



AmInvestment Bank

Company report

IOI CORPORATION

(IOI MK, IOI.KL)

9 Sep 2021

Labour audit on the way

HOLD

(Maintained)

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

03 2036 2305

Rationale for report: Company update

Price	RM3.97
Fair Value	RM4.20
52-week High/Low	RM4.64/RM3.54

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Jun	FY21	FY22F	FY23F	FY24F
Revenue (RMmil)	11,251.7	12,860.5	13,709.6	15,045.5
Net Profit (RMmil)	1,001.0	1,193.7	1,115.3	1,202.6
EPS (sen)	15.9	19.0	17.7	19.1
EPS growth (%)	66.6	19.2	(6.6)	7.8
Consensus net (RMmil)		1,140.0	1,080.0	1,087.0
DPS (sen)	10.5	11.0	11.5	12.0
PE (x)	24.9	20.9	22.4	20.7
EV/EBITDA (x)	19.5	15.0	16.3	15.8
Div Yield (%)	2.6	2.8	2.9	3.0
ROE (%)	13.9	11.4	10.2	10.6
Net Gearing (%)	28.7	25.8	26.5	27.5

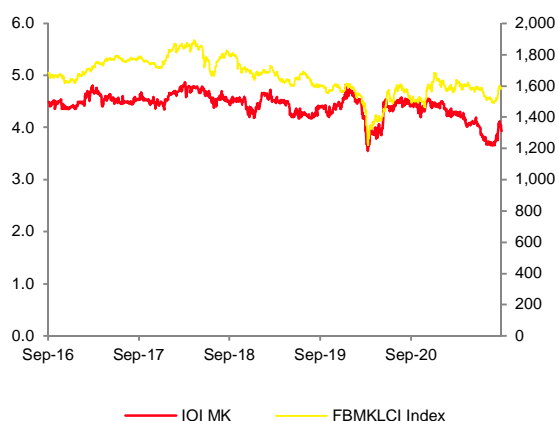
Stock and Financial Data

Shares Outstanding (million)	6,284.6
Market Cap (RM'mil)	24,949.9
Book value (RM/share)	1.26
P/BV (x)	3.2
ROE (%)	13.9
Net Gearing (%)	28.7

Major Shareholders	Progressive Holdings (48.2%) EPF (13.0%)
--------------------	---

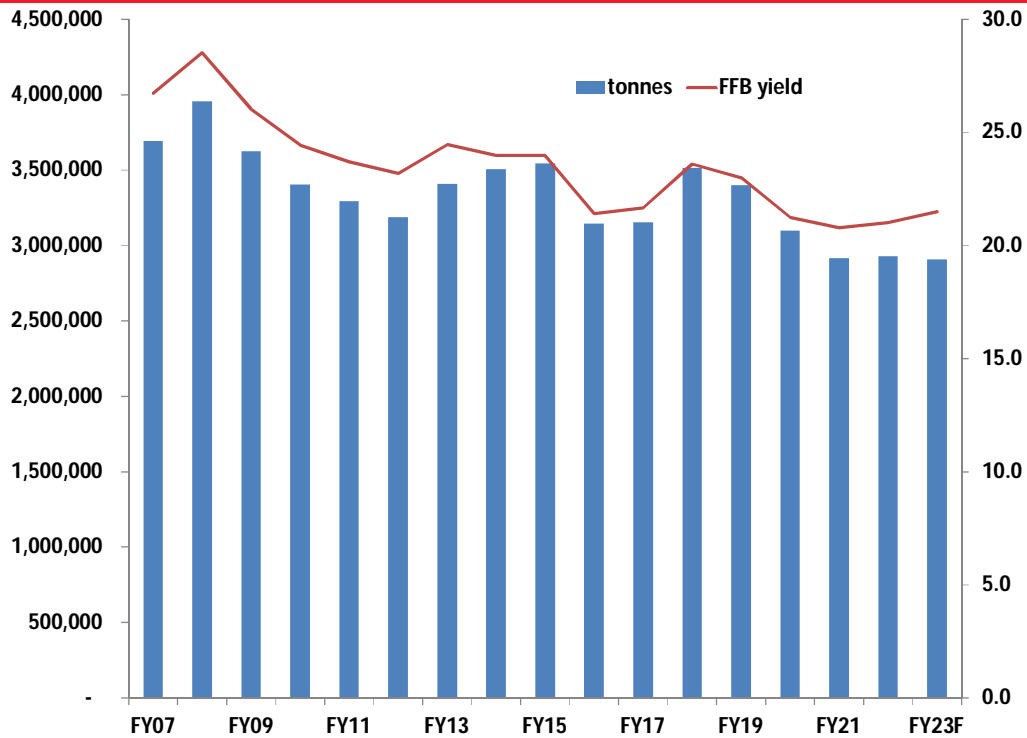
Free Float (%)	51.8
Avg Daily Value (RMmil)	8.8

