

05 February 2018 | 2QFY18 Result Preview

## IOI Corporation

*Strong FFB volume to support 1HFY18 earnings*

### INVESTMENT HIGHLIGHTS

- **1HFY18 core earnings should meet expectations**
- **Earnings should improve qoq and yoy in 2QFY18**
- **Earnings estimate maintained**
- **Maintain BUY with TP of RM5.50**

**1HFY18 core earnings should meet expectations.** IOI Corporation Berhad (IOICORP) is expected to release its 2QFY18's financial result on 23-Feb-2018. We are expecting its 2QFY18 Core Net Income (CNI) to be in the range of RM360m to RM380m. Including the 1QFY18 CNI of RM289m we expect 1HFY18 CNI to be in the range of RM649m to RM669m. Overall, we believe IOICORP 1HFY18 CNI should meet both consensus and our expectation.

**Earnings should improve qoq and yoy in 2QFY18.** The qoq improvement is mainly driven by improved FFB production (+17% qoq to 1.02m tonnes) which more than offset lower CPO price (-3% qoq to RM2611 per tonne based on MPOB data). On a yoy basis, 2QFY18 earnings should exceed 2QFY17 as higher FFB production (+23% yoy to 1.02m tonnes) should more than offset lower CPO price impact (-11% to RM2611 per tonne). To recap, plantation division is the biggest earnings contributor for IOICORP with operating profit of RM1.12b (or 79% of the Group's) in FY17.

For the downstream segment, we expect IOICORP margin to be firm as raw material prices has been stable in 2QFY18.

**Earnings estimate maintained.** We maintain our FY18 CNP of RM1.32b. We also maintain our FY19 CNP of RM1.31b.

**Maintain BUY with TP of RM5.50:** Our TP is based on 26.3x PE on FY18 EPS reflecting +1.0SD valuation. We continue to like IOICORP as: i) margin is expected to improve at the Group level after the sale of 70% stake in Lodders Crokiaan (Lodders), ii) special dividend of 13.0 sen and iii) net gearing is expected to decline significantly to 0.25x (from 0.78x). IOICORP is our Top Pick for the plantation sector.



**Maintain BUY**

**Unchanged Target Price: RM5.50**

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (2 Feb 2018)           | RM4.70        |
| Target Price                 | RM5.50        |
| Expected Share Price Return  | +17.0%        |
| Expected Dividend Yield      | +5.0%         |
| <b>Expected Total Return</b> | <b>+22.0%</b> |

