



AmInvestment Bank

Company report

IOI CORPORATION

(IOI MK, IOIC.KL)

22 Jul 2024

Expanding non-CPO segment

HOLD

(Maintained)

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Rationale for report: Company Update

Price	RM3.85
Fair Value	RM4.10
52-week High/Low	RM4.22/RM3.67

Key Changes

Fair value	↔
EPS	↔

YE to Jun	FY23	FY24E	FY25F	FY26F
Revenue (RMmil)	11,583.8	12,098.4	13,104.9	14,041.9
Net Profit (RMmil)	1,114.2	1,157.4	1,439.1	1,576.8
EPS (sen)	18.0	18.6	23.2	25.4
EPS growth (%)	(35.2)	3.9	24.3	9.6
Consensus net (RMmil)		1,164.0	1,300.0	1,375.0
DPS (sen)	11.0	11.0	12.0	13.0
PE (x)	21.4	20.6	16.6	15.2
EV/EBITDA (x)	14.6	14.7	12.2	11.3
Div Yield (%)	2.9	2.9	3.1	3.4
ROE (%)	9.8	9.8	11.5	11.9
Net Gearing (%)	13.4	13.1	11.7	9.9

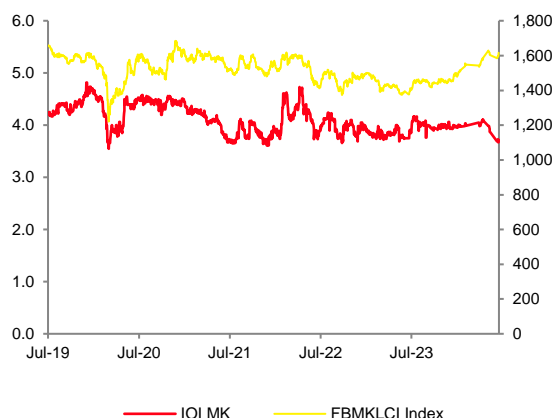
Stock and Financial Data

Shares Outstanding (million)	6,206.4
Market Cap (RM'mil)	23,894.6
Book value (RM/share)	1.43
P/BV (x)	2.7
ROE (%)	9.8
Net Gearing (%)	13.4

Major Shareholders	Progressive Holdings (50.5%) EPF (11%)
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Free Float (%)	49.6
Avg Daily Value (RMmil)	11.3

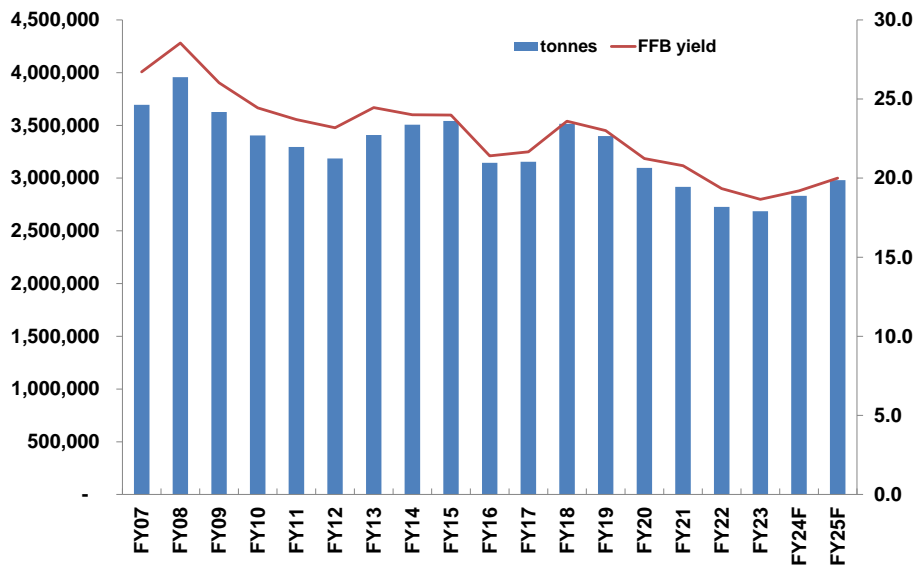
Price performance	3mth	6mth	12mth
Absolute (%)	-0.2	-3.8	-1.6
Relative (%)	-9.1	-12.7	-15.3



