COMPANY RESULTS

IOI Corporation (IOI MK)

1QFY23: Results Within Expectations; Strong Downstream Contributions

IOI's 1QFY23 results came in within our expectations. Downstream performed well, contributing 52% of 1QFY23 PBT, while plantation came in weaker due to lower ASP and lower profit from its associate Bumitama Agri. For 2QFY23, performance is likely to be slightly weaker qoq as downstream margin may be lower while plantation performance could be flattish yoy but better qoq on higher ASP and production may see only a marginal decline qoq. Maintain BUY with a target price of RM4.80.

1QFY23 RESULTS

Year to 30 Jun (RMm)	1QFY22	4QFY22	1QFY23	qoq % chg	yoy % chg	Remarks
Revenue	3,632.4	3,736.1	3,668.7	(1.8)	1.0	
Operating Profit	565.7	482.8	616.4	27.7	9.0	
Plantation	407.8	291.2	294.5	1.1	(27.8)	Weaker ASP
Resource-based Manufacturing	154.8	189.0	321.5	70.1	107.7	
Net Profit	277.6	541.8	167.5	(69.1)	(39.7)	
Core Net Profit	314.1	666.8	565.5	(15.2)	80.0	Within expectation.
Margins (%)						
Operating profit	15.6	12.9	16.8	3.9	1.2	
Plantation	53.6	34.5	41.6	7.1	(12.0)	
Resource-based Manufacturing	4.4	5.2	9.0	3.8	4.6	Record-high downstream margin.
Core net profit	8.6	17.8	15.4	(2.4)	6.8	

Source: IOI Corporation, UOB Kay Hian

RESULTS

- **Results came in within expectations as we expect weaker quarters ahead on lower CPO ASP.** IOI Corporation (IOI) reported 1QFY23 core net profit at RM566m (-15% qoq, +80% yoy), after excluding fair value loss on derivative financial instruments of RM216m and other one-off items. 1QFY23 core net profit accounts for 35% of our full-year forecast for FY23. We deem this within our expectations, as we expect lower yoy plantation earnings due to the plantation segment's weaker performance which is in tandem with our in-house lower yoy CPO price assumption for 2023.
- **The stronger yoy earnings** were mainly driven by higher contribution from the resource-based manufacturing segment but partially offset by the plantation segment's lower contribution. The plantation segment booked higher earnings yoy thanks to higher CPO ASP. The manufacturing segment's higher earnings were driven by stronger oleochemical and refining margin, but partly offset by lower sales volume from other sub-segments.

KEY FINANCIALS

Year to 30 Jun (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	11,252	15,579	15,957	15,939	15,944
EBITDA	1,674	2,714	2,561	2,186	2,157
Operating profit	1,314	2,355	2,195	1,817	1,785
Net profit (rep./act.)	1,394	1,725	1,605	1,389	1,395
Net profit (adj.)	1,375	1,944	1,605	1,389	1,394
EPS (sen)	21.9	30.9	25.5	22.1	22.2
PE (x)	18.2	12.9	15.6	18.0	17.9
P/B (x)	2.5	2.3	2.2	2.1	2.0
EV/EBITDA (x)	17.1	10.5	11.2	13.1	13.2
Dividend yield (%)	2.6	3.5	3.3	2.9	2.9
Net margin (%)	12.4	11.1	10.1	8.7	8.7
Net debt/(cash) to equity (%)	28.7	33.0	24.9	19.6	15.0
Interest cover (x)	13.3	21.1	19.4	18.3	19.5
ROE (%)	14.4	16.7	14.5	11.8	11.2
Consensus net profit	-	-	1,376	1,300	1,248
UOBKH/Consensus (x)	-	-	1.17	1.07	1.12

Source: IOI Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.98
Target Price	RM4.80
Upside	+20.6%

COMPANY DESCRIPTION

Integrated palm oil player.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	IOI MK
Shares issued (m):	6,208.0
Market cap (RMm):	24,707.7
Market cap (US$m):	5,509.8
3-mth avg daily t'over (US$m):	2.1

