

13 September 2017

Agriculture | Plantation

IOI Corp

Neutral (from Sell)

Disposing Of a 70% Stake In Loders

Target Price: MYR4.35
 Price: MYR4.55
 Market Cap: USD6,795m
 Bloomberg Ticker: IOI MK

IOI's disposal of a 70% stake in Loders is at a fair price and most likely will have a neutral impact to net profit in the short term. However, should IOI's vision for a growth in earnings base pan out from its collaboration with Bunge, this could provide some upside. IOI stands to gain c.MYR2.5bn from this disposal and investors stand to gain a yield of 2.9% from a special dividend payout. We look upon this disposal positively, and upgrade our recommendation to NEUTRAL (from Sell) with a higher SOP-derived TP of MYR4.35 (from MYR4.05, 4% downside).

Share Data

Avg Daily Turnover (MYR/USD) 9.48m/2.22m
 52-wk Price low/high (MYR) 4.35 - 4.81
 Free Float (%) 45
 Shares outstanding (m) 6,427
 Estimated Return -4%

Shareholders (%)

Tan Sri Lee Shin Cheng 44.9
 Employees Provident Fund 9.8

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	2.5	0.2	(2.4)	1.1
Relative	(5.6)	1.2	0.1	(6.6)	(5.0)

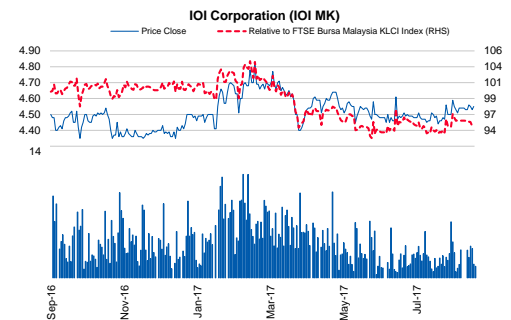
Source: Bloomberg

Selling a 70% stake in Loders. IOI Corp (IOI) entered into a share purchase agreement with Koninklijke Bunge B.V. (KBBV), a subsidiary of Bunge Limited (Bunge), for the disposal of a 70% stake in IOI's subsidiary, Loders Croklaan (Loders). Total price was comprised of a cash consideration of USD595m plus EUR297m net of external debt and cash and including normalised working capital. Based on the financials of Loders at end-FY16 (Jun), there would be a net adjustment of -EUR22m, which brings the total consideration to MYR3.94bn. The transaction is expected to close in the next 12 months, subject to approvals.

The rationale for the disposal is to enable Loders to grow its business to different global regions, which would be possible, given that Bunge has a large footprint globally. After the transaction, Loders would be able to offer differentiated and comprehensive product offerings, based on both tropical and seed oils. IOI believes disposing its stake in Loders is a faster and more effective way to grow, as it would be able to leverage on Bunge's existing plant assets in these regions and Bunge's established integrated supply chain in seed oils. IOI would have two representatives on Loders' five-member Board and would also continue to be a major supplier of palm oil products to Loders. In addition, during the next five years, IOI would have the right to require KBBV to purchase all of IOI's shares in Loders, and KBBV would have the right to require IOI to sell to KBBV all of IOI's shares in Loders.

Valuation is fair and derived from a 13x EV/EBITDA multiple, based on the total audited FY16 EBITDA of Loders of EUR89.7m. We deem this to be fair, given that 13x is at the top range of its peer multiples (Figure 1). IOI's original cost of investment was MYR1.2bn and would recognise a gain on disposal of MYR2.5bn after taking into account the capitalisation of debt. IOI intends to use MYR1.17bn of the proceeds for future investment opportunities, MYR1.97bn for the repayment of debt and MYR788m for a special dividend payment to investors. The special dividend translates to MYR0.13/share, or an additional yield of 2.9%, bringing IOI's total FY18 (Jun) dividend yield to 5.3%.

