

24 February 2021

IOI Corporation Berhad

1HFY21 Deemed Above Expectations

By Adrian Kok | adrian.kok@kenanga.com.my

IOICORP's 1HFY21 CNP of RM542.4m (+24% YoY) is deemed above our/consensus' expectations at 54%/55%, but FFB output (1.64m MT; +2% YoY) is below at 51%. We expect 2HFY21 upstream earnings to remain strong on higher CPO prices. Raise FY21-22E CNP by 8% each. Maintain OUTPERFORM with an unchanged TP of RM4.95 based on rolled-over FY22E PER of 27x (-0.5SD). Currently the group is traded at an attractive FY22E PER of 23.1x (below -1.5SD), akin to valuation levels of small/mid cap upstream planters.

Deemed above expectations. IOI Corporation (IOICORP) registered 2QFY21 Core Net Profit (CNP) of RM290.9m (+16% QoQ; +26% YoY), which brought 1HFY21 CNP to RM542.4m (+24% YoY), which we deem above our/consensus' expectations at 54%/55%, in view of higher 2HFY21 CPO prices. However, 1HFY21 FFB output of 1.64m MT (+2% YoY) is below our expectation at 51% (vs. 5-year average of 55%). DPS of 4.5 sen is as expected.

Upstream in the limelight. YoY, 1HFY21 CNP rose (+24%) lifted by higher average CPO price (+31%) and FFB output (+2%). As a result, plantation segmental operating profit leapt (+108%) which overshadowed the decline (-23%) in downstream earnings from higher feedstock price and weaker performance in Europe and Asia. **QoQ**, despite a 13% decline in FFB output, 2QFY21 CNP improved (+16%), due to higher CPO price (+16%) which resulted in 29% improvement in plantation segmental operating profit.

The spotlight is still on high CPO price. Typically, its 2HFY21 production is seasonally weaker, as reflected in 2HFY21 earnings. While we anticipate a similar production trend in 2HFY21, it may not be the case for earnings. Premised on higher CPO price (QTD 3QFY21: +13% QoQ) so far, we expect earnings in 2HFY21 to remain strong. Meanwhile, the group is still hunting for potential M&As with a c.RM1b war chest earmarked for investments, with preference towards brownfield upstream plantation assets.

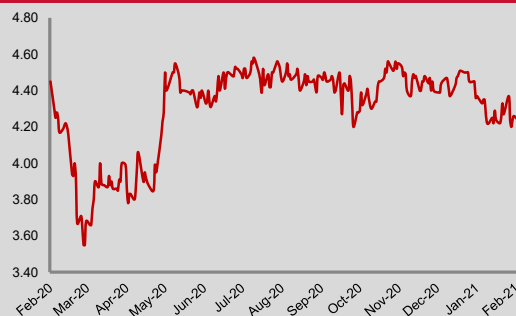
Raise FY21-22E earnings by 8% on higher FY21-22E CPO price of c.RM2,900-2,950/MT, but reduce FY21-22E FFB growth (from 4-2%) to flat and 2% respectively.

Maintain OUTPERFORM with an unchanged TP of RM4.95 based on a rolled-over FY22E PER of 27x (from 30x), reflecting -0.5SD from mean. Currently, IOICORP is traded at FY22E PER of 23.1x, implying below -1.5SD valuation. We think this is unjustified and the company should trade at a minimum of -0.5SD valuation given: (i) higher CPO price environment, (ii) its integrated operations partially shielding the group from volatility of CPO price, and (iii) its FBM KLCI status. **Risks to our call are:** sharp rise/fall in CPO prices and a precipitous increase/decline in fertiliser/labour/transportation costs.

OUTPERFORM ↔

Price : **RM4.24**
Target Price : **RM4.95** ↔

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg -3.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK Equity
Market Cap (RM m)	26,558.0
Shares Outstanding	6,263.7
52-week range (H)	4.64
52-week range (L)	3.41
3-mth avg daily vol:	2,481,962
Free Float	23%
Beta	0.9

Major Shareholders

Progressive Holdings Sdn Bhd	50.0%
Employees Provident Fund Board	13.3%
Amanah Saham Bumiputera	7.1%

Summary Earnings Table

FYE Jun (RM m)	2020A	2021E	2022E
Turnover	7802	9688	10292
EBIT	995	1317	1404
PBT	827	1350	1443
Net Profit (NP)	601	1080	1153
Core NP	843	1080	1153
Consensus (CNP)	n.a.	979	1033
Earnings Revision	n.a.	8%	8%
Core EPS (sen)	13.4	17.2	18.3
EPS growth (%)	10.8	28.1	6.8
NDPS (sen)	8.0	9.0	10.0
BV/Share (RM)	1.50	1.58	1.66
Core PER (x)	31.6	24.7	23.1
Price/BV (x)	2.83	2.69	2.55
Net Gearing (x)	0.26	0.24	0.23
Net Dvd Yield (%)	1.9	2.1	2.4

