

26 August 2022

Agriculture | Plantation

IOI Corp (IOI MK)

Buy (Maintained)

Integrated Player With Inexpensive Valuation; BUY

Target Price (Return): MYR4.65 (+15%)
Price (Market Cap): MYR4.06 (USD5,623m)
ESG score: 2.89 (out of 4)
Avg Daily Turnover (MYR/USD) 12.0m/2.70m

- **Maintain BUY and SOP-based TP of MYR4.65, 15% upside with c.4% FY23F (Jun) yield.** IOI Corp expects some alleviation of its labour shortage by end-2022, while CPO prices are expected to stay supported at above MYR4,000/tonne until year-end. Given our expectations of volatile CPO prices, we believe it will perform better than peers, due to its integrated business model. Valuation remains attractive – trading at 15x FY23F P/E, more than -2SD from its historical mean of 23x.

- **FFB growth to improve.** In 1MFY23, FFB output fell by 17% YoY. Still, IOI expects this pattern to reverse in the coming months, as it is seeing improvements in output already, thereby hoping for up to 10% FFB output growth in FY6/23. This would also be dependent on its ability to hire more workers in coming months. Currently, its Peninsular Malaysia estates (about 60% of group landbank) are facing a 50% labour shortage, while Sabah (25% of landbank) is facing a 7-10% shortage. It received the first batch of 60 new workers three weeks ago, and is expecting 600 more by end September. This will reduce its labour shortage to 25% (or 900 workers). We keep our FY23F FFB growth of 5% to be conservative.

- **Some forwards locked in at above MYR5,000/tonne.** FY22 CPO ASP achieved was MYR4,688, lower than the Malaysia Palm Oil Board (MPOB) average of c.MYR5,550. IOI anticipates its CPO ASPs to be slightly higher than spot prices in the coming months, as it has locked in 20-50% of its production four months forward at prices above MYR5,000/tonne. Management is of the view that CPO prices would be around at least MYR4,000 until December.

- **Unit cost for FY22 rose c.20% YoY** to MYR2,500 (including cess and taxes but excluding PK credit), which was lower than expected due to lower fertilisation activities. IOI only applied 60% of its FY22 fertiliser requirements due to labour shortage. For FY23, it is able to utilise the carry forward unused fertiliser from FY22, while it has tendered for its 1HFY23 fertiliser requirements at prices 25-30% higher YoY. As such, IOI anticipates FY23 unit cost to be 4-5% higher, as higher fertiliser costs would be offset by improved productivity.

- **80% YoY rise in EBIT from its downstream division in FY22**, the bulk of which was contributed by its oleochemical sub-segment. While IOI expects margin to reduce given higher costs like energy and stiffer competition at its refinery sub-segment, this should be offset somewhat by a double-digit rise in sales volumes, aided by its new 110,000-tonne fatty acid and soap noodles plant coming on-stream in the next few months.

- **Maintain BUY call, earnings forecasts and SOP-based TP of MYR4.65.** Our TP is based on an unchanged 20x FY24F P/E for the plantation division, 12x P/E for its downstream segment, and the value of its stake in Bumitama Agri (BAL SP, BUY, TP: SGD0.80) based on our latest TP. It also includes a 2% ESG discount, given its ESG score of 2.9.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	11,252	15,579	13,022	13,440	13,342
Recurring net profit (MYRm)	1,099	1,896	1,715	1,492	1,468
Recurring net profit growth (%)	38.9	72.5	(9.6)	(13.0)	(1.6)
Recurring P/E (x)	23.11	13.30	14.71	16.91	17.18
P/B (x)	2.5	2.3	2.2	2.1	2.0
P/CF (x)	28.39	15.35	10.18	14.03	13.34
Dividend Yield (%)	2.0	4.0	4.2	3.6	3.6
EV/EBITDA (x)	10.38	8.56	8.91	9.64	9.57
Return on average equity (%)	14.4	15.7	15.2	12.5	11.8
Net debt to equity (%)	28.4	22.0	12.2	7.7	2.9

Source: Company data, RHB

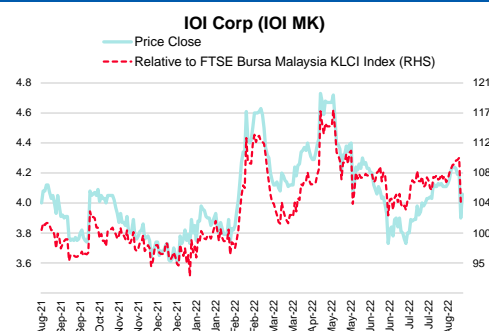
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.8	1.5	(4.3)	(11.7)	1.5
Relative	15.2	1.6	0.2	(3.9)	8.0
52-wk Price low/high (MYR)				3.61 – 4.73	



