



AmInvestment Bank

Company report

IOI CORPORATION

(IOI.MK, IOI.KL)

12 Jan 2023

Labour shortage is easing

HOLD

(Maintained)

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Rationale for report: Company Update

Price RM3.97
Fair Value RM3.85
52-week High/Low RM4.76/RM3.59

Key Changes

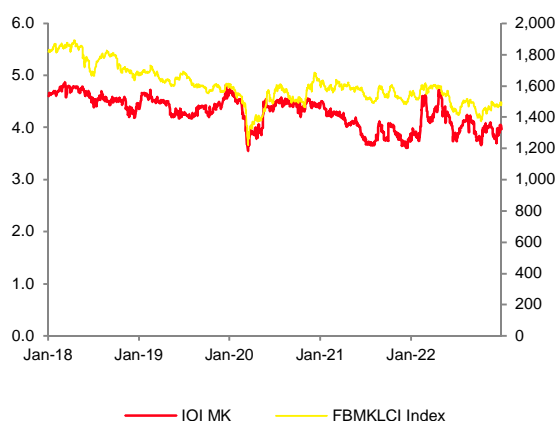
Fair value Unchanged
EPS Unchanged

YE to Jun	FY22	FY23F	FY24F	FY25F
Revenue (RMmil)	15,578.7	17,070.2	18,858.7	20,763.0
Net Profit (RMmil)	1,725.3	1,228.1	1,320.5	1,406.8
EPS (sen)	27.7	19.8	21.3	22.6
EPS growth (%)	72.4	(28.7)	7.5	6.5
Consensus net (RMmil)		1,532.0	1,313.0	1,245.0
DPS (sen)	14.0	11.5	12.0	12.5
PE (x)	14.3	20.1	18.7	17.5
EV/EBITDA (x)	10.9	14.9	14.5	14.1
Div Yield (%)	3.5	2.9	3.0	3.1
ROE (%)	15.8	10.7	11.0	11.1
Net Gearing (%)	22.2	24.5	25.0	25.5

Stock and Financial Data

Shares Outstanding (million)	6,212.4
Market Cap (RM'mil)	24,663.2
Book value (RM/share)	1.38
P/BV (x)	2.9
ROE (%)	15.8
Net Gearing (%)	22.2
Major Shareholders	Progressive Holdings (50.4%) EPF (10.5%)
Free Float (%)	49.6
Avg Daily Value (RMmil)	11.5

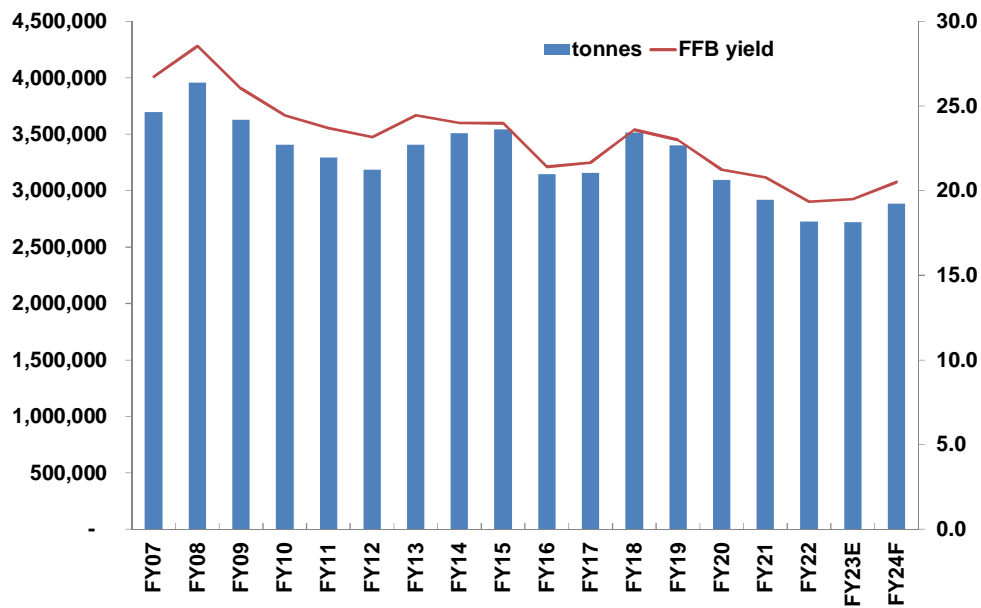
Price performance	3mth	6mth	12mth
Absolute (%)	+0.3	+3.7	-1.0
Relative (%)	-0.0	-0.4	+4.3