Investment Highlights

- We maintain HOLD on IOI Corporation with an unchanged fair value of RM4.10/share, based on FY25F PE of 25x, which is the 5-year average for big-cap planters. We ascribe a neutral 3-star ESG rating to IOI.
- IOI is practising a circular economy as reflected in its pulp and wood panel ventures. Waste from oil palm tree such as the trunk and empty fruit bunches are used to produce pulp and wood panel products. We believe that these are long-term investments and payback period might be more than 5 years.
- IOI's effective stake in the pulp factory in Pekan, Pahang is 34%. Nextgreen Global will hold 41% while Xiamen C&D Inc will own the balance 25%. The pulp factory is expected to cost RM600mil in total and will command an annual production capacity of 100,000 tonnes upon completion. Off-takers are envisaged to be Xiamen C&D and Marubeni Corp. IOI's share of the capex is RM204mil. The plant is envisaged to be completed in 2027F.
- Sales volume of wood panels from IOI's factory in Johor is soft currently. We believe that sales and production volumes would gradually increase in the coming years. Recall that the wood panel factory, which cost about RM150mil, was completed last year.
- As for plantation, we assume that IOI's FFB production would rise by 5% in FY25F (FY24: +4.4%, FY23: -1.5%). Despite recent news of floods in Sabah, there have not been major weather issues at IOI's oil palm estates in Malaysia and Indonesia. All-in cost of production is estimated to be lower at RM2,300/tonne in FY24E compared to RM2,500/tonne in FY23 as fertiliser costs have eased.
- Demand for IOI's oleochemical products is improving. Most of IOI's fatty acids are sold in Asia, which is more resilient than Europe. However, operating conditions in the palm refining industry are challenging due to competition from Indonesia. We forecast IOI's manufacturing EBIT (oleo and refining) to improve by more than 30% in FY25F after plunging by 57% in FY24E.
- IOI is prepared for the EU Deforestation Regulation (EUDR), which will be implemented at the end of 2024F. About 97.4% of the group's CPO and 91.4% of crude PKO are traceable to the plantations.
- IOI is currently trading at a FY25F PE of 16.6x, which is below its 5-year average of 18x.

EXHIBIT 1: FFB PRODUCTION (TONNES) AND FFB YIELDS (TONNES/HA)



Source: Company, AmlInvestment Bank

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	RSPO certification	100% certification	25%	*	*	*	*	100% of mills and 94% of estates are certified
2	Supply chain auditing	100% traceable	25%	*	*	*	*	97.4% traceability for CPO and 91.4% for CPKO
3	Fires	Zero incidences	25%	*	*	*	*	3 in IOI's estates and 37 outside IOI's boundaries in FY23
4	GHG emissions	Net zero by 2040F	25%	*	*	*	*	Reduced carbon intensity by 19.7% in FY23 from 2015's level
	Weighted score for environmental assessment		100%	*	*	*	*	
	Social assessment							
1	Migrant workers welfare	Number of Workers grievances	40%	*	*	*	*	7328 reports in FY23
2	Work site safety	Zero fatal fatalities	30%	*	*	*	*	5 fatalities in FY23
3	Total number of injuries	Below 1500	30%	*	*	*	*	1,826 in FY23
	Weighted score for social assessment		100%	*	*	*	*	
	Governance assessment							
1	Related party transactions	Value of RPTs	40%	*	*	*	*	RM691.4mil in FY23, mainly sale and purchases of palm and oleo products to associates
2	Women in workforce	% in workforce	30%	*	*	*	*	29.2% of workforce are women
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*	*	RM22mil in FY23
	Weighted score for governance assessment		100%	*	*	*	*	
	Environmental score		50%	*	*	*	*	
	Social score		30%	*	*	*	*	
	Governance score		20%	*	*	*	*	
	Overall ESG Score		100%	*	*	*	*	