Source: Bloomberg

Overall ESG Score: 2.89 (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.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.18	0.31	0.28	0.24	0.24
Agriculture	DPS	0.08	0.16	0.17	0.15	0.15
IOI Corp	BVPS	1.60	1.76	1.87	1.96	2.05
IOI MK	Return on average equity (%)	14.4	15.7	15.2	12.5	11.8
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 12x 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)	23.11	13.30	14.71	16.91	17.18
	P/B (x)	2.5	2.3	2.2	2.1	2.0
	FCF Yield (%)	2.0	4.8	8.2	5.5	5.9
	Dividend Yield (%)	2.0	4.0	4.2	3.6	3.6
	EV/EBITDA (x)	10.38	8.56	8.91	9.64	9.57
	EV/EBIT (x)	12.71	10.05	10.62	11.76	11.76
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	13,022	13,440	13,342
ii. FFB production output;	Gross profit	1,863	2,412	2,189	2,003	1,978
iii. Competitiveness of its downstream processing division vs its peers	EBITDA	1,966	2,414	2,253	2,068	2,056
	Depreciation and amortisation	(361)	(359)	(363)	(373)	(383)
	Operating profit	1,605	2,055	1,891	1,695	1,673
	Net interest	(126)	(129)	(122)	(102)	(86)
	Pre-tax profit	1,740	2,270	2,289	2,007	1,977
	Taxation	(324)	(584)	(549)	(490)	(484)
	Reported net profit	1,394	1,643	1,715	1,492	1,468
	Recurring net profit	1,099	1,896	1,715	1,492	1,468
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)	375	(93)	15
ii. Weather risks;	Cash flow from operations	895	1,643	2,478	1,797	1,891
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)	(1,056)	(901)	(901)
	Cash flow from financing activities	(664)	(1,060)	(1,556)	(1,401)	(1,401)
	Cash at beginning of period	2,313	2,025	2,553	3,075	3,071
	Net change in cash	(45)	355	522	(3)	90
	Ending balance cash	2,267	2,390	3,075	3,071	3,162
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	3,075	3,071	3,162
	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	19,197	19,339	19,425
	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	7,228	6,753	6,247
	Total equity	10,315	11,286	11,969	12,586	13,178
	Total liabilities & equity	17,656	19,168	19,197	19,339	19,425
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	44.2	38.5	(16.4)	3.2	(0.7)
	Recurrent EPS growth (%)	39.1	73.7	(9.6)	(13.0)	(1.6)
	Gross margin (%)	16.6	15.5	16.8	14.9	14.8
	Operating EBITDA margin (%)	17.5	15.5	17.3	15.4	15.4
	Net profit margin (%)	12.4	10.5	13.2	11.1	11.0
	Dividend payout ratio (%)	37.2	61.1	61.6	60.4	61.4
	Capex/sales (%)	3.5	2.8	3.1	3.0	3.0
	Interest cover (x)	9.74	12.90	12.04	11.94	13.17

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	3,700	3,700
PK selling price (MYR/tonne)	2,115	3,593	2,950	2,500	2,500
FFB production growth (%)	(5.8)	(6.6)	5.0	3.3	0.4

Source: RHB

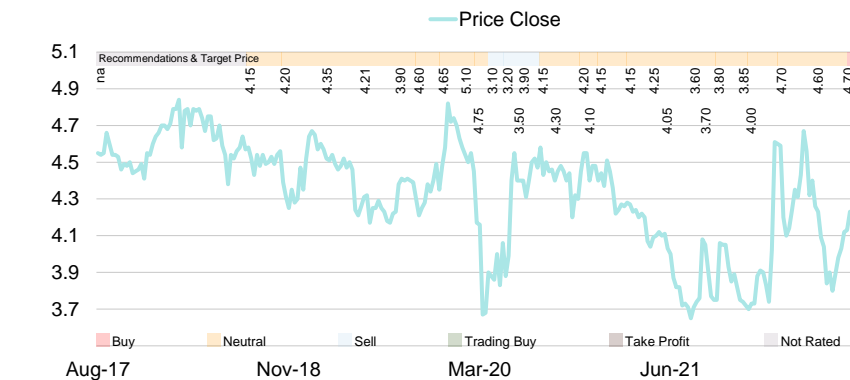
Figure 2: SOP valuation

	Valuation basis	FV (MYRm)
Plantation earnings (excluding net interest)	20x FY24F	27,598.16
Manufacturing earnings	12x FY24F	3,049.96
Add: 30.5% stake in Bumitama Agri	RHB's fair value of SGD0.80/share	1,412.25
Less: Net debt (4QFY22)		(2820.50)
SOP (MYRm)		29,574.38
No of shares*		6,263
SOP/share (MYR)		4.72
ESG Premium/(Discount)	(2%)	(0.09)
TP (MYR)		4.63

Note: *Excludes treasury shares

Source: RHB

Recommendation Chart

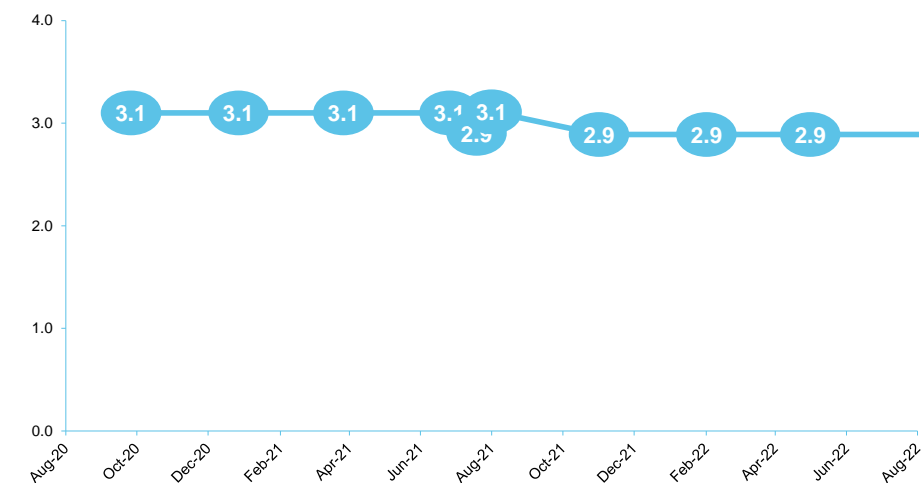


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-12-14	Neutral	4.15	4.44
2020-11-17	Neutral	4.10	4.52
2020-11-01	Neutral	4.20	4.30

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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