

# IOI Corporation (IOI MK)

## 3QFY22 missed expectations on forward sales done earlier

### Expect better earnings delivery in 4QFY22

3QFY22 core PATMI missed our/ consensus expectations mainly on lower-than-expected CPO ASP achieved and higher-than-expected taxes. We expect 4QFY22 to be better QoQ driven mainly by stronger upstream earnings (on higher output and ASP). Following our EPS revisions, IOI remains a BUY with unchanged TP of MYR4.87 on 22x CY23E EPS, at -15D of 5Y mean.

### 3Q core PATMI missed expectations

3QFY22 core PATMI of MYR351m (-19% YoY, -26% QoQ) brings 9MFY22 core PATMI to MYR1,112m (+29% YoY) which met just 63%/64% of our/consensus full-year estimates. Despite higher 3Q CPO ASP achieved of MYR5,064/t (+58% YoY, +11% QoQ), it was 10% below benchmark 3M FCPO price, which implies IOI had forward sold a portion of its output much earlier. And its 3Q group effective tax rate was also high at 32% on *Cukai Makmur*. To a lesser extent, 3Q core results were also dragged by net inventory write down (MYR20m) and FV loss on other investments (MYR18m). Operationally, 3Q's upstream EBIT rose 160% YoY to MYR416m (-20% QoQ) mainly on higher CPO ASP and FFB output (+9% YoY, -22% QoQ).

### Absence of Loder's one-off gain reported last year

As for its downstream ops, 3Q EBIT weakened to MYR46m (-57% YoY, -75% QoQ) despite higher revenue (+44% YoY, -1% QoQ) as refining margins fell (but mitigated by better oleo contribution). 3Q performance was also dragged by a FV loss on derivatives of MYR17m (3QFY21 FV gain: MYR43m, 2QFY22 FV gain: MYR55m). As for associates, contributions fell to MYR84m (-76% YoY, +143% QoQ) mainly due to the absence of a share of Loder's one-off gain on sales of its refinery (MYR268m) reported in 3QFY21.

### FY23E core PATMI cut by 9%

Following the weaker 3QFY22 results, we cut our FY22E core PATMI by 9% mainly to factor in lower net CPO ASP of MYR4,768/t (-5%) and higher effective taxes of 30% (from 28%) for FY22E. We make no changes to our FY23E-24E core PATMI forecasts.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,802	11,252	15,021	13,058	12,108
EBITDA	1,347	1,550	2,611	2,173	1,967
Core net profit	799	1,252	1,622	1,452	1,321
Core EPS (sen)	12.7	20.0	25.9	23.2	21.1
Core EPS growth (%)	8.3	57.2	29.5	(10.5)	(9.0)
Net DPS (sen)	8.0	10.5	15.5	13.9	12.7
Core P/E (x)	34.1	18.8	17.0	19.0	20.9
P/BV (x)	2.9	2.4	2.6	2.5	2.3
Net dividend yield (%)	1.8	2.8	3.5	3.2	2.9
ROAE (%)	6.5	14.4	15.7	13.3	11.5
ROAA (%)	4.8	7.3	8.9	7.7	6.8
EV/EBITDA (x)	22.4	17.3	11.9	13.9	15.0
Net gearing (%) (incl perps)	27.8	28.4	27.9	19.0	12.9
Consensus net profit	-	-	1,697	1,493	1,310
MKE vs. Consensus (%)	-	-	(4.4)	(2.8)	0.9

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# BUY

Share Price	MYR 4.40
12m Price Target	MYR 4.87 (+14%)
Previous Price Target	MYR 4.87

### Company Description

IOI Corp engages in the cultivation of oil palm and manufacturing of oleochemicals, specialty oils and fats, and processed palm oil.

