IOI CORPORATION

(IOI MK EQUITY, IOIB.KL)

HOLD

(Maintained)

Price: RM4.47
Target Price (% return): RM5.00 (14.8%)
52-week High/Low: RM5.00/RM3.80

Plantation
Rationale for report: Company Update

A decent 1QFY27

We believe that IOI Corporation will record a higher net profit in 1QFY27 compared to 1QFY26 due to stronger CPO price and production. According to the MPOB, average CPO price was RM4,552/tonne in 1QFY27, 6.6% higher than RM4,271/tonne in 1QFY26. As for manufacturing (refining and oleochemicals), we think that EBIT would improve YoY in 1QFY27 as selling prices of oleochemicals rise in line with crude oil prices. Dampener is Bunge Loders, which may record lower earnings due to a decline in the selling prices of cocoa butter substitutes. Hence, we maintain HOLD on IOI with a target price of RM5.00/share.

- **HOLD with an unchanged TP of RM5.00/share.** Our TP is based on a CY27F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters. We applied a lower PE to account for risks in the refining and oleochemical industries in South-East Asia, which are facing a glut.
- **Impact of El Nino may not be as sharp as FY16.** We forecast IOI's FFB production to decline by 2.5% in FY27F (FY26: 4.2%, 1QFY27: 4.6% YoY) due to El Nino. We believe that the impact of 2026's El Nino would not be as severe as 2015/2016 as there are occasional rains in Sabah and Peninsular Malaysia. Recall that IOI's FFB production fell by 11.2% YoY in FY16 due to the El Nino in 2015.
- **Cost of production per tonne may rise in FY27F.** We believe that fertiliser costs would go up by 10% to 15% in 2027F. Hence, IOI's CPO cost of production (based on cost of sales) may rise to more than RM2,660/tonne in FY27F from RM2,593/tonne in FY26. A hike in minimum wage from RM1,700/month to RM2,000/month is not expected to affect IOI significantly as most of the estate workers in Malaysia are paid higher than RM2,000/month.
- **Small exposure to Indonesia.** Recently, Indonesia passed a land reform law, which may see 20% of titled landbank being handed over to the government. Details on the law are pending. Silver lining is that IOI's exposure to Indonesia is smaller than the other large plantation companies in Malaysia. IOI has 21,369ha of oil palm estates in Indonesia, which are 12.5% of total planted areas.

YE to Jun	FY26	FY27F	FY28F	FY29F
Revenue (RM mil)	11,779.1	14,240.0	15,502.1	17,241.2
Core net profit (RM mil)	1,682.0	1,742.1	1,748.8	1,829.7
FD Core EPS (sen)	26.8	27.7	27.8	29.1
FD Core EPS growth (%)	9.2	3.6	0.4	4.6
Consensus Net Profit (RM mil)		1,660.0	1,672.0	1,755.0
DPS (sen)	12.5	13.0	13.5	14.0
PE (x)	16.7	16.1	16.1	15.4
EV/EBITDA (x)	13.1	12.6	12.2	11.4
Div yield (%)	2.8	2.9	3.0	3.1
ROE (%)	12.7	12.3	11.6	11.4
Net Gearing (%)	7.9	9.9	9.1	6.4

Source: IOI CORPORATION, AmInvestment Bank

Analyst (s)

Gan Huey Ling, CFA
gan-huey-ling@ambankgroup.com
03-2036 2305

Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	6,203.7
Market Cap (RMmil)	27,730.5
Book Value (RM/Share)	1.63
P/BV (x)	2.7
ROE (%)	12.7
Net Gearing (%)	7.9
Free Float	50.2
Avg Daily Value (RMmil)	34.6

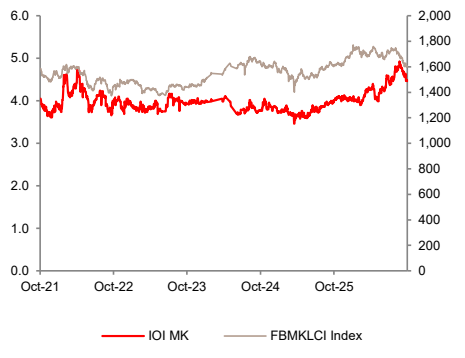
Major Shareholders

Progressive Holdings	49.8%
EPF	17.5%

Price performance	3mth	6mth	12mth
Absolute (%)	+0.0	+4.7	+12.6
Relative (%)	+7.1	+12.1	+12.6

Source: IOI CORPORATION, AmInvestment Bank

Price Chart



Company Profile

IOI Corporation is involved in the upstream and downstream segments of the palm oil supply chain. Apart from palm oil, IOI also has operations in oleochemicals and cultivation of fruits such as pineapples and coconuts.

