planters in our SOP valuations.

• **ESG overlay.** Our SOP-based TP now includes a 4% ESG discount, based on an ESG score of 2.8. IOI's valuation is cheap, trading at 16.4x FY24F P/E, at the lower end of its peers' 16-19x.

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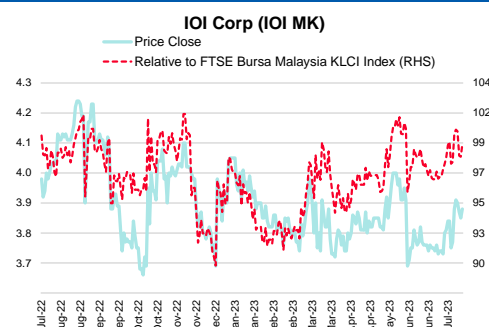


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.2)	3.2	0.3	(1.5)	(2.5)
Relative	2.0	2.2	2.4	4.7	(0.6)
52-wk Price low/high (MYR)				3.66 – 4.24	



Source: Bloomberg

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	11,252	15,579	13,314	14,091	14,078
Recurring net profit (MYRm)	1,099	1,979	1,496	1,472	1,421
Recurring net profit growth (%)	38.9	80.0	(24.4)	(1.6)	(3.5)
Recurring P/E (x)	22.09	12.18	16.11	16.37	16.96
P/B (x)	2.4	2.2	2.1	1.9	1.8
P/CF (x)	27.13	14.67	11.07	13.73	13.22
Dividend Yield (%)	2.1	4.1	3.1	3.0	2.8
EV/EBITDA (x)	10.01	7.96	9.18	8.57	8.64
Return on average equity (%)	14.4	16.5	13.2	12.2	11.1
Net debt to equity (%)	28.4	22.0	12.1	6.3	0.5

Source: Company data, RHB

Overall ESG Score: 2.8 (out of 4)

E: GOOD

IOI discloses its greenhouse gas (GHG) emissions from each operating segment, and is forecasted to reduce its GHG emissions intensity by 19% in 2020 (from 2015) and 41% by 2025. This is likely to surpass Malaysia's national commitment to reduce carbon emission intensity by 45% from its 2005 baseline, by 2030.

S: GOOD

In 2017, IOI published its Foreign Workers Recruitment Guideline, which was developed with various stakeholders including NGOs. IOI is committed to ensuring continuous and consistent practices of human rights, while uniform labour laws are adhered to, via internal audits conducted by its sustainability team.

G: EXCELLENT

71% of IOI's board members are independent, with full disclosure on director remuneration including salaries and bonuses on a named basis. IOI has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.18	0.32	0.24	0.24	0.23
Agriculture	DPS	0.08	0.16	0.12	0.12	0.11
IOI Corp	BVPS	1.60	1.76	1.88	2.00	2.12
IOI MK	Return on average equity (%)	14.4	16.5	13.2	12.2	11.1
Buy						
Valuation basis	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
We use SOP valuation comprising target P/E of 20x FY2024F for the plantations division and 18x for the downstream divisions as well as our target price for associate Bumitama. This is backed up by an EV/ha of USD40,000/ha, which is at the higher end of its Malaysian big-cap peers	Recurring P/E (x)	22.09	12.18	16.11	16.37	16.96
	P/B (x)	2.4	2.2	2.1	1.9	1.8
	FCF Yield (%)	2.1	5.0	7.4	5.6	5.9
	Dividend Yield (%)	2.1	4.1	3.1	3.0	2.8
	EV/EBITDA (x)	10.01	7.96	9.18	8.57	8.64
	EV/EBIT (x)	12.26	9.29	11.09	10.29	10.50
Key drivers	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. CPO price movement;	Total turnover	11,252	15,579	13,314	14,091	14,078
ii. FFB production output;	Gross profit	2,683	3,833	3,190	3,388	3,316
iii. Competitiveness of its downstream processing division versus its peers.	EBITDA	1,966	2,499	2,105	2,230	2,170
	Depreciation and amortisation	(361)	(359)	(363)	(373)	(383)
	Operating profit	1,605	2,140	1,743	1,857	1,786
	Net interest	(126)	(129)	(122)	(100)	(81)
	Pre-tax profit	1,740	2,353	1,959	2,036	1,964
	Taxation	(324)	(584)	(442)	(539)	(518)
	Reported net profit	1,394	1,725	1,496	1,472	1,421
	Recurring net profit	1,099	1,979	1,496	1,472	1,421
Key risks	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. CPO price movement;	Change in working capital	(796)	(312)	299	(115)	(5)
ii. Weather risks;	Cash flow from operations	895	1,643	2,178	1,755	1,824
iii. The demand and supply dynamics of the global vegetable oil industry.	Capex	(396)	(439)	(400)	(400)	(400)
	Cash flow from investing activities	(276)	(228)	(400)	(400)	(400)
	Dividends paid	(533)	(747)	(746)	(714)	(683)
	Cash flow from financing activities	(664)	(1,060)	(1,246)	(1,214)	(1,183)
	Cash at beginning of period	2,313	2,025	2,553	3,085	3,226
	Net change in cash	(45)	355	532	141	241
	Ending balance cash	2,267	2,390	3,085	3,226	3,467
Company Profile	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
IOI Corp is a large integrated palm oil producer, with oil palm plantation land in Malaysia and Indonesia. It also has downstream manufacturing facilities like refineries, oleochemical, and specialty fats manufacturing plants.	Total cash and equivalents	2,025	2,553	3,085	3,226	3,467
	Tangible fixed assets	8,596	8,709	8,747	8,773	8,790
	Total investments	3,145	3,110	3,110	3,110	3,110
	Total assets	17,656	19,168	19,302	19,631	19,893
	Short-term debt	3,919	2,155	2,155	2,155	2,155
	Total long-term debt	1,037	2,884	2,384	1,884	1,384
	Total liabilities	7,340	7,882	7,246	6,792	6,292
	Total equity	10,315	11,286	12,056	12,839	13,601
	Total liabilities & equity	17,656	19,168	19,302	19,631	19,893
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	44.2	38.5	(14.5)	5.8	(0.1)
	Recurrent EPS growth (%)	39.1	81.3	(24.4)	(1.6)	(3.5)
	Gross margin (%)	23.8	24.6	24.0	24.0	23.6
	Operating EBITDA margin (%)	17.5	16.0	15.8	15.8	15.4
	Net profit margin (%)	12.4	11.1	11.2	10.4	10.1
	Dividend payout ratio (%)	37.2	57.8	49.8	48.5	48.1
	Capex/sales (%)	3.5	2.8	3.0	2.8	2.8
	Interest cover (x)	9.74	13.43	11.10	13.07	14.06