Investment Highlights

- We maintain HOLD on IOI Corporation with a higher fair value of RM3.85/share vs. RM3.55/share previously. We are now using IOI's FY24F EPS of 21.3 sen from FY23E to derive its fair value, pegged to an unchanged FY24F PE of 18x, in line with its 5-year average. We have a 3-star ESG rating for IOI.
- IOI's labour shortage is expected to ease to 10% in 2023F from the peak of 30% last year. However, we believe that the impact of the higher number of workers on IOI's FFB production would only be felt in FY24F. This is because IOI's foreign workers only started arriving in 2H2022.
- As such, we reckon that IOI's FFB production would be flat in FY23E (1HFY23: -5%) before improving by 6% in FY24F. We believe that IOI's FFB production would start rising YoY in 2HFY23. In 2022, IOI received 1,400 workers from Indonesia and Nepal.
- Due to the higher number of workers, we think that IOI's cost of production (ex-depreciation and taxes) would increase to RM2,100/tonne in FY23F from RM2,000/tonne in FY22. We opine that the cost of wages would rise by 10% in FY23F while fertiliser costs would be 5% lower.
- Although the number of workers is rising, IOI will not be building more houses. There is sufficient housing as the new workers are replacing workers, who left in 2021 and 2022. However, IOI's capex is still expected to increase as the group replants ageing oil palm trees and upgrades workers' housing facilities.
- IOI's capex is anticipated to be RM500mil in FY23F compared with RM439mil in FY22. About 60% of the capex is for the plantation division and the balance 40% for the manufacturing unit.
- We forecast IOI's manufacturing (refining and oleochemicals) EBIT to fall by 7% to RM466mil in FY23F. We believe that the oleochemical division would be affected by lower selling prices and weaker sales volume in FY23F.
- We have assumed a manufacturing EBIT margin of 3% for IOI in FY23F vs. 3.3% in FY22. About two thirds of IOI's manufacturing earnings are from oleochemicals while the balance 33% from refining.
- IOI is currently trading at a FY24F PE of 19x, which is in line with its 2-year average.

EXHIBIT 1: FFB PRODUCTION (TONNES) AND FFB YIELDS (TONNES/HA)



Source: Company, AmInvestment Bank

EXHIBIT 2 : ESG RATING

Overall	★	★	★		
RSPO certification	★	★	★		
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★		
Forest fires	★	★	★		
Work site safety	★	★	★		
Corporate social responsibility	★	★	★	★	
Corruption free pledge	★	★	★	★	
Accessibility and transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3 : PB BAND CHART

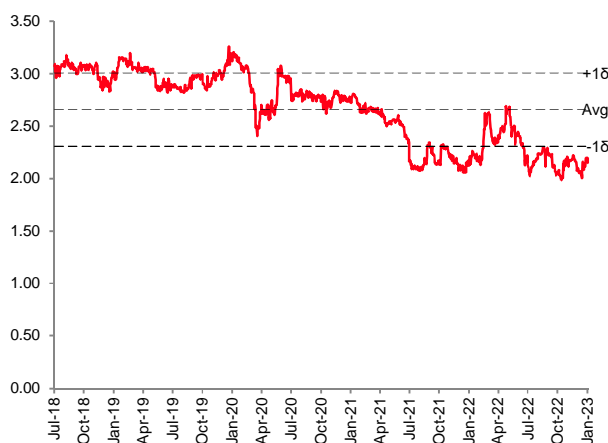


EXHIBIT 4 : PE BAND CHART

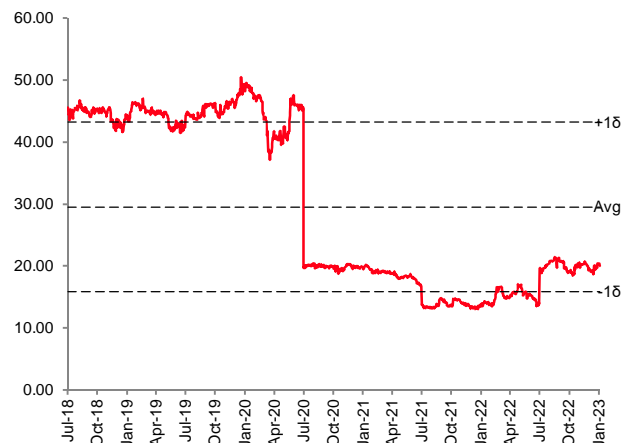


EXHIBIT 5 : FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2021	2022	2023F	2024F	2025F
Revenue	11,251.7	15,578.7	17,070.2	18,858.7	20,763.0
EBITDA	1,429.4	2,498.8	1,845.8	1,909.9	1,978.4
Depreciation	(360.5)	(358.8)	(387.8)	(407.8)	(427.8)
Operating income (EBIT)	1,068.9	2,140.0	1,458.0	1,502.1	1,550.6
Other income & associates	528.8	341.4	392.6	451.5	519.2
Net interest	(126.2)	(128.8)	(129.2)	(104.2)	(100.5)
Exceptional items	268.3	-	-	-	-
Pretax profit	1,739.8	2,352.6	1,721.4	1,849.5	1,969.3
Taxation	(323.5)	(583.7)	(447.6)	(480.9)	(512.0)
Minorities/pref dividends	(22.0)	(43.6)	(45.8)	(48.1)	(50.5)
Net profit	1,394.3	1,725.3	1,228.1	1,320.5	1,406.8
Core net profit	1,005.7	1,725.3	1,228.1	1,320.5	1,406.8
Balance Sheet (RMmil, YE 30 Jun)	2021	2022	2023F	2024F	2025F
Fixed assets	8,608.7	8,709.2	8,821.4	8,913.6	8,985.8
Intangible assets	445.8	455.3	455.3	455.3	455.3
Other long-term assets	3,263.4	3,323.9	3,741.1	4,204.1	4,735.8
Total non-current assets	12,317.9	12,488.4	13,017.8	13,573.0	14,176.9
Cash & equivalent	2,024.9	2,552.9	2,193.5	2,003.0	1,804.8
Stock	1,296.6	1,601.5	2,198.1	2,428.4	2,673.6
Trade debtors	1,427.2	1,607.6	1,870.7	2,066.7	2,275.4
Other current assets	589.1	917.4	1,040.2	1,069.6	1,100.9
Total current assets	5,337.8	6,679.4	7,302.5	7,567.7	7,854.7
Trade creditors	767.8	940.8	1,496.6	1,653.4	1,820.3
Short-term borrowings	3,919.0	2,155.4	2,198.5	2,242.5	2,287.3
Other current liabilities	350.8	655.4	692.5	717.0	743.1
Total current liabilities	5,037.6	3,751.6	4,387.6	4,612.9	4,850.8
Long-term borrowings	978.8	2,826.6	2,798.3	2,770.4	2,742.6
Other long-term liabilities	1,325.1	1,305.1	1,290.4	1,290.4	1,290.4
Total long-term liabilities	2,303.9	4,131.7	4,088.7	4,060.8	4,033.0
Shareholders' funds	10,005.4	10,943.7	11,457.3	12,032.4	12,662.7
Minority interests	309.0	340.8	386.6	434.6	485.1
BV/share (RM)	1.26	1.38	1.45	1.52	1.60
Cash Flow (RMmil, YE 30 Jun)	2021	2022	2023F	2024F	2025F
Pretax profit	1,739.8	2,352.6	1,721.4	1,849.5	1,969.3
Depreciation	360.5	358.8	387.8	407.8	427.8
Net change in working capital	(1,018.4)	(918.1)	(837.2)	(755.3)	(804.2)
Others	(410.3)	6.6	0.0	0.0	0.0
Cash flow from operations	671.6	1,799.9	1,272.1	1,502.0	1,592.9
Capital expenditure	(396.1)	(439.0)	(500.0)	(500.0)	(500.0)
Net investments & sale of fixed assets	(2.6)	(54.0)	95.1	104.6	115.1
Others	130.5	270.2	0.0	0.0	0.0
Cash flow from investing	(268.2)	(222.8)	(404.9)	(395.4)	(384.9)
Debt raised/(repaid)	131.7	(1,291.7)	14.8	16.0	17.1
Equity raised/(repaid)	(72.4)	(130.4)	0.0	0.0	0.0
Dividends paid	(554.7)	(761.3)	(714.4)	(745.5)	(776.6)
Others	(187.0)	(119.7)	(527.0)	(567.6)	(646.8)
Cash flow from financing	(682.4)	(2,303.1)	(1,226.6)	(1,297.1)	(1,406.2)
Net cash flow	(279.0)	(726.0)	(359.4)	(190.5)	(198.2)
Net cash/(debt) b/f	2,313.0	2,024.9	2,552.9	2,193.5	2,003.0
Forex	(1.1)	10.1	0.0	0.0	0.0
Net cash/(debt) c/f	2,032.9	1,309.0	2,193.5	2,003.0	1,804.8
Key Ratios (YE 30 Jun)	2021	2022	2023F	2024F	2025F
Revenue growth (%)	44.2	38.5	9.6	10.5	10.1
EBITDA growth (%)	24.0	74.8	-26.1	3.5	3.6
Pretax margins (%)	15.5	15.1	10.1	9.8	9.5
Net profit margins (%)	12.4	11.1	7.2	7.0	6.8
Interest cover (x)	11.3	19.4	14.3	18.3	19.7
Effective tax rate (%)	22.0	24.8	26.0	26.0	26.0
Net dividend payout (%)	47.1	50.4	58.2	56.5	55.2
Trade debtors turnover (days)	46.3	40.0	40.0	40.0	40.0
Stock turnover (days)	42.1	47.0	47.0	47.0	47.0

Source: Company, AmlInvestment Bank estimates

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