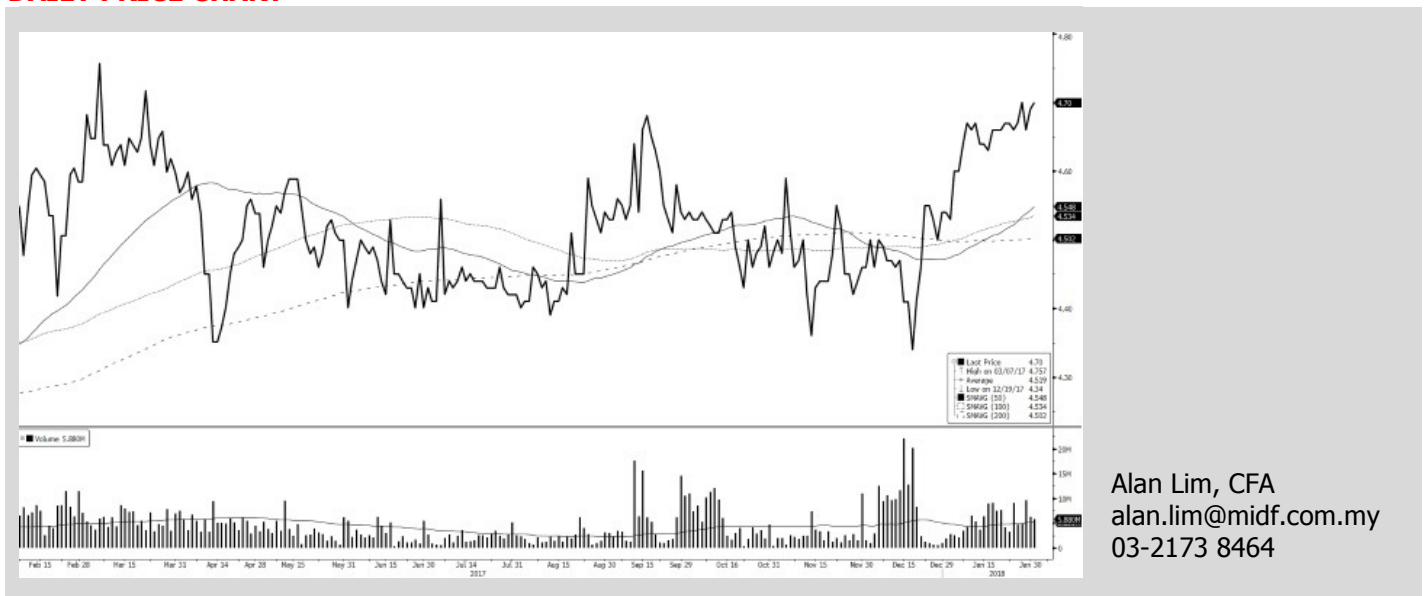
| STOCK INFO            |                   |
|-----------------------|-------------------|
| KLCI                  | 1870.48           |
| Bursa / Bloomberg     | 1961 / IOI MK     |
| Board / Sector        | Main / Plantation |
| Syariah Compliant     | Yes               |
| Issued shares (mil)   | 6283.86           |
| Market cap. (RM'm)    | 29,534.14         |
| Price over NA         | 3.98              |
| 52-wk price Range     | RM4.31 - RM4.81   |
| Beta (against KLCI)   | 0.95              |
| 3-mth Avg Daily Vol   | 5.15m             |
| 3-mth Avg Daily Value | RM23.2m           |
| Major Shareholders    |                   |
| VERTICAL CAPACITY S/B | 47.50%            |
| EPF                   | 11.28%            |

## INVESTMENT STATISTICS

| FYE Jun         | FY15A  | FY16A  | FY17A  | FY18F  | FY19F  |
|-----------------|--------|--------|--------|--------|--------|
| Revenue         | 11,542 | 11,739 | 14,127 | 14,850 | 15,231 |
| EBIT            | 1,142  | 1,355  | 1,560  | 1,757  | 1,776  |
| PBT             | 316    | 966    | 1,087  | 1,674  | 1,699  |
| Net Income      | 52     | 630    | 733    | 1,315  | 3,841  |
| Core Net Income | 1,134  | 1,176  | 1,007  | 1,315  | 1,309  |
| EPS (sen)       | 0.82   | 9.99   | 11.65  | 20.92  | 61.10  |
| Core EPS (sen)  | 17.83  | 18.66  | 16.00  | 20.92  | 20.82  |
| Net DPS (sen)   | 9.00   | 8.00   | 9.50   | 23.46  | 10.41  |
| Net Dvd Yield   | 1.9%   | 1.7%   | 2.0%   | 5.0%   | 2.2%   |
| Core PER        | 26.4   | 25.2   | 29.4   | 22.5   | 22.6   |
| NTA/share (RM)  | 1.04   | 1.05   | 1.10   | 1.27   | 1.77   |
| P/NTA           | 4.52   | 4.48   | 4.26   | 3.71   | 2.65   |
| ROE             | 0.7%   | 8.8%   | 9.8%   | 15.5%  | 33.0%  |
| ROA             | 0.3%   | 3.6%   | 4.1%   | 7.8%   | 22.5%  |

Source: Company, MIDF Research Forecast

## DAILY PRICE CHART



Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|              |  |
|--------------|--|
| BUY          | Total return is expected to be >10% over the next 12 months.   |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| SELL         | Total return is expected to be <-10% over the next 12 months.  |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

#### SECTOR RECOMMENDATIONS

|          |  |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL  | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |