15 April 2024

# **IOI** Corporation

# A Chinese Partner in Nextgreen JV

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Nextgreen IOI Pulp Sdn Bhd (NIP), a 55:45 JV between Nextgreen Global Berhad (NGGB, Not Rated) and IOI, has roped in Xiamen C&D Corp (XCD) of China as a partner in its RM600m wood-free, empty fruit bunches (EFB) based pulp and paper project. XCD will off take the end-products. We maintain our forecasts, TP of RM3.80 and MARKET PERFORM call.

NIP, a 55:45 JV between NGGB and IOI, has roped in a partner for its RM600m wood-free, EFB-based pulp and paper plant in Green Technology Park, Pekan, with an annual production capacity of 100,000 MT. It has entered into a 25:75 JV with Xiamen C&D Pulp & Paper Group Co Ltd, the pulp and paper unit of XCD. This new JV will co-invest in the EFB pulp and paper project and XCD will off take the empty fruit bunches (EFB) based pulp and paper products.

Listed in the Shanghai Stock Exchange with a market capital of RMB32b (c.RM20b), XCD is primarily a provider of supply chain and logistical services for various commodities and goods, from iron/steel, chemicals and agriculture produce to automotive, textiles, consumer products as well as pulp and paper. Its pulp and paper unit handled 13m MT in 2022. Beyond arranging the shipping, customs, warehousing and logistics needed, the pulp and paper unit also operates a digital exchange for upstream and downstream players to buy and sell online. XCD's clients include dairy giant Frontera, industrial gas giant Linde and Indonesia's Asia Pulp & Paper.

Under the terms of the MOU, one of the key roles of XCD is to off take the end-products leaving NIP to manage and operate the project, including securing all the necessary approvals and EFB supply. Essentially:

- (a) NGGS will concentrate more on establishing and running the operations given its patented "Pre-conditioning Refiner Chemical-Recycle Bleached Mechanical Pulp" technology and know-how. NGGS already operates a smaller plant (10,000 MT) since June 2022, which is also located at Pekan's Green Technology Park.
- (b) IOI will be able to secure reliable EFB supply, not only from the group's 18,798 Ha of oil palm estates in the state of Pahang but also from various third-party plantations nearby. IOI's downstream engineering expertise can potentially be tapped by the JV as well.
- (c) XCD will be able to help secure, ship and sell NIP's end-products into China. China is the world's largest pulp and paper market and major Chinese/HK pulp and paper players are already operating out of Malaysia (Nine Dragon in Banting, Lee & Man in Sepang).

XCD and NIP (i.e. NGGS and IOI) will also work together to develop the business further and help raise external funds for the project.

With IOI's initial 45% equity in the RM600m project now diluted to 33.75%, the impact on IOI will be even more negligible, from funding to the project's eventual after-tax contribution impact in the medium term. Strategically, IOI is investing in an ESG-positive project which needs some industrial, financial and market access to scale up.

## MARKET PERFORM ↔

Price: Target Price:

RM4.05 RM3.80 ↔



KLCI	1,551.04
YTD KLCI chg	6.6%
YTD stock price chg	3.1%

### **Stock Information**

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK EQUITY
Market Cap (RM m)	25,125.0
Shares Outstanding	6,203.7
52-week range (H)	4.22
52-week range (L)	3.65
3-mth avg. daily vol.	2,109,573
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)	16.6	20.3	17.6
Price/BV (x)	2.16	2.13	2.00
Net Gearing (x)	0.12	0.09	0.05
Net Dvd. Yield (%)	2.7	2.7	2.7

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**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.



