PP14767/09/2012(030761)

Tuesday, August 25, 2015

Market Access

IOI Corporation Bhd

"Hits by Translation Loss"

Results Review

- **Actual vs. expectations.** IOI Corporation Berhad (IOIC) FY15 PBT of RM1,192.3 million excluding the effect from translation difference on foreign currency denominated borrowings valued at RM735.3 million is 13% below our full-year estimates but within our expectation on the EBIT level. The group reported EBIT of RM1,460.5 million that was 24% lower than FY14 EBIT of RM1,927.4 million hurt by lower contribution from both plantation and resource-based manufacturing segments. IOIC's FY15 revenue of RM11.6 billion is 2.4% lower from FY14, hammered by lower CPO price realised. Average CPO selling price achieved was 11.5% lower or at RM2,221/MT compared to RM2,509/MT in FY14, in line with the deceleration in commodities prices recorded in the broader market.
- **Dividend.** IOIC declared a second interim single tier dividend of 4.5sen per share for financial year ending June 2015, payable on 18 September 2015, making its total cash dividend to-date amounting to 9sen per share or dividend yield of 2.4x.
- **Plantation division.** Plantation profit shrunk 15% to RM1,005.9 million in the FY15 as compared to RM1,185.7 million in FY14, as margin decreased by 7.4% to 49.8% (FY14: 53.8%). This was attributed to 1) a lower FFB production during the seasonal low crop period coupled with delayed impact of adverse weather condition in Malaysia and Indonesia last year; and 2) a lower CPO prices realised. In FY15, CPO price realised was 11.5% lower to realised at RM2,221/MT against RM2,509/MT realised in FY14. On top of that, FFB production has decreased by 27.5% to 2.54 million MT (FY14: 3.51 million MT) as FFB yield per mature hectare decreased slightly to 23.99 tonnes (FY14: 24.00 tonnes). We expect FFB production growth and yield to be temporary supressed this year before picking up again in FY16 as more areas coming into its fundamental growth maturity

HOLD (TP: RM3.60)

Current Price (RM)	RM3.93
New Target Price (RM)	**RM3.60**
Previous Target Price (RM)	RM4.04
Previous Recommend.	HOLD
Upside To Target Price	-8.5%
Dividend Yield (FY16F)	1.9%

Stock Code

Bloomberg	IOI MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		6,324.9
Market Cap (RM mn)		24,856.8
YTD Chg In Share Price		-18.13%
Beta (x)		0.95
52-week Hi/Lo (RM)	RM4.99	RM3.86
3M Average Volume ('000shrs)		4,689.8mn
Estimated Free Float		31.7%

Major Shareholders

Vertical Capacity	46.44%
EPF	9.17%
Bank J Safra Sarasin	4.63%

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as their palm trees have entered into the young and prime age. IOIC's FFB production has started to pick-up in the 4Q15 where production has jumped by 30% m-o-m to 888,498 MT as the sector moved into growing up cycle production month that normally experience in the month of April till October.

- **Resource-based manufacturing.** The resource-based manufacturing revenue slipped by 2.1% to RM11.33 billion in FY15 from RM11.58 billion in the FY14. The segment profit slumped by 47% to RM420.4 million against RM787.3 million in FY14 led by lower margins from the oleo-chemicals and refinery 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 RM119 million (FY14 gain of RM79.8 million), the segment profit of RM539.4 million is 24% lower than the underlying profit of RM7.7.5 million made in FY14.

- **Sector Outlook.** At this junction we maintain our **NEUTRAL** call on plantation sector but if the landscapes changes, we may review our call on the sector. As such, we stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015 and RM2,400 in 2016. 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.

- **Earnings forecast.** Looking at the current scenario of the global economy that is weighed by uncertainties, we are of the view that plantation sector may 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 FY16 earnings forecast to RM968 million (-33%) and introduced FY17 earnings forecast of RM1,199 million after imputing our view on the challenging business conditions moving forward given sluggish demand, slower CPO price recovery, lower crude oil prices, stronger US Dollar as well as stiff competition from other edibles oil.

- **Valuation & recommendation.** In view of the earnings revision, our target price is reduced to RM3.60 (from RM4.04) premised on 21x PER over CY16 EPS of 17.13sen. Maintain **HOLD**.

