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Friday, September 11, 2015

IOI Corporation Bhd

"Proposed Acquisition of Oleo-chemical Business in German"

IOI Corporation Berhad (IOIC) announced that its indirect wholly owned subsidiary, Alstersee 217. VV GmbH (IOI Oleo GmbH) on 9 September 2015 had entered into a conditional asset purchase agreement (APA) with Cremer Oleo GmbH & Co KG to acquire Cremer's entire oleo-chemicals business in Germany. The total purchase consideration is EUR89.4 million or equivalent to approximately RM433.3 million (RM4.8459: EUR1.00); subject to the terms of conditions pre-agreed. Both plants offer a combined processing capacity of approximately 39,200 MT/annum. The proposed acquisition is expected to be completed by the first quarter of calendar year 2016 and expected to have no material effect on earnings and EPS of IOIC group financial year ending 30 June 2016.

- **Rationale.** According to the announcement, the Witten's production plant offers a broad array of branded oleo-chemical specialty products for the pharmaceutical, cosmetic, food and performance chemical market worldwide. The Wittenberge plant provides high performance capacities for esterification with multi-step short-path distillation, distillation and fractionation of fatty acids and production of medium-chain triglycerides. This acquisition will expand IOIC's downstream exposure in the European continent which has two production plants and an established customer base comprising a number of multinational and large European companies.

- IOIC currently owns palm oil refinery in Netherlands (IOI Loders Croklaan Europe, Rotterdam) and the acquisition will expose IOIC to a more specialise downstream oleo-chemical manufacturing business which is not easy to penetrate. According to the announcement, the proposed acquisition will provide synergistic opportunity for the Group to move further up the value chain apart from expanding into a new product range with higher

HOLD (TP: RM3.60)

Current Price (RM)	RM4.02
New Target Price (RM)	**RM3.60**
Previous Target Price (RM)	RM3.60
Previous Recommend.	HOLD
Upside To Target Price	**-10%**
Dividend Yield (FY16F)	**1.9%**

Stock Code

Bloomberg	IOI MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		6,302
Market Cap (RM mn)		25,335
YTD Chg In Share Price		-16.3%
Beta (x)		0.94
52-week Hi/Lo (RM)	RM4.99	RM3.86
3M Average Volume (000 shrs)		4,733
Estimated Free Float		31.2%

Major Shareholders

Vertical Capacity	46.6%
EPF	9.5%
Bank J Safra Sarasir	4.6%

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margin. This will also mitigate the increased in import tariff on Malaysian oleo-chemical products into EU post Generalised of Preferences (GSP) withdrawal in 2014; apart from transfer of advanced technical, research and development, application development and process know-how back to Malaysia.

- **Lack of financial details.** According to the announcement, the proposed acquisition is not expected to have material effect on earnings, EPS and net assets of IOIC in FY2016 but we reckon that the foray into European Union augurs well for the long-term growth strategy of the Group. The proposed purchase consideration of EUR89.4 million (RM433.3 million) is to be partly financed by bank borrowings and as such will increase the gearing of IOIC in FY2016. Hence, IOIC's net gearing is expected to touch 1.26x from its current of 1.22x (30 June 2015) of which is quite high in our view. Nonetheless, the new assets acquisition will provide a steady stream of revenue of which we are not too perturbed by the cost or elevation in net gearing more so when the CPO price starts to run again,

- **Our view**. With the current state of the economy that is weighed by uncertainties, we are positive on the deal as we are of the view that the acquisition will further strengthen its business expansion especially on specialise downstream oleo-chemical manufacturing business which is not easy to penetrate. According to the announcement, the indicative total purchase consideration of EUR89.4 million represents a P/BV of approximately 0.99 times based on the audited net book value of the assets as at 31 December 2014 of approximately EUR90.3 million which we believe is fair as the plants is purchase at slightly below its book value. We believe that IOIC downstream division margins should improve in the long-run and hence, strengthening the Group balance sheet as the venture into European Union bodes well for the long-term growth strategy of the Group.

- **Maintain Hold with TP of RM3.60.** We maintain our FY16 and FY17 earnings forecast of RM968 million and RM1,199 million respectively pending the completion of the exercise and further information from the management. Hence, maintain our target price of RM3.60 premised on 21x PER over CY16 EPS of 17.13sen with a **HOLD** recommendation.

Table 1: Financial Summary

FYE: June (RM' Million)	2013	2014	2015	2016F	2017F
Revenue	12,145	11,911	11,621	11,796	11,934
Operating profit	1,254	1,751	1,347	1,416	1,605
EBIT	1,825	1,905	1,461	1,509	1,768
PBT	1,599	1,671	457	1,331	1,648
Net profit	1,970	3,373	168	968	1,199
EPS (sen)	31.3	53.5	2.7	15.4	19.0
Pre-tax margin	13%	14%	4%	11%	14%
Net profit margin	16%	28%	1%	8%	10%
PER (x)	12.9	7.5	150.7	26.2	21.1
P/BV (x)	1.9	4.2	5.0	2.9	2.7
ROE	15%	25%	3%	11%	13%
ROA	8%	17%	1%	6%	7%
Dividend (RM)	0.16	0.21	0.1	0.1	0.1
Dividend Yield	3.9	5.1	2.3	1.9	2.3

Source: Bursa Malaysia, M&A Securities

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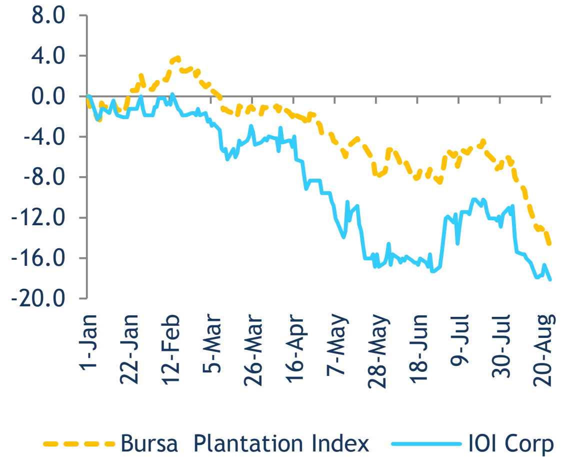
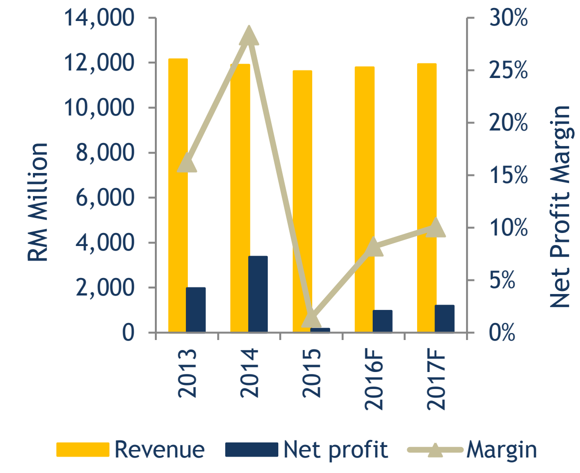
KLCI Plantation Index vs. IOICorp (YTD performance)



Revenue and Net Profit (FY13-FY17F)



Source: Bloomberg, M&A Securities

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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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