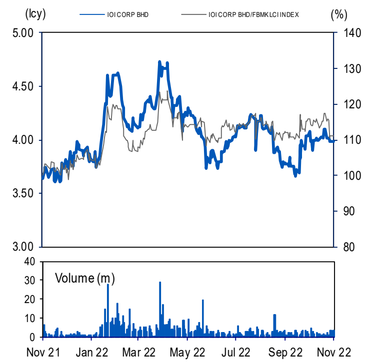
Price Performance (%)

52-week high/low RM4.73/RM3.61

1mth	3mth	6mth	1yr	YTD
1.8	(2.0)	(6.1)	5.3	6.7

Major Shareholders	%
Progressive Holdings SB	47.9
Employees Provident Fund Board	11.9
-	-
FY23 NAV/Share (RM)	1.82
FY23 Net Debt/Share (RM)	0.45

PRICE CHART



Source: Bloomberg

ANALYST(S)

Leow Huey Chuen
+603 2147 1990
hueychuen@uobkayhian.com

Jacquelyn Yow Hui Li
+603 2147 1995
jacquelyn@uobkayhian.com

- **Plantation segment remains flat qoq.** Despite the lower realised CPO and PK prices and higher cost of production in 1QFY23, operating profit for the plantation segment remains flat. We reckon that this was mainly due to higher sales volume, thanks to higher FFB production in 1QFY23. The FFB yield in 1QFY23 also recovered as expected as a result of production recovery in its Sabah estates and the ongoing arrival of foreign workers.

- **Record-high margin for its recourse-based manufacturing segment.** The resource-based manufacturing segment recorded a historically high margin in 1QFY23 at 9% (4QFY22: 5.2%, 1QFY22: 4.4%). The higher qoq profit was due mainly to higher margins from the oleochemical and refining sub-segments as well as higher sales volume from refining sub-segment. We believe this was also the result of better procurement for its raw material and better risk management.

STOCK IMPACT

- **2QFY23 outlook.** We expect flat qoq earnings for 2QFY23 on the back of:

- **The plantation segment's qoq higher earnings,** which is on the back of higher CPO ASP. FFB production is expected to drop only slightly, against the seasonal downward trend. This was mainly due to the delayed peak production cycle which was affected by the heavy rainfall and the arrival of harvesters.

- **Lower downstream earnings.** We expect slower sales volume in 2QFY23 during the winter season. We also expect lower downstream margin given the pricing pressure from its Indonesian peers.

- **Management anticipating firm CPO prices during the next two quarters,** which could cushion the weaker production during the off-peak season. This is similar to our view where we expect CPO prices to range at RM3,500-4,500/tonne for 4Q22-1Q23.

- **New expansion of 110,000tonnes/year in the oleochemical plant in Prai, Penang and new soap noodle and palm wood plants in Johor.** The oleochemical plant expansion will expand its group oleochemical capacity by 50%. With the expansion, IOI believes it will be able to better serve its customers and provide better value products. Some of the parts of both the fatty acid and soap noodle plants had started operating since Jun 22 and we expect a full commencement by end-22. Management mentioned that it expects 50-60% utilisation rate during the first year and expects it to increase to 80-90% in the following year. For the palm wood plant, it is expected to complete by Mar 23 and to commence by Apr/May 23.

EARNINGS REVISION/RISK

- **Maintain our earnings forecast.** We maintain our earnings forecasts at RM1,605m, RM1,390m and RM1,395m for FY23-25 respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM4.80** as we expect its expansion in downstream operations to cushion some of the potential downside from the downward trend in CPO ASP in FY23. The valuation is pegged to 17x FY23F PE for the plantation division, 15x FY23F PE for the resources-based manufacturing division, higher fair value estimate of S$0.65/share for its 32% stake in Bumitama Agri and 18x for the contribution from Loders.

SHARE PRICE CATALYST

- Better-than-expected CPO prices.

