

30 May 2019

# IJM Plantations Berhad

## FY19 Above Expectations

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IJM Plantations Berhad (IJMPLNT)'s FY19 CNL of RM10.6m came in above our expectations largely due to higher-than-expected FFB output and higher-than-expected CPO sales volume. A 2.0 sen dividend was declared, which is a slight positive surprise. Increase FY20E CNP to RM15.3m on higher FFB output from Indonesia and introduce FY21E CNP of RM27.7m. Upgrade to MARKET PERFORM with an unchanged Target Price of RM1.40.

**Above expectations.** FY19 registered CNL\* of RM10.6m, which was above our estimate (CNL: RM24.0m) but below consensus (CNL: RM9.1m). We believe the deviation stemmed from: (i) higher-than-expected FFB output, and (ii) higher-than-expected CPO sales volume (21%). FY19 FFB output of 976k MT was slightly above our expectation at 105%. Note that we have excluded total unrealized forex losses of RM25.8m in our CNL calculation. A 2.0 sen dividend was declared, which is a slight positive surprise as we did not expect any dividend in FY19.

**Results highlight.** YoY, despite 5% growth in FFB output, FY19 recorded CNL of RM10.6m, reversing from Net Profit of RM63.0m in FY18 as CPO price realized declined 21%. Affected by the lingering effect of La Nina in Sugut, Sabah last year, Malaysia's FBB output declined by 6%. This was more than offset by an encouraging 16% growth in Indonesian FFB output. Despite the encouraging growth in Indonesia, EBIT margin compressed from 14.8% to 1.2% on higher production costs from full plantation maintenance overheads in Indonesian young estates. QoQ, despite 10% FFB decline, 4Q19 recorded CNP of RM3.8m compared to CNL of RM20.0m the previous quarter on the back of average CPO price realized improvement (+2%) to RM1,845/MT and increase in Indonesia's CPO sales volume (9%) as shortage of barges eased.

**Indonesian FFB output to increase.** The group's long-term prospects remain encouraging as production is trending up, with solid double-digit growth in Indonesia to push group output beyond the 1.0m MT mark in FY20. Accordingly, we expect cost structure improvements to lead to a better earnings outlook in FY20. We also draw comfort that the group has locked in fertilizer requirements for FY20 at similar rates to FY19, crossing out one of the major cost concerns.

**Increase FY20E CNP by 20% to RM15.3m** (low base effect) as we tweaked up Indonesian FFB output to 636k MT. We also introduce FY21E CNP of RM27.7m.

**Upgrade to MARKET PERFORM with an unchanged Target Price of RM1.40** based on PBV of 0.71x applied on CY20E BV/share of RM1.96. The PBV reflects -1.5SD below the mean, which is at the lower-end of our universe's applied valuation range of -2.0SD to -1.0SD, given that IJMPLNT's earnings remain patchy and the TP implies a stretched 45x CY20E PER (partly due to low base earnings) even at -1.5SD level. However, if IJMPLNT continues to report profits for the next 2-3 quarters, we may re-look at our valuation basis with an upward bias.

**Risks to our call include:** (i) sharp rise/drop in CPO prices, and (ii) a precipitous decrease/increase in labour/fertiliser/transportation cost.

# MARKET PERFORM ↑

Price : RM1.47  
Target Price : RM1.40 ↔

## Share Price Performance



KLCI 1,623.67  
YTD KLCI chg -4.0%  
YTD stock price chg 62.2%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJMP MK Equity
Market Cap (RM m)	1,294.5
Shares Outstanding	880.6
52-week range (H)	2.61
52-week range (L)	1.30
3-mth avg daily vol:	43,334
Free Float	25%
Beta	0.9

## Major Shareholders

IJM Corporation Bhd	56.2%
Employees Provident Fund Board	14.0%
Kumpulan Wang Persaraan	4.7%

## Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	630.9	641.7	695.6
EBIT	7.4	63.2	76.0
PBT	(43.3)	22.4	38.9
<b>Net Profit (NP)</b>	<b>(36.3)</b>	<b>15.3</b>	<b>27.7</b>
<b>Core NP</b>	<b>(10.6)</b>	<b>15.3</b>	<b>27.7</b>
Consensus (CNP)	N.A.	37.9	66.4
Earnings Revision	N.A.	20%	N.A.
Core EPS (sen)	-1.2	1.7	3.1
Core EPS grwth (%)	N.M.	N.M.	80.8
NDPS (sen)	2.0	1.0	1.7
BV/Share (RM)	1.94	1.95	1.96
Core PER	N.A.	84.4	46.7
Price/BV (x)	0.8	0.8	0.7
Net Gearing (x)	0.4	0.4	0.5
Net Dvd Yield (%)	1.4	0.7	1.2

\* FY19 CNL excludes total unrealised forex losses (RM25.8m).