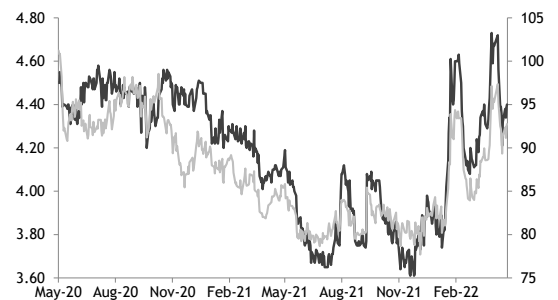
### Statistics

52w high/low (MYR)	4.73/3.61
3m avg turnover (USDm)	6.3
Free float (%)	34.9
Issued shares (m)	6,285
Market capitalisation	MYR27.7B
	USD6.3B

### Major shareholders:

LEE SHIN CHENG FAMILY	49.8%
Employees Provident Fund	10.9%
Permodalan Nasional Bhd.	8.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(5)	8
Relative to index (%)	5	(1)	10

Source: FactSet

### Abbreviation

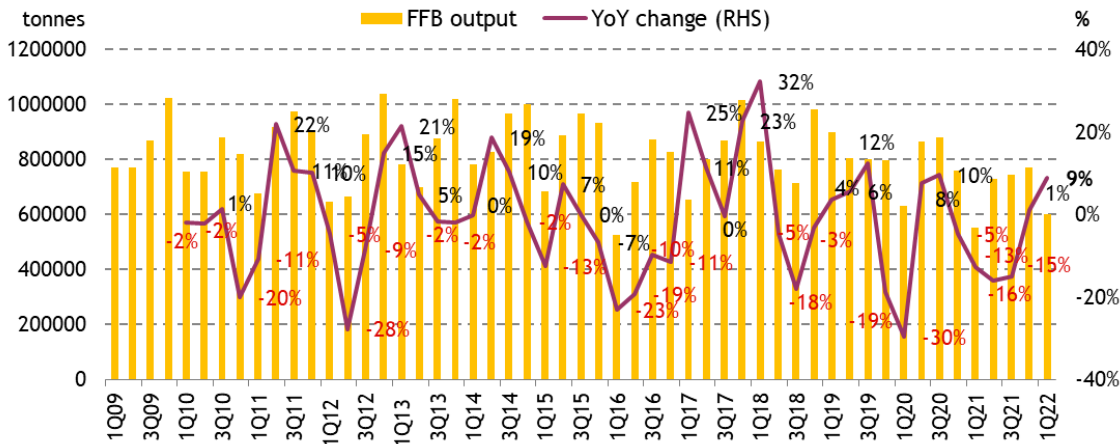
ASP = Average selling price  
EBIT = Earnings before interest and taxes  
FV = Fair Valuation  
PATMI = Profit after tax and minority interests