Upgrade to NEUTRAL (from Sell). After including the impact of interest cost savings and interest income to be received, we estimate the net impact to IOI's bottomline to be relatively neutral at -2% to -3%. We believe investors would react positively to this news, given that IOI's manufacturing earnings are relatively volatile in nature so a smaller stake may reduce such volatility, while there is still a potential upside in the form of synergies from the collaboration with Bunge. While we maintain earnings forecasts, we have raised our SOP-derived TP to MYR4.35 (from MYR4.05), after taking into account the lower contributions from the manufacturing division and the additional cash inflow.



Source: Bloomberg

Forecasts and Valuations	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover (MYRm)	11,739	14,127	16,854	15,867	16,457
Reported net profit (MYRm)	615	743	1,157	1,237	1,294
Recurring net profit (MYRm)	813	1,032	1,157	1,237	1,294
Recurring net profit growth (%)	(20.9)	27.0	12.1	6.9	4.6
Recurring EPS (MYR)	0.13	0.16	0.18	0.19	0.20
DPS (MYR)	0.08	0.09	0.11	0.12	0.13
Recurring P/E (x)	35.3	27.7	25.4	23.8	22.7
P/B (x)	4.12	3.94	3.79	3.57	3.37
P/CF (x)	19.7	27.1	32.2	16.5	19.9
Dividend Yield (%)	1.7	2.0	2.4	2.6	2.7
EV/EBITDA (x)	18.1	15.9	14.5	13.5	12.8
Return on average equity (%)	10.1	10.2	15.2	15.5	15.3
Net debt to equity (%)	73.4	75.4	68.7	59.2	54.4
Our vs consensus EPS (adjusted) (%)			(5.8)	(8.9)	0.0

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on : 2017-09-12.

Asia	Financial summary	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Malaysia	Recurring EPS (MYR)	0.13	0.16	0.18	0.19	0.20
Agriculture	EPS (MYR)	0.10	0.12	0.18	0.19	0.20
IOI Corp	DPS (MYR)	0.08	0.09	0.11	0.12	0.13
Bloomberg	BVPS (MYR)	1.10	1.15	1.20	1.27	1.35
IOI MK	Weighted avg adjusted shares (m)	6,304	6,288	6,462	6,462	6,462
Neutral						
	Valuation metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Valuation basis	Recurring P/E (x)	35.3	27.7	25.4	23.8	22.7
SOP-based target price comprising a target P/E of 18x 2018F for the plantations division and 12x 2018 F for the downstream divisions as well as our SGD0.85 target price for the associate Bunitama. This is backed up by an EV/ha of USD30,000-40,000/ha, which is in line with its Malaysian peers.	P/E (x)	46.7	38.5	25.4	23.8	22.7
	P/B (x)	4.12	3.94	3.79	3.57	3.37
	FCF Yield (%)	3.5	2.0	1.7	4.7	3.6
	Dividend Yield (%)	1.7	2.0	2.4	2.6	2.7
	EV/EBITDA (x)	18.1	15.9	14.5	13.5	12.8
	EV/EBIT (x)	24.9	21.2	17.4	16.3	15.7
Key drivers						
