

PP14767/09/2012(030761)

IJM Plantations Berhad

“Banking on Indonesia Estates”

Results Review

- Actual vs. expectations.** IJM Plantations Berhad (IJMP) posted 4Q15 earnings of RM10.1 million, down by 81% y-o-y and 63% q-o-q, below ours and consensus estimates. This has brought cumulative 12-months FY15 earnings to RM90.4 million, translating to a marginal increase of 2% y-o-y, making up 82% of our full year forecast. However, YTD's PBT decreased by 18% to RM89.4 million on the back of a 3% hike in revenue to RM667.7 million (FY14: RM647.0 million), wedged by higher net foreign exchange losses of RM51.36 million against RM20.84 million incurred in FY14. On the other hand, the higher revenue registered in FY15 was mainly due higher sales volume from the Indonesian operations as a result of increased in FFB and CPO production as more areas turned into maturity.
- Dividend.** The Board of Directors have proposed an interim single-tier dividend of 6.0 sen in FY15 (FY14: 7 sen), that will be payable on 7 July 2015. This translates into 1.7% yield.
- Slight decrease in YTD margins.** Despite higher revenue registered in FY15 of RM667.7million (FY14: RM647.0 million), the Group registered a lower profit before tax of RM89.4 million (-18% y-o-y). However, excluding the exchange loss of RM51.36 million and fair value gains on crude palm oil pricing swap of RM6.1 million captured in the FY15 (FY14: exchange loss of RM20.8 million and fair value losses on crude palm oil pricing swap of RM0.6 million), the core profit was actually upped by 3.2% to RM134.7 million from RM130.5 million registered in the corresponding quarter a year ago. Margins were squeezed to 21.1% from 23.7% (EBIT) and 13.4% from 16.9% (PBT) mainly due to lower average CPO and PK price realised in FY15 as well as lower sales volumes from Malaysia operations. Average CPO selling price in Malaysia during the period touched

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HOLD (TP: RM3.46)

Current Price (RM)	RM3.49
New Target Price (RM)	RM3.46
Previous Target Price (RM)	RM2.96
Previous Recommend.	SELL
Upside To Target Price	-22.2%
Dividend Yield (FY16F)	2.3%

Stock Code

Bloomberg	IJMP MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	880.6	
Market Cap (RM mn)	3,073.2	
YTD Chg In Share Price	-3.59%	
Beta (x)	0.91	
52-week Hi/Lo (RM)	RM4.03	RM3.12
3M Average Volume (000'shrs)	212.0	
Estimated Free Float	23.3%	

Major Shareholders

IJM Corp	55.2%
EPF	11.7%
Desa Plus Sdn Bhd	4.2%

RM2,289/MT (-4% y-o-y) while average PK selling price increased by 18% y-o-y to RM3,386/MT. In line with the softness in Malaysia's commodity prices, average CPO selling price in Indonesia during the period slipped by 2.9% y-o-y to RM2,140/MT with average PK selling price came up to RM3,186/MT, easing by 3.1% y-o-y.

- Banking on Indonesia estates.** Indonesian plantation division posted a 49% increase in revenue of RM192.3 million in the FY15, although bottom-line was still in the red due to higher maintenance and overhead cost due to young age profile of its estate. The higher sales volume from the Indonesian operations of 67,366 MT (+39.6% y-o-y) for CPO and 5,206 MT (>+100% y-o-y) for PK was the result of the increased in FFB production as more areas turned into maturity. FFB production expanded by 89.3% to 273,072 MT from 114,274 MT in FY14 and hence, lifting CPO and PK production to 64,822 MT (+26.3%) and 4,761 MT (+100.1%) respectively. Of note, PBT for Malaysia operations was higher by 7.8% to RM123.7 million although revenue decreased by 8% to RM475.3 million due to lower sales volume and commodity prices. Sales volumes from the Malaysia operations slipped 4.7% y-o-y to 176,121 MT for CPO and 16,793 MT (-23.8% y-o-y) for PK resultant from a lower in CPO and PK productions of 172,825 MT (-1% y-o-y) and 16,413 MT (-2.6% y-o-y) respectively, as FFB production increased marginally by +0.7% to 589,384 MT in FY15. Going forward, we expect IJMP's FFB yield to be good as more young trees in Indonesia reach its prime age. Hence, growth momentum will continue stemming from its development project in Indonesia with significant contribution expected from 2016 onwards.
- Sector Outlook.** We are maintaining our **NEUTRAL** call on the 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 averaging at RM2,300/MT in 2015.
- Change to forecast.** In line with management views on CPO price and challenging business conditions moving forwards, we have tweaked our FY16 earnings forecast and introduced FY17 earnings forecast of RM141 million and RM173 million respectively anchored mainly by: 1) CPO price assumptions of RM2,300/MT for 2015 and RM2,400/MT for 2016; 2) FFB yield performance; 3) OER capability; and 4) higher cost of production as younger estates require more upkeep and maintenance.
- Valuation & recommendation.** We have rolled forward our valuation to FY16 based on 18.5x PER over CY16 EPS of 18.66sen and thus, deriving a new target price of RM3.46 compared to RM2.96 previously. Hence, the stock is a **HOLD**.