Fig 1: IOI Corporation results summary

1FYE June (MYR m)	Quarterly					Cumulative		
	3QFY22	3QFY21	%YoY	2QFY22	%QoQ	9MFY22	9MFY21	%YoY
Revenue	4,097.9	2,860.1	43.3	4,112.3	(0.4)	11,842.6	7,792.0	52.0
EBIT	466.3	185.8	151.0	643.7	(27.6)	1,522.7	715.5	112.8
FV of biological assets	18.0	10.4	73.1	(11.6)	NA	28.0	18.9	48.1
FX translation gain/(loss) on debt	46.4	(38.4)	NA	29.7	56.2	49.8	155.4	(68.0)
Share of Associates & Joint Entities	84.3	350.0	(75.9)	34.7	142.9	188.5	469.6	(59.9)
Interest income	4.9	10.0	(51.0)	9.6	(49.0)	23.9	29.8	(19.8)
Finance cost	(39.0)	(41.9)	(6.9)	(39.6)	(1.5)	(118.7)	(123.1)	(3.6)
<b>Pre-tax profit</b>	<b>580.9</b>	<b>475.9</b>	<b>22.1</b>	<b>666.5</b>	<b>(12.8)</b>	<b>1,694.2</b>	<b>1,266.1</b>	<b>33.8</b>
Tax	(159.5)	(73.2)	117.9	(158.7)	0.5	(475.3)	(217.8)	118.2
Minority Interests	(10.2)	(1.4)	628.6	(13.1)	(22.1)	(35.4)	(13.4)	164.2
<b>PATMI</b>	<b>411.2</b>	<b>401.3</b>	<b>2.5</b>	<b>494.7</b>	<b>(16.9)</b>	<b>1,183.5</b>	<b>1,034.9</b>	<b>14.4</b>
<b>Core PATMI *</b>	<b>351.1</b>	<b>431.8</b>	<b>(18.7)</b>	<b>473.8</b>	<b>(25.9)</b>	<b>1,112.4</b>	<b>865.1</b>	<b>28.6</b>
<b>Adjusted for *:</b>								
Net FV (gain)/loss on biolog'l assets	(13.7)	(7.9)	73.1	8.8	NA	(21.3)	(14.4)	48.1
Unr'd FX (gain)/loss on foreign debt	(46.4)	38.4	NA	(29.7)	56.2	(49.8)	(155.4)	(68.0)
<b>Segmental</b>								
<b>Revenue</b>	<b>3QFY22</b>	<b>3QFY21</b>	<b>%YoY</b>	<b>2QFY22</b>	<b>%QoQ</b>	<b>9MFY22</b>	<b>9MFY21</b>	<b>%YoY</b>
Plantation (upstream)	799.1	477.4	67.4	924.6	(13.6)	2,484.3	1,707.8	45.5
Resource-based (downstream)	3,971.1	2,753.5	44.2	3,996.0	(0.6)	11,502.9	7,498.6	53.4
Others	7.2	3.5	105.7	2.9	148.3	14.0	11.0	27.3
Eliminations	(679.5)	(374.3)	81.5	(811.2)	(16.2)	(2,158.6)	(1,425.4)	51.4
<b>Total revenue</b>	<b>4,097.9</b>	<b>2,860.1</b>	<b>43.3</b>	<b>4,112.3</b>	<b>(0.4)</b>	<b>11,842.6</b>	<b>7,792.0</b>	<b>52.0</b>
<b>EBIT</b>								
Plantation (upstream)	415.6	159.7	160.2	522.4	(20.4)	1,345.8	700.8	92.0
Resource-based (downstream)	46.4	108.0	(57.0)	183.3	(74.7)	263.9	113.5	132.5
Others	4.3	(81.9)	NA	(62.0)	NA	(87.0)	(98.8)	(11.9)
<b>Total EBIT</b>	<b>466.3</b>	<b>185.8</b>	<b>151.0</b>	<b>643.7</b>	<b>(27.6)</b>	<b>1,522.7</b>	<b>715.5</b>	<b>112.8</b>
<b>EBIT margin (%)</b>			<b>+ ppt</b>	<b>+ ppt</b>		<b>+ ppt</b>		
EBIT margin - Plantation	52.0	33.5	18.6	56.5	(4.5)	54.2	41.0	13.1
EBIT margin - Resource-based	1.2	3.9	(2.8)	4.6	(3.4)	2.3	1.5	0.8
<b>Overall</b>	<b>11.4</b>	<b>6.5</b>	<b>4.9</b>	<b>15.7</b>	<b>(4.3)</b>	<b>12.9</b>	<b>9.2</b>	<b>3.7</b>
<b>Operational</b>								
Mature hectares (ha)	141,259	143,111	(1.3)	144,837	(2.5)	141,259	143,111	(1.3)
FFB production (t)	599,691	550,524	8.9	769,145	(22.0)	2,115,143	2,189,968	(3.4)
FFB yield (t/ha)	4.3	4.0	7.6	5.4	(21.7)	15.0	15.6	(4.0)
OER (%)	20.7	20.9	(0.8)	21.7	(4.5)	21.5	21.3	0.6
CPO production - own (t)	124,239	114,968	8.1	166,914	(25.6)	453,698	467,120	(2.9)
CPO production (t)	129,507	121,316	6.8	149,891	(13.6)	471,823	482,513	(2.2)
CPO ASP (MYR/t)	5,064	3,211	57.7	4,565	10.9	4,518	2,888	56.4

