Research
by kenanga

Results Note

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IOI Corporation

Strong 1HFY26 But Within Our Estimate

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MARKET PERFORM ↔

Price :	RM4.01
Target Price :	RM4.35 ↑

IOI reported strong 1HFY26 core net profit (CNP) which beat consensus but fell within 5% of our estimate. 2QFY26 upstream EBIT soared QoQ on strong harvest and flattish prices but was flat YoY as softer YoY CPO prices dampened an otherwise better harvest. Downstream profit halved QoQ but doubled YoY amidst volatile and sustained intense competition. Solid even if flattish outlook for FY26-27 on firm CPO prices, good FFB harvest and decent upstream. Upgrade FY26F and FY27F core EPS (CEPS) by 4% and 3%, respectively on better-than-expected upstream and downstream margins, TP is nudged up by 4% to RM4.35 but our MARKET PERFORM call is left intact as current share price is within 10% range of our TP.

1HFY26. Adjusting for forex gain (RM130m) and fair value loss (RM19m), IOI registered solid 1HFY26 CNP of RM787m (+18% YoY), or 55% of Kenanga, and 57% of consensus, full-year FY26 estimates. YoY, Upstream EBIT rose 6% on better FFB harvest (+8%) and PK price (+13%) offset softer CPO prices (-2%). Downstream EBIT soared 175% YoY to RM198m as refining segment turned around from RM45m loss a year ago to RM41m profit and oleo profit jumped 68% YoY.

2QFY26. Group CNP improved to RM422m (+9% QoQ, +16% YoY) on better upstream EBIT of RM501m (+25% QoQ, +0.3% YoY), thanks to strong quarterly harvest of 0.874m MT (+12% QoQ, +14% YoY) which offset otherwise flattish-to-soft prices of both CPO (+1% QoQ, -6% YoY) and PK (-2% QoQ, -0.3% YoY). Downstream EBIT was mixed, almost at half of 1QFY26 level but nearly doubled that a year ago. Oleo earnings dipped sharply (-87% QoQ, -72% YoY) while refining segment reported RM16m profit versus an RM18m loss a year ago but was still 39% lower compared to 1QFY26. Upstream associate (Bumitama Agri) contribution rose 46% QoQ but slipped 6% YoY while downstream associate (Bunge Loders Croklaan) saw improved earnings (+1% QoQ, +153% YoY).

Net debt fell sharply QoQ, from RM1.79b in 1QFY26 to RM1.13b (9% net gearing), IOI declared an interim DPS of 5.5 sen in 1HFY26, slightly better than we expected, hence we are nudging up full-year FY26-27F DPS from 10.5 sen to 11.0 sen each.

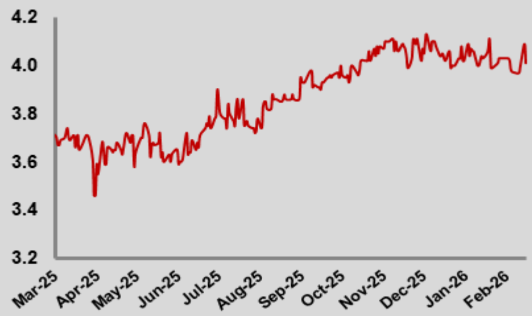
Upstream earning is expected to ease in 2H but still good. With expectation of improving global edible oil supply in CY26 but still staying tight due to demand growing as fast as supply, we are maintaining IOI's FY26F CPO price of RM4,200 per MT and at RM4,000 for FY27. Cost is expected to inch up on lower but still good PK prices, higher wages, and fertiliser prices helped to some extent by the strengthening MYR.

Downstream margins to stay positive but challenging. Margins for refining and basic oleochemicals are likely to stay tight due to regional overcapacity and modest demand pick-up. Specialty products should fare better but competition is rising and so is cost. All in, downstream earnings are expected to improve a little but staying muted over FY26-27.

New ventures. IOI's push into commercially driven sustainable ventures is among the boldest in the sector. Risk-taking, deep pockets and patience are required for such projects but some may bear fruit soon.

(a) IOI palm wood using old oil palm trunk is an attempt to maximise neglected oil palm bio-mass. As a new product, scaling up and gaining market acceptance, including securing certifications, will require time, hence no meaningful return due for a few more years.