- Higher-than-expected FFB production growth.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• **Environmental**
- All Malaysian estates are MSPO certified, while 96% of the estates are RSPO certified. - IOI has not been contacted by the US Customs and Border Protection (CBP) regarding their investigation. Nevertheless, IOI will take the proactive step in contacting CBP to confirm the existence of an investigation and offer its cooperation in providing explanation and documents to assist the investigation.
• **Social**
- Transparent communication and response to any ongoing cases involving the community. - Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.
• **Governance**
- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

SOTP-BASED VALUATION

	PE (x)	RM/share
Plantations	17	4.05
Manufacturing	15	0.58
Stake in Bumitama (Fair value: S$0.93/share)	-	0.26
Contribution from Loders	18	0.46
Less: Net Debt		(0.21)
IOI's fair value		5.15

Source: UOBKH

KEY ASSUMPTIONS

	FY23F
FFB production growth	7.0% yoy
CPO Prices	RM4,600/tonne

Source: UOBKH

KEY STATISTICS

Productivity	4QFY22	1QFY23	qoq % chg	yoy % chg
FFB (yield/ha)	4.4	4.6	5.0	(13.2)
OER (%)	21.4	21.0	(1.7)	(3.4)
Production (tonne)				
FFB	611,373	665,761	8.9	(10.8)
CPO	135,377	145,536	7.5	(14.3)
ASP (RM/tonne)				
CPO	5,260	4,496	(14.5)	11.5
PK	3,850	2,524	(34.4)	(1.1)

Source: IOI

PROFIT & LOSS

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Net turnover	15,579	15,957	15,939	15,944
EBITDA	2,714	2,561	2,186	2,157
Deprec. & amort.	359	366	369	372
EBIT	2,355	2,195	1,817	1,785
Total other non-operating income	3	3	3	3
Associate contributions	341	170	195	225
Net interest income/(expense)	(129)	(132)	(119)	(110)
Pre-tax profit	2,353	2,236	1,896	1,904
Tax	(584)	(581)	(493)	(495)
Minorities	(44)	(50)	(14)	(14)
Net profit	1,725	1,605	1,389	1,395
Net profit (adj.)	1,944	1,605	1,389	1,394

BALANCE SHEET

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Fixed assets	8,709	8,789	8,863	8,933
Other LT assets	3,779	3,715	3,733	3,764
Cash/ST investment	1,450	1,496	1,886	2,248
Other current assets	5,229	4,585	4,514	4,460
Total assets	19,168	18,586	18,995	19,406
ST debt	2,155	1,724	1,724	1,724
Other current liabilities	1,596	1,223	1,223	1,223
LT debt	2,827	2,628	2,530	2,433
Other LT liabilities	1,305	1,155	1,005	855
Shareholders' equity	10,718	11,466	12,108	12,752
Minority interest	341	390	404	419
Total liabilities & equity	19,168	18,586	18,995	19,406

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	1,806	1,449	1,579	1,553
Pre-tax profit	2,353	2,236	1,897	1,904
Tax	(403)	(581)	(493)	(495)
Deprec. & amort.	359	366	369	372
Working capital changes	(312)	(401)	3	(1)
Other operating cashflows	(190)	(170)	(196)	(227)
Investing	(228)	(270)	(269)	(268)
Capex (maintenance)	(439)	(439)	(439)	(439)
Investments	0	0	0	0
Proceeds from sale of assets	42	0	1	2
Others	169	169	169	169
Financing	(1,060)	(1,134)	(921)	(922)
Dividend payments	(747)	(835)	(723)	(725)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,092	1	2	3
Loan repayment	(470)	(200)	(100)	(100)
Others/interest paid	(936)	(100)	(100)	(100)
Net cash inflow (outflow)	518	46	390	363
Beginning cash & cash equivalent	2,025	1,450	1,496	1,886
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,543	1,496	1,886	2,248

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.4	16.0	13.7	13.5
Pre-tax margin	15.1	14.0	11.9	11.9
Net margin	11.1	10.1	8.7	8.7
ROA	9.4	8.5	7.4	7.3
ROE	16.7	14.5	11.8	11.2
Growth				
Turnover	38.5	2.4	(0.1)	0.0
EBITDA	62.1	(5.6)	(14.7)	(1.3)
Pre-tax profit	35.2	(5.0)	(15.2)	0.4
Net profit	23.7	(7.0)	(13.5)	0.5
Net profit (adj.)	41.3	(17.4)	(13.5)	0.4
EPS	41.3	(17.4)	(13.5)	0.4
Leverage				
Debt to total capital	31.1	26.9	25.4	24.0
Debt to equity	46.5	38.0	35.1	32.6
Net debt/(cash) to equity	33.0	24.9	19.6	15.0
Interest cover (x)	21.1	19.4	18.3	19.5

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