

17 November 2020

Agriculture | Plantation

IOI Corp (IOI MK)

Better Quarters Ahead

Neutral (Maintained)

Target Price (Return): MYR4.10 (-9.1%)
Price: MYR4.51
Market Cap: USD6,855m
Avg Daily Turnover (MYR/USD) 7.50m/1.82m

- **NEUTRAL, with new TP of MYR4.10 from MYR4.20, 9% downside and c.2% FY21F (Jun) yield.** We consider IOI's 1QFY21 results to be in line, at 20-23% of our and consensus' full-year estimates. We expect the next few quarters to register better earnings, in light of the higher CPO prices currently. However, this could be slightly offset by weaker downstream contributions, in light of the higher feedstock prices. We believe valuations are relatively fair at current levels – the stock is trading at +1SD above the historical mean.
- **1QFY21 core net profit is in line with our and Street estimates**, coming in at 20-23% of full-year forecasts. In 1QFY21, IOI booked a 10% YoY increase in FFB output and a 28% YoY rise in average CPO price. On its prospects, the group is guiding for CPO prices to remain above MYR3,000/tonne in Jan and Feb 2021. Also it noted that demand could be dampened by the premium vs competing oils and the coming winter in the Northern Hemisphere. Nevertheless, IOI noted earnings should remain elevated in the next two quarters, due to higher CPO prices.
- **IOI recorded a 10% YoY rise in FFB output in 1QFY21**, higher than management's guidance of flat YoY. In 4MFY21, this has moderated to +7% YoY, while management continues to guide for flat FFB growth for the year, due to higher replanting targets of 11,000-12,000 ha per year (from 8,000 ha in FY20). Nevertheless, we raise our FFB growth forecasts slightly to 1-2% (from +0-1%) for FY21-23F.
- **Lower downstream margins.** IOI's downstream division registered a lower EBIT margin of 3% in 1Q21 (4Q20: 4%), due to lower refining margins, but offset by higher oleochemical margins. IOI expects the refinery subdivision margins to remain depressed in FY21, while margins for oleochemical and specialty fats may also remain relatively low, due to higher feedstock prices. Sales volumes for the oleochemical segment should remain strong from demand from the pharmaceutical sector. We lower our EBIT margins for this division slightly to 2.5-4% (from 3.5-4.5%) for FY21-23F.
- **Overall, we tweak our FY21F-22F earnings down by 4-8%** after adjusting for lower manufacturing margins and lower profit estimates for its associate, Bumitama Agri (BAL SP, BUY, TP: SGD0.60), offset by higher FFB growth projections.
- **NEUTRAL with a lower TP of MYR4.10**, from MYR4.20, based on 25x FY21F P/E for the plantation division and an unchanged 15x FY21F P/E for its manufacturing unit. We also update the TP to reflect our current TP for Bumitama Agri. Our TP implies EV/ha of USD40,000/ha, which is at the higher end of its Malaysian big-cap peer range.

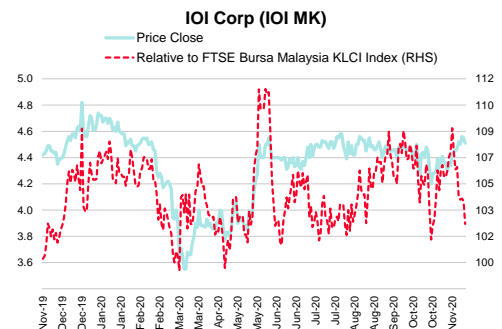
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.2)	7.4	0.2	13.0	2.5
Relative	(2.9)	1.0	(2.0)	(1.0)	2.2
52-wk Price low/high (MYR)				3.55 – 4.82	



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Good

IOI discloses its greenhouse gas (GHG) emissions contribution 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: Excellent

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

G: Excellent

66% of IOI's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. IOI has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	7,386	7,802	8,465	9,406	9,201
Recurring net profit (MYRm)	711	792	994	1,055	1,067
Recurring net profit growth (%)	(33.0)	11.4	25.6	6.2	1.1
Recurring P/E (x)	39.89	35.71	29.32	27.62	27.31
P/B (x)	3.1	3.1	3.0	2.9	2.8
P/CF (x)	25.00	41.03	22.18	23.24	19.74
Dividend Yield (%)	1.8	1.8	2.2	2.2	2.2
EV/EBITDA (x)	19.29	19.80	14.49	14.34	14.10
Return on average equity (%)	6.8	6.5	10.5	10.7	10.4
Net debt to equity (%)	23.8	27.8	24.0	21.0	16.2