CPO price movement, FFB production output and competitiveness of its downstream processing division versus its peers	Income statement (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Total turnover	11,739	14,127	16,854	15,867	16,457
	Gross profit	1,113	1,244	1,877	1,946	2,001
	EBITDA	1,677	1,903	2,098	2,210	2,296
	Depreciation and amortisation	(458)	(480)	(351)	(387)	(423)
	Operating profit	1,219	1,423	1,747	1,823	1,873
	Net interest	(165)	(174)	(257)	(254)	(246)
	Income from associates & JVs	95	137	136	155	167
	Exceptional income - net	(198)	(289)	0	0	0
	Pre-tax profit	951	1,098	1,625	1,725	1,794
	Taxation	(320)	(332)	(429)	(448)	(461)
	Minority interests	(17)	(23)	(40)	(40)	(40)
	Recurring net profit	813	1,032	1,157	1,237	1,294
Key risks						
Weather, exchange rates, global supply and demand dynamics of edible oils	Cash flow (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Change in working capital	(33)	(582)	(594)	256	(119)
	Cash flow from operations	1,453	1,057	913	1,782	1,481
	Capex	(459)	(498)	(410)	(410)	(409)
	Cash flow from investing activities	(803)	(411)	(513)	(533)	(544)
	Proceeds from issue of shares	(136)	(20)	138	0	0
	Dividends paid	(512)	(604)	(711)	(775)	(808)
	Cash flow from financing activities	(679)	(1,308)	(573)	(775)	(808)
	Cash at beginning of period	1,789	1,938	1,522	1,229	1,703
	Net change in cash	(29)	(662)	(174)	473	130
	Ending balance cash	1,759	1,292	1,348	1,703	1,832
	Balance sheet (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Total cash and equivalents	1,938	1,522	1,229	1,703	1,832
	Tangible fixed assets	10,006	10,080	11,130	12,144	13,122
	Intangible assets	560	574	574	574	574
	Total investments	976	1,128	1,264	1,419	1,587
	Total other assets	148	208	208	208	208
	Total assets	17,543	18,025	19,639	20,929	22,381
	Short-term debt	2,037	2,076	2,076	2,076	2,076
	Total long-term debt	5,345	5,268	4,699	4,699	4,699
	Other liabilities	79	90	90	90	90
	Total liabilities	10,126	10,306	11,572	12,361	13,287
	Shareholders' equity	7,138	7,457	7,766	8,227	8,713
	Minority interests	279	261	301	341	381
	Total equity	7,417	7,719	8,067	8,568	9,094
	Net debt	5,443	5,822	5,546	5,073	4,943
	Total liabilities & equity	17,543	18,025	19,639	20,929	22,381
	Key metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Revenue growth (%)	1.0	20.3	19.3	(5.9)	3.7
	Recurrent EPS growth (%)	(20.2)	27.3	9.1	6.9	4.6
	Gross margin (%)	9.5	8.8	11.1	12.3	12.2
	Operating EBITDA margin (%)	14.3	13.5	12.4	13.9	14.0
	Net profit margin (%)	5.2	5.3	6.9	7.8	7.9
	Dividend payout ratio (%)	82.1	80.4	61.5	62.7	62.4
	Capex/sales (%)	3.9	3.5	2.4	2.6	2.5
	Interest cover (x)	5.58	6.67	6.29	6.57	6.75

