

PP14767/09/2012(030761)

IJM Plantations Berhad

“A Good Start”

Results Review

- Actual vs. expectations.** IJM Plantations Berhad (IJMP) 1Q16 results were below our estimates despite profit before tax and net profit that increased by more than 100% q-o-q to RM25.9 million and RM22.9 million respectively, on the back of a 7% hike in revenue of RM141.7 million from RM132.8 million registered in the 4Q15 due to 1) higher sales volume from Malaysian operations; and 2) lower net unrealised foreign exchange losses. However, y-o-y profit before tax and net profit decreased by 17% and 12% respectively as revenue decreased by 20% to RM141.7 million (1Q15: RM177.8 million), wedged by 1) lower sales volume and commodities prices; 2) lower FFB production in Malaysian operations; of which has been mitigated by higher crop production from Indonesian operation as well as lower net unrealised exchange losses from the US Dollar borrowings during the quarter.
- Dividend.** No dividend was declared during the quarter.
- Better margins recorded.** Overall margins have improved 27.6bps (EBIT), 18.3bps (PBT) and 16.1bps (NP) for 1Q16, thanks to the increase in FFB and CPO production of 227,727 MT (1Q15: 216,291 MT; 4Q15: 164,790 MT) and 61,784 MT (1Q15: 61,796 MT; 4Q15: 41,610 MT), off-setting the decline in palm product prices both in Malaysia and Indonesia. Average CPO selling price in Malaysia during the period touched RM2,167/MT (-16% y-o-y and -2% q-o-q) with average PK selling price decreased by 17% y-o-y (-15% q-o-q) to RM3,225/MT. In line with the softness in Malaysia's commodity prices, average CPO selling price in Indonesia during the period slipped by 19% y-o-y (-7% q-o-q) to RM2,002/MT.

Wednesday, August 26, 2015

HOLD (TP: RM2.93)

Current Price (RM)	RM3.20
New Target Price (RM)	RM2.93
Previous Target Price (RM)	RM3.46
Previous Recommend.	HOLD
Upside To Target Price	-8.5%
Dividend Yield (FY16F)	1.8%

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)	2,817.9	
YTD Chg In Share Price	-11.6%	
Beta (x)	0.85	
52-week Hi/Lo (RM)	RM3.82	RM2.99
3M Average Volume (000'shrs)	169.3	
Estimated Free Float	23.2%	

Major Shareholders

IJM Corp	55.2%
EPF	11.8%
Desa Plus Sdn Bhd	4.2%

- Plantation performance.** Indonesian plantation division posted a positive earnings of RM541 thousand in 1Q16, although revenue decreased by 19.6% y-o-y and 12.5% q-o-q to RM43.68 million because of lower commodities prices and lower sales volume. In-line with the softness in global commodities prices, PBT for Malaysia operations was lower by 34% y-o-y (+>100% q-o-q) to RM25.33 million as revenue decreased by 21% y-o-y (+18.4% q-o-q) to RM98.06 million due to the same reason of lower sales volume and commodity prices. Sales volumes from the Malaysia operations slipped 5% y-o-y (+24% q-o-q) to 37,927 MT for CPO but increased by 17% y-o-y (+23% q-o-q) to 4,406 MT for PK. The favourable q-o-q performance was due to a higher crop production and lower adverse impact of the foreign exchange rate movement of the Rupiah against the USD on its USD denominated borrowings. 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 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.** We have done some house-keeping exercise and came-out with new FY16 and FY17 earnings forecast of RM104 million and RM127 million respectively reflecting 1) our cautious view on CPO price assumption and its recovery period; 2) FFB yield performance and OER capability; 3) higher cost of production as younger estates require more upkeep and maintenance; 4) sluggish demand that weighed by uncertainty of the world economy; and 5) the expected volatility of Ringgit exchange rate due to strengthen of US Dollar.
- Valuation & recommendation.** In view of the earnings revision, our target price is now reduced to RM2.93 (from RM3.46) premised on 18.5x PER over CY16 EPS of 15.83sen. Maintain **HOLD**.

