

IJM Plantations

Lacks Appeal

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We came away from a meeting with IJM Plantation (IJMP)'s management turning cautious on its near-term prospect. FY21 FFB growth guidance was toned down, which is the key negative takeaway. We believe market has already priced in earnings improvement arising from firm CPO prices. On PER/PBV valuations, IJMP is traded at a 25%/54% premium to its closest peer, despite lower-than-expected FFB growth and high net debt-to-equity of 0.5x. Cut FY21-22E CNP by 16-13% on lower FFB growth. Downgrade to UP (from MP) with a lower TP of RM1.70 (from RM1.75) on a lower rolled-over CY21E PBV of 1.2x (from 1.25x), reflecting -0.5SD.

Unexciting FFB growth prospects. The group is now targeting flat to slight increase for FY21 FFB growth (vs. initial guidance of 5%) dragged by Indonesia (weather-led). From what we understand, heavy rainfall led to a double whammy impact on production in its East Kalimantan estates – harvesting disruptions due to logistics and poor pollination of its fruit bunch, leading to lower OER. This potential downside to our FY21E FFB growth of 5% is a key negative from the meeting.

Downside bias to CPO price. While no guidance on CPO price was provided, management is of the view that it would be difficult to sustain prices at these elevated levels. We concur – our FY21 CPO price forecast remains unchanged at RM2,600/MT. The group has also locked in forward sales for 30% of its production in Malaysia until January 2021, at a favorable price of >RM3,000/MT. The bulk of the increase in CPO price, however, will only be realized in 3QFY21 as Indonesia's price trails Malaysia's price by 2-3 weeks. Meanwhile, FY21 CPO production cost is expected to increase slightly on the back of: (i) higher labor cost, and (ii) a 5% increase in overall fertilizer costs, in line with our expected c.RM2,000/MT.

Earnings improvement likely priced-in. Given that 3QCY20-CPO price is 22% higher QoQ, we expect 2QFY21 to register significant sequential earnings improvement. This is likely to continue into 3QFY21 on the back of even higher CPO prices (QTD-4QCY20: +13% QoQ). However, we are of the opinion that the improvement in earnings could already been priced in. This is premised on CY21E PER of 25x (vs. its closest peer's 20x)

Cut FY21-22E CNP by 16-13% on lower FY21-22E FFB growth of 3-4% (vs. 5-4% previously) and lower OER of 20.5% (vs.21.5% previously).

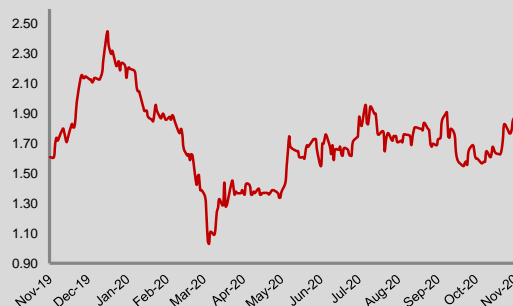
Downgrade to UNDERPERFORM with a lower TP of RM1.70 (from RM1.75) based on a lower rolled-over CY21E PBV of 1.2x (from 1.25x), reflecting -0.5SD valuation. At current price, IJMP is trading at a stretched CY21E PBV of 1.31x (54% premium to its closest peer's PBV of 0.85x). This is despite lower-than-expected FFB growth potential and higher net debt-to-equity ratio of 0.5x (vs. peer's net cash position).

Risks to our call are: (i) better-than-expected FFB output, (ii) sharp increase in CPO prices, and (iii) a precipitous decline in labor/fertilizer/transportation costs.

UNDERPERFORM ↓

Price: RM1.89
Target Price: RM1.70 ↓

Share Price Performance



KLCI	1,610.15
YTD KLCI chg	1.3%
YTD stock price chg	-19.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IJMP MK Equity
Market Cap (RM m)	1,664.3
Shares Outstanding	880.6
52-week range (H)	2.48
52-week range (L)	1.01
3-mth avg daily vol:	203,297
Free Float	15%
Beta	1.4

