



AmInvestment Bank

Company report

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IOI CORPORATION

(IOI MK, IOIC.KL)

PLANTATION

25 Nov 2021

Fair value losses of RM108.7mil in 1QFY22

HOLD

(Maintained)

Rationale for report: Company results

Price RM3.77
Fair Value RM3.95
52-week High/Low RM4.56/RM3.54

Key Changes

Fair value
EPS

YE to Jun	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	11,251.7	12,861.7	13,710.8	15,046.7
Net Profit (RM mil)	1,001.0	1,111.4	1,115.3	1,202.6
EPS (sen)	16.1	17.8	17.9	19.3
EPS growth (%)	68.1	11.0	0.3	7.8
Consensus net (RM mil)		1,225.0	1,122.0	1,157.0
DPS (sen)	10.5	11.0	11.5	12.0
PE (x)	23.5	21.1	21.0	19.5
EV/EBITDA (x)	18.4	14.2	15.4	15.0
Div Yield (%)	2.8	2.9	3.1	3.2
ROE (%)	13.9	10.7	10.3	10.7

Stock and Financial Data

Shares Outstanding (million) 6,284.6
Market Cap (RM mil) 23,692.9
Book value (RM/share) 1.26
P/BV (x) 3.0
ROE (%) 13.9
Net Gearing (%) 28.7

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

Free Float (%) 51.8
Avg Daily Value (RM mil) 8.9

Price performance	3mth	6mth	12mth
Absolute (%)	-0.1	-8.3	-15.9
Relative (%)	-1.1	-5.3	-12.7



Investment Highlights

- We maintain HOLD on IOI Corporation with a lower fair value of RM3.95/share vs. RM4.20/share previously. We have reduced IOI's FY22F net profit by 6.8% to account for a higher effective tax rate resulting from the prosperity tax in Malaysia and the tax on overseas dividend income.
- Our fair value for IOI is based on a FY23F PE of 22.0x. We have used IOI's FY23F net profit to arrive at its fair value instead of FY22F as IOI's effective tax rate is expected to decline to 26% in FY23F from 31% in FY22F. We ascribe a three-star ESG rating to IOI.
- IOI's 1QFY22 core net profit (ex-unrealised forex losses of RM26.3mil) was within our original forecast and consensus estimates.
- IOI's core net profit rose by 69.4% YoY to RM303.9mil in 1QFY22 on the back of strong plantation and manufacturing earnings. Plantation EBIT (ex-associates and fair value changes) climbed by 72.5% YoY to RM407.8mil in 1QFY22 while manufacturing EBIT (ex-associates and fair value changes) improved by 97.6% to RM142.9mil.
- IOI benefited from higher palm product prices in 1QFY22. Average CPO price realised grew by 56.3% to RM4,032/tonne in 1QFY22 from RM2,579/tonne in 1QFY21. On a negative note, FFB production plunged by 15.1% YoY in 1QFY22.
- We believe that IOI's manufacturing division (oleochemicals and palm refining) enjoyed higher sales volume and selling prices of oleochemical products. EBIT margin rose to 4.0% in 1QFY22 from 3.0% in 1QFY21.
- Comparing 1QFY22 against 4QFY21 however, IOI's manufacturing EBIT plunged by 88.8% to RM46.1mil if the fair value losses of RM108.7mil were included. The fair value losses related mainly to commodity forward contracts.
- Looking ahead, IOI said that its CPO production would be lower than anticipated in FY22F due to the wet weather and labour shortage. However, the performance of the refining segment is expected to be satisfactory in FY22F on the back of positive processing margins.
- As for the oleochemical segment, high raw material prices and freight costs have been challenging. Nevertheless, IOI hopes to mitigate these by improving cost efficiencies and enhancing productivity.

EXHIBIT 1: RESULTS SUMMARY (RM MIL)

YE 30 Jun	1QFY21	1QFY22	% YoY	4QFY21	1QFY22	% QoQ
Turnover	2,477.2	3,632.4	46.6	3,459.7	3,632.4	5.0
EBITDA	347.8	523.3	50.5	569.9	523.3	(8.2)
Interest Income	10.2	9.4	(7.8)	8.8	9.4	6.8
Interest Expense	(41.0)	(40.1)	(2.2)	(41.7)	(40.1)	(3.8)
Depreciation	(89.9)	(90.0)	0.1	(92.5)	(90.0)	(2.7)
Associates	35.1	71.4	103.4	59.9	71.4	19.2
Jointly controlled entities	(0.5)	(0.9)	80.0	(0.7)	(0.9)	28.6
Forex translation	98.5	(26.3)	(126.7)	(30.0)	(26.3)	(12.3)
Exceptionals						
Pre-tax profit	360.2	446.8	24.0	473.7	446.8	(5.7)
Taxation	(77.4)	(157.1)	103.0	(105.7)	(157.1)	48.6
Minorities	(4.9)	(12.1)	146.9	(8.6)	(12.1)	40.7
Net Profit	277.9	277.6	(0.1)	359.4	277.6	(22.8)
Net profit ex-forex changes	179.4	303.9	69.4	389.4	303.9	(22.0)
FD EPS (sen)	4.4	4.5	0.5	5.7	4.5	(22.5)
Gross DPS (sen)	-	-		6.0	-	
NTA/Share (RM)	1.40	1.52		1.54	1.52	