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.11	0.13	0.15	0.16	0.17
Agriculture	DPS	0.08	0.08	0.10	0.10	0.10
IOI Corp	BVPS	1.44	1.44	1.49	1.56	1.62
IOI MK	Return on average equity (%)	6.8	6.5	10.5	10.7	10.4
Neutral						
Valuation basis	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
We use SOP valuation comprising target P/E of 25x 2021F for the plantations division and 15x 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)	39.89	35.71	29.32	27.62	27.31
	P/B (x)	3.1	3.1	3.0	2.9	2.8
	FCF Yield (%)	2.6	1.0	3.1	2.9	3.7
	Dividend Yield (%)	1.8	1.8	2.2	2.2	2.2
	EV/EBITDA (x)	19.29	19.80	14.49	14.34	14.10
	EV/EBIT (x)	28.25	29.00	18.33	18.17	17.96
Key drivers	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
i. CPO price movement;	Total turnover	7,386	7,802	8,465	9,406	9,201
ii. FFB production output;	Gross profit	976	1,467	1,483	1,523	1,528
iii. Competitiveness of its downstream processing division vs its peers.	EBITDA	1,182	1,153	1,630	1,657	1,677
	Depreciation and amortisation	(375)	(366)	(341)	(350)	(360)
	Operating profit	807	787	1,289	1,307	1,317
	Net interest	(102)	(103)	(126)	(119)	(112)
	Pre-tax profit	873	827	1,350	1,375	1,390
	Taxation	(255)	(225)	(306)	(310)	(312)
	Reported net profit	632	601	994	1,055	1,067
	Recurring net profit	711	792	994	1,055	1,067
Key risks	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
i. CPO price movement;	Change in working capital	198	(209)	(72)	(161)	39
ii. Weather risks;	Cash flow from operations	1,134	689	1,314	1,254	1,476
iii. The demand and supply dynamics of the global vegetable oil industry.	Capex	(396)	(392)	(400)	(400)	(400)
	Cash flow from investing activities	(206)	(279)	(400)	(400)	(400)
	Dividends paid	(534)	(542)	(646)	(646)	(646)
	Cash flow from financing activities	(1,178)	(878)	(1,146)	(646)	(1,146)
	Cash at beginning of period	2,765	2,599	2,313	2,081	2,288
	Net change in cash	(251)	(468)	(232)	208	(70)
	Ending balance cash	2,520	2,130	2,081	2,288	2,219
Company Profile	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
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	2,599	2,313	2,081	2,288	2,219
	Tangible fixed assets	8,473	8,532	8,590	8,641	8,681
	Total investments	2,610	2,727	2,727	2,727	2,727
	Total assets	16,500	16,732	16,685	17,184	17,097
	Short-term debt	409	918	918	918	918
	Total long-term debt	4,452	4,051	3,551	3,551	3,051
	Total liabilities	6,990	7,161	6,716	6,795	6,278
	Total equity	9,511	9,571	9,970	10,389	10,820
	Total liabilities & equity	16,500	16,732	16,685	17,184	17,097
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	(39.0)	5.6	8.5	11.1	(2.2)
	Recurrent EPS growth (%)	(33.0)	11.7	21.8	6.2	1.1
	Gross margin (%)	13.2	18.8	17.5	16.2	16.6
	Operating EBITDA margin (%)	16.0	14.8	19.3	17.6	18.2
	Net profit margin (%)	8.6	7.7	11.7	11.2	11.6
	Dividend payout ratio (%)	79.6	109.9	65.0	61.2	60.5
	Capex/sales (%)	5.4	5.0	4.7	4.3	4.3
	Interest cover (x)	4.60	4.59	8.85	9.29	9.71

