

Gan Huey Ling, CFA

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03 2036 2305

Higher dividends in FY21F

**HOLD**

(Maintained)

Rationale for report: Company update

Price	RM4.03
Fair Value	RM4.20
52-week High/Low	RM4.64/RM4.00

**Key Changes**

Fair value	Unchanged
EPS	Unchanged

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	7,802.2	8,845.2	8,867.6	8,872.9
Net Profit (RM mil)	600.9	999.0	1,052.2	1,076.4
EPS (sen)	9.6	15.9	16.7	17.1
EPS growth (%)	(4.9)	66.2	5.3	2.3
Consensus net (RM mil)		1,095.0	1,092.0	1,099.0
DPS (sen)	8.0	8.5	9.0	9.5
PE (x)	42.1	25.4	24.1	23.5
EV/EBITDA (x)	24.2	16.6	15.9	15.6
Div Yield (%)	2.0	2.1	2.2	2.4
ROE (%)	6.5	10.2	10.3	10.0
Net Gearing (%)	28.1	26.1	22.8	20.0

**Stock and Financial Data**

Shares Outstanding (million)	6,284.6
Market Cap (RM 'mil)	25,326.9
Book value (RM/share)	1.18
P/BV (x)	3.4
ROE (%)	6.5
Net Gearing (%)	28.1
Major Shareholders	Progressive Holdings (48.2%) EPF (13.0%)

Free Float (%)	51.8
Avg Daily Value (RM mil)	8.3

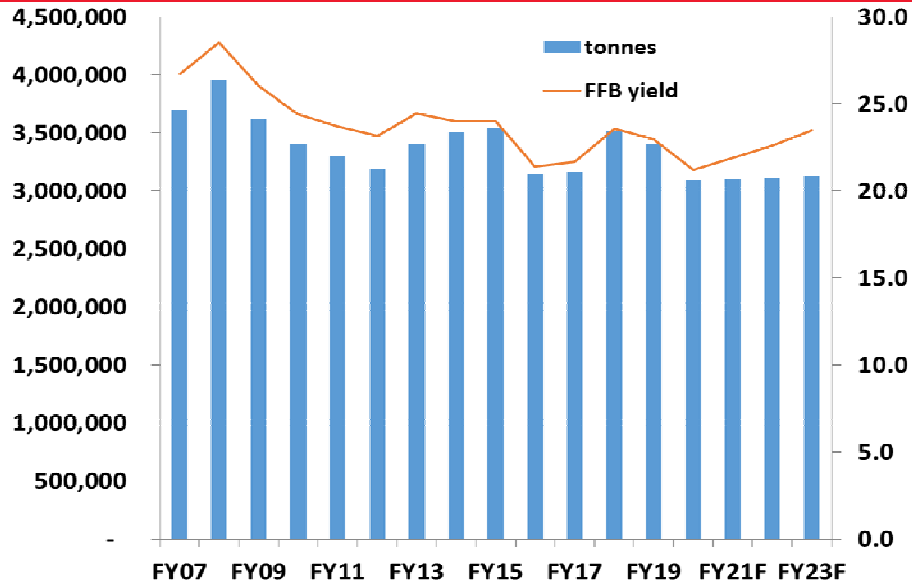
Price performance	3mth	6mth	12mth
Absolute (%)	-0.2	-8.7	-7.1
Relative (%)	-5.0	-6.9	-8.7



