

28 November 2019

# Genting Plantations Berhad

## Second Consecutive Miss

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9MFY19 CNP came in at RM77.5m (-14% YoY), below our/consensus' expectations at merely 42%/48%, stemming from: (i) lower-than-expected PK prices (-36%) vs. expected (-23%), and (ii) lower-than-expected FFB output (+9.8%) vs. expected (+11.2%). No dividend was declared, as expected. Cut FY19-20E CNP by 35-27% on lower PK prices and lower FFB forecast. Downgrade to UNDERPERFORM with a lower TP of RM9.65. We think valuations are unattractive at CY20E PBV of 2.4x (vs. peers' 2.5x), in the face of low ROE (2.8% vs. peers' 7%) and potential downside risk to Downstream margins.

**Below expectations.** Genting Plantations Berhad (GENP)'s 3FYQ19 core net profit (CNP\*) came in at RM14.7m (-34% YoY; -6% QoQ), bringing 9MFY19 CNP to RM77.5m (-41% YoY), below our/consensus' estimates at 42%/48%. The disappointment stemmed from: (i) higher-than-expected 9MFY19 CPO production cost of c.RM1,900/MT (vs. our expected RM1,800/MT), (ii) lower-than-expected PK prices of RM1,161/MT (vs. expected RM1,400/MT), and lower-than-expected 9MFY19 FFB output of 1.61m MT (+9.8%) vs. expected (+11.2%). No dividend was declared, as expected.

**YoY**, 9MFY19 CNP fell (-41%) mainly dragged by lower CPO/PK prices (-12%-36%), overshadowing a 10% increase in FFB output. This caused Plantation EBIT to plunge (-62%) to RM71.2m. The impact was partially cushioned by a solid performance in Downstream segment (+273x, from a very low base of RM0.1m), on the back of higher off-take in both its refinery and biodiesel operations. **QoQ**, despite 3QFY19 higher FFB output (+6%) and CPO/PK prices (+1%/+1%), CNP fell (-6%) as: (i) Plantation EBIT plummeted (-75%) on higher fertilizer application during the quarter and higher depreciation (+6%), and (ii) Downstream EBIT (-26%), reflecting softer topline (-23%), due to slower off-take in its refinery and biodiesel operations.

**Revising lower FFB guidance.** Management expects 4QFY19 FFB to grow QoQ but flatish YoY and is revising for lower FY19 FFB growth target to mid-high single-digit (from 10-15% previously), mainly due to the impact of the dry weather. We gathered that the drop in production is mainly from estates in Peninsular (double-digit decline), bearing the brunt of the dry weather impact, which we believe was also attributed to its older age profile. Having said that, we expect 4QFY19 plantation earnings to improve on the back of higher CPO prices (QTD 4QCY19: +14%), but highlight the risk of Downstream earnings facing pressure due to potential higher feedstock prices.

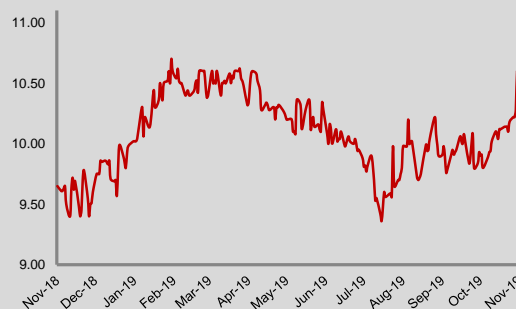
**Cut FY19-20E CNP by 35-27% to RM119-203m** as we: (i) lowered our overly optimistic FY19-20E PK prices from RM1,400-1900/MT to RM1,250-1800/MT, and (ii) cut our FFB forecasts from 2.32-2.45m MT (+11-6% YoY) to 2.23-2.33m MT (+7-4% YoY).

**Downgrade to UNDERPERFORM (from MARKET PERFORM) with a lower Target Price of RM9.65** (from RM9.80 previously) based on CY20E PBV of 2.15x, implying mean valuation. Our downgrade is grounded on: (i) unattractive valuations, trading at **CY20E PBV of 2.4x (vs. peers' average of 2.5x)**, despite low ROE of only 2.8% (vs. peers' average of 7%), (ii) potential downside risk from its Downstream segment from higher feedstock and lower biodiesel discretionary demand from Europe, and (iii) back-to-back earnings miss. Additionally, even on a PER basis, at current price, GENP is trading at **CY20E PER of 50x** which we think is overstretched.

