PP14767/09/2012(030761)

Wednesday, August 26, 2015

Market Access

Genting Plantations Berhad

"Hit by Plantation-Malaysia Segment"

Results Review

- **Actual vs. expectations.** Genting Plantations Berhad (GENP) 1H15 earnings of RM92.7 million were below our estimates, making up only 25% of our full year forecast. Profit before tax and net profit decreased by 49% y-o-y and 46% y-o-y respectively to RM122.1 million and RM92.7 million, on the back of 9% decline in revenue to RM630.1 million from RM693.4 million in 1H14, mainly related to a decline in contribution from the plantation-Malaysia segments and property segments as well as higher unrealised exchange losses in USD denominated borrowings of RM23.3 million as opposed to RM5.9 million gain in 1H14 that offset the increases in other segments namely: 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.** GENP declared an interim single tier dividend of 2.5sen per share for financial year ending December 2015 that will be payable on 19 October 2015 (2Q14: 3sen).

- **Plantation division.** Plantation division posted lower 19% y-o-y revenue of RM484.2 million in 1H15. In-line with the decline in revenue, PBT shrunk by 31% y-o-y to RM162.5 million in 1H15 compared to RM234.5 million in 1H14, squeezing margin to 34% from 39% in the same period a year ago as FFB production was flat at 1% y-o-y weighed by its Malaysian plantation that was hit by weather induced drop in crop output at Sabah estates, despite 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 combined impact of weaker palm product selling prices as well as

HOLD (TP: RM9.66)

Current Price (RM)	RM8.92
New Target Price (RM)	**RM9.66**
Previous Target Price (RM)	RM10.77
Previous Recommend.	HOLD
Upside To Target Price	**8.3%**
Dividend Yield (FY15F)	**0.8%**

Stock Code

Bloomberg	GENP MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		775.8
Market Cap (RM mn)		6,920.2
YTD Chg In Share Price		-10.5%
Beta (x)		1.00
52-week Hi/Lo (RM)	RM10.1	RM8.52
3M Average Volume (000'shrs)		306.9
Estimated Free Float		23.7%

Major Shareholders

Genting	52.5%
EPF	14.5%
KWAP	5.2%

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the effects of yield dilution arising from the additional new harvesting areas in Indonesia. Of note, as of 1H15, new planting in Indonesia has reached 1,523 ha (full-year target of 4,000ha in 2015). We understood, the cost of production in 1H15 remain well contained at RM1,300/MT for Malaysian operations and slightly above RM2,000/MT for Indonesian operations. CPO and PK price realised during the 1H15 was 16% and 17% lower to realised at RM2,206/MT and RM1,640/MT respectively against RM2,619/MT and RM1,981/MT respectively realised in the same period last year.

- Property. Property division managed to register a margin of 34% in 1H15 (1H14: 35%; 2Q15: 14%; 2Q14: 33%; 1Q15: 42%) as revenue increased by 8% y-o-y to RM101.2 million, resulting into 5% y-o-y increase in PBT of RM34.2 million (1H14: RM32.6 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 1H15 amounting to RM 67.3 million (1Q15: RM27.3 million; 2Q15: RM40 million). Meanwhile, its unbilled progress billing stood at RM45 million as at end June 2015.

- **Sector Outlook.** We maintain our **NEUTRAL** call on plantation sector at this moment and may review it in due course if the landscapes change to be more unfavourable. At this junction, we stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015. As we mentioned in recent report, the weak sentiment on plantation sector is not really or totally a fundamental issue but more related to macro issues weighed by uncertainty of the world economy. Until then, global commodities prices movement i.e. palm oil may suffer volatility, pushing importing countries like China and India to wait at the side-lines until asset prices stabilise. In the past 10 years, the CPO price (MPOB) has been averaging at RM2,441/MT and we expect probability of price to go bottom to RM1,805/MT (based on 1-SD below its 10-yrs average price) could materialise if demand continued to be slow dampen further by burgeoning global soybean supplies with slumping global crude oil prices.

- **Change to forecast.** With the current state of the economy that is weighed by uncertainties, we are of the view that plantation sector would continue to be soft with no strong catalyst seen to chart higher CPO price this year and next year. As such, we have tweaked our FY15 and FY16 earnings forecast to RM280 million (-24%) and RM369 million (-10%) respectively after imputing our view on 1) our CPO price assumptions of RM2,300/MT for 2015 and RM2,400/MT for 2016; 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; and 3) our cautious view on CPO price and challenging business conditions moving forwards as no strong catalyst is seen able to excite the plantation sector in the near term; given sluggish demand, lower CPO price recovery, lower crude oil prices, stronger US Dollar as well as stiff competition from other edibles oil.

- **Valuation & recommendation.** After the revision in our earnings estimates, our target price is now reduced to RM9.66 (from RM10.77) premised on 20.3x PER over CY16 EPS of 47.6sen. Maintain **HOLD**.

