

09 April 2024

IOI Corporation

In Wood-Free Pulp & Paper Venture

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IOI, via a 45:55 JV with Nextgreen Global Berhad or NGGB (Not Rated), is going into the production of wood-free pulp and paper using empty fruit bunches (EFB). The JV will invest in a RM600m plant scheduled to be completed in 2026. The impact on IOI's earnings is small but raises its ESG credentials. We maintain our forecasts, TP of RM3.80 and MARKET PERFORM call.

IOI, via a 45:55 JV with NGGB, will invest RM600m in a 100,000 MT plant to produce wood-free, EFB-based pulp and paper using the "Pre-conditioning Refiner Chemical-Recycle Bleached Mechanical Pulp" technology. Located in a 410-acre green technology park integrating renewable energy and zero-waste technology in Pekan developed by NGGB itself, IOI will likely be one of the main suppliers of EFB to the plant as it owns 18,798 ha of estates in Pahang.

NGGB already operates a similar albeit much smaller plant. It started in 2003 when NGGB initiated joint research with a Chinese partner to convert EFB into pulp and paper. The "Pre-conditioning Refiner Chemical-Recycle Bleached Mechanical Pulp" technology was then patented in 2008. In Jun 2022, the production of the "NeuWhite" pulp and paper commenced at a new 10,000 MT per annum plant. From a half-year revenue of RM8m in FY22, its top line grew to about RM25m in FY23 and we believe it was profitable. NGGB also started the trials for "Pure Palm Mold," a bio-degradable food packaging for Crown Package Co. Ltd of Japan.

With IOI's backing, global network and funding, the JV should find it easier to scale up.

The near-term financial impact on IOI will largely be its 45% share to fund the RM600m project under the JV. Assuming IOI borrows even RM270m, essentially to borrow 100% of its equity share to invest in the JV, the after-tax impact will still be negligible (about 1%). Further ahead, the project should start contributing from around FY26-27 but once the cost of financing is imputed, the net contribution is also likely to stay immaterial for another 5-8 years, possibly longer. Strategically though, IOI is investing in an ESG positive project which needs some industrial and financial backing to scale up as the technology has already been tested and commercialised by NGGB.

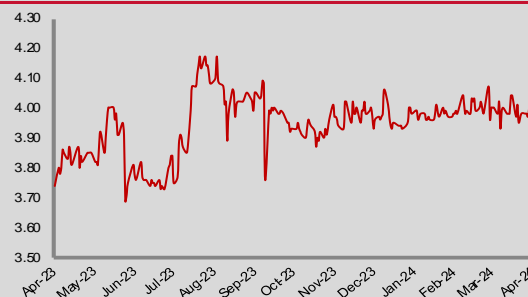
Maintain our MARKET PERFORM and TP of RM3.80 which is based on 2.0x PBV, in-line with the average PBV for larger integrated planters, plus a 5% premium to reflect a 4-star ESG rating as appraised by us (see page 3). We continue to like IOI for its efforts in the following: (i) improving planting materials, (ii) increasing digitalisation, (iii) building infrastructures for greater mechanisation as well as (iv) converting oil palm trunks into net zero palm-based wood products.

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

MARKET PERFORM ↔

Price: RM4.03
Target Price: RM3.80 ↔

Share Price Performance



KLCI 1,559.98
YTD KLCI chg 7.2%
YTD stock price chg 2.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK EQUITY
Market Cap (RM m)	25,000.9
Shares Outstanding	6,203.7
52-week range (H)	4.22
52-week range (L)	3.65
3-mth avg. daily vol.	2,072,638
Free Float	21%
Beta	0.9

Major Shareholders

Progressive Holdings	50.5%
Employees Provident Fund	11.7%
Amanah Saham Nasional	7.0%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	11,584	8,928	8,940
EBIT	1,670	1,307	1,531
PBT	1,526	1,553	1,808
Net Profit (NP)	1,114	1,278	1,426
Core NP	1,512	1,241	1,426
Consensus (CNP)	-	1,267	1,352
Earnings Revision	-	-	-
Core EPS (sen)	24.4	20.0	23.0
Core EPS Growth (%)	-12.9	-17.9	14.9
NDPS (sen)	11.0	11.0	11.0
BV/Share (RM)	1.87	1.90	2.03
Core PER (x)	16.5	20.2	17.5
Price/BV (x)	2.15	2.12	1.99
Net Gearing (x)	0.12	0.09	0.05
Net Dvd. Yield (%)	2.7	2.7	2.7



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Peer Comparison

Name	Last Price (RM)	Market Cap (RM m)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld 1-Yr. Fwd.	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.					
PLANTATION																			
GENTING PLANTATIONS BHD	MP	6.27	6.00	-4.3%	5,625.2	Y	12/2024	33.9	36.1	21.0%	6.4%	18.5	17.4	1.0	5.6%	21.0	3.3%		
HAP SENG PLANTATIONS HOLDINGS	MP	1.92	2.00	4.2%	1,535.4	Y	12/2024	12.8	13.1	13.0%	2.9%	15.0	14.6	0.8	5.1%	7.0	3.6%		
IOI CORP BHD	MP	4.03	3.80	-5.7%	25,000.9	Y	06/2024	20.0	23.0	-17.9%	14.9%	20.2	17.5	2.3	12.1%	11.0	2.7%		
KUALA LUMPUR KEPONG BHD	MP	23.02	23.00	-0.1%	25,239.2	Y	09/2024	113.3	138.8	50.6%	22.5%	20.3	16.6	1.6	8.2%	50.0	2.2%		
PPB GROUP BHD	OP	15.90	18.50	16.4%	22,619.3	Y	12/2024	115.9	137.1	44.0%	18.3%	13.7	11.6	0.8	5.8%	45.0	2.8%		
SIME DARBY PLANTATION BHD	MP	4.56	4.00	-12.3%	31,535.7	Y	12/2024	16.6	18.8	30.1%	13.5%	27.5	24.2	1.8	6.6%	15.0	3.3%		
TA ANN HOLDINGS BHD	MP	4.29	4.00	-6.8%	1,889.6	Y	12/2024	40.9	43.5	3.5%	6.2%	10.5	9.9	1.0	10.0%	25.0	5.8%		
TSH RESOURCES BHD	OP	1.16	1.30	12.1%	1,601.0	Y	12/2024	7.2	7.4	29.2%	3.7%	16.2	15.6	0.8	10.3%	3.0	2.6%		
UNITED MALACCA BHD	OP	5.09	6.00	17.9%	1,067.7	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.7	15.5	0.7	3.2%	12.0	2.4%		
Simple Average					116,114.1					19.6%	16.2%	19.4	16.7	1.2	7.4%		3.2%		

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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