

29 November 2023

IOI Corporation

Better Earnings Ahead

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IOICORP's 1QFY24 results disappointed. Its earnings strengthened QoQ mainly on better FFB harvest and easier cost while CPO prices held well. Its downstream margin also recovered but fell short of our expectation. We cut our FY24-25F net profit forecasts by 7% and 3%, respectively, but keep our TP of RM3.80 and MARKET PERFORM call.

1QFY24 core net profit (excluding RM15m fair value gains and RM9m forex losses) disappointed, accounting for only 20% and 22% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from poorer-than-expected downstream performance.

Its 1QFY24 plantation unit saw operating profit soaring to RM314.5m (+79% QoQ, +7% YoY) amidst robust FFB production (0.734m MT; +19% QoQ, +10% YoY) and easier cost while CPO price softened a little to RM3,789 per MT (-3% QoQ, -16% YoY). 32%-owned Bumitama Agri (BAL) earnings rose 15% QoQ and 33% YoY. Downstream margins remained under pressures on weak demand and margins even though 1QFY24 profitability recovered significantly QoQ thanks to better refining margins which helped offset still poor oleochemical performance. Net gearing nudged up very slightly from 14% as at 30 June 2022 to 15% after paying RM310m in dividends. No dividend was declared which is the norm for its 1QFY.

Better upstream margins ahead as CPO prices should hold firm on relatively tight global edible oils supply. Edible oil demand looks set to continue growing at a 3%-4% YoY trajectory. 2024 supply is also expected to grow but not very much and dry weather is affecting ongoing soya planting in Brazil while oil palm yields in SE Asian are affected by ageing trees. Fortunately, El Nino has not affected Malaysia much but parts of Kalimantan have seen dryness for a month or two. Altogether, we expect CPO prices to average at RM3,800 per MT over FY24-25. Costs are also expected to ease as fertiliser prices are now 20%-30% lower than a year ago. Fuel costs are also lower YoY while FFB production is higher with the labour shortfall generally addressed.

Downstream to continue facing headwind. IOI's downstream focuses more on specialty and customised products which command better pricing and margins but the operations are not immune to intense competition and demand headwinds. Aside from facing weak demand, its European operations are also enduring rising wages, not to mention energy pressures even if inflation could be abating.

Forecasts. We cut our FY24-25F net profit forecasts by 7% and 3%, respectively, to reflect weaker downstream contributions.

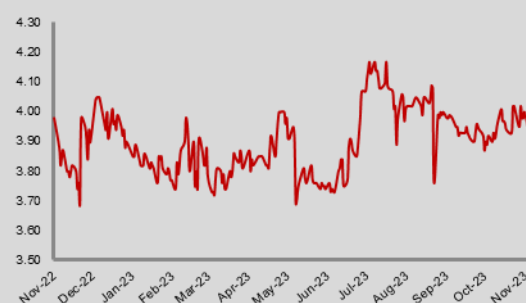
However, we maintain our TP of RM3.80 based on 2.0x PBV, in-line with the average PBV for large integrated planters, plus a 5% premium to reflect a 4-star ESG rating as appraised by us (see page 3).

We continue to like IOI for its efforts in the followings: (i) improving planting materials, (ii) increasing digitalisation, (iii) building infrastructures for greater mechanisation as well as (iv) converting oil palm trunks into net zero palm-based wood products. However, much of the fruit will only bear out in the medium to long term. Whilst earnings should improve over the next one to two quarters, subdued full-year earnings are still expected for FY24-25 on flattish CPO prices with some margin improvement from easier costs. Maintain **MARKET PERFORM**.

MARKET PERFORM ↔

Price : RM3.99
Target Price : RM3.80 ↔

Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	-1.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK EQUITY
Market Cap (RM m)	24,752.8
Shares Outstanding	6,203.7
52-week range (H)	4.22
52-week range (L)	3.65
3-mth avg daily vol:	1,985,945
Free Float	22%
Beta	1.0

Major Shareholders

Progressive Holdings Sdn Bhd	50.5%
Employee Provident Fund Board	11.3%
Amanah Saham Nasional	7.0%

Summary Earnings Table

FYE June (RM m)	2023A	2024F	2025F
Turnover	11,584	8,932	8,940
EBIT	1,670	1,395	1,535
PBT	1,526	1,729	1,882
Net Profit (NP)	1,114	1,424	1,485
Core NP	1,512	1,424	1,485
Consensus (CNP)	-	1,370	1,360
Earnings Revision	-	-7%	-3%
Core EPS (sen)	24.4	22.9	23.9
Core EPS grwth (%)	-12.9	-5.8	4.3
NDPS (sen)	11.0	11.0	10.5
NTA/Share (RM)	1.87	1.92	2.04
Core PER (x)	16.4	17.4	16.7
Price/NTA (x)	2.13	2.08	1.95
Net Gearing (x)	0.12	0.05	-
Dividend Yield (%)	2.8	2.8	2.6

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Risks to our call include: (i) Western hostility towards palm oil on sustainability and bio-diversity issues; (ii) impact of weather and labour shortages on production, (iii) weak CPO and palm kernel prices, and (iv) cost inflation particularly fertilizers.

