

31 May 2023

IOI Corporation

Subdued 9MFY23 on Soft 3Q

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IOICORP's 9MFY23 results disappointed us but were within market expectation. Its upstream earnings dipped on lower CPO prices amidst rising costs while downstream eased on softer demand. We cut our FY23F net profit forecast by 7% (but raise our FY24F net profit forecast by 10% on lower cost and taxes). We cut our TP by 10% to RM3.80 (from RM4.20) based on 1.8x P/BV valuation but maintain our MARKET PERFORM call.

9MFY23 core net profit came in at 78% of our full-year forecast but we consider the results below our expectation as we expect a weaker 4Q. At 84% of the full-year consensus estimate, we consider its 9MFY23 results within consensus expectation.

It reported a subdued 9MFY23 due to a poor 3QFY23 core net profit of RM223.5m (-54% QoQ, -37% YoY) as upstream CPO price flattened QoQ while cost stayed high. 3QFY23's FFB output of 0.628m MT was up 5% YoY but still seasonally down by 19% QoQ, which is better than the historical average dip of 23% for the third quarter. IOI's 32%-owned Indonesian upstream associate, Bumitama Agri (BAL), also reported weaker results though less severe. IOI's 3QFY23 downstream operations saw stronger YoY performance thanks to healthy refining margin but were weaker QoQ due to a strong second quarter. The RM26m positive variance between the 3QFY23 net profit and core net profit can be traced to RM69m of fair value loss which is offset by RM43m of currency exchange gains. IOI ended 3QFY23 with RM1,475m net debt (13% net gearing) versus 2QFY23's net debt of RM1,410m (13% net gearing).

FY23 earnings to weaken by about 10% YoY. Since mid-CY22, palm oil prices have trended down on improving edible oil supply. However, the overall supply-demand balance remains fragile as demand is also recovering. Post-COVID demand recovery during much of CY22 was restrained by high prices while China, the biggest edible oil market, did not revert to a new post-Covid normal until late CY22 while demand for biofuels has stayed supportive. Altogether, we expect firm CPO prices to remain despite a slight nudge down in our expected CPO price for IOI, from RM4,100 to RM3,900 per MT for FY23F and from RM3,800 to RM3,700 in FY24F. Unlike more inelastic food and fuel markets for upstream products, IOI's downstream resource-based earnings are more sensitive to broader economic headwinds. The group's European downstream units are also enduring high energy costs, hence despite decent margins, better pricing power (more specialty than commodity type products) with lower input palm oil prices, we expect weaker though still commendable downstream contributions ahead.

Forecasts. We cut our FY23F CNP forecast by 7% but raise our FY24F CNP by 10% on CPO prices staying firm with lower cost and taxes.

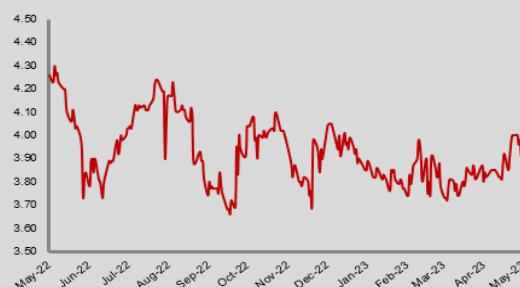
We reduce our TP by 10% to RM3.80 (from RM4.20) as we replace the PER valuation (at 15x FY23F EPS) with FY24F Price/BV of 1.8x plus a 5% ESG premium (see Page 3).

IOI is investing to improve its planting materials, digitalisation as well as estate infrastructure to allow greater mechanisation. Its global downstream oleochemicals and specialty oils & fats operations are equally commendable. Equally impressive is its initiative to convert oil palm trunks into palm-based wood products so as to achieve net zero waste.

MARKET PERFORM ↔

Price : RM3.91
Target Price : RM3.80 ↓

Share Price Performance



KLCI 1,396.91
YTD KLCI chg -6.6%
YTD stock price chg -3.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK Equity
Market Cap (RM m)	24,266.8
Shares Outstanding	6,206.4
52-week range (H)	4.33
52-week range (L)	3.59
3-mth avg daily vol:	2,409,903
Free Float	22%
Beta	1.1

Major Shareholders

Progressive Holdings Sdn Bhd	50.4%
Employee Provident Fund Board	11.0%
Amanah Saham Nasional	7.0%

Summary Earnings Table

FYE June (RM m)	2022A	2023F	2024F
Turnover	15,579	14,431	14,493
EBIT	2,234	1,873	1,772
PBT	2,353	1,972	1,893
Net Profit (NP)	1,725	1,549	1,459
Core NP	1,804	1,549	1,459
Consensus (CNP)	-	1,544	1,285
Earnings Revision	-	-7%	+10%
Core EPS (sen)	29.9	24.9	23.5
Core EPS growth (%)	-	-10.8	-5.8
NDPS (sen)	14.0	13.0	13.5
NTA/Share (RM)	1.78	1.91	2.03
Core PER (x)	13.1	15.7	16.7
Price/NTA (x)	2.20	2.05	1.92
Net Gearing (x)	0.22	0.14	0.09
Dividend Yield (%)	3.6	3.3	3.5

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All in all, we like IOI's management leadership, land-backed NTA, low gearing and a good ESG rating of 4-star. However, margins are expected to stay muted for another quarter or two and IOI's share price is already close to our TP. Maintain **MARKET PERFORM**.