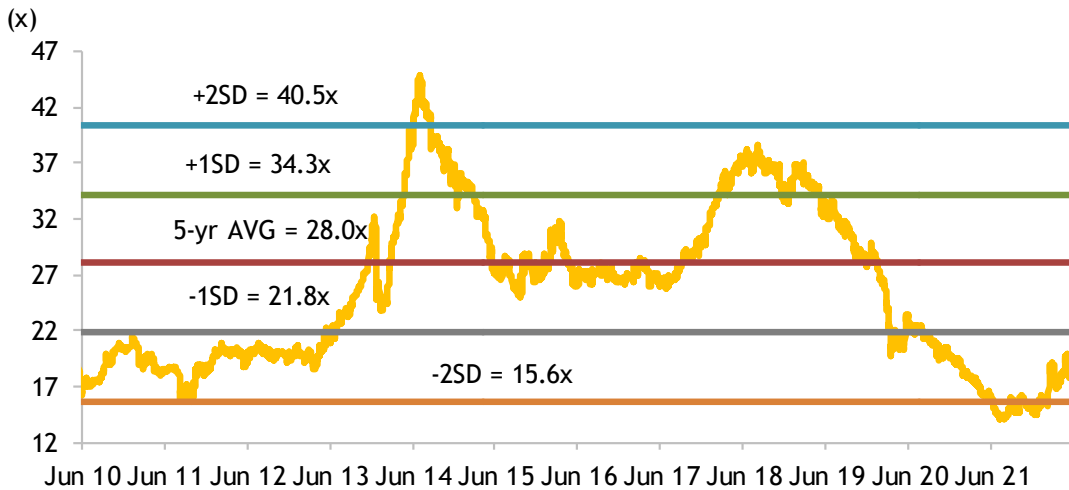
Sources: Company, Maybank IBG Research

**Fig 2: IOI's quarterly FFB output (since 2009)**



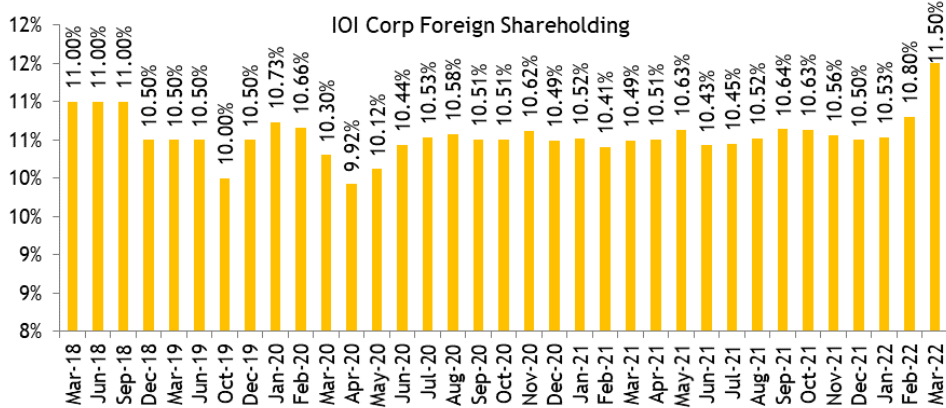
Note: X-axis denotes calendar quarter; Sources: Company