Source: Company data, RHB

Figure 1: EV/EBITDA multiple peer comparison

Company	Country in which the company is listed	EV/EBITDA
Wilmar International Limited	Singapore	12.50
AAK AB	Sweden	13.31
Fuji Oil Holdings Inc	Japan	10.50
Mewah International Inc	Singapore	6.48
High		13.31
Low		6.48
Average		10.70

Source: Company

Figure 2: Utilisation of proceeds

Details of utilisation	%	MYR mn	Estimated utilisation timeframe from the Closing Date
Future investment opportunities / working capital	29.75	1,172.20	Within 24 months
Dividend to shareholders	20.00	788.20	Within 12 months
Repayment of borrowings	50.00	1,970.50	Within 24 months
Estimated expenses of the Proposed Disposal	0.25	10.00	Immediate
Total	100.00	3,940.90	

Source: Company

Figure 3: IOI's earnings assumptions

FYE (Jun)	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F
CPO Selling Price (MYR/tonne)	2,509	2,221	2,249	2,766	2,450	2,500	2,500
PK Selling Price (MYR/tonne)	1,709	1,551	1,740	2,691	2,800	2,420	2,420
FFB Production Growth (%)	2.9	1.0	(11.2)	0.3	5.7	3.9	4.1

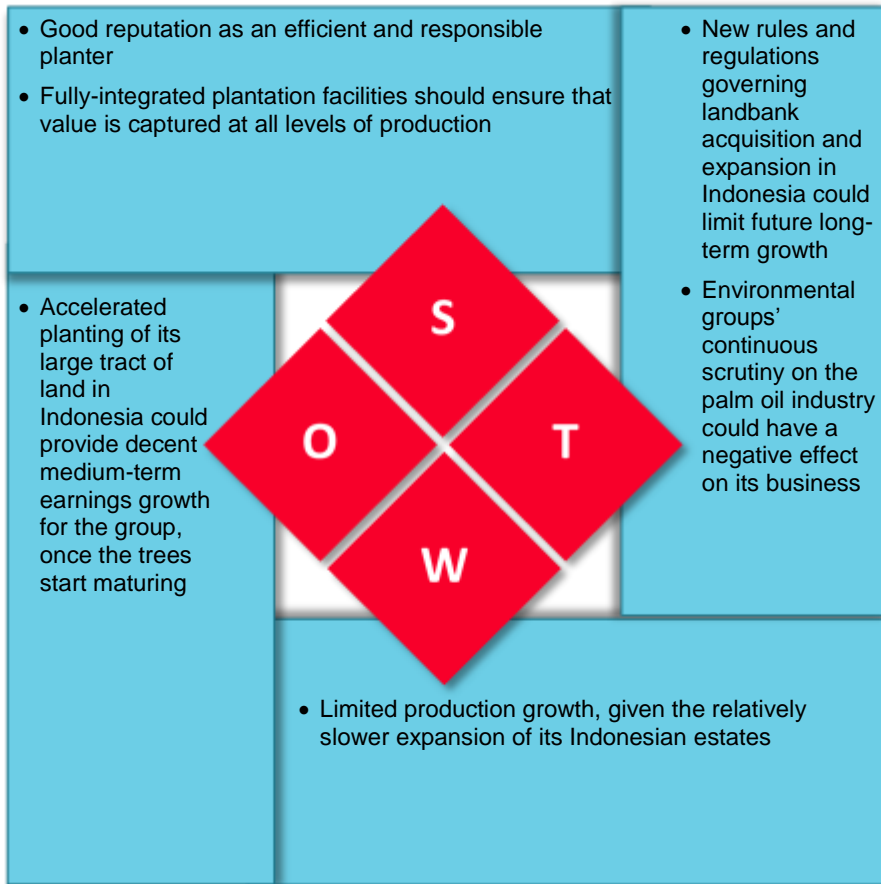
Source: RHB

Figure 4: IOI's SOP valuation

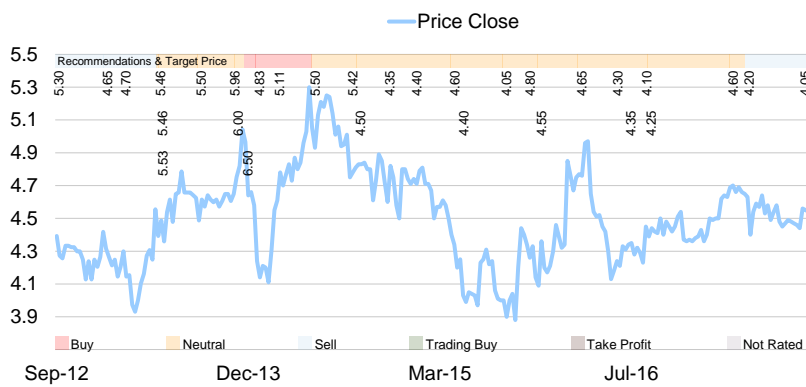
	Valuation basis	FV (MYRm)
Plantation earnings	18x 2018 earnings	23,821.61
Manufacturing earnings (excluding Loders)	12x 2018 earnings	5,456.10
Add: 30.5% stake in Bumitama	RHB Fair Value of SGD0.85/share	1,421.60
Less: Net debt (4QFY17) plus cash to be received on disposal of Loders Croklaan		(2,679.00)
SOP (MYRm)		28,020.31
No shares		6,462
SOP/share (MYR)		4.34

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-08-29	Sell	4.05	4.51
2017-05-17	Sell	4.20	4.60
2017-03-30	Sell	4.20	4.67
2017-02-20	Neutral	4.60	4.63
2016-08-24	Neutral	4.25	4.42
2016-08-07	Neutral	4.25	4.45
2016-07-27	Neutral	4.10	4.25
2016-06-19	Neutral	4.35	4.31
2016-05-19	Neutral	4.30	4.26
2016-02-22	Neutral	4.65	4.71

Source: RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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Not Rated: Stock is not within regular research coverage

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