Price performance	3mth	6mth	12mth
Absolute (%)	-0.1	-7.3	-12.5
Relative (%)	-2.7	-5.7	-16.0

Investment Highlights

- We maintain HOLD on IOI Corporation with an unchanged fair value (FV) of RM4.20/share based on an FY22F PE of 22.0x. We ascribe a three-star ESG rating to IOI.
- IOI is expected to announce the appointment of an auditor for its labour practices soon. Under phase 1 of the audit process, IOI will be updating its labour policies. Under phase 2, the auditor will be carrying out physical checks at some of IOI's oil palm estates in Malaysia. IOI has also set up a sustainability forum, with representatives from government labour agencies, the MSPO and RSPO, amongst others. The forum is chaired by BSR, which is an international organisation of sustainable business experts.
- In respect of allegations of forced labour and poor housing conditions by Andy Hall and Finnwatch, IOI has resolved most of the issues. Incidentally, about 80% of IOI's estate workers will be fully vaccinated by the end of October 2021.
- Currently, IOI faces a labour shortage of 9%. The labour shortage is more prevalent in Peninsular Malaysia than Sabah. To address the issue, IOI will be accelerating the mechanisation of fruit evacuation in its oil palm estates in Peninsular Malaysia. This includes the usage of mechanical buffaloes and motorized wheel barrows.
- We have assumed that IOI's FFB production would be flat at 2.9mil tonnes in FY22F in contrast to a 5.8% fall in FY21 as a marginally higher FFB yield compensate for smaller mature areas. IOI's net mature areas are estimated to decline by 3.0% in FY22F due to the replanting of ageing oil palm trees. IOI is envisaged to replant about 7,000ha in Sabah in FY22F vs. 7,600ha in FY21. We forecast an average FFB yield of 21.0 tonnes/ha in FY22F vs. 20.8 tonnes/ha in FY21.
- Earnings of the manufacturing division (palm refining and oleochemicals) are expected to improve in FY22F. We believe that IOI would be able to pass on the higher costs of raw materials in the form of increased selling prices in FY22F. We think that more than 60% of IOI's oleochemical products comprise basic fatty acid products while the balance consists of higher value-added products for industries such as pharmaceuticals.
- We have assumed that IOI's manufacturing EBIT margin would be unchanged at 2.5% in FY22F. Manufacturing revenue is estimated to grow by 10.0% to RM12.0bil in FY22F as IOI's new oleochemical plant in Penang (110,000 tonnes per year) would be commissioned in 2HFY22.

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	★	★	★		
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