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Results Highlights								
FY Mar	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	YoY%
<b>Revenue</b>	<b>164.8</b>	<b>142.9</b>	<b>15%</b>	<b>141.3</b>	<b>17%</b>	<b>630.9</b>	<b>747.2</b>	<b>-16%</b>
EBIT	11.4	(12.7)	190%	18.7	-39%	7.3	110.6	-93%
Pretax Profit	16.7	(2.0)	932%	1.9	787%	(43.3)	77.3	-156%
Tax	(2.6)	(0.6)	358%	3.9	-165%	(0.9)	(28.0)	97%
MI	(0.6)	0.6	-210%	4.3	-115%	7.9	3.5	127%
<b>Net Profit</b>	<b>13.5</b>	<b>(2.0)</b>	<b>780%</b>	<b>10.1</b>	<b>34%</b>	<b>(36.3)</b>	<b>39.3</b>	<b>-193%</b>
<b>Core Net Profit</b>	<b>3.8</b>	<b>(20.0)</b>	<b>119%</b>	<b>20.9</b>	<b>-82%</b>	<b>(10.6)</b>	<b>63.0</b>	<b>-117%</b>
<b>EPS (sen)</b>	<b>1.5</b>	<b>(0.2)</b>	<b>780%</b>	<b>1.1</b>	<b>34%</b>	<b>(4.1)</b>	<b>4.5</b>	<b>-193%</b>
Net DPS (sen)	2.0	0.0	N.M.	5.0	-60%	2.0	5.0	-60%
EBIT %	6.9%	-8.9%		13.3%		1.2%	14.8%	
PBT%	10.1%	-1.4%		1.3%		-6.9%	8.5%	
Tax %	15.3%	-27.9%		-209.4%		-2.1%	43.9%	
<b>Weighted avg CPO Price</b>	<b>1,845</b>	<b>1,817</b>	<b>2%</b>	<b>2,469</b>	<b>-25%</b>	<b>1,972</b>	<b>2,511</b>	<b>-21%</b>
<b>FFB Prod ('000 MT)</b>	<b>249</b>	<b>278</b>	<b>-10%</b>	<b>226</b>	<b>10%</b>	<b>976</b>	<b>933</b>	<b>5%</b>

Source: Company, Kenanga Research

Segmental Breakdown								
FY Mar	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	YoY%
<b>Segmental Revenue</b>								
Malaysia	85.3	69.7	22%	79.4	7%	324.8	418.4	-22%
Indonesia	79.5	73.2	9%	61.9	28%	306.1	328.9	-7%
<b>Total Group</b>	<b>164.8</b>	<b>142.9</b>	<b>15%</b>	<b>141.3</b>	<b>17%</b>	<b>630.9</b>	<b>747.2</b>	<b>-16%</b>
<b>Segmental Profit</b>								
Malaysia	4.0	8.7	-54%	16.0	-103%	16.8	79.8	-79%
Indonesia	12.7	(10.7)	219%	(14.1)	190%	(60.1)	(2.5)	-2304%
<b>Total PBT</b>	<b>16.7</b>	<b>(2.0)</b>	<b>932%</b>	<b>1.9</b>	<b>-787%</b>	<b>(43.3)</b>	<b>77.3</b>	<b>-156%</b>

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
CB INDUSTRIAL PRODUCT HLDG	1.01	514.8	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.1	11.2	8.4	0.7	0.7	6.2%	4.0%	1.10	MP
FGV HOLDINGS BHD	1.16	4,231.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	1.0	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.10	8,188.4	Y	12/2019	2.4%	6.2%	40.6%	39.1%	56.9	44.2	34.4	2.0	2.1	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.47	1,175.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.4	173.3	42.2	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.47	1,294.5	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	84.4	46.7	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORP BHD	4.22	25,770.2	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	28.4	30.3	26.3	2.9	2.8	9.3%	1.7%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.20	25,772.2	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.9	30.0	26.4	2.3	2.2	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.62	26,488.8	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.0	22.7	21.8	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.62	31,806.7	Y	12/2019	71.7%	11.1%	126.5%	111.6%	142.2	62.8	29.7	2.4	2.4	3.8%	1.1%	4.00	UP
TA ANN HOLDINGS BERHAD	2.27	1,001.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.2	15.8	11.8	0.8	0.7	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.930	1,285.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	26.0	28.1	19.4	0.9	0.9	3.2%	0.9%	1.00	MP
UNITED MALACCA BHD	5.20	1,090.4	Y	04/2019	-35.6%	11.7%	-175.7%	-164.6%	28.4	N.A.	N.A.	0.7	0.6	3.5%	0.8%	4.90	UP
<b>Simple Average</b>					<b>4.8%</b>	<b>11.1%</b>	<b>-9.5%</b>	<b>-20.5%</b>	<b>40.2</b>	<b>50.3</b>	<b>26.7</b>	<b>1.4</b>	<b>1.3</b>	<b>3.7%</b>	<b>1.5%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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