**Fig 3: IOI's 12M forward PER**



Sources: Bloomberg, Maybank IBG Research

**Fig 4: IOI's foreign shareholding**



Source: Company

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for IOI Corporation. Key risks to the palm oil sector and IOI are: (i) weather anomalies resulting in poorer-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly policies imposed by the Malaysian and Indonesian government on upstream or downstream segments; (v) sharply lower crude oil prices, which makes palm biodiesel demand not viable; and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	44.8	19.4	17.0	19.0	20.9
Core P/E (x)	34.1	18.8	17.0	19.0	20.9
P/BV (x)	2.9	2.4	2.6	2.5	2.3
P/NTA (x)	3.1	2.5	2.7	2.5	2.4
Net dividend yield (%)	1.8	2.8	3.5	3.2	2.9
FCF yield (%)	1.7	0.8	3.0	6.1	4.9
EV/EBITDA (x)	22.4	17.3	11.9	13.9	15.0
EV/EBIT (x)	30.8	22.5	14.0	17.1	19.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	7,802.2	11,251.7	15,021.4	13,058.2	12,107.9
EBITDA	1,347.3	1,550.4	2,610.6	2,173.3	1,967.0
Depreciation	(365.9)	(360.5)	(399.4)	(411.0)	(422.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	981.4	1,189.9	2,211.2	1,762.3	1,544.3
Net interest income / (exp)	(103.3)	(126.2)	(129.3)	(128.2)	(100.1)
Associates & JV	143.3	528.8	212.8	282.4	288.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(194.7)	147.3	0.0	0.0	0.0
Pretax profit	826.7	1,739.8	2,294.6	1,916.6	1,733.2
Income tax	(225.0)	(323.5)	(624.6)	(424.9)	(375.5)
Minorities	(0.8)	(22.0)	(48.0)	(40.1)	(36.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	600.9	1,394.3	1,622.1	1,451.6	1,321.4
Core net profit	798.8	1,252.3	1,622.1	1,451.6	1,321.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,313.0	2,024.9	1,864.1	2,701.4	3,316.1
Accounts receivable	815.8	1,427.2	1,905.4	1,656.3	1,535.8
Inventory	1,001.4	1,296.6	1,731.0	1,504.8	1,395.3
Property, Plant & Equip (net)	8,531.8	8,596.2	8,696.8	8,685.7	8,663.1
Intangible assets	424.2	423.4	423.4	423.4	423.4
Investment in Associates & JVs	2,727.0	3,144.5	3,250.9	3,392.1	3,536.6
Other assets	918.4	742.9	742.9	742.9	742.9
<b>Total assets</b>	<b>16,731.6</b>	<b>17,655.7</b>	<b>18,614.4</b>	<b>19,106.6</b>	<b>19,613.1</b>
ST interest bearing debt	917.5	3,918.8	3,918.8	3,918.8	3,918.8
Accounts payable	657.1	767.8	1,025.0	891.1	826.2
LT interest bearing debt	4,051.4	1,037.0	1,016.3	995.9	976.0
Other liabilities	1,535.0	1,618.0	1,643.0	1,669.0	1,695.0
<b>Total Liabilities</b>	<b>7,160.9</b>	<b>7,341.3</b>	<b>7,603.1</b>	<b>7,474.7</b>	<b>7,416.3</b>
Shareholders Equity	9,296.2	10,005.4	10,654.2	11,234.9	11,763.4
Minority Interest	274.5	309.0	357.0	397.1	433.3
<b>Total shareholder equity</b>	<b>9,570.7</b>	<b>10,314.4</b>	<b>11,011.2</b>	<b>11,632.0</b>	<b>12,196.8</b>
<b>Total liabilities and equity</b>	<b>16,731.6</b>	<b>17,655.7</b>	<b>18,614.4</b>	<b>19,106.6</b>	<b>19,613.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	826.7	1,739.8	2,294.6	1,916.6	1,733.2
Depreciation & amortisation	365.9	360.5	399.4	411.0	422.6
Adj net interest (income)/exp	103.3	126.2	129.3	128.2	100.1
Change in working capital	(216.2)	(743.2)	(655.3)	341.3	165.2
Cash taxes paid	(192.2)	(294.7)	(624.6)	(424.9)	(375.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	875.1	652.7	1,330.7	2,089.7	1,756.7
Capex	(419.1)	(453.2)	(500.0)	(400.0)	(400.0)
Free cash flow	456.0	199.5	830.7	1,689.7	1,356.7
Dividends paid	(534.2)	(532.5)	(973.2)	(871.0)	(792.8)
Equity raised / (purchased)	(66.4)	(72.4)	0.0	0.0	0.0
Change in Debt	(93.0)	71.2	(20.7)	(20.3)	(19.9)
Other invest/financing cash flow	(46.7)	47.1	2.4	38.9	70.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(284.3)	(287.1)	(160.8)	837.4	614.6