Table 1: Results Review

FYE 31 Mac (RM'm)	1Q15	4Q15	1Q16	q-o-q	y-o-y
Revenue	177.8	132.8	141.7	7%	-20%
EBIT	42.7	3.8	39.1	930%	-8%
Pretax profit	31.1	-14.8	25.9	175%	-17%
Taxation	-7.6	21.4	-3.6	-117%	-52%
Minority interest	2.6	3.5	0.6	-82%	-76%
Net Profit	26.1	10.1	22.9	127%	-12%
EPS (sen)	3.23	1.14	2.60	128%	-20%
Net gearing (x)	0.17	0.21	0.24	13%	41%
EBIT margin (%)	24.0	2.9	27.6		
PBT margin (%)	17.5	-11.2	18.3		
Net margin (%)	14.7	7.6	16.1		

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Financial Summary

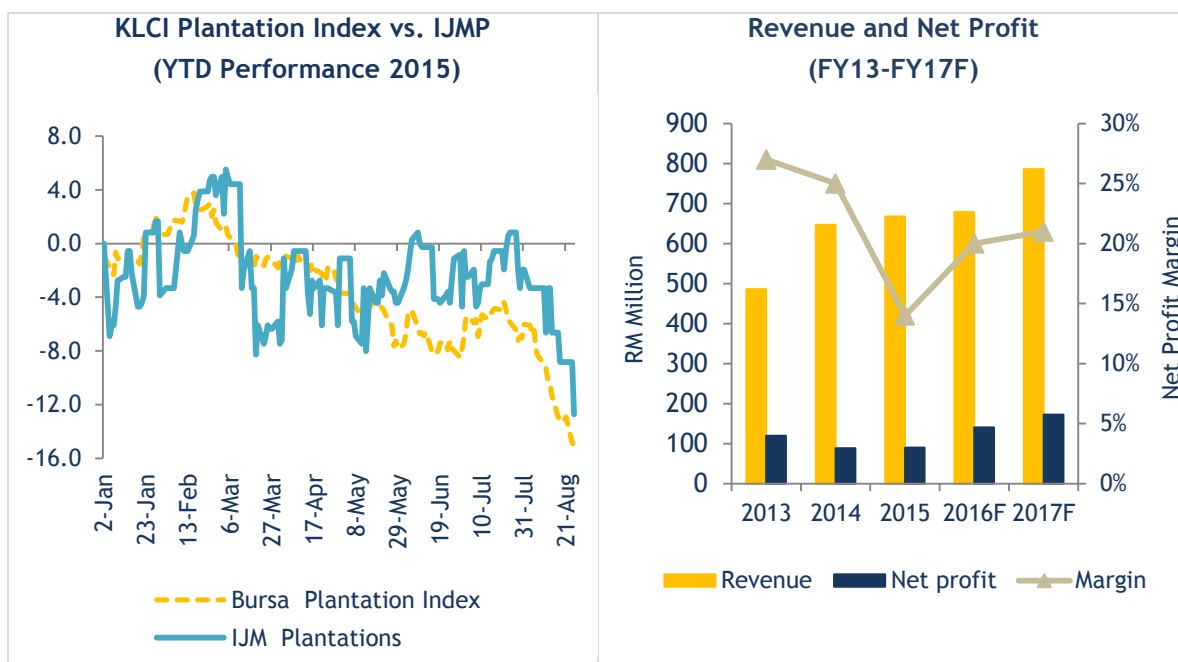
YE: Mac (RM million)	2013	2014	2015	2016F	2017F
Revenue	486	647	668	699	743
Operating profit	160	128	141	154	193
PBT	157	109	89	137	168
Net profit	120	89	90	104	127
EPS (sen)	14.9	11.1	10.7	11.8	14.5
Pre-tax margin	32%	17%	13%	20%	23%
Net profit margin	25%	14%	14%	15%	17%
PER (x)	21.5	29.0	29.8	27.1	22.1
P/BV (x)	1.8	1.9	1.8	1.7	1.6
ROE	8.6%	6.4%	6.5%	6.8%	7.5%
ROA	6.0%	4.1%	3.8%	5.0%	7.7%
Dividend (RM)	0.07	0.07	0.06	0.06	0.07
Dividend Yield	2.2	2.2	1.9	1.8	2.3

Source: Bursa Malaysia, M&A Securities

Table 3: Plantation Statistics

FYE: Mac (tonne)	1Q16	4Q15	Change	1Q16	1Q15	Change
Malaysia:						
FFB Production - own	141,131	98,980	43%	141,131	153,137	-8%
CPO Production	42,494	27,920	52%	42,494	46,508	-9%
PK Production	4,765	2,840	68%	4,765	3,916	22%
Average selling price - CPO	RM2,167	RM2,212	-2%	RM2,167	RM2,566	-15.5%
Average selling price - PK	RM3,225	RM3,782	-15%	RM3,225	RM3,896	-17%
Indonesia:						
FFB Production - own	86,596	65,810	32%	86,596	63,154	37%
CPO Production	19,290	13,690	41%	19,290	15,288	26%
PK Production	1,514	962	57%	1,514	1,199	26%
Average selling price - CPO	RM2,002	RM2,156	-7%	RM2,002	RM2,473	-19%
Average selling price - PK	-	RM3,168	-	-	-	-

Source: Bursa Malaysia, 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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