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2020	2021	2022F	2023F	2024F
Revenue	7,802.2	11,251.7	12,860.5	13,709.6	15,045.5
EBITDA	1,152.6	1,429.8	1,848.3	1,711.7	1,774.5
Depreciation	(365.9)	(360.5)	(367.6)	(387.6)	(407.6)
Operating income (EBIT)	786.7	1,069.3	1,480.8	1,324.1	1,366.9
Other income & associates	143.3	528.8	300.0	345.0	396.8
Net interest	(103.3)	(126.2)	(136.5)	(129.2)	(104.2)
Exceptional items	-	267.9	-	-	-
Pretax profit	826.7	1,739.8	1,644.3	1,539.9	1,659.5
Taxation	(225.0)	(323.5)	(427.5)	(400.4)	(431.5)
Minorities/pref dividends	(0.8)	(22.0)	(23.1)	(24.3)	(25.5)
Gain on disposal of 70% of Loders	-	-	-	-	-
Net profit	600.9	1,394.3	1,193.7	1,115.3	1,202.6
<i>Core net profit</i>	808.8	1,001.0	1,193.7	1,115.3	1,202.6
Balance Sheet (RMmil, YE 30 Jun)	2020	2021	2022F	2023F	2024F
Fixed assets	8,531.8	8,596.2	8,728.6	8,841.1	8,933.5
Intangible assets	438.8	445.8	445.8	445.8	445.8
Other long-term assets	2,870.9	3,275.9	3,594.4	3,945.2	4,348.3
Total non-current assets	11,841.5	12,317.9	12,768.8	13,232.1	13,727.6
Cash & equivalent	2,313.0	2,024.9	2,251.4	2,144.9	1,990.2
Stock	1,001.4	1,296.6	1,656.0	1,765.4	1,937.4
Trade debtors	815.8	1,427.2	1,409.4	1,502.4	1,648.8
Other current assets	759.9	589.1	599.7	613.7	635.6
Total current assets	4,890.1	5,337.8	5,916.5	6,026.3	6,212.1
Trade creditors	657.1	767.8	1,127.5	1,201.9	1,319.1
Short-term borrowings	917.5	3,918.8	3,997.2	4,077.1	4,158.7
Other current liabilities	266.7	350.8	446.2	457.8	476.1
Total current liabilities	1,841.3	5,037.4	5,570.8	5,736.9	5,953.8
Long-term borrowings	4,009.2	978.8	969.0	959.3	949.7
Other long-term liabilities	1,310.4	1,325.1	1,305.6	1,305.6	1,305.6
Total long-term liabilities	5,319.6	2,303.9	2,274.6	2,264.9	2,255.3
Shareholders' funds	9,296.2	10,005.4	10,507.7	10,900.3	11,348.7
Minority interests	274.5	309.0	332.1	356.4	381.8
BV/share (RM)	1.18	1.26	1.33	1.38	1.43
Cash Flow (RMmil, YE 30 Jun)	2020	2021	2022F	2023F	2024F
Pretax profit	826.7	1,739.8	1,644.3	1,539.9	1,659.5
Depreciation	365.9	360.5	367.6	387.6	407.6
Net change in working capital	(411.2)	(1,037.9)	(324.6)	(530.7)	(636.4)
Others	90.9	(409.7)	0.0	0.0	0.0
Cash flow from operations	872.3	652.7	1,687.2	1,396.8	1,430.6
Capital expenditure	(392.5)	(396.1)	(500.0)	(500.0)	(500.0)
Net investments & sale of fixed assets	(3.6)	(2.5)	44.0	48.4	53.2
Others	135.6	130.5	0.0	0.0	0.0
Cash flow from investing	(260.5)	(268.1)	(456.0)	(451.6)	(446.8)
Debt raised/(repaid)	(93.0)	131.7	68.6	70.3	71.9
Equity raised/(repaid)	(66.4)	(72.4)	0.0	0.0	0.0
Dividends paid	(542.4)	(554.7)	(691.3)	(722.7)	(754.2)
Others	(176.3)	(168.4)	(382.0)	(399.2)	(456.3)
Cash flow from financing	(878.1)	(663.8)	(1,004.7)	(1,051.7)	(1,138.5)
Net cash flow	(266.3)	(279.2)	226.5	(106.5)	(154.7)
Net cash/(debt) b/f	2,598.6	2,313.0	2,024.9	2,251.4	2,144.9
Cash transferred to disposal group for sale	0.0	0.0	0.0	0.0	0.0
Forex	(1.2)	(1.0)	0.0	0.0	0.0
Net cash/(debt) c/f	2,331.1	2,032.8	2,251.4	2,144.9	1,990.2
Key Ratios (YE 30 Jun)	2020	2021	2022F	2023F	2024F
Revenue growth (%)	5.6	44.2	14.3	6.6	9.7
EBITDA growth (%)	-2.5	24.1	29.3	-7.4	3.7
Pretax margins (%)	10.6	15.5	12.8	11.2	11.0
Net profit margins (%)	7.7	12.4	9.3	8.1	8.0
Interest cover (x)	11.2	11.3	13.5	13.2	17.0
Effective tax rate (%)	27.2	22.0	26.0	26.0	26.0
Net dividend payout (%)	83.6	47.3	57.9	64.8	62.7
Trade debtors turnover (days)	40.0	40.0	40.0	40.0	40.0

Source: Company, AmlInvestment Bank estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.