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Table 1: Results Review - Quarterly figures

FYE 30 June (RM' Million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	FY14	FY15	y-o-y
Revenue	2,831.4	2,776.6	2,942.0	6.0%	3.9%	11,910.6	11,621.0	-2.4%
EBIT	413.2	298.9	334.4	11.9%	-19.1%	1,927.4	1,460.5	-24.2%
Pretax profit	433.0	-109.2	203.3	->100%	-53.0%	1,670.8	457.0	-72.6%
Taxation	-82.7	-80.3	-47.6	-40.7%	-42.4%	-408.4	-284.6	-30.3%
Net Profit	355.1	-188.0	159.7	->100%	-55.0%	3,373.0	168.1	-95.0%
EPS (sen)	5.61	-2.97	2.52	->100%	-55.0%	53.33	2.66	-95.0%
Net gearing (x)	1.19	1.25	1.22	-2.4%	2.5%	1.19	1.22	2.5%
EBIT margin (%)	14.6	10.8	11.4			16.2	12.6	
PBT margin (%)	15.3	-3.9	6.9			14.0	3.9	
Net margin (%)	12.5	-6.8	5.4			28.3	1.4	

Source: Bursa Malaysia, M&A Securities

Table 2: 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)	31.1	53.3	2.7	15.3	19.0
Pre-tax margin	13%	14%	4%	11%	14%
Net profit margin	16%	28%	1%	8%	10%
PER (x)	12.6	7.4	147.9	25.7	20.7
P/BV (x)	1.8	4.1	4.9	2.8	2.6
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	5.2	2.4	1.9	2.4

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis - Segmental Revenue and Profit

FYE: June (RM Million)	FY14	FY15	y-o-y
Plantation	2,203.6	2,020.3	-8.3%
Resources-based Manufacturing	11584.9	11337.8	-2.1%
Others	65.3	97.4	49.2%
Segment Results:			
Plantation	1,185.7	1,005.9	-15.2%
Resources-based Manufacturing	787.3	420.4	-46.6%
Others	70.0	76.7	9.6%

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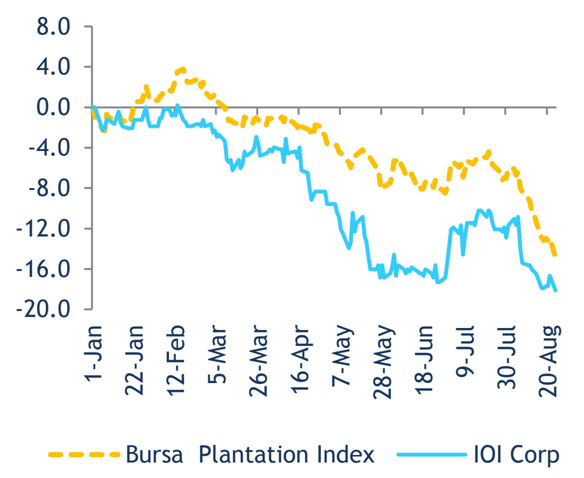
Table 4: Plantation Statistics

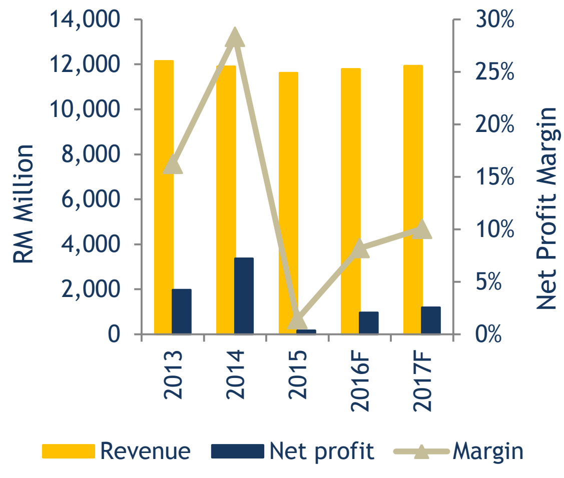
FYE: June (Tonnes)	FY15	FY14	y-o-y
FFB Production	2,542,222	3,506,706	-27.50%
FFB Yield per mature hectare	23.99	24.00	-0.04%
CPO Production	781,625	751,536	4.00%
PK Production	187,718	186,450	0.68%
CPO Extraction Rate	21.49%	21.21%	1.32%
Palm Kernel Extraction Rate	5.16%	5.26%	-1.90%
Average selling price - CPO	RM2,221	RM2,509	-11.48%
Average selling price - PK	RM1,551	RM1,709	-9.25%

Source: Bursa Malaysia, M&A Securities

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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