About 84% of IOI's FY26 pre-tax profit (ex-associates) came from the plantation division while the balance 16% came from the manufacturing unit (refining and oleohemicals).

IOI's customers in the plantation segment are consumer and cooking oil companies in China, India and the European Union (EU). In the oleochemical space, IOI's customers are consumer companies such as Kao, Nestle and Unilever.

IOI has operations in Malaysia, Indonesia and EU.

IOI's competitive advantage lies in its efficient plantation operations. The group's cost of CPO production was RM2,593/tonne in FY26 vs. RM2,623/tonne in FY25. In the oleochemical segment, about 10% of IOI's production volume are high-value items, which are sold to healthcare industries.

Investment thesis and catalysts

We have a HOLD on IOI as the recovery in downstream earnings may not be sustainable due to rising cost of feedstock and stiff competition from Indonesia.

Share price kickers are a rise in CPO prices and robust outlook for the downstream industry.

Valuation methodology

We applied a PE of 18x on IOI's CY27F EPS to arrive at the target price of RM5.00/share. The PE of 18x is one SD below the average of 20x for big-cap planters in the past five years. We applied a discount due to structural changes in the refining and oleochemical industries arising from overcapacity in Indonesia and China.

Risk factors

Key risks are a fall in CPO prices and absence of a recovery in the oleochemical industry.

A RM100/tonne decline in CPO price would affect IOI's net profit by 2% to 5% assuming everything else is constant.

EXHIBIT 1. VALUATIONS

Target PE (x)	18
CY27F EPS (sen)	27.8
ESG premium	-
12-month target price (RM)	5.00

EXHIBIT 2. ESG MATRIX

	Assessment	Parameters	Weight	Rating					Rationale
1	RSPO certification	100% certification	25%	*	*	*	*		100% of mills and 97% of estates were RSPO-certified in FY26
2	Supply chain auditing	100% traceable	25%	*	*	*			96.8% traceable to plantation and 100% traceable to mills in FY26
3	Fires	Zero incidences	25%	*	*	*			4 incidences in IOI's estates (FY25: 7) and 20 outside estates in FY26 (FY25: 43)
4	GHG emissions	Net zero by 2040F	25%	*	*	*			50% GHG reduction in Scope 1 & 2 from 2015 base year in FY26 vs. 45% in FY25
	Weighted score for environmental assessment		**100%**	*	*	*			
1	Migrant workers welfare	Number of Workers' grievances	40%	*	*	*			8,910 complaints in FY26 vs. 4,049 complaints in FY25
2	Work site safety	Zero fatal fatalities	30%	*	*	*			2 occupational fatalities in FY26 vs. 5 fatalities in FY25
3	Lost time incident rate	Below 3	30%	*	*	*			48.4 cases in FY26 vs. 44.8 in FY25
	Weighted score for social assessment		**100%**	*	*	*			
1	Related party transactions	Value of RPTs	40%	*	*	*			RM1.3bil in FY26, mainly sales of products to associates
2	Women in workforce	% in workforce	30%	*	*	*			24% of workforce were women in FY26, same as FY25
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*			RM26.5mil in FY26 vs. RM23.2mil in FY25
	Weighted score for governance assessment		**100%**	*	*	*			
	Environmental score		50%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		20%	*	*	*			
	Overall ESG Score		**100%**	*	*	*			

Source: Company, AmInvestment Bank Bhd

Financial Summary

Income Statement (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Revenue	11,334.7	11,779.1	14,240.0	15,502.1	17,241.2
EBITDA	1,753.8	2,238.0	2,347.1	2,425.0	2,550.9
Depreciation/Amortisation	(404.6)	(420.6)	(470.3)	(501.8)	(533.3)
Operating income (EBIT)	1,349.2	1,817.4	1,876.7	1,923.1	2,017.5
Other income & associates	351.4	392.2	431.4	465.9	475.3
Net interest	(107.2)	(101.3)	(94.4)	(108.0)	(106.0)
Exceptional items	284.1	-	-	-	-
Pretax profit	**1,877.5**	**2,108.3**	**2,213.8**	**2,281.0**	**2,386.8**
Taxation	(341.1)	(398.7)	(442.8)	(501.8)	(525.1)
Minorities/pref dividends	(15.8)	(27.6)	(29.0)	(30.4)	(32.0)
Net profit	**1,520.6**	**1,682.0**	**1,742.1**	**1,748.8**	**1,829.7**
Core net profit	1,236.5	1,682.0	1,742.1	1,748.8	1,829.7