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

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2020	2021	2022F	2023F	2024F
Revenue	7,802.2	11,251.7	12,861.7	13,710.8	15,046.7
EBITDA	1,152.6	1,429.4	1,848.6	1,711.9	1,774.7
Depreciation	(365.9)	(360.5)	(367.8)	(387.8)	(407.8)
Operating income (EBIT)	786.7	1,068.9	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	-	268.3	-	-	-
Pretax profit	826.7	1,739.8	1,644.3	1,539.9	1,659.5
Taxation	(225.0)	(323.5)	(509.7)	(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	1,111.4	1,115.3	1,202.6
<i>Core net profit</i>	808.8	1,001.0	1,111.4	1,115.3	1,202.6
Balance Sheet (RMmil, YE 30 Jun)	2020	2021	2022F	2023F	2024F
Fixed assets	8,531.8	8,608.7	8,740.9	8,853.1	8,945.3
Intangible assets	438.8	445.8	445.8	445.8	445.8
Other long-term assets	2,870.9	3,263.4	3,580.7	3,930.1	4,331.7
Total non-current assets	11,841.5	12,317.9	12,767.3	13,229.0	13,722.7
Cash & equivalent	2,313.0	2,024.9	2,177.0	2,078.8	1,932.8
Stock	1,001.4	1,296.6	1,656.2	1,765.5	1,937.5
Trade debtors	815.8	1,427.2	1,409.5	1,502.6	1,649.0
Other current assets	759.9	589.1	599.7	613.7	635.6
Total current assets	4,890.1	5,337.8	5,842.4	5,960.5	6,154.9
Trade creditors	657.1	767.8	1,127.6	1,202.0	1,319.2
Short-term borrowings	917.5	3,919.0	3,997.4	4,077.3	4,158.9
Other current liabilities	266.7	350.8	446.2	457.8	476.1
Total current liabilities	1,841.3	5,037.6	5,571.2	5,737.2	5,954.2
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	10,431.9	10,831.0	11,286.3
Minority interests	274.5	309.0	332.1	356.4	381.8
BV/share (RM)	1.18	1.26	1.32	1.37	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	367.8	387.8	407.8
Net change in working capital	(411.2)	(1,018.4)	(407.0)	(530.7)	(636.4)
Others	90.9	(410.3)	0.0	0.0	0.0
Cash flow from operations	872.3	671.6	1,605.1	1,397.1	1,430.9
Capital expenditure	(392.5)	(396.1)	(500.0)	(500.0)	(500.0)
Net investments & sale of fixed assets	(3.6)	(2.6)	31.5	34.7	38.1
Others	135.6	130.5	0.0	0.0	0.0
Cash flow from investing	(260.5)	(268.2)	(468.5)	(465.4)	(461.9)
Debt raised/(repaid)	(93.0)	131.7	68.6	70.3	72.0
Equity raised/(repaid)	(66.4)	(72.4)	0.0	0.0	0.0
Dividends paid	(542.4)	(554.7)	(685.0)	(716.1)	(747.3)
Others	(176.3)	(187.0)	(368.1)	(384.1)	(439.7)
Cash flow from financing	(878.1)	(682.4)	(984.5)	(1,030.0)	(1,115.0)
Net cash flow	(266.3)	(279.0)	152.1	(98.2)	(146.0)
Net cash/(debt) b/f	2,598.6	2,313.0	2,024.9	2,177.0	2,078.8
Forex	(1.2)	(1.1)	0.0	0.0	0.0
Net cash/(debt) c/f	2,331.1	2,032.9	2,177.0	2,078.8	1,932.8
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	24.0	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	8.6	8.1	8.0
Interest cover (x)	11.2	11.3	13.5	13.3	17.0
Effective tax rate (%)	27.2	22.0	31.0	26.0	26.0

Source: Company, AmInvestment Bank estimates

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