

PP14767/09/2012(030761)

## Genting Plantations Berhad

## “Hit by Plantation-Malaysia Segment”

## Results Review

- Actual vs. expectations.** Genting Plantations Berhad (GENP) 1Q15 earnings of RM52.7 million were below our estimates, making up only 13% of our full year forecast. Profit before tax and net profit decreased by 54% y-o-y (-62% q-o-q) and 48% y-o-y (-62% q-o-q) respectively to RM66.6 million and RM52.7 million, on the back of 3% (-44% q-o-q) decline in revenue to RM324.4 million from RM332.9 million in 1Q14, mainly related to a decline in contribution from the plantation-Malaysia segments and higher unrealised exchange losses in USD denominated borrowings of RM17.6 million as opposed to RM20.7 million gain in 1Q14 that offset the increases in all other segments contributed by: 1) higher FFB production in Indonesia plantation segments; 2) increase in property sales due to land sales in relation to the divestment of the Genting Permaipura, Kedah operations; and 3) higher biodiesel sales.
- Dividend.** No dividend was declared during the quarter.
- Plantation division.** Plantation division posted a lower 19% q-o-q and 21% y-o-y revenue of RM234 million in 1Q15. In-line with the decline in revenue, PBT shrunk by 37% q-o-q and 34% y-o-y to RM79.2 million in 1Q15 compared to RM125.9 million and RM119.5 million in 4Q14 and 1Q14 respectively, squeezing margin to 34% from 43% in last quarter and 40% a year ago as FFB production was lower by 25% y-o-y (-6% q-o-q) weighed by its Malaysian plantation that was hit by weather-induced drop in crop output at Sabah estates, despite of an increase in Indonesia production due to more planted areas reaching maturity and more existing harvesting areas moving into higher yielding age. The lower earnings result were also added by a combine impact of weaker palm product selling prices as well as lower FFB yield that has pushed-up the unit cost of production. We

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HOLD (TP: RM10.77)

Current Price (RM)	RM9.88
New Target Price (RM)	RM10.77
Previous Target Price (RM)	RM10.63
Previous Recommend.	HOLD
Upside To Target Price	9.0%
Dividend Yield (FY15F)	1.0%

## Stock Code

Bloomberg GENP MK

## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	773.8	
Market Cap (RM mn)	7,645.1	
YTD Chg In Share Price	-0.91%	
Beta (x)	1.00	
52-week Hi/Lo (RM)	RM11.75	RM8.97
3M Average Volume (000'shrs)	415.0	
Estimated Free Float	26.5%	

## Major Shareholders

Genting	52.6%
EPF	14.6%
KWAP	5.2%

understood, the cost of production in 1Q15 reached RM1,330/MT for Malaysian operations and slightly above RM2,000/MT for Indonesian operations. CPO and PK price realised during the quarter was 16% and 12% lower to realised at RM2,246/MT and RM1,751/MT respectively against RM2,659/MT and RM1,994/MT respectively realised in the same quarter last year.

- Property.** Property division managed to register a margin of 42% in 1Q15 (1Q14: 43%; 4Q14: 38%) as revenue increased by 73% q-o-q to RM72.7 million (1Q14: RM196.1 million), resulting into 90% q-o-q increase in PBT of RM30.2 million (1Q14: RM83.6 million) mainly due to one-off land sales in relation to the divestment of the Genting Permaipura, Kedah operations valued at RM20 million. According to management, total sales excluding the land sales of RM20 million in 1Q15 amounting to RM 27 million. Meanwhile, its unbilled progress billing stood at RM40 million as at end March 2015.
- Sector Outlook.** We maintain our **NEUTRAL** call on plantation sector due to the absence of new fresh catalyst with prolong supply-demand miss-match coming on stream as production may build-up amid seasonal production growth cycle. In addition, demand is expected to be moderate in 2015 as import from major trading partner is likely to be slower. We are of the view that the only re-rating catalyst for CPO price in 2015 will be the widening premium of soybean oil against the palm oil and weather abnormalities, if any. We assume CPO prices to hover around RM2,100/MT - RM2,500/MT throughout the year and hence, averaging at RM2,300/MT in 2015.
- Change to forecast.** We have done some house-keeping exercise and came-out with new FY15 and FY16 earning forecast of RM369 million (-8% y-o-y) and RM411 million (-9% y-o-y) respectively after imputing our view on 1) new CPO price assumptions of RM2,300/MT for 2015 and RM2,500/MT for 2016; and 2) FFB growth and yield performance as additional plantation area in Indonesia comes into maturity and more existing harvesting area moves into higher yielding age.
- Valuation & recommendation.** We have rolled forward our valuation to FY16 based on 20.3x PER over CY16 EPS of 53.1sen and thus, deriving a new target price of RM10.77 compared to RM10.63 previously. The stock is a **HOLD**.