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Table 1: Results Review

FYE 31 Dec (RM'm)	2Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
Revenue	360.5	324.4	305.7	-6%	-15%	693.4	630.1	-9%
EBIT	87.5	62.6	64.4	3%	-26%	228.0	127.0	-44%
Pretax profit	93.0	66.6	55.6	-17%	-40%	237.7	122.1	-49%
Taxation	-22.1	-18.6	-17.5	-6%	-21%	-62.3	-36.1	-42%
Minority interest	-1.6	4.7	1.9	NM	NM	-5.1	6.6	-230%
Net Profit	69.2	52.7	40.0	-24%	-42%	170.3	92.7	-46%
EPS (sen)	9.09	6.83	5.16	-24%	-43%	22.39	12.01	-46%
Net gearing (x)	N. Cash	N.Cash	N.Cash			N. Cash	N. Cash	
EBIT margin (%)	24.3	19.3	21.1			32.9	20.2	
PBT margin (%)	25.8	20.5	18.2			34.3	19.4	
Net margin (%)	19.2	16.2	13.1			24.6	14.7	

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	1,603	1,703
EBIT	375	278	496	340	474
PBT	404	300	520	366	488
Net profit	327	228	377	280	369
EPS (cent)	43.1	30.0	49.3	36.1	47.6
Pre-tax margin	33%	22%	32%	23%	29%
Net profit margin	27%	16%	23%	17%	22%
PER (x)	20.7	29.7	18.1	24.7	18.7
P/BV (x)	2.0	2.0	1.8	1.7	1.6
ROE	9.8%	6.7%	10.3%	7.0%	8.6%
ROA	7.4%	4.8%	7.2%	5.0%	6.4%
Dividend (RM)	0.10	0.04	0.07	0.07	0.10
Dividend Yield	1.1	0.4	0.8	0.8	1.1

Source: Bursa Malaysia, M&A Securities

Table 3: Plantation Statistics

FYE: Dec	2Q15	2Q14	y-o-y	2Q15	1Q15	q-o-q	1H15	1H14	Change
FFB Production (MT'000)	405	374	8%	405	353	15%	758	751	1%
Average selling price - CPO	RM2,171	RM2,583	-16%	RM2,171	RM2,246	-3%	RM2,206	RM2,619	-16%
Average selling price - PK	RM1,538	RM1,967	-22%	RM1,538	RM1,751	-12%	RM1,640	RM1,981	-17%

Source: Bursa Malaysia, M&A Securities

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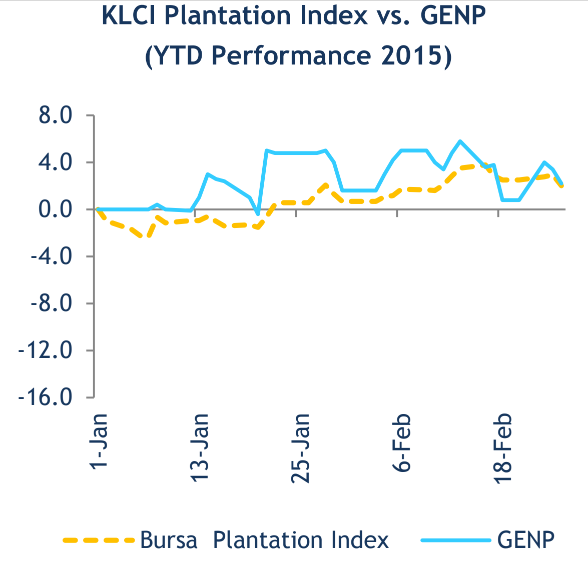

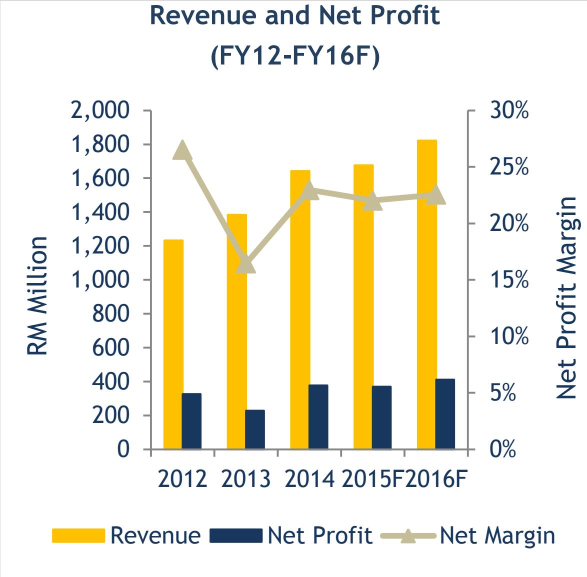

Source: Bloomberg, M&A Securities

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M&A Securities

STOCK RECOMMENDATIONS

BUY *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY *Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD *Share price is expected to be between -10% and +10% over the next 12 months.*
SELL *Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

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

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