Risks to our recommendation include: (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) production cost inflation.

Results Highlights

FYE June (RM m)	3Q23	2Q23	QoQ %	3Q22	YoY%	9MFY23	9MFY22	YoY%
Revenue	2,660.4	3,304.0	-19%	4,097.9	-35%	9,633.1	11,842.6	-19%
Operating Profit	280.2	575.0	-51%	482.2	-42%	1,457.3	1,689.4	-14%
Pretax Profit	260.8	857.0	-70%	580.9	-55%	1,432.9	1,694.2	-15%
Taxation	(59.3)	(141.9)	-58%	(159.5)	-63%	(343.3)	(475.3)	-28%
MI	(4.1)	(3.0)	+37%	(10.2)	-60%	(12.6)	(35.4)	-64%
Net Profit	197.4	712.1	-72%	411.2	-52%	1,077.0	1,183.5	-9%
Core Net Profit	223.5	487.3	-54%	357.3	-37%	1,293.0	1,283.9	+1%
Core EPS (sen)	3.6	7.8	-54%	5.8	-37%	20.8	21	+1%
DPS (sen)	-	6.0	-	-	-	6.0	6.0	-
Opg Profit %	11%	17%		12%		15%	14%	
PBT %	10%	26%		14%		15%	14%	
Tax %	-7%	-2%		-6%		-4%	-7%	
CPO (RM /MT)	3,928	4,127	-5%	5,064	-22%	4,181	4,518	-7%
PK (RM / MT)	2,153	2,163	-0%	4,588	-53%	2,273	3,521	-35%
FFB Production (MT)	628.3	773.4	-19%	599.7	+5%	2,067.5	2,115.1	-2%

Source: Company, Kenanga Research

Segmental Breakdown

FYE June (RM m)	3Q23	2Q23	QoQ %	3Q22	YoY%	9MFY23	9MFY22	YoY%
Segmental Revenue:								
Plantation	77.0	83.2	-7%	119.6	-36%	241.3	325.7	-26%
Resource Based	2,579.4	3,214.0	-20%	3,971.1	-35%	9,376.0	11,503	-18%
Others	4.0	6.8	-41%	7.2	-44%	15.8	14.0	+13%
Group Revenue	2,660.4	3,304.0	-19%	4,097.9	-35%	9,633.1	11,842.6	-19%
Segmental Operating Profit:								
Plantation	185.5	324.8	-43%	415.7	-55%	804.8	1,345.8	-40%
Resource Based	96.3	248.1	-61%	63.8	+51%	651.6	335.5	+94%
Others	(1.6)	2.1	-176%	2.7	-159%	0.9	8.1	-89%
Group Operating Profit	280.2	575.0	-51%	482.2	-42%	1,457.3	1,689.4	-14%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
PLANTATION																	
FGV HOLDINGS BHD	MP	1.34	1.40	4.48%	4,888.5	Y	12/2023	9.6	12.0	-75.3%	25.8%	14.0	11.1	0.6	5.0%	8.0	6.0%
GENTING PLANTATIONS BHD	MP	6.09	5.50	-9.69%	5,463.9	Y	12/2023	24.0	26.2	-54.1%	8.8%	25.3	23.3	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.89	2.30	21.69%	1,511.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.4	12.5	0.8	5.8%	12.0	6.3%
IOI CORP BHD	MP	3.91	3.80	-2.81%	24,266.8	Y	06/2023	24.9	23.5	-14.1%	-5.8%	15.7	16.7	2.2	14.6%	13.0	3.3%
KUALA LUMPUR KEPONG BHD	OP	21.64	24.50	13.22%	23,337.4	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.3	13.9	1.6	7.8%	50.0	2.3%
PPB GROUP BHD	OP	15.90	19.30	21.38%	22,619.3	Y	12/2023	109.7	121.2	-28.1%	10.4%	14.5	13.1	0.8	5.9%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.26	3.65	-14.32%	29,460.9	Y	12/2023	7.2	8.3	-75.5%	15.1%	58.8	51.1	1.8	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.34	3.40	1.80%	1,471.1	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.7	9.8	0.8	7.8%	25.0	7.5%
TSH RESOURCES BHD	MP	0.940	1.10	17.02%	1,297.4	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.3	8.7	0.6	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.29	5.00	-5.48%	1,109.7	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.6	14.9	0.8	5.3%	15.0	2.8%
Simple Average					115,426.5					-46.4%	12.0%	19.6	17.5	1.1	7.3%		3.6%

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Biodiversity Conservation	★	★	★	☆	
	Sustainable Planting	★	★	★	☆	
	Guest Labour Welfare	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Occupational Health & Safety	★	★	★	★	
	Waste Disposal & Pollution Control	★	★	★	☆	
OVERALL		★	★	★	★	☆

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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