Share Price Performanon ce



KLCI	1,754.01
YTD KLCI chg	4.4%
YTD stock price chg	0.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOI MK EQUITY
Market Cap (RM m)	25,203.6
Shares Outstanding	6,285.2
52-week range (H)	4.14
52-week range (L)	3.42
3-mth avg. daily vol	2,863,487
Free Float	35%
Beta	0.9

Major Shareholders

Progressive Holdings Sdn Bhd	49.8%
Employee Provident Fund Board	18.3%
Amanah Saham Nasional	9.1%

Summary Earnings Table

FYE June (RM m)	2025A	2026F	2027F
Turnover	11,335	12,108	12,153
EBIT	1,332	1,635	1,464
PBT	1,888	2,016	1,832
Net Profit (NP)	**1,531**	**1,593**	**1,445**
Core NP	**1,257**	**1,493**	**1,445**
Consensus (CNP)	-	1,384	1,421
Earnings Revision	-	4%	3%
Core EPS (sen)	20.3	23.9	23.1
Core EPS Growth (%)	9.1	18.8	-3.2
NDPS (sen)	10.5	11.0	11.0
NTA/Share (RM)	2.04	2.10	2.23
Core PER (x)	19.8	16.8	17.3
Price/NTA (x)	1.97	1.91	1.80
Net Gearing (x)	0.13	0.11	0.06
Dividend Yield (%)	2.6	2.7	2.7

(b) JV to convert Empty Fruit Bunches (EFB) into 150,000 MT of higher-value pulp for exports with Nextgreen Global Berhad (NGGB, Not Rated) and Xiamen C&D Corp (XCD) should see profits in FY28-29.

(c) IOI diversification to grow coconut on 5,000 Ha of poorer oil palm yielding land by FY27-28 should be the earliest to see returns. It has partnered with Ting Hsing International Group (THIG) to build a RM100m processing facility to pack coconut water and produce oil for IOI's oleochemical operations. Initial processing capacity is 100k nuts per day expandable to 300k.

Forecasts. Upgrading FY26F CEPS by 4% from 23.1 sen to 23.9 sen and FY27F CEPS by 3% from 22.6 sen to 23.1 sen.

Valuations. We are raising IOI's TP by 4% from RM4.20 to RM4.35 still based on 2.0x PBV but on FY25-26 average instead of FY24-25 average. 2.0x PBV is at the upper-end but still within the 1.5x-2.0x PBV range of large integrated planters. Our rationale for adopting the upper-end of the PBV range for IOI hinges on its superior ROE. A 5% premium is also reflected in view of IOICORP's 4-star ESG rating as appraised by us (see page 3).

Investment case. IOI is pushing to nudge up estate productivity - from using higher yielding materials to pro-active mechanisation, digitalisation and electrification to value adding via specialty niches and strategic net zero efforts such as converting oil palm trunks into palm-based wood products or turning EFB into higher value non-wood environmentally friendly pulp. However, reflecting CPO price trend, FY26-27 earnings are expected to be flattish while the group's share price is still within 10% of our TP, hence our **MARKET PERFORM** call is left unchanged.

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 fertilisers.

Results Highlights

FYE June (RM m)	2Q26	1Q26	QoQ	2Q25	YoY	6MFY26	6MFY25	YoY
Revenue	**3,010.1**	**3,051.8**	**-1%**	**2,965.8**	**+1%**	**6,061.9**	**5,639.0**	**+7%**
Operating Profit	**448.8**	**433.2**	**+4%**	**388.3**	**+16%**	**859.5**	**711.0**	**+21%**
Net Interest Expense	(26.5)	(26.5)	-	(25.1)	+6%	(53.0)	(54.6)	-3%
Associates & JVs	121.2	98.6	+23%	108.9	+11%	219.8	216.1	+2%
EI (adj excl fr core net profit)	106.7	(18.3)	-683%	(251.3)	-142%	110.9	156.9	-29%
Pretax Profit	**650.2**	**487.0**	**+34%**	**220.8**	**+194%**	**1,137.2**	**1,029.4**	**+10%**
Taxation	(113.7)	(112.0)	+2%	(105.6)	+8%	(225.7)	(194.9)	+16%
MI	(8.0)	(5.6)	+43%	(4.1)	+95%	(13.6)	(12.7)	+7%
Net Profit	**528.5**	**369.4**	**+43%**	**111.1**	**+376%**	**897.9**	**821.8**	**+9%**
Core Net Profit	**421.8**	**387.7**	**+9%**	**362.4**	**+16%**	**787.0**	**664.9**	**+18%**
EPS (sen)	*8.5*	*6.0*	+42%	*1.8*	+372%	*14.4*	*13.2*	+9%
Core EPS (sen)	**6.8**	**6.2**	**+8%**	**5.8**	**+16%**	**12.6**	**10.7**	**+18%**
DPS (sen)	5.5	-	N.A.	5.0	N.A.	5.5	5.0	+10%.
Opg Profit	15%	14%		13%		14%	13%	
PBT	22%	16%		7%		19%	18%	
Tax	17%	23%		48%		20%	19%	
CPO (RM /MT)	4,224	4,169	+1%	4,470	-6%	4,198	4,271	-2%
PK (RM / MT)	3,449	3,529	-2%	3,461	-0%	3,485	3,097	+13%
FFB Production (000 MT)	873.6	777.2	+12%	768.1	+14%	1,650.8	1,528.1	+8%