**UNDERPERFORM** ↓

Price : RM10.60  
Target Price : RM9.65 ↓

### Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	7.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GENP MK Equity
Market Cap (RM m)	9,510.3
Shares Outstanding	897.2
52-week range (H)	10.80
52-week range (L)	9.06
3-mth avg daily vol:	601,043
Free Float	22%
Beta	0.6

### Major Shareholders

Genting Bhd	54.4%
Employees Provident Fund Board	8.3%
Skim Amanah Saham Bumiputera	7.1%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1,903	1,932	2,141
EBIT	284	160	274
PBT	208	134	246
<b>Net Profit (NP)</b>	<b>165</b>	<b>119</b>	<b>203</b>
<b>Core NP</b>	<b>143</b>	<b>119</b>	<b>203</b>
Consensus (CNP)	N.A.	161	239
Earnings Revision	N.A.	-35%	-27%
Core EPS (sen)	17.7	13.5	21.3
Core EPS grwth (%)	-57.2	-17.0	70.9
NDPS (sen)	13.0	7.0	12.0
BV/Share (RM)	5.1	4.8	4.5
Core PER (x)	59.7	78.5	49.8
Price/BV (x)	2.1	2.2	2.4
Net Gearing (x)	0.25	0.30	0.31
Net Dvd Yield (%)	1.2	0.7	1.1

\*3FYQ19 CNP excludes forex gain (<RM0.1m), PP&E disposal gain (<RM0.1m) and net surplus arising from government acquisition (RM3.3m).

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<b>Results Highlights</b>								
<b>FY Dec (Rm m)</b>	<b>3Q19</b>	<b>2Q19</b>	<b>QoQ %</b>	<b>3Q18</b>	<b>YoY%</b>	<b>9M19</b>	<b>9M18</b>	<b>YoY%</b>
<b>Revenue</b>	<b>475.4</b>	<b>525.7</b>	<b>-10%</b>	<b>488.8</b>	<b>-3%</b>	<b>1,622.8</b>	<b>1,420.6</b>	<b>14%</b>
Op Profit	32.2	40.2	-20%	41.1	-22%	148.0	242.9	-39%
Pretax Profit	18.5	25.9	-29%	25.1	-26%	104.4	192.9	-46%
Tax	(5.5)	(7.6)	28%	(7.6)	28%	(30.9)	(56.2)	45%
MI	4.9	2.4	-101%	6.0	19%	6.9	13.9	50%
<b>Net Profit</b>	<b>18.0</b>	<b>20.7</b>	<b>-13%</b>	<b>23.5</b>	<b>-24%</b>	<b>80.4</b>	<b>150.6</b>	<b>-47%</b>
<b>Core Net Profit</b>	<b>14.7</b>	<b>15.7</b>	<b>-6%</b>	<b>22.4</b>	<b>-34%</b>	<b>77.5</b>	<b>131.9</b>	<b>-41%</b>
<b>FD EPS (sen)</b>	<b>1.6</b>	<b>1.9</b>	<b>-15%</b>	<b>2.7</b>	<b>-40%</b>	<b>9.3</b>	<b>16.0</b>	<b>-42%</b>
Net DPS (sen)	0.0	3.5	-100%	0.0	nm	3.5	4.8	-26%
EBIT %	6.8%	7.6%		8.4%		9.1%	17.1%	
PBT%	3.9%	4.9%		5.1%		6.4%	13.6%	
Tax %	29.5%	29.4%		30.2%		29.6%	29.1%	
<b>CPO Avg</b>	<b>1,968</b>	<b>1,943</b>	<b>1%</b>	<b>2,043</b>	<b>-4%</b>	<b>1,963</b>	<b>2,235</b>	<b>-12%</b>
<b>PK Avg</b>	<b>1,089</b>	<b>1,082</b>	<b>1%</b>	<b>1,620</b>	<b>-33%</b>	<b>1,161</b>	<b>1,812</b>	<b>-36%</b>
<b>FFB Prod ('000 mt)</b>	<b>545</b>	<b>515</b>	<b>6%</b>	<b>505</b>	<b>8%</b>	<b>1,614</b>	<b>1,470</b>	<b>10%</b>

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FY Dec (RM m)</b>	<b>3Q19</b>	<b>2Q19</b>	<b>QoQ %</b>	<b>3Q18</b>	<b>YoY%</b>	<b>9M19</b>	<b>9M18</b>	<b>YoY%</b>
<b>Segmental Revenue</b>								
- Plantation	170.2	150.6	13%	197.3	-14%	521.4	600.7	-13%
- Downstream Mfg.	266.2	343.9	-23%	240.9	11%	1,008.6	717.3	41%
- Property	39.0	31.2	25%	50.7	-23%	92.8	102.6	-10%
- Biotech & Others	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
<b>Total Group</b>	<b>475.4</b>	<b>525.7</b>	<b>-10%</b>	<b>488.8</b>	<b>-3%</b>	<b>1,622.8</b>	<b>1,420.6</b>	<b>14%</b>
<b>Segmental Profit</b>	<b>3Q19</b>	<b>2Q19</b>	<b>QoQ %</b>	<b>3Q18</b>	<b>YoY%</b>	<b>9M19</b>	<b>9M18</b>	<b>YoY%</b>
- Plantation	3.6	14.6	-75%	22.6	-84%	71.2	188.1	-62%
- Downstream Mfg.	7.2	9.8	-26%	0.6	1021%	36.2	0.1	>100%
- Property	23.0	19.3	19%	26.8	-14%	56.2	59.1	-5%
- Biotech & Others	(8.0)	0.3	nm	(4.9)	63%	(13.7)	(0.6)	>100%
<b>Total Op Profit</b>	<b>25.8</b>	<b>44.0</b>	<b>-41%</b>	<b>45.2</b>	<b>-43%</b>	<b>149.8</b>	<b>246.7</b>	<b>-39%</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	0.880	444.4	Y	12/2019	-23.4%	14.5%	-57.2%	75.4%	8.8	20.6	11.8	0.6	0.6	3.0%	2.3%	0.860	UP
FGV HOLDINGS BHD	1.24	4,523.7	Y	12/2019	3.8%	3.8%	-332.3%	70.8%	N.A.	N.A.	52.9	1.0	1.0	-1.2%	0.0%	1.15	MP
GENTING PLANTATIONS BHD	10.60	9,510.3	Y	12/2019	1.5%	10.8%	-17.0%	70.9%	59.7	78.5	49.8	2.1	2.2	2.9%	0.7%	9.65	UP
HAP SENG PLANTATIONS HLDGS	1.74	1,391.5	Y	12/2019	4.5%	14.3%	-61.0%	253.3%	47.9	122.6	34.7	0.8	0.8	0.7%	0.6%	1.90	OP
IJM PLANTATIONS BHD	1.74	1,532.2	Y	03/2020	-2.8%	13.2%	71.4%	125.4%	N.A.	103.6	46.0	0.9	0.9	0.9%	0.6%	1.65	UP
IOI CORPORATION BHD	4.43	27,841.0	Y	06/2020	-2.1%	6.0%	24.5%	13.0%	36.6	29.4	26.0	3.0	2.9	10.0%	2.0%	4.45	MP
KUALA LUMPUR KEPONG BHD	23.50	25,026.7	Y	09/2020	16.2%	14.7%	46.1%	9.5%	40.5	27.7	25.3	2.4	2.3	8.5%	1.9%	24.60	OP
PPB GROUP BERHAD	18.22	25,919.8	Y	12/2019	5.4%	5.6%	17.3%	7.0%	27.4	23.4	21.9	1.2	1.2	5.3%	1.8%	17.90	MP
SIME DARBY PLANTATION BHD	5.10	35,111.3	Y	12/2019	87.7%	12.0%	63.2%	184.5%	156.9	96.2	33.8	2.6	2.6	2.7%	0.6%	5.10	MP
SOUTHERN ACIDS MALAYSIA BHD	3.65	499.8	Y	03/2020	12.4%	6.9%	49.8%	20.0%	28.8	19.2	16.0	0.8	0.8	4.3%	1.6%	3.65	MP
TA ANN HOLDINGS BERHAD	2.94	1,295.0	Y	12/2019	1.9%	18.1%	-22.4%	34.4%	15.8	20.4	15.2	1.0	1.0	4.7%	1.7%	3.20	OP
TSH RESOURCES BHD	1.14	1,573.4	Y	12/2019	1.0%	13.3%	-1.1%	36.9%	31.8	32.0	23.4	1.1	1.1	3.4%	0.8%	1.20	MP
UNITED MALACCA BHD	5.26	1,103.0	Y	04/2020	8.1%	13.5%	-377.0%	73.1%	N.A.	N.A.	89.9	0.6	0.7	-0.5%	1.1%	5.30	MP
<b>Simple Average</b>					<b>8.8%</b>	<b>11.3%</b>	<b>-45.8%</b>	<b>74.9%</b>	<b>45.4</b>	<b>52.1</b>	<b>34.3</b>	<b>1.4</b>	<b>1.4</b>	<b>3.4%</b>	<b>1.2%</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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