Table 1: Results Review

FYE 31 Mac (RM' M)	4Q14	3Q15	4Q15	q-o-q	y-o-y	FY14	FY15	y-o-y
Revenue	188.0	183.4	132.8	-28%	-29%	647.0	667.7	3%
EBIT	52.6	46.0	3.8	-92%	-93%	153.1	140.6	-8%
Pretax profit	78.8	38.7	-14.8	-138%	-119%	109.1	89.4	-18%
Taxation	-20.2	-12.4	21.4	-273%	-206%	-26.0	-7.1	-73%
Minority interest	-6.2	0.8	3.5	340%	-156%	5.5	8.1	46%
Net Profit	52.4	27.1	10.1	-63%	-81%	88.6	90.4	2%
EPS (sen)	6.53	3.16	1.14	-64%	-82%	11.05	10.27	-7%
Net gearing (x)	0.19	0.13	0.21	62%	9%	0.19	0.21	9%
EBIT margin (%)	28.0	25.1	2.9			23.7	21.1	
PBT margin (%)	41.9	21.1	-11.2			16.9	13.4	
Net margin (%)	27.9	14.8	7.6			13.7	13.5	

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Financial Summary

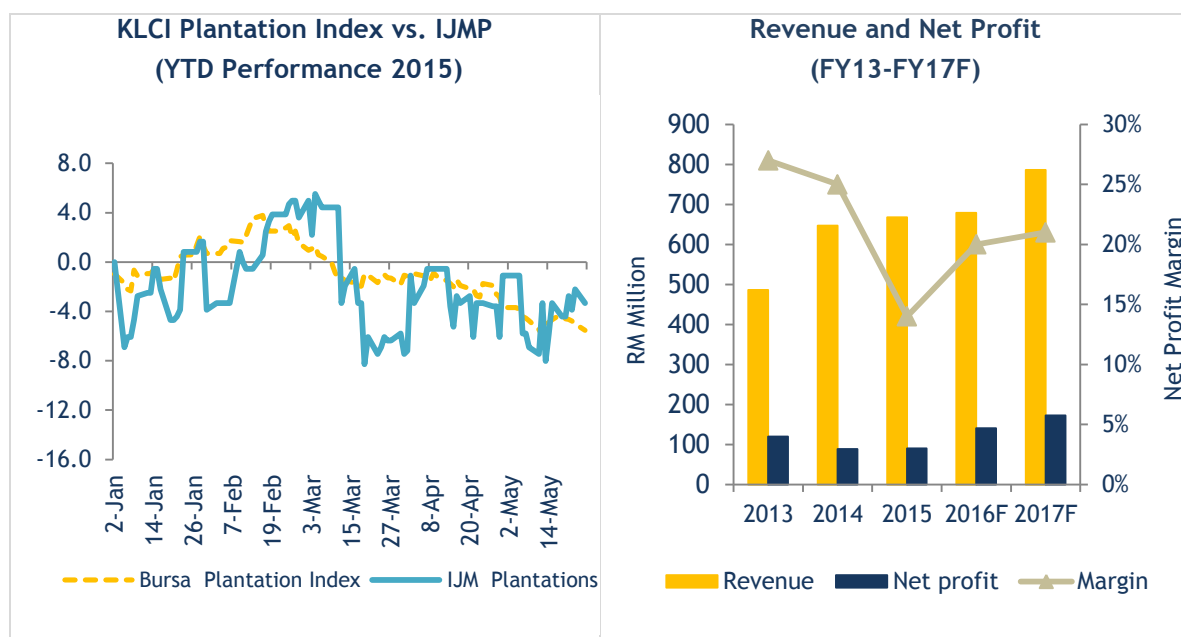
YE: Mac (RM million)	2013	2014	2015	2016F	2017F
Revenue	486	647	668	679	786
Operating profit	160	153	141	204	251
PBT	157	109	89	185	227
Net profit	120	89	90	141	173
EPS (sen)	14.9	11.1	10.3	16.0	19.6
Pre-tax margin	32%	17%	13%	27%	29%
Net profit margin	25%	14%	14%	21%	22%
PER (x)	23.4	31.6	34.0	21.8	17.8
P/BV (x)	2.0	2.0	1.9	1.9	1.8
ROE	8.6%	6.4%	5.6%	9.2%	10.5%
ROA	6.0%	4.1%	3.5%	6.3%	7.4%
Dividend (RM)	0.07	0.07	0.06	0.08	0.10
Dividend Yield	2.0	2.0	1.7	2.3	2.8

Source: Bursa Malaysia, M&A Securities

Table 3: Plantation Statistics

FYE: Mac (tonne)	4Q15	4Q14	Change	FY15	FY14	Change
Malaysia:						
FFB Production - own	98,980	141,987	-30%	589,384	585,526	1%
CPO Production	27,920	46,046	-39%	172,825	174,552	-1%
PK Production	2,840	4,744	-40%	16,413	16,850	-3%
Average selling price - CPO	RM2,212	RM2,579	-14%	RM2,289	RM2,385	-4.0%
Average selling price - PK	RM3,782	RM3,981	-5%	RM3,386	RM2,867	18%
Indonesia:						
FFB Production - own	65,810	49,387	33%	273,072	144,274	89%
CPO Production	13,690	11,696	17%	64,822	51,313	26%
PK Production	962	796	21%	4,761	2,379	100%
Average selling price - CPO	RM2,156	RM2,313	-7%	RM2,140	RM2,204	-3%
Average selling price - PK	RM3,168	NA	NA	RM3,186	RM3,289	-3%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ 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 $\geq -10\%$ 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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