Source: Company data, RHB

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Figure 1: IOI's forecast assumptions

FYE June	FY21	FY22	FY23F	FY24F	FY25F
CPO selling price (MYR/tonne)	3,076	4,688	4,500	3,900	3,850
PK selling price (MYR/tonne)	2,115	3,593	2,650	2,000	1,950
FFB production growth (%)	(5.8)	(6.6)	(2.5)	3.2	3.8

Source: RHB

Figure 2: SOP valuation

	Valuation basis	FV (MYRm)
Plantation earnings (excluding net interest)	20x CY24F	24,425.72
Manufacturing earnings	18x CY24F	6,477.44
Add: 32.1% stake in Bumitama Agri	RHB's fair value of SGD0.61/share	1,164.70
Less: Net debt (3QFY23)		(2820.50)
SOP (MYRm)		30,649.66
No of shares*		6,210
SOP/share (MYR)		4.94
ESG premium/(discount)	(4%)	(0.20)
TP (MYR)		4.74

Note: *Excludes treasury shares

Source: RHB

Recommendation Chart

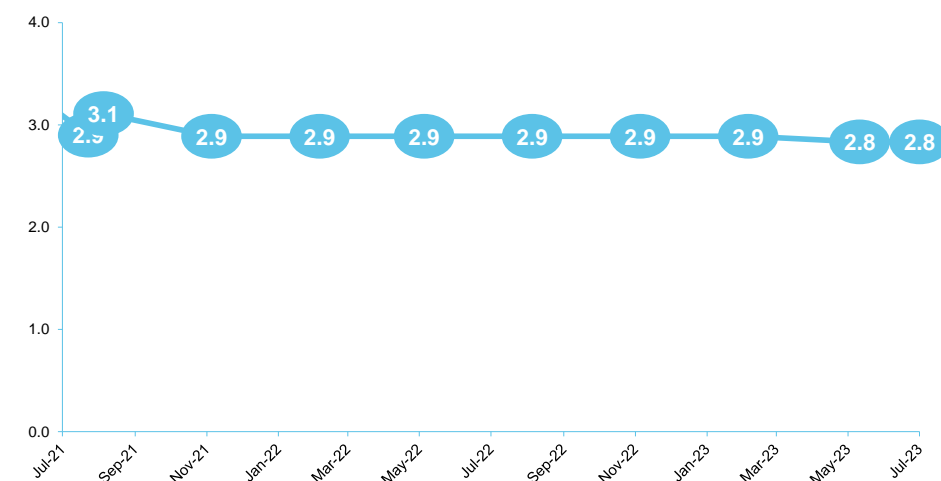


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-30	Buy	4.35	3.91
2023-02-28	Buy	4.55	3.83
2022-11-28	Buy	4.60	3.98
2022-08-24	Buy	4.65	3.90
2022-08-10	Buy	4.70	4.11
2022-05-23	Neutral	4.60	4.08
2022-02-23	Neutral	4.70	4.42
2021-12-12	Neutral	4.00	3.72
2021-11-24	Neutral	3.85	3.77
2021-09-26	Neutral	3.80	3.75
2021-08-24	Neutral	3.70	3.89
2021-07-29	Neutral	3.60	3.70
2021-05-23	Neutral	4.05	4.10
2021-04-21	Neutral	4.25	4.01
2021-02-23	Neutral	4.15	4.24

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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