Table 1: Results Review

FYE 31 Dec (RM'm)	1Q14	4Q14	1Q15	q-o-q	y-o-y
Revenue	332.9	579.0	324.4	-44%	-3%
EBIT	142.3	176.5	65.7	-63%	-54%
Pretax profit	144.7	177.4	66.6	-62%	-54%
Taxation	-40.2	-38.3	-18.6	-51%	-54%
Minority interest	-3.5	-1.4	4.7	NM	NM
Net Profit	101.1	137.7	52.7	-62%	-48%
EPS (sen)	13.06	17.79	6.80	-62%	-48%
Net gearing (x)	0.00	N.Cash	N.Cash		
EBIT margin (%)	42.7	30.5	20.3		
PBT margin (%)	43.5	30.6	20.5		
Net margin (%)	30.4	23.8	16.2		

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Financial Summary

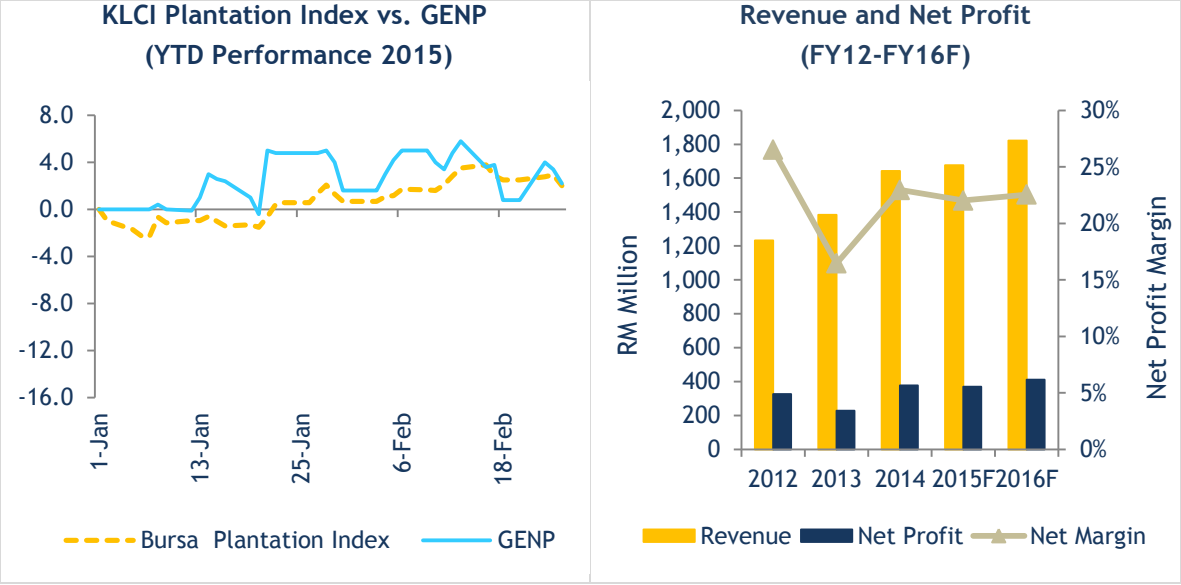
YE: Dec (RM million)	2012	2013	2014	2015F	2016F
Revenue	1,233	1,384	1,643	1,677	1,821
EBIT	375	278	496	456	527
PBT	404	300	520	483	543
Net profit	327	228	377	369	411
EPS (cent)	43.1	30.0	49.3	47.7	53.1
Pre-tax margin	33%	22%	32%	29%	30%
Net profit margin	27%	16%	23%	22%	23%
PER (x)	22.9	32.9	20.0	20.7	18.6
P/BV (x)	2.2	2.2	2.0	1.8	1.7
ROE	9.8%	6.7%	10.3%	9.1%	9.4%
ROA	7.4%	4.8%	7.2%	6.5%	7.0%
Dividend (RM)	0.10	0.04	0.07	0.10	0.11
Dividend Yield	1.0	0.4	0.7	1.0	1.1

Source: Bursa Malaysia, M&A Securities

Table 3: Plantation Statistics

FYE: Dec	1Q15	1Q14	y-o-y	1Q15	4Q14	q-o-q
FFB Production (MT'000)	353	377	-6%	353	473	-25%
Average selling price - CPO	RM2,246	RM2,659	-16%	RM2,246	RM2,176	3%
Average selling price - PK	RM1,751	RM1,994	-12%	RM1,751	RM1,378	27%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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