Results Highlights								
<i>FYE June (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY	3MFY24	3MFY23	YoY
Revenue	2,204.2	1,950.7	+13%	3,668.7	-40%	2,204.2	3,668.7	-40%
Operating Profit	372.3	182.5	+104%	602.1	-38%	372.3	602.1	-38%
Pretax Profit	367.8	93.1	+295%	315.1	+17%	367.8	315.1	+17%
Taxation	(62.0)	(52.7)	+18%	(142.1)	-56%	(62.0)	(142.1)	-56%
MI	(1.8)	(3.2)	-44%	(5.5)	-67%	(1.8)	(5.5)	-67%
Net Profit	304.0	37.2	+717%	167.5	+81%	304.0	167.5	+81%
Core Net Profit	298.2	236.1	+26%	565.0	-47%	298.2	565.0	-47%
EPS (sen)	4.9	0.6	+718%	2.7	+82%	4.9	2.7	+82%
Core EPS (sen)	4.8	3.8	+26%	9.1	-47%	4.8	9.1	-47%
DPS (sen)	-	5.0	-	-	N.A.	-	-	-
Opg Profit	17%	9%		16%		17%	16%	
PBT	17%	5%		9%		17%	9%	
Tax	-3%	-6%		-4%		-3%	-4%	
CPO (RM /MT)	3,789	3,906	-3%	4,496	-16%	3,789	4,496	-16%
PK (RM / MT)	2,100	2,099	+0%	2,524	-17%	2,100	2,524	-17%
FFB Production (MT)	734.1	618.9	+19%	665.8	+10%	734.1	665.8	+10%

Source: Company, Kenanga Research

Segmental Breakdown								
<i>FYE June (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY%	3MFY23	3MFY22	YoY
Segmental Revenue:								
Plantation	108.3	70.7	+53%	81.1	+34%	108.3	81.1	+34%
Resource Based	2,090.0	1,876.2	+11%	3,582.6	-42%	2,090.0	3,582.6	-42%
Others	5.9	3.8	+55%	5.0	+18%	5.9	5.0	+18%
Group Revenue	2,204.2	1,950.7	+13%	3,668.7	-40%	2,204.2	3,668.7	-40%
Segmental Opg Profit:								
Plantation	314.5	175.5	+79%	294.5	+7%	314.5	294.5	+7%
Resource Based	56.4	9.0	+527%	307.2	-82%	56.4	307.2	-82%
Others	1.4	(2.0)	-170%	0.4	+250%	1.4	0.4	+250%
Group Operating Profit	372.3	182.5	+104%	602.1	-38%	372.3	602.1	-38%

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. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	AO	1.53	1.55	1.3%	3,427.2	Y	12/2023	1.3	2.6	-78.8%	100.0%	118.2	59.1	1.2	1.0%	2.0	1.3%
GENTING PLANTATIONS BHD	MP	5.53	5.70	3.1%	4,961.3	Y	12/2023	29.0	33.3	-44.6%	14.8%	19.0	16.6	0.9	4.8%	15.0	2.7%
HAP SENG PLANTATIONS HOLDING	MP	1.79	1.80	0.6%	1,431.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	16.8	15.2	0.7	4.4%	7.0	3.9%
IOI CORP BHD	MP	3.99	3.80	-4.8%	24,752.8	Y	06/2024	22.9	23.9	-5.8%	4.3%	17.4	16.7	2.2	13.4%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	21.50	24.50	14.0%	23,186.4	Y	09/2024	147.0	165.1	40.9%	12.3%	14.6	13.0	1.5	10.4%	50.0	2.3%
PPB GROUP BHD	OP	14.06	19.30	37.3%	20,001.8	Y	12/2023	75.0	114.3	-50.8%	52.4%	18.7	12.3	0.7	4.1%	45.0	3.2%
SIME DARBY PLANTATION BHD	MP	4.51	4.00	-11.3%	31,189.9	Y	12/2023	13.8	16.6	-53.4%	20.3%	32.7	27.2	1.8	11.4%	18.0	4.0%
TA ANN HOLDINGS BHD	MP	3.51	3.80	8.3%	1,546.0	Y	12/2023	36.0	36.2	-62.2%	0.6%	9.8	9.7	0.9	9.9%	25.0	7.1%
TSH RESOURCES BHD	OP	0.995	1.30	30.7%	1,373.3	Y	12/2023	5.6	7.2	-72.7%	28.3%	17.8	13.9	0.7	7.5%	1.0	1.0%
UNITED MALACCA BHD	MP	4.92	5.00	1.6%	1,032.1	Y	04/2024	33.0	25.3	-40.3%	-23.4%	14.9	19.4	0.7	4.4%	12.0	2.4%
Simple Average					112,902.1					-32.7%	19.1%	19.8	16.6	1.1	7.8%		3.3%

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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