Major Shareholders

IJM Corporation Bhd	56.2%
Employees Provident Fund Board	13.9%
Kumpulan Wang Persaraan	4.7%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	739.1	803.4	862.0
EBIT	10.8	109.1	120.3
PBT	(50.5)	80.0	92.9
Net Profit (NP)	(63.4)	58.6	68.2
Core NP	34.8	58.6	68.2
Consensus (CNP)	N.A.	61.7	78.0
Earnings Revision	N.A.	-16%	-13%
Core EPS (sen)	4.0	6.6	7.7
Core EPS grwth (%)	-429.8	68.1	16.5
NDPS (sen)	2.0	2.7	3.2
BV/Share (RM)	1.35	1.39	1.43
Core PER (x)	47.3	28.1	24.1
Price/BV (x)	1.39	1.35	1.30
Net Gearing (x)	0.6	0.5	0.5
Net Dvd Yield (%)	1.1	1.4	1.7

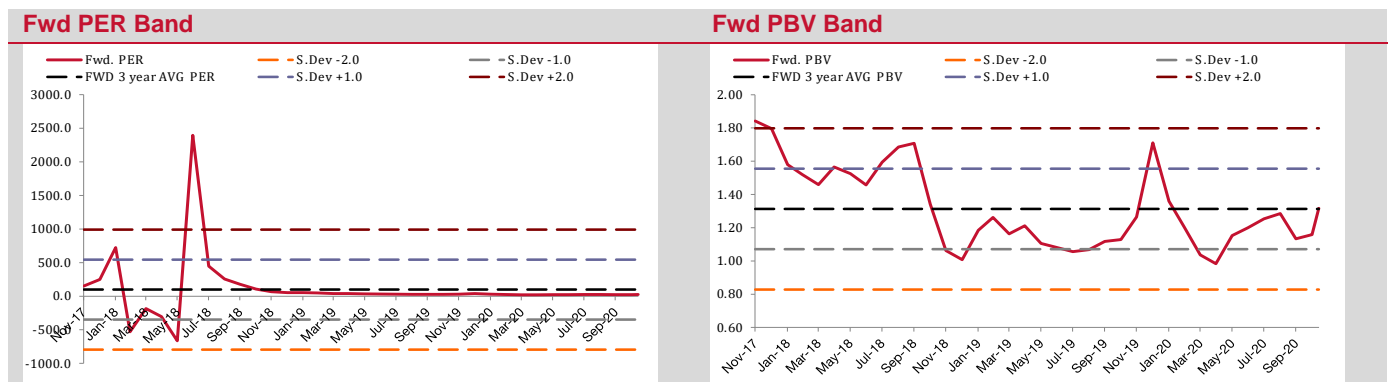
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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E	FY Mar	2018A	2019A	2020A	2021E	2022E
Revenue	747	631	739	803	862	Growth (%)					
EBITDA	204	119	123	219	235	Revenue	(0.9)	(15.6)	17.2	8.7	7.3
Depreciation	(80)	(112)	(112)	(110)	(115)	EBITDA	(21.1)	(41.6)	3.1	78.7	7.4
Operating Profit	124	7	11	109	120	Operating Profit	(35.6)	(94.0)	45.1	910.8	10.3
Total Financial Costs	(47)	(51)	(61)	(29)	(27)	Pre-tax Income	(54.1)	(156.0)	16.5	(258.5)	16.1
JV & Associates	-	-	-	-	-	Core Net Income	(37.9)	(115.0)	(429.8)	68.1	16.5
PBT	77	(43)	(50)	80	93	Profitability (%)					
Taxation	(33)	(1)	(23)	(20)	(23)	EBITDA Margin	27.3	18.9	16.6	27.3	27.3
Minority Interest	3	8	10	(1)	(1)	Operating Margin	16.6	1.2	1.5	13.6	14.0
Net Profit	47	(36)	(63)	59	68	PBT Margin	10.3	(6.9)	(6.8)	10.0	10.8
Core Net Profit	70	(11)	35	59	68	Core Net Margin	9.4	(1.7)	4.7	7.3	7.9
						Effective Tax Rate	43.0	(2.1)	(44.6)	25.0	25.0
						ROE	5.1	(0.8)	2.9	4.8	5.4
						ROA	3.1	(0.5)	1.5	2.5	3.0
						DuPont Analysis					
						Net Margin (%)	9.4	(1.7)	4.7	7.3	7.9
						Assets T/over (x)	0.3	0.3	0.3	0.3	0.4
						Leverage Factor(x)	1.7	1.7	1.9	1.9	1.8
						ROE (%)	5.1	(0.8)	2.9	4.8	5.4
						Leverage					
						Debt/Asset (x)	31.9	34.5	39.5	37.9	35.8
						Debt/Equity (x)	52.8	59.3	76.3	71.6	65.2
						Net Cash/(Debt)	(516.1)	(648.5)	(666.3)	(657.9)	(624.1)
						Net Debt/Equity (x)	0.4	0.5	0.6	0.5	0.5
						Valuations					
						EPS (sen)	5.3	(4.1)	(7.2)	6.6	7.7
						Core EPS (sen)	8.0	(1.2)	4.0	6.6	7.7
						NDPS (sen)	5.0	2.0	2.0	2.7	3.2
						BVPS (RM)	1.6	1.5	1.3	1.4	1.4
						PER (x)	35.3	(45.3)	(26.0)	28.1	24.1
						Core PER (x)	23.4	(156.0)	47.3	28.1	24.1
						Net Div. Yield (%)	2.7	1.1	1.1	1.4	1.7
						P/BV (x)	1.2	1.2	1.4	1.3	1.3
						EV/EBITDA (x)	10.6	19.3	18.9	10.5	9.6