Source: AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2022	2023	2024E	2025F	2026F
Revenue	15,578.7	11,583.8	12,098.4	13,104.9	14,041.9
EBITDA	2,498.8	1,740.9	1,735.6	2,084.0	2,235.8
Depreciation	(358.8)	(374.2)	(383.1)	(407.1)	(430.1)
Operating income (EBIT)	2,140.0	1,366.7	1,352.5	1,676.9	1,805.7
Other income & associates	341.4	274.3	315.4	362.8	417.2
Net interest	(128.8)	(115.0)	(102.6)	(97.7)	(96.1)
Exceptional items	-	-	-	-	-
Pretax profit	2,352.6	1,526.0	1,565.3	1,942.0	2,126.8
Taxation	(583.7)	(396.0)	(391.3)	(485.5)	(531.7)
Minorities/pref dividends	(43.6)	(15.8)	(16.6)	(17.4)	(18.3)
Net profit	1,725.3	1,114.2	1,157.4	1,439.1	1,576.8
Balance Sheet (RMmil, YE 30 Jun)	2022	2023	2024E	2025F	2026F
Fixed assets	8,709.2	8,995.2	9,112.1	9,205.0	9,274.9
Intangible assets	455.3	433.4	433.4	433.4	433.4
Other long-term assets	3,323.9	3,227.0	3,569.2	3,944.7	4,375.7
Total non-current assets	12,488.4	12,655.6	13,114.7	13,583.1	14,084.0
Cash & equivalent	2,552.9	2,235.0	2,197.0	2,274.9	2,409.0
Stock	1,601.5	1,113.9	1,557.9	1,687.5	1,808.1
Trade debtors	1,607.6	1,307.1	1,325.9	1,436.2	1,538.8
Other current assets	917.4	270.3	283.8	300.3	315.7
Total current assets	6,679.4	4,926.3	5,364.5	5,698.8	6,071.7
Trade creditors	940.8	711.1	1,060.7	1,148.9	1,231.1
Short-term borrowings	2,155.4	861.5	878.7	896.3	914.2
Other current liabilities	655.4	102.9	224.8	238.6	251.5
Total current liabilities	3,751.6	1,675.5	2,164.2	2,283.8	2,396.8
Long-term borrowings	2,826.6	2,895.7	2,866.7	2,838.1	2,809.7
Other long-term liabilities	1,305.1	1,340.1	1,286.4	1,286.4	1,287.4
Total long-term liabilities	4,131.7	4,235.8	4,153.1	4,124.5	4,097.1
Shareholders' funds	10,943.7	11,330.8	11,805.5	12,499.8	13,269.7
Minority interests	340.8	339.8	356.4	373.8	392.1
BV/share (RM)	1.38	1.43	1.49	1.58	1.68
Cash Flow (RMmil, YE 30 Jun)	2022	2023	2024E	2025F	2026F
Pretax profit	2,352.6	1,526.0	1,565.3	1,942.0	2,126.8
Depreciation	358.8	374.2	383.1	407.1	430.1
Net change in working capital	(918.1)	140.3	(396.0)	(639.9)	(675.5)
Others	6.6	32.7	0.0	0.0	0.0
Cash flow from operations	1,799.9	2,073.2	1,552.4	1,709.2	1,881.4
Capital expenditure	(439.0)	(604.9)	(600.0)	(600.0)	(600.0)
Net investments & sale of fixed assets	(54.0)	311.1	106.4	117.0	128.7
Others	270.2	389.4	0.0	0.0	0.0
Cash flow from investing	(222.8)	95.6	(493.6)	(483.0)	(471.3)
Debt raised/(repaid)	(1,291.7)	(1,420.3)	(11.7)	(11.1)	(10.5)
Equity raised/(repaid)	(130.4)	(34.1)	0.0	0.0	0.0
Dividends paid	(761.3)	(883.8)	(682.7)	(744.8)	(806.8)
Others	(119.7)	(165.1)	(402.3)	(392.5)	(458.8)
Cash flow from financing	(2,303.1)	(2,503.3)	(1,096.7)	(1,148.4)	(1,276.1)
Net cash flow	(726.0)	(334.5)	(38.0)	77.8	134.1
Net cash/(debt) b/f	2,024.9	2,552.9	2,235.0	2,197.0	2,274.9
Forex	10.1	22.7	0.0	0.0	0.0
Net cash/(debt) c/f	1,309.0	2,241.1	2,197.0	2,274.9	2,409.0
Key Ratios (YE 30 Jun)	2022	2023	2024E	2025F	2026F
Revenue growth (%)	38.5	-25.6	4.4	8.3	7.1
EBITDA growth (%)	74.8	-30.3	-0.3	20.1	7.3
Pretax margins (%)	15.1	13.2	12.9	14.8	15.1
Net profit margins (%)	11.1	9.6	9.6	11.0	11.2
Interest cover (x)	19.4	15.1	16.9	21.3	23.3
Effective tax rate (%)	24.8	26.0	25.0	25.0	25.0
Net dividend payout (%)	50.4	61.3	59.0	51.8	51.2
Trade debtors turnover (days)	40.0	40.0	40.0	40.0	40.0

Source: Company, AmInvestment Bank estimates

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