

PP14767/09/2012(030761)

IOI Corporation Bhd

“Hits by Translation Loss”

Results Review

- **Actual vs. expectations.** IOI Corporation Berhad (IOIC) 9M15 PBT of RM912.1 million excluding the effect from translation difference on foreign currency denominated borrowings valued at RM658.5 million is 10% below our 9M15 estimates but within our expectation on the EBIT level. The group reported a EBIT of RM1,126.0 million that was 26% lower than 9M14 EBIT of RM1,514.2 million hurt by lower contribution from both plantation and resource-based manufacturing segments. IOIC's 9M15 revenue of RM8.7 billion is 4.4% lower from 9M14, dragged by lower CPO price realised. Average CPO selling price achieved was 6.9% lower or at RM2,229/MT compared to RM2,459/MT in 9M14, in line with the deceleration in CPO price recorded in the broader market which we assume to be in line with other plantation players performance.
- **Dividend.** No dividend has been proposed for this quarter.
- **Plantation division.** Plantation division operating profit shrunk 11% to RM770.1 million in the 9M15 as compared to RM867.1 million in 9M14, as margin decreased by 5.8% to 50.5% (9M14: 53.6%). This was attributed to a lower FFB production during the seasonal low crop period coupled with a delayed impact of adverse weather condition in Malaysia and Indonesia last year as well as lower CPO prices realised. CPO price realised during the quarter was 9.4% lower to realised at RM2,229/MT against RM2,459/MT realised in the same quarter last year (3Q15: RM2,247/MT; 3Q14: RM2,602/MT). On top of that, FFB production has marginally decrease by 0.9% to 2.65 million MT (9M14: 2.68 million MT) as FFB yield per mature hectare decreased by 2.4% to 17.96 tonnes (9M14: 18.41 tonnes) Moving forward, the management expects FFB production to increase substantially from its Indonesia plantation subsidiary and associates, namely

Friday, May 15, 2015

HOLD (TP: RM4.04)

Current Price (RM)	RM4.21
New Target Price (RM)	RM4.04
Previous Target Price (RM)	RM4.04
Previous Recommend.	HOLD
Upside To Target Price	-3.9%
Dividend Yield (FY15)	2.4%

Stock Code

Bloomberg	IOI MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	6,349.3	
Market Cap (RM mn)	26,730.3	
YTD Chg In Share Price	-12.3%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM5.36	RM4.09
3M Average Volume ('000shrs)	3,857.1mn	
Estimated Free Float	32.0%	

Major Shareholders

Vertical Capacity	46.27%
EPF	9.12%
Bank J Safra Sarasin	4.61%

Bumitama Agri Ltd as their palm trees have entered into the young and prime age.

- Resource-based manufacturing.** The resource-based manufacturing revenue slipped by 4.2% to RM8,459.0 million in 9M15 from RM8,825.8 million in the 9M14. The segment profit slumped by 53% to RM321.3 million against RM683.6 million in 9M14 led by lower margins from all the sub-segments as well as lower sales volume from the refinery sub-segment (9M15: 3.8%; 9M14: 7.8%). Excluding the unrealised fair value loss in foreign currency forward exchange contract valued at RM115.7 million (9M14 gain of RM62.3 million), the segment profit of RM437.0 million is 30% lower than the underlying profit of RM621.3 million made in 9M14.
- Outlook.** We are still positive on the long-term outlook of the sector given that palm oil and palm kernel oil are the world largest consumable edible oil. However, due to delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with tree stress effect, we expect FFB production growth and yield to be temporary suppressed this year before picking up again in FY16 as more areas coming into its fundamental growth maturity which we assume to be in the same experience by other plantation players. In addition, demand is expected to be moderate in 2015 as import from major trading partner is likely to be slower. As such, we assume CPO prices may be hover around RM2,100/MT - RM2,500/MT throughout the year and averaging at RM2,300/MT in 2015. We are of the view that most of companies under our coverage may record unimpressive result given the same dilemma of lower CPO average selling price realise, slower production, poor downstream margins and/or higher unrealised forex translation loss.
- Maintain forecast.** We maintain our FY15 and FY16 earnings forecast of RM991 million and RM1,454 million respectively to impute our view on the uncertain of CPO price given no strong catalyst are seen to chart higher CPO price next year. However, we are of the view that higher FFB production and better CPO extraction rate may moderate the impact of lower palm oil product prices and hence, cushioning the IOIC's earnings. The same old concern is the stronger of USD currency that may impact the US Dollar denominated borrowings of IOIC on the non-cash flow forex translation.
- Valuation & recommendation.** We maintain our **HOLD** call on IOIC with unchanged target price of RM4.04 based on 21x PER over CY15 EPS of 19.25sen.

Table 1: Results Review - Quarterly figures

FYE 30 June (RM' Million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9MFY14	9MFY15	y-o-y
Revenue	2,899.9	2,881.5	2,776.6	-3.6%	-4.3%	9,079.2	8,679.0	-4.4%
EBIT	480.9	166.2	298.9	79.8%	-37.8%	1,514.2	1,126.0	-25.6%
Pretax profit	460.0	94.6	-109.2	->100%	->100%	1,237.8	253.6	-79.5%
Taxation	-109.6	-69.0	-80.3	16.4%	-26.7%	-325.6	-237.1	-27.2%
Net Profit	341.9	19.6	-188.0	->1000%	->100%	899.6	8.2	-99.1%
EPS (sen)	5.38	0.31	-2.96	->1000%	->100%	14.17	0.13	-99.1%
Net gearing (x)	1.17	1.30	1.25	-4.0%	6.9%	1.17	1.25	6.9%
EBIT margin (%)	16.6	5.8	10.8			16.7	13.0	
PBT margin (%)	15.9	3.3	-3.9			13.6	2.9	
Net margin (%)	11.8	0.7	-6.8			9.9	0.1	