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Results Highlights

FYE Jun (RM m)	2Q21	1Q21	QoQ %	2Q20	YoY%	1HFY21	1HFY20	YoY%
Revenue	2,454.7	2,477.2	(1%)	1,955.2	26%	4,931.9	3,730.7	32%
Op Profit (pre-adjustments)	380.0	310.8	22%	237.5	60%	690.8	453.6	52%
Pretax	430.0	360.2	19%	269.3	60%	790.2	467.9	69%
Taxation	(67.2)	(77.4)	(13%)	(55.4)	21%	(144.6)	(106.3)	36%
Minority	(7.1)	(4.9)	45%	(0.4)	1675%	(12.0)	0.9	nm
Net Profit	355.7	277.9	28%	213.5	67%	633.6	362.5	75%
Core Net Profit	290.9	251.5	16%	230.8	26%	542.4	436.2	24%
EPS (sen)	5.7	4.4	28%	3.4	67%	10.1	5.8	75%
Core EPS (sen)	4.6	4.0	16%	3.7	26%	8.7	6.9	25%
DPS (sen)	4.5	0.0	nm	4.0	13%	4.5	4.0	13%
Avg CPO (RM)	2,992	2,579	16%	2,246	33%	2,782	2,128	31%
FFB ('000 mt)	760.7	878.7	(13%)	798.3	(5%)	1,639.4	1,599.8	2%
Op Profit %	15%	13%		12%		14%	12%	
PBT %	18%	15%		14%		16%	13%	
Effective Tax %	16%	21%		21%		18%	23%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Jun (RM m)	2Q21	1Q21	QoQ %	2Q20	YoY%	1HFY21	1HFY20	YoY%
Segmental Revenue								
- Plantation (external)	96.5	82.8	17%	33.5	188%	179.3	88.0	104%
- Resource Based	2,354.8	2,390.3	(1%)	1,916.5	23%	4,745.1	3,631.7	31%
- Other Ops	3.4	4.1	(17%)	5.2	(35%)	7.5	11.0	(32%)
Group Revenue	2,454.7	2,477.2	(1%)	1,955.2	26%	4,931.9	3,730.7	32%
Segment Op Profit								
- Plantation	304.8	236.4	29%	156.2	95%	541.2	260.6	108%
- Resource Based	73.6	72.3	2%	79.2	(7%)	145.9	188.6	(23%)
- Other Ops	1.6	2.1	(24%)	2.1	(24%)	3.7	4.4	(16%)
Group Op Profit (before adjustments)	380.0	310.8	22%	237.5	60%	690.8	453.6	52%

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.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.34	4,888.5	Y	12/2020	2.4%	8.2%	292.0%	26.8%	94.9	24.2	19.1	1.2	1.1	4.8%	1.5%	1.30	Accept Offer
GENTING PLANTATIONS BHD	9.34	8,379.8	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	59.8	38.0	27.2	2.0	2.0	5.2%	1.5%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.86	1,487.4	Y	12/2020	4.0%	7.3%	194.0%	26.2%	70.8	24.1	19.1	0.9	0.9	4.9%	2.7%	2.15	OP
IJM PLANTATIONS BHD	1.77	1,558.6	N	03/2021	11.0%	7.1%	99.7%	13.2%	44.8	22.4	19.8	1.3	1.3	5.8%	1.8%	1.70	UP
IOI CORPORATION BHD	4.24	26,558.0	Y	06/2021	24.2%	6.2%	28.1%	6.8%	35.0	31.6	23.1	2.8	2.7	11.2%	2.1%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.22	25,044.0	Y	09/2021	11.5%	4.4%	35.6%	9.7%	33.0	24.3	22.2	2.3	2.2	9.2%	2.4%	26.80	OP
PPB GROUP BERHAD	18.32	26,062.0	Y	12/2020	-2.3%	8.5%	9.3%	7.3%	22.6	20.7	19.3	1.2	1.2	5.8%	1.7%	20.70	OP
SIME DARBY PLANTATION BHD	4.88	33,596.7	Y	12/2021	14.1%	5.0%	80.5%	5.2%	40.0	22.2	21.1	2.5	2.3	10.8%	2.0%	5.50	OP
TA ANN HOLDINGS BERHAD	2.89	1,272.9	Y	12/2020	14.7%	5.1%	57.7%	7.9%	18.6	11.8	10.9	0.9	0.9	7.4%	3.5%	3.45	OP
TSH RESOURCES BHD	1.06	1,463.0	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	36.1	20.4	22.2	1.0	0.9	5.0%	1.4%	1.10	MP
UNITED MALACCA BHD	5.05	1,059.3	Y	04/2021	27.3%	11.2%	77.3%	65.2%	N.A.	33.1	20.0	0.8	0.8	2.4%	1.8%	5.30	MP
Simple Average					10.9%	7.0%	91.7%	18.2%	45.6	24.8	20.4	1.5	1.5	6.6%	2.0%		

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