Balance Sheet (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Fixed assets	9,432.6	10,043.6	10,273.3	10,471.4	10,638.1
Intangible assets	429.3	446.6	446.6	446.6	446.6
Other long-term assets	3,478.4	3,571.9	3,925.7	4,391.7	4,866.9
Total non-current assets	**13,340.3**	**14,062.1**	**14,645.6**	**15,309.7**	**15,951.6**
Cash & equivalent	1,578.4	2,041.5	1,683.7	1,719.4	2,072.1
Stock	1,419.8	1,457.6	1,833.6	1,996.2	1,889.4
Trade debtors	1,393.3	1,145.9	1,755.6	1,911.2	2,125.6
Other current assets	398.9	408.0	407.4	431.6	465.0
Total current assets	**4,790.4**	**5,053.0**	**5,680.4**	**6,058.4**	**6,552.1**
Trade creditors	821.9	738.0	1,170.4	1,274.1	1,417.1
Short-term borrowings	740.1	1,034.6	1,055.3	1,076.4	1,097.9
Other current liabilities	88.6	167.2	117.3	124.2	133.8
Total current liabilities	**1,650.6**	**1,939.8**	**2,343.0**	**2,474.8**	**2,648.8**
Long-term borrowings	2,474.5	2,055.3	2,034.7	2,014.4	1,994.3
Other long-term liabilities	1,372.8	1,486.5	1,360.7	1,360.7	1,360.7
Total long-term liabilities	**3,847.3**	**3,541.8**	**3,395.4**	**3,375.1**	**3,355.0**
Shareholders' funds	**12,294.0**	**13,282.6**	**14,207.6**	**15,107.9**	**16,057.7**
Minority interests	338.8	350.9	379.9	410.3	442.3
BV/share (RM)	1.55	1.63	1.74	1.85	1.97

Cash Flow (RMmil)

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Pretax profit	1,877.5	2,108.3	2,213.8	2,281.0	2,386.8
Depreciation/Amortisation	404.6	420.6	470.3	501.8	533.3
Net change in working capital	(784.7)	(409.2)	(1,045.4)	(733.5)	(513.7)
Others	(454.3)	(451.5)	0.0	0.0	0.0
Cash flow from operations	**1,043.1**	**1,668.2**	**1,638.8**	**2,049.4**	**2,406.5**
Capital expenditure	(685.8)	(755.3)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(110.3)	(65.2)	(77.6)	0.0	0.0
Others	159.0	(41.5)	0.0	0.0	0.0
Cash flow from investing	**(637.1)**	**(862.0)**	**(777.6)**	**(700.0)**	**(700.0)**
Debt raised/(repaid)	(234.3)	(23.2)	0.1	0.8	1.4
Equity raised/(repaid)	0.0	333.6	0.0	0.0	0.0
Dividends paid	(628.5)	(702.4)	(817.1)	(848.5)	(879.9)
Others	(141.9)	(145.9)	(204.1)	(465.9)	(475.3)
Cash flow from financing	**(1,004.7)**	**(537.9)**	**(1,021.1)**	**(1,313.7)**	**(1,353.8)**
Net cash flow	**(598.7)**	**268.3**	**(159.9)**	**35.7**	**352.7**
Net cash/(debt) b/f	**2,181.7**	**1,578.4**	**1,843.6**	**1,683.7**	**1,719.4**
Forex	**(4.6)**	**(3.1)**	**0.0**	**0.0**	**0.0**
Net cash/(debt) c/f	**1,578.4**	**1,843.6**	**1,683.7**	**1,719.4**	**2,072.1**

Key Ratios

YE to Jun	FY25	FY26	FY27F	FY28F	FY29F
Revenue growth (%)	18.0	3.9	20.9	8.9	11.2
EBITDA growth (%)	30.8	9.8	4.9	3.3	5.2
Pretax margin (%)	16.6	17.9	15.5	14.7	13.8
Net profit margin (%)	13.4	14.3	12.2	11.3	10.6
Interest cover (x)	19.0	22.1	24.9	22.5	24.1
Effective tax rate (%)	18.2	18.9	20.0	22.0	22.0
Dividend payout (%)	42.8	46.7	46.9	48.5	48.1
Debtors turnover (days)	44.9	45.0	45.0	45.0	45.0
Stock turnover (days)	45.7	47.0	47.0	47.0	40.0
Creditors turnover (days)	26.5	30.0	30.0	30.0	30.0

Source: Company, AmInvestment Bank

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