Balance Sheet					
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	1,645	1,696	1,526	1,537	1,542
Intangible Assets	145	141	226	226	226
Other FA	100	155	157	157	157
Inventories	115	79	73	101	101
Receivables	49	47	58	59	65
Other CA	27	26	12	12	12
Cash	217	139	241	218	200
Total Assets	2,297	2,282	2,295	2,310	2,304
Payables	86	71	76	89	94
ST Borrowings	273	137	149	148	139
Other ST Liability	0	0	10	10	10
LT Borrowings	461	651	758	728	685
Other LT Liability	96	93	118	118	118
Minorities Int.	(7)	3	(6)	(6)	(6)
Net Assets	1,389	1,328	1,189	1,223	1,264
Share Capital	923	923	923	923	923
Reserves	467	405	266	301	341
Equity	1,389	1,328	1,189	1,223	1,264

Cashflow Statement					
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	129	142	123	183	211
Investing CF	1,006	(173)	(182)	(120)	(121)
Financing CF	(159)	(108)	(89)	(5)	(106)
Change In Cash	975	(139)	(149)	58	(15)
Free CF	1,135	(30)	(60)	63	91

Source: 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
					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.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.22	4,450.7	Y	12/2020	2.4%	8.2%	292.0%	26.8%	86.4	22.0	17.4	1.1	1.0	4.8%	1.6%	1.25	MP
GENTING PLANTATIONS BHD	9.86	8,846.4	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	63.1	40.1	28.7	2.1	2.1	5.2%	1.4%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.83	1,463.4	Y	12/2020	-0.9%	9.5%	174.2%	30.3%	69.6	25.4	19.5	0.9	0.9	4.6%	2.2%	1.95	OP
IJM PLANTATIONS BHD	1.89	1,664.3	N	03/2021	11.0%	7.1%	99.7%	13.2%	47.8	23.9	21.1	1.4	1.4	5.8%	1.7%	1.70	UP
IOI CORPORATION BHD	4.52	28,323.1	Y	06/2021	15.1%	7.4%	18.8%	6.5%	37.3	33.7	26.7	3.0	2.9	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.00	24,805.0	Y	09/2020	1.6%	8.0%	23.9%	20.8%	39.7	32.0	26.5	2.4	2.3	7.3%	2.2%	26.00	OP
PPB GROUP BERHAD	19.04	27,086.3	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.5	23.8	21.2	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.24	36,075.2	Y	12/2020	10.9%	4.9%	304.5%	40.2%	224.1	55.4	39.5	2.7	2.6	4.8%	1.1%	5.15	MP
TA ANN HOLDINGS BERHAD	3.06	1,347.8	Y	12/2020	14.7%	5.1%	57.7%	8.1%	19.7	12.5	11.5	1.0	0.9	7.4%	2.6%	3.45	OP
TSH RESOURCES BHD	1.10	1,518.2	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	37.5	21.1	23.1	1.0	1.0	5.0%	1.4%	1.10	OP
UNITED MALACCA BHD	4.96	1,040.5	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	100.0	53.4	0.8	0.8	0.8%	1.6%	4.85	MP
Simple Average					6.5%	7.7%	122.0%	25.2%	64.9	35.5	26.2	1.6	1.5	5.6%	1.8%		

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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