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.6	44.2	33.5	(13.1)	(7.3)
EBITDA growth	4.9	15.1	68.4	(16.8)	(9.5)
EBIT growth	7.3	21.2	85.8	(20.3)	(12.4)
Pretax growth	(5.3)	110.5	31.9	(16.5)	(9.6)
Reported net profit growth	(4.9)	132.0	16.3	(10.5)	(9.0)
Core net profit growth	8.2	56.8	29.5	(10.5)	(9.0)
<b>Profitability ratios (%)</b>					
EBITDA margin	17.3	13.8	17.4	16.6	16.2
EBIT margin	12.6	10.6	14.7	13.5	12.8
Pretax profit margin	10.6	15.5	15.3	14.7	14.3
Payout ratio	83.6	47.2	60.0	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.7	12.4	10.8	11.1	10.9
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.6
Assets/Equity (x)	1.8	1.8	1.7	1.7	1.7
ROAE (%)	6.5	14.4	15.7	13.3	11.5
ROAA (%)	4.8	7.3	8.9	7.7	6.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	52.0	53.3	59.8	72.9	70.1
Days receivable outstanding	36.7	35.9	39.9	49.1	47.5
Days inventory outstanding	52.2	45.8	48.6	58.3	55.5
Days payables outstanding	36.9	28.4	28.8	34.5	32.9
Dividend cover (x)	1.2	2.1	1.7	1.7	1.7
Current ratio (x)	2.7	1.1	1.2	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.4	2.4	2.6	2.6
Net gearing (%) (incl perps)	27.8	28.4	27.9	19.0	12.9
Net gearing (%) (excl. perps)	27.8	28.4	27.9	19.0	12.9
Net interest cover (x)	9.5	9.4	17.1	13.8	15.4
Debt/EBITDA (x)	3.7	3.2	1.9	2.3	2.5
Capex/revenue (%)	5.4	4.0	3.3	3.1	3.3
Net debt/ (net cash)	2,655.9	2,930.9	3,071.0	2,213.3	1,578.7

Source: Company; Maybank IBG Research

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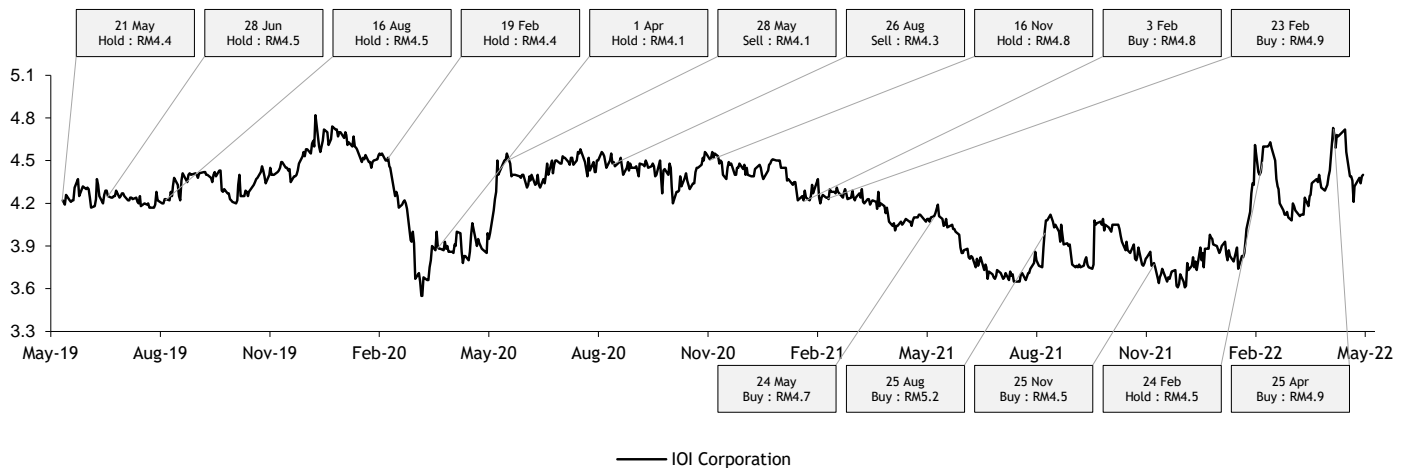
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