# **IOI Corporation**

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Peer Table Compar	ison
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(RM)	(RM)	(%)			Current	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
ame Rating Price Price Opside Cap Granan (RM) (RM) (%) (RM'm) Complian	Compliant	mpliant FYE	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.			
6.23	6.00	-3.7%	5,589.3	Υ	12/2024	33.9	36.1	21.0%	6.4%	18.4	17.3	1.0	5.6%	21.0	3.4%
1.89	2.00	5.8%	1,511.4	Υ	12/2024	12.8	13.1	13.0%	2.9%	14.8	14.4	0.8	5.1%	7.0	3.7%
4.05	3.80	-6.2%	25,125.0	Υ	06/2024	20.0	23.0	-17.9%	14.9%	20.3	17.6	2.3	12.1%	11.0	2.7%
22.78	23.00	1.0%	24,976.1	Υ	09/2024	113.3	138.8	50.6%	22.5%	20.1	16.4	1.6	8.2%	50.0	2.2%
15.80	18.50	17.1%	22,477.1	Υ	12/2024	115.9	137.1	44.0%	18.3%	13.6	11.5	8.0	5.8%	45.0	2.8%
4.51	4.00	-11.3%	31,189.9	Υ	12/2024	16.6	18.8	30.1%	13.5%	27.2	23.9	1.8	6.6%	15.0	3.3%
4.26	4.00	-6.1%	1,876.4	Υ	12/2024	40.9	43.5	3.5%	6.2%	10.4	9.8	1.0	10.0%	25.0	5.9%
1.17	1.30	11.1%	1,614.8	Υ	12/2024	7.2	7.4	29.2%	3.7%	16.3	15.7	8.0	10.3%	3.0	2.6%
5.09	6.00	17.9%	1,067.7	Υ	04/2024	24.6	32.8	-25.4%	33.3%	20.7	15.5	0.7	3.2%	12.0	2.4%
			115,427.7					19.6%	16.2%	19.2	16.6	1.2	7.4%		3.2%
	6.23 1.89 4.05 22.78 15.80 4.51 4.26 1.17	6.23 6.00 1.89 2.00 4.05 3.80 22.78 23.00 15.80 18.50 4.51 4.00 4.26 4.00 1.17 1.30	6.23 6.00 -3.7% 1.89 2.00 5.8% 4.05 3.80 -6.2% 22.78 23.00 1.0% 15.80 18.50 17.1% 4.51 4.00 -11.3% 4.26 4.00 -6.1% 1.17 1.30 11.1%	6.23 6.00 -3.7% 5,589.3 1.89 2.00 5.8% 1,511.4 4.05 3.80 -6.2% 25,125.0 22.78 23.00 1.0% 24,976.1 15.80 18.50 17.1% 22,477.1 4.51 4.00 -11.3% 31,189.9 4.26 4.00 -6.1% 1,876.4 1.17 1.30 11.1% 1,614.8 5.09 6.00 17.9% 1,067.7	6.23 6.00 -3.7% 5,589.3 Y 1.89 2.00 5.8% 1,511.4 Y 4.05 3.80 -6.2% 25,125.0 Y 22.78 23.00 1.0% 24,976.1 Y 15.80 18.50 17.1% 22,477.1 Y 4.51 4.00 -11.3% 31,189.9 Y 4.26 4.00 -6.1% 1,876.4 Y 1.17 1.30 11.1% 1,614.8 Y 5.09 6.00 17.9% 1,067.7 Y	6.23 6.00 -3.7% 5,589.3 Y 12/2024 1.89 2.00 5.8% 1,511.4 Y 12/2024 4.05 3.80 -6.2% 25,125.0 Y 06/2024 22.78 23.00 1.0% 24,976.1 Y 09/2024 15.80 18.50 17.1% 22,477.1 Y 12/2024 4.51 4.00 -11.3% 31,189.9 Y 12/2024 4.26 4.00 -6.1% 1,876.4 Y 12/2024 1.17 1.30 11.1% 1,614.8 Y 12/2024 5.09 6.00 17.9% 1,067.7 Y 04/2024	6.23 6.00 -3.7% 5,589.3 Y 12/2024 33.9 1.89 2.00 5.8% 1,511.4 Y 12/2024 12.8 4.05 3.80 -6.2% 25,125.0 Y 06/2024 20.0 22.78 23.00 1.0% 24,976.1 Y 09/2024 113.3 15.80 18.50 17.1% 22,477.1 Y 12/2024 115.9 4.51 4.00 -11.3% 31,189.9 Y 12/2024 16.6 4.26 4.00 -6.1% 1,876.4 Y 12/2024 40.9 1.17 1.30 11.1% 1,614.8 Y 12/2024 7.2 5.09 6.00 17.9% 1,067.7 Y 04/2024 24.6	6.23 6.00 -3.7% 5,589.3 Y 12/2024 33.9 36.1 1.89 2.00 5.8% 1,511.4 Y 12/2024 12.8 13.1 4.05 3.80 -6.2% 25,125.0 Y 06/2024 20.0 23.0 22.78 23.00 1.0% 24,976.1 Y 09/2024 113.3 138.8 15.80 18.50 17.1% 22,477.1 Y 12/2024 115.9 137.1 4.51 4.00 -11.3% 31,189.9 Y 12/2024 16.6 18.8 4.26 4.00 -6.1% 1,876.4 Y 12/2024 40.9 43.5 1.17 1.30 11.1% 1,614.8 Y 12/2024 40.9 43.5 1.17 1.30 11.1% 1,614.8 Y 12/2024 7.2 7.4 5.09 6.00 17.9% 1,067.7 Y 04/2024 24.6 32.8	6.23 6.00 -3.7% 5,589.3 Y 12/2024 33.9 36.1 21.0% 1.89 2.00 5.8% 1,511.4 Y 12/2024 12.8 13.1 13.0% 4.05 3.80 -6.2% 25,125.0 Y 06/2024 20.0 23.0 -17.9% 22.78 23.00 1.0% 24,976.1 Y 09/2024 113.3 138.8 50.6% 15.80 18.50 17.1% 22,477.1 Y 12/2024 115.9 137.1 44.0% 4.51 4.00 -11.3% 31,189.9 Y 12/2024 116.6 18.8 30.1% 4.26 4.00 -6.1% 1,876.4 Y 12/2024 40.9 43.5 3.5% 1.17 1.30 11.1% 1,614.8 Y 12/2024 7.2 7.4 29.2% 5.09 6.00 17.9% 1,067.7 Y 04/2024 24.6 32.8 -25.4%	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%           4.26         4.00         -6.1%         1,876.4         Y         12/2024         40.9         43.5         3.5%         6.2%           1.17         1.30         11.1%         1,614.8         Y         12/2024         7.2         7.4         29.2%         3.7%           5.09         6.00         17.9%	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%         13.6           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2           4.26         4.00         -6.1%         1,876.4         Y         12/2024         40.9         