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results review

FYE Jun (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenue	1,775.5	2,037.6	2,477.2	22	40	See Figure 2.
EBITDA	322.8	377.0	377.9	0	17	
EBITDA Margin (%)	18.2	18.5	15.3			
Depreciation	(92.4)	(89.0)	(89.9)	1	(3)	
EBIT	230.4	288.0	288.0	-	25	See Figure 2.
EBIT Margin (%)	13.0	14.1	11.6			
Net interest income/(expense)	(25.2)	(26.2)	(30.8)	18	22	
Associate	42.0	37.3	34.6	(7)	(18)	Lower profits due to lower specialty fats contribution from Bunge Lodgers (impacted by COVID-19)
EI/Others	(48.6)	7.1	68.4	863	(241)	EI includes a net forex gain on debt of MYR100.6m and fair value gain on biological assets of MYR20.4 offset by fair value loss on derivatives of MYR50.5m
Pre-tax profit	198.6	306.2	360.2	18	81	Flow-through from EBIT and EI loss.
Pre-tax Margin (%)	11.2	15.0	14.5			
Tax	(50.9)	(69.0)	(77.4)	12	52	
Effective tax rate (%)	25.6	22.5	21.5			
Minority Interest	1.3	1.1	(4.9)	(545)	(477)	
Net profit	149.0	238.3	277.9	17	87	
Core profit	197.6	231.2	209.5	(9)	6	Comprised 20% of consensus and 23% of our FY20
Net margin (%)	8.4	11.7	11.2			
EPS (sen)	2.4	3.8	4.4	17	87	
FD EPS (sen)	2.4	3.8	4.4	17	87	
Gross DPS (sen)	-	4.0	-	n.m	n.m	

Source: Company data, RHB

Figure 2: Breakdown of performance by segment

FYE Jun (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Plantation (ex-intersegment sales)	54.5	58.3	82.8	42	52	Including inter-segment sales, 1QFY21 turnover rose 52% YoY due to higher CPO (+28%) and PK prices (32%), and FFB output (10%),
Manufacturing	1,715.2	1,977.1	2,390.3	21	39	
Others	5.8	2.2	4.1	86	(29)	
Total Turnover	1,775.5	2,037.6	2,477.2	22	40	
Plantation	104.4	208.1	236.4	14	126	Due to the higher selling prices and production
Manufacturing	109.4	79.9	72.3	(10)	(34)	
Others	2.3	14.4	2.1	(85)	(9)	Lower oleochemical and refining margins.
Unallocated exp.	14.3	(14.4)	(22.8)	58	(259)	
Total EBIT	230.4	288.0	288.0	-	25	

Source: Company data, RHB

Figure 3: Operating statistics

FYE Jun	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Avg mature (ha)	148,736	145,802	143,877	(1)	(3)	
FFB vol. (m tonne)	0.8	0.9	0.9	2	10	Higher than our projected 0.2% YoY growth for FY21 and management's guidance of flat growth
FFB yield (tonne/ha)	5.4	5.9	6.1	3	13	
CPO vol. (tonne)	185,631	196,466	192,425	(2)	4	
CPO OER (%)	22.3	21.8	21.6	(1)	(3)	
Avg CPO price (MYR/tonne)	2,014	2,370	2,579	9	28	Slightly lower than our CPO price assumption of MYR2,600 per tonne for FY20.

Source: Company data, RHB

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Figure 4: Key assumptions

FYE June	FY19A	FY20A	FY21F	FY22F	FY23F
CPO Selling Price (MYR/tonne)	2,025	2,314	2,700	2,600	2,500
PK Selling Price (MYR/tonne)	1,390	1,375	1,650	1,600	1,500
FFB Production Growth (%)	(3.3)	(8.9)	1.9	1.5	1.6

Source: Company data, RHB

Figure 5: SOP valuation

	Valuation basis	FV (MYRm)
Plantation earnings (Excluding Net Interest)	25x FY21F	24,398.56
Manufacturing earnings	15x FY21F	2,879.59
Add: 31.7% stake in Bumitama	RHB Fair Value of SGD0.60/share	1,027.31
Less: Net debt (1QFY21)		(2,262.00)
SOP (MYRm)		25,739.16
No shares *		6,267
SOP/share (MYR)		4.11

Note: *Excludes treasury shares

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-01	Neutral	4.20	4.30
2020-08-25	Neutral	4.30	4.55
2020-07-26	Neutral	4.15	4.47
2020-06-09	Sell	3.90	4.39
2020-05-27	Sell	3.50	4.50
2020-04-30	Sell	3.20	4.06
2020-03-23	Sell	3.10	3.66
2020-02-18	Neutral	4.75	4.50
2020-01-20	Neutral	5.10	4.60
2019-11-27	Neutral	4.65	4.43
2019-09-30	Neutral	4.60	4.43
2019-08-16	Neutral	3.90	4.23
2019-05-23	Neutral	4.21	4.19

Source: RHB, Bloomberg

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