Source: Company, Kenanga Research

Segmental Breakdown

FYE June (RM m)	2Q26	1Q26	QoQ	2Q25	YoY	6MFY26	6MFY25	YoY
Segmental Revenue:								
Plantation	138.5	159.7	-13%	115.0	+20%	298.2	222.7	+34%
Resource Based	2,869.3	2,887.0	-1%	2,845.3	+1%	5,756.3	5,406.2	+6%
Others	2.3	5.1	-55%	5.5	-58%	7.4	10.1	-27%
Revenue	**3,010.1**	**3,051.8**	**-1%**	**2,965.8**	**+1%**	**6,061.9**	**5,639.0**	**+7%**
Segmental Pretax Profit:								
Plantation	500.6	401.6	+25%	499.0	+0%	902.2	852.1	+6%
Resource Based	66.7	131.2	-49%	34.4	+94%	197.9	72.0	+175%
Others	(3.6)	(1.2)	+200%	(0.9)	+300%	(4.8)	0.6	-900%
Net Interest Expense	(26.5)	(26.5)	-	(25.1)	+6%	(53.0)	(54.6)	-3%
Misc Corp Inc / (Exp)	113.0	(18.1)	-724%	(286.6)	-139%	94.9	159.3	-40%
Pretax Profit	**650.2**	**487.0**	**+34%**	**220.8**	**+194%**	**1,137.2**	**1,029.4**	**+10%**

Source: Company, Kenanga Research

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
GENTING PLANTATIONS BHD	MP	5.12	5.10	-0.4%	4,593.5	Y	12/2025	39.8	42.8	17.0%	7.5%	12.9	12.0	0.8	12.5%	25.0	4.9%
HAP SENG PLANTATIONS HOLDING	MP	2.31	2.40	3.9%	1,847.3	Y	12/2025	14.8	15.6	-20.4%	5.2%	15.6	14.8	0.9	5.6%	11.0	4.8%
IOI CORP BHD	MP	4.01	4.35	8.5%	25,203.6	Y	06/2026	23.9	23.1	18.8%	-3.2%	16.8	17.3	1.9	12.5%	11.0	2.7%
KUALA LUMPUR KEPONG BHD	OP	19.60	24.00	22.4%	21,827.7	Y	09/2026	122.0	141.3	58.8%	15.9%	16.1	13.9	1.4	9.7%	50.0	2.6%
PPB GROUP BHD	OP	10.98	12.50	13.8%	15,620.1	Y	12/2025	98.5	115.3	21.5%	17.0%	11.1	9.5	0.5	3.0%	45.0	4.1%
SD GUTHRIE BHD	MP	5.89	5.10	-13.4%	40,733.6	Y	12/2025	28.7	26.5	32.3%	-7.5%	20.5	22.2	2.1	13.0%	17.0	2.9%
TA ANN HOLDINGS BHD	MP	4.61	3.90	-15.4%	2,030.5	Y	12/2025	45.5	41.5	20.4%	-8.8%	10.1	11.1	1.1	10.9%	40.0	8.7%
TSH RESOURCES BHD	OP	1.21	1.55	28.1%	1,525.9	Y	12/2025	13.3	12.7	39.3%	-4.2%	9.1	9.5	0.7	8.3%	3.0	2.5%
UNITED MALACCA BHD	OP	5.84	6.45	10.4%	1,225.1	Y	04/2026	76.1	70.8	37.2%	-7.0%	7.7	8.3	0.8	10.4%	20.0	3.4%
Simple Average					**114,607.3**					**28.6%**	**3.4%**	**15.9**	**15.4**	**1.1**	**9.6%**		**4.1%**

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

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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