43.5         3.5%         6.2%         10.4           1.17         1.30         11.1%         1,614.8         Y         12/2024         7.2	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4         17.3           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8         14.4           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3         17.6           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1         16.4           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%         13.6         11.5           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2         23.9           4.26         4.00         -6.1%         1,876.4         Y         12/2024         40.9         43.5         3.5%         6.2%         10.4         9.8	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4         17.3         1.0           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8         14.4         0.8           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3         17.6         2.3           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1         16.4         1.6           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%         13.6         11.5         0.8           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2         23.9         1.8           4.26         4.00         -6.1%         1,876.4         Y         12/2024         40.9	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4         17.3         1.0         5.6%           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8         14.4         0.8         5.1%           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3         17.6         2.3         12.1%           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1         16.4         1.6         8.2%           15.80         18.50         17.1%         22,477.1         Y         12/2024         11.9         137.1         44.0%         18.3%         13.6         11.5         0.8         5.8%           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2         23.9         1.8         6.6%           4.26 <td< td=""><td>6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4         17.3         1.0         5.6%         21.0           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8         14.4         0.8         5.1%         7.0           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3         17.6         2.3         12.1%         11.0           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1         16.4         1.6         8.2%         50.0           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%         13.6         11.5         0.8         5.8%         45.0           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2</td></td<>	6.23         6.00         -3.7%         5,589.3         Y         12/2024         33.9         36.1         21.0%         6.4%         18.4         17.3         1.0         5.6%         21.0           1.89         2.00         5.8%         1,511.4         Y         12/2024         12.8         13.1         13.0%         2.9%         14.8         14.4         0.8         5.1%         7.0           4.05         3.80         -6.2%         25,125.0         Y         06/2024         20.0         23.0         -17.9%         14.9%         20.3         17.6         2.3         12.1%         11.0           22.78         23.00         1.0%         24,976.1         Y         09/2024         113.3         138.8         50.6%         22.5%         20.1         16.4         1.6         8.2%         50.0           15.80         18.50         17.1%         22,477.1         Y         12/2024         115.9         137.1         44.0%         18.3%         13.6         11.5         0.8         5.8%         45.0           4.51         4.00         -11.3%         31,189.9         Y         12/2024         16.6         18.8         30.1%         13.5%         27.2

Source: Bloomberg, Kenanga Research



15 April 2024

### **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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