

# IOI Corporation

## A Chinese Partner in Nextgreen JV

By **Teh Kian Yeong** | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

**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).

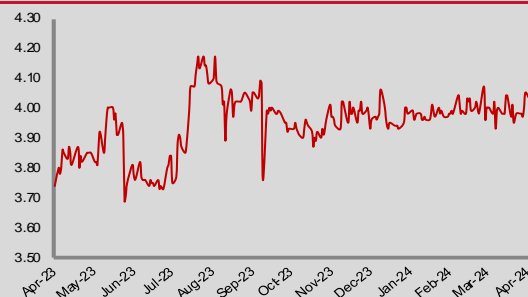
XCD and NIP (i.e. NGGS and IOI) will also work together to develop the business further and help raise external funds for the project.

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:** **RM4.05**  
**Target Price:** **RM3.80** ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| 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        |
| <b>Net Profit (NP)</b> | <b>1,114</b> | <b>1,278</b> | <b>1,426</b> |
| <b>Core NP</b>         | <b>1,512</b> | <b>1,241</b> | <b>1,426</b> |
| 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          |

15 April 2024

**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.



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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

---

Published and printed by:

**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)