Source: Bursa Malaysia, M&A Securities

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Table 2: Financial Summary

FYE: June (RM' Million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	14,559	12,145	11,911	10,473	13,298
Operating profit	1657	1254	1751	1409	2085
EBIT	1768	1825	1905	1569	2178
PBT	1592	1599	1671	1363	1998
Net profit	1789	1970	3373	991	1454
EPS (sen)	28.2	31.0	53.1	15.6	22.9
Pre-tax margin	11%	13%	14%	13%	15%
Net profit margin	12%	16%	28%	9%	11%
PER (x)	14.9	13.6	7.9	27.0	18.4
P/BV (x)	2.1	2.0	4.4	3.2	3.1
ROE	15%	15%	25%	9%	17%
ROA	8%	8%	17%	6%	9%
Dividend (RM)	0.16	0.16	0.21	0.10	0.18
Dividend Yield	3.7	3.7	4.9	2.4	4.3

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis - Segmental Profit

FYE: June (RM'million)	9MFY14	9MFY15	y-o-y
Plantation	867.1	770.1	-11.2%
Resources-based Manufacturing	683.6	321.3	-53.0%
Others	41.3	70.2	70.0%

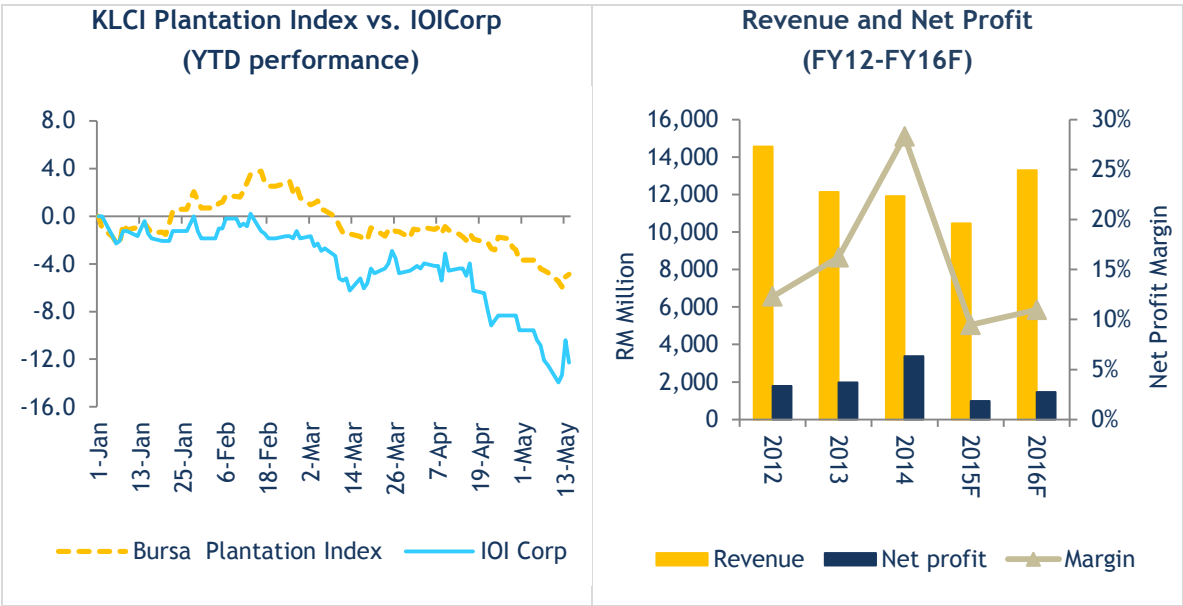
Table 4: Plantation Statistics

FYE: June (Tonnes)	9MFY15	9MFY14	y-o-y
FFB Production	2,653,724	2,676,351	-0.85%
FFB Yield per mature hectare	17.96	18.41	-2.44%
CPO Production	582,586	567,833	2.60%
PK Production	142,071	144,222	-1.49%
CPO Extraction Rate	21.46%	21.07%	1.85%
Palm Kernel Extraction Rate	5.27%	5.23%	0.76%
Average selling price - CPO	RM2,229	RM2,459	-9.35%
Average selling price - PK	RM1,544	RM1,582	-2.40%

Source: Bursa Malaysia, M&A Securities

Table 5: Peers Comparison - Stocks under Coverage

Company	Mkt. Cap (RM m)	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE	Div. Yield	TP	Call
			FY1	FY2	FY1	FY2	FY1	FY2				
IOI CORP	26,730.3	4.21	15.6	22.9	27.0	18.4	3.2	3.1	55.7	0.6	4.04	HOLD
KLK	23,429.2	22.00	95.1	112.8	22.1	19.8	2.7	2.6	11.3	2.7	21.50	HOLD
GENPLANTS	7,582.3	9.80	46.5	46.6	18.7	16.6	1.9	1.7	10.3	1.4	10.63	HOLD
IJM PLANTS	3,082.0	3.50	14.0	17.3	28.0	20.5	2.1	1.9	9.2	1.4	3.20	HOLD
TH PLANTS	1,370.0	1.55	6.6	8.5	21.2	16.3	1.1	1.1	4.03	1.7	1.45	HOLD
TSH RESOURCES	3,077.5	2.27	10.1	11.9	22.5	19.1	2.4	2.2	11.1	1.1	2.38	HOLD
Average					23.3	18.5	2.2	2.1	16.9	1.5		



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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