

13 September 2017 | Corporate Update

IOI Corporation

Selling 70% stake in Loders Croklaan for RM3.94b

Upgrade to BUY

**Adjusted Target Price: RM5.27
(Previously RM4.95)**

INVESTMENT HIGHLIGHTS


- **Selling 70% stake in Loders Croklaan for RM3.94b**
- **RM2.51b of one off gain**
- **13.0 sen dividend**
- **FY19 earnings estimate increased but core net income lowered**
- **Upgrade to BUY with higher TP of RM5.27**

Selling 70% stake in Loders Croklaan for RM3.94b. IOI Corporation Berhad (IOICORP) has announced that it is selling 70% controlling stake in IOI Loders Croklaan (Loders) to Bunge Limited for Euro 297m plus USD595m. This is equivalent to RM3.94b. Note that IOICORP will hold the remaining 30% stake in Loders after the completion of the deal. Loders business focus is in the manufacturing of specialty oils and fats which is a sub segment of IOICORP's resource based manufacturing segment.

RM2.51b of one off gain. IOICORP is expected to record a gain on disposal of RM2.51b from the 70% stake disposal in Loders and the re-measurement of IOICORP remaining 30% stake in Loders. Expected completion date is in the 4QCY2018 (equivalent to IOICORP's 2QFY2019).

13.0 sen dividend. Out of the proceeds of RM3.94b, IOICORP plans to distribute RM788m (or 20% of the amount) as dividend to shareholders within the next 12 months. We have increased our FY18 dividend by the similar amount to total 23.0 sen representing attractive yield of 5.1%.

FY19 earnings estimate increased but core net income lowered. FY19 net income is boosted by the gain on disposal of RM2.51b to RM3.79b. However, Core Net Income (CNI) is reduced by 2% to RM1.25b to reflect lower earnings contribution from Loders. Despite the lower FY19 CNI, we do not discount the possibility that IOICORP may expand its upstream plantation with the proceeds which will improve FY19 CNI. Net gearing is expected to decline to 0.25x (from 0.78x as of end-June 2017).

Upgrade to BUY with higher TP of RM5.27: We have increased our Target Price to RM5.27 (from RM4.95) after increasing our Forward PE to 26.3x (from 24.7x). Our valuation has been upgraded to +1.0SD Valuation (from +0.5SD Valuation) due to the near term dividend of 13.0 sen and substantial improvement in balance sheet after the 70% stake sale in Loders. 

RETURN STATS	
Price (12 Sep 2017)	RM4.55
Target Price	RM5.27
Expected Share Price Return	+15.9%
Expected Dividend Yield	+5.1%
Expected Total Return	+21.0%

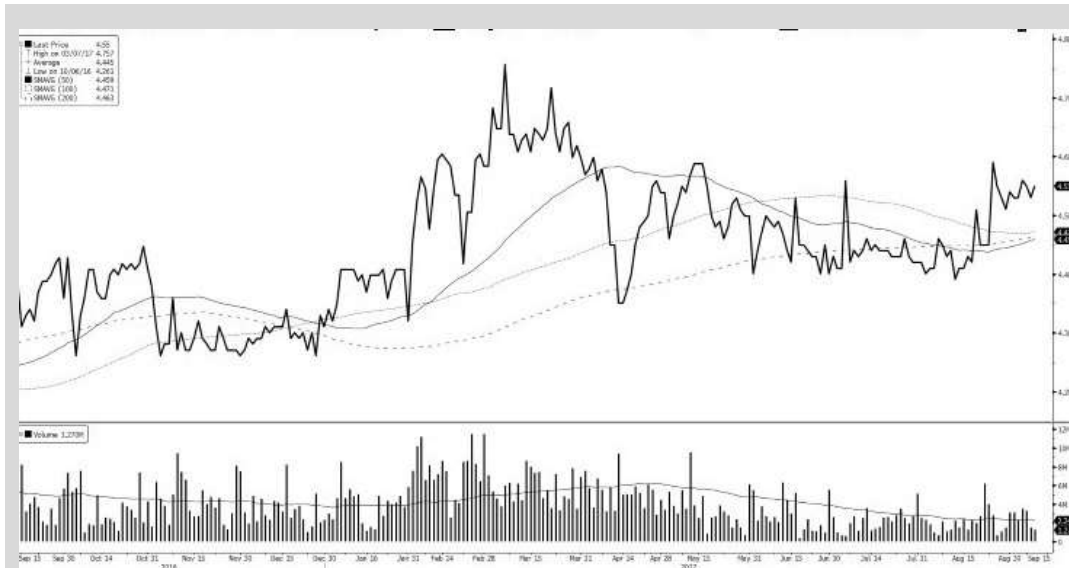
STOCK INFO	
KLCI	1789.86
Bursa / Bloomberg	1961 / IOI MK
Board / Sector	Main / Plantation
Syariah Compliant	Yes
Issued shares (mil)	6283.86
Market cap. (RM'm)	28,591.56
Price over NA	3.83
52-wk price Range	RM4.3 - RM4.81
Beta (against KLCI)	1.26
3-mth Avg Daily Vol	2.31m
3-mth Avg Daily Value	RM10.3m
Major Shareholders	
VERTICAL CAPACITY S/B	47.16%
EPF	9.37%

INVESTMENT STATISTICS

FYE Jun	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	11,542	11,739	14,127	14,385	14,589
EBIT	1,142	1,355	1,560	1,689	1,707
PBT	316	966	1,087	1,606	1,630
Net Income	52	630	733	1,260	3,786
Core Net Income	1,134	1,176	1,007	1,260	1,254
EPS (sen)	0.82	9.99	11.65	20.05	60.23
Core EPS (sen)	17.83	18.66	16.00	20.05	19.95
Net DPS (sen)	9.00	8.00	9.50	23.02	9.97
Net Dvd Yield	2.0%	1.8%	2.1%	5.1%	2.2%
Core PER	25.5	24.4	28.4	22.7	22.8
NTA/share (RM)	1.04	1.05	1.10	1.26	1.76
P/NTA	4.38	4.33	4.12	3.61	2.58
ROE	0.7%	8.8%	9.8%	14.9%	32.6%
ROA	0.3%	3.6%	4.1%	7.5%	22.3%

Source: Company, MIDF Research Forecast

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.