**Investment Highlights**

- We maintain HOLD on IOI Corporation with an unchanged fair value of RM4.20/share. Our fair value of RM4.20/share is based on an FY22F PE of 25x. We ascribe a three-star ESG rating to IOI.
- We believe that there is potential for IOI to pay more dividends in FY21F. Apart from a higher net profit driven by increased palm product prices, we reckon that 30%-owned Lodders Croklaan may be returning more cash to its shareholders. In 1Q2021, Lodders Croklaan completed the sale of its palm refinery in Rotterdam to Neste Corporation for €258mil cash (RM1.3bil).
- We have not accounted for this in our DPS forecast for IOI. Currently, we estimate a gross DPS of 8.5 sen in FY21F (FY20: 8.0 sen), which implies a yield of 2.1%.
- We believe that the EBIT margin (excluding associates) for IOI's manufacturing division (refining and oleochemicals) would improve in FY22F as feedstock costs have softened. This is in line with the decline in CPO prices.
- According to the MPOB, the weekly price of crude palm kernel oil in Peninsular Malaysia has declined to RM5,499/tonne in the week of 24–28 May from a high of RM5,764/tonne in the week of 10–14 May. However, we expect EBIT margin for IOI's manufacturing division to remain low between 2% and 3% (FY20: 4.3%) in 4QFY21 as palm kernel oil prices only started easing in late May 2021.
- IOI's manufacturing earnings is expected to rise in FY23F as the group completes its new oleochemical plant in Penang at the end of year 2021F. We believe that the plant's average utilisation rate in the first year of operations would range between 30% and 50%. Hence, earnings contribution from the new plant would be minimal in FY22F. Upon completion, the plant is anticipated to expand IOI's oleochemical production capacity by 110,000 tonnes from 780,000 tonnes/year to 890,000 tonnes/year.
- We have assumed that IOI's FFB production would be flat each in FY21F (FY20: -6.4%) and FY22F due to the replanting of ageing oil palm trees. IOI's target is to replant about 12,000ha in FY21F. Indonesia's contribution is still small. Indonesia accounts for only 5% to 6% of group FFB output. So far in 4QFY21, the weather has been favourable at IOI's oil palm estates in Malaysia and Indonesia.
- IOI's all-in cost of production is estimated to be between RM1,500/tonne and RM1,600/tonne in FY21F (FY20: RM1,594/tonne). We think that although costs of wages and fertiliser are estimated to increase by 5% to 10% in FY21F, these would be compensated by rising palm kernel credits.

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



Source: Company, AmInvestment Bank

EXHIBIT 2 : ESG RATING

<b>Overall</b>	★	★	★		
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: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2019	2020	2021F	2022F	2023F
Revenue	7,385.6	7,802.2	8,845.2	8,867.6	8,872.9
EBITDA	1,181.8	1,152.6	1,682.4	1,743.5	1,765.8
Depreciation	(375.0)	(365.9)	(364.8)	(384.8)	(404.8)
Operating income (EBIT)	806.8	786.7	1,317.6	1,358.7	1,361.0
Other income & associates	167.9	143.3	150.5	180.6	207.6
Net interest	(102.1)	(103.3)	(100.3)	(88.9)	(84.3)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>872.6</b>	<b>826.7</b>	<b>1,367.8</b>	<b>1,450.3</b>	<b>1,484.4</b>
Taxation	(255.0)	(225.0)	(348.8)	(377.1)	(385.9)
Minorities/pref dividends	14.1	(0.8)	(20.0)	(21.0)	(22.1)
Gain on disposal of 70% of Lodgers	-	-	-	-	-
<b>Net profit</b>	<b>631.7</b>	<b>600.9</b>	<b>999.0</b>	<b>1,052.2</b>	<b>1,076.4</b>
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Fixed assets	8,458.8	8,531.8	8,667.0	8,782.2	8,878.4
Intangible assets	421.7	438.8	438.8	438.8	438.8
Other long-term assets	2,824.8	2,870.9	3,040.0	3,225.6	3,439.8
<b>Total non-current assets</b>	<b>11,705.3</b>	<b>11,841.5</b>	<b>12,145.8</b>	<b>12,446.6</b>	<b>12,756.9</b>
Cash & equivalent	2,598.6	2,313.0	2,360.3	2,542.7	2,713.7
Stock	778.0	1,001.4	1,139.0	1,141.9	1,142.5
Trade debtors	773.5	815.8	969.3	971.8	972.4
Other current assets	644.8	759.9	749.0	749.4	749.5
<b>Total current assets</b>	<b>4,794.9</b>	<b>4,890.1</b>	<b>5,217.6</b>	<b>5,405.7</b>	<b>5,578.1</b>
Trade creditors	600.3	657.1	775.5	777.4	777.9
Short-term borrowings	408.7	917.5	935.9	954.6	973.7
Other current liabilities	213.6	266.7	328.8	329.1	329.1
<b>Total current liabilities</b>	<b>1,222.6</b>	<b>1,841.3</b>	<b>2,040.1</b>	<b>2,061.1</b>	<b>2,080.7</b>
Long-term borrowings	4,451.9	4,009.2	3,969.1	3,929.4	3,890.1
Other long-term liabilities	1,315.0	1,310.4	1,298.7	1,298.7	1,299.7
<b>Total long-term liabilities</b>	<b>5,766.9</b>	<b>5,319.6</b>	<b>5,267.8</b>	<b>5,228.1</b>	<b>5,189.8</b>
<b>Shareholders' funds</b>	<b>9,299.6</b>	<b>9,296.2</b>	<b>9,761.0</b>	<b>10,247.6</b>	<b>10,727.0</b>
Minority interests	211.1	274.5	294.5	315.5	337.6
BV/share (RM)	1.18	1.18	1.24	1.30	1.36
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pretax profit	872.6	826.7	1,367.8	1,450.3	1,484.4
Depreciation	375.0	365.9	364.8	384.8	404.8
Net change in working capital	(44.0)	(411.2)	(448.5)	(380.5)	(386.7)
Others	9.1	90.9	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1,212.7</b>	<b>872.3</b>	<b>1,284.0</b>	<b>1,454.6</b>	<b>1,502.4</b>
Capital expenditure	(395.7)	(392.5)	(500.0)	(500.0)	(500.0)
Net investments & sale of fixed assets	52.0	(3.6)	45.6	50.2	55.2
Others	137.4	135.6	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(206.3)</b>	<b>(260.5)</b>	<b>(454.4)</b>	<b>(449.8)</b>	<b>(444.8)</b>
Debt raised/(repaid)	(635.9)	(93.0)	(21.7)	(21.0)	(20.2)
Equity raised/(repaid)	1.1	(66.4)	0.0	0.0	0.0
Dividends paid	(533.7)	(542.4)	(534.2)	(565.6)	(597.0)
Others	(9.8)	(176.3)	(226.4)	(235.7)	(269.3)
<b>Cash flow from financing</b>	<b>(1,178.3)</b>	<b>(878.1)</b>	<b>(782.4)</b>	<b>(822.3)</b>	<b>(886.6)</b>
<b>Net cash flow</b>	<b>(171.9)</b>	<b>(266.3)</b>	<b>47.3</b>	<b>182.4</b>	<b>171.0</b>
<b>Net cash/(debt) b/f</b>	<b>2,764.6</b>	<b>2,598.6</b>	<b>2,313.0</b>	<b>2,360.3</b>	<b>2,542.7</b>
<b>Cash transferred to disposal group for sale</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Forex</b>	<b>5.9</b>	<b>(1.2)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) c/f</b>	<b>2,598.6</b>	<b>2,331.1</b>	<b>2,360.3</b>	<b>2,542.7</b>	<b>2,713.7</b>
<b>Key Ratios (YE 30 Jun)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue growth (%)	-0.4	5.6	13.4	0.3	0.1
EBITDA growth (%)	-40.0	-2.5	46.0	3.6	1.3
Pretax margins (%)	11.8	10.6	15.5	16.4	16.7
Net profit margins (%)	8.6	7.7	11.3	11.9	12.1
Interest cover (x)	11.6	11.2	16.8	19.6	21.0
Effective tax rate (%)	29.2	27.2	25.5	26.0	26.0
Net dividend payout (%)	89.5	83.6	53.5	53.8	55.5
Trade debtors turnover (days)	38.2	40.0	40.0	40.0	40.0

Source: Company, AmInvestment Bank estimates

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