

# IOI CORPORATION

(IOI MK EQUITY, IOIB.KL)

**HOLD**

(Maintained)

Price: RM4.03

Target Price (% return): RM4.12 (2.2%)

52-week High/Low: RM4.14/RM3.42

## Plantation

Rationale for report: Company Update

## Non-CPO ventures to take time

*We believe that it would take four to five years for IOI Corporation's non-CPO ventures to be profitable. Silver lining is the initial losses from the non-CPO ventures would be more than compensated by IOI's plantation earnings, which are more than RM1bil per year. We have not included contribution from the new ventures in IOI's bottom line yet as they are envisaged to be completed only in 2028F. IOI is expected to start the construction of its paper/pulp and coconut mills this year. We estimate IOI's share of the capex to be RM362mil in total. We maintain HOLD on IOI with a target price of RM4.12/share.*

- HOLD with an unchanged TP of RM4.12/share.** To arrive at IOI's TP, we have assumed a CY26F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters. The lower PE multiple reflects earnings risks from the refining and oleochemical operations, which are facing stiff competition from Indonesia.
- The RM900mil paper and pulp factory in Pekan, Pahang has a guaranteed off taker.** Assuming a selling price of US\$550/tonne and an EBIT margin of 15%, we think that the paper and pulp venture would generate an EBIT of RM51mil. IOI's 33% share would be RM17mil. Risks are the volatility in selling prices and operational issues of a new factory. Xiamen C&D, which is the joint venture partner would be taking up all of the factory's paper and pulp products. Under Phase 1, the paper and pulp factory is expected to command a capacity of 150,000 tonnes/year.
- IOI's plantation operations are resilient.** We forecast a plantation EBIT of RM1.4bil in FY26F (FY25: RM1.3bil). We have assumed a FFB output growth of 5% in FY26F (1HFY26: 8%) compared with 1.3% in FY25. The improvement in FFB yield is expected to be underpinned by favourable weather conditions in Sabah after the floods in late-2024 and early-2025. We think that IOI's cost of production (cost of sales) would be RM2,700/tonne in FY26F vs. RM2,623/tonne in FY25 due to a higher cost of wages.
- Steady income from associates (mainly Bunge Lodgers and Bumitama).** We estimate IOI's share of net profit in associates to improve by 5% to RM369mil in FY26F on the back of strong demand for Bunge Lodgers' products in the US and healthy FFB output by Bumitama Agri.

YE to Jun	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	11,334.7	12,599.8	13,967.2	15,311.6
Core net profit (RM mil)	1,520.6	1,347.9	1,491.5	1,628.5
FD Core EPS (sen)	24.5	21.7	24.0	26.3
FD Core EPS growth (%)	37.1	(11.4)	10.7	9.2
Consensus Net Profit (RM mil)		1,389.0	1,405.0	1,433.0
DPS (sen)	10.5	11.0	11.5	12.0
PE (x)	16.4	18.5	16.8	15.4
EV/EBITDA (x)	13.1	14.3	13.0	11.9
Div yield (%)	2.6	2.7	2.9	3.0
ROE (%)	12.4	10.4	10.9	11.1
Net Gearing (%)	13.3	13.9	13.6	12.4

Source: IOI CORPORATION, AmInvestment Bank

## Analyst (s)

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## Key Changes

Target Price:	↔
EPS:	↔

## Stock and Financial Data

Shares Outstanding (million)	6,203.70
Market Cap (RMmil)	25,000.9
Book Value (RM/Share)	1.55
P/BV (x)	2.6
ROE (%)	12.4
Net Gearing (%)	13.3
Free Float	52.6
Avg Daily Value (RMmil)	18.3

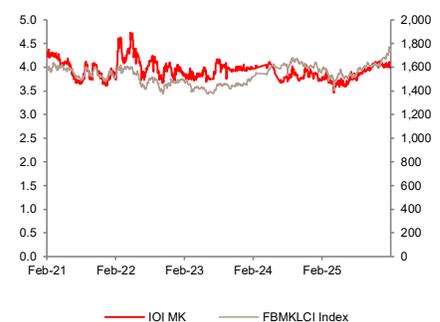
## Major Shareholders

Progressive Holdings	50.5%
EPF	17.9%
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Price performance	3mth	6mth	12mth
Absolute (%)	(0.0)	+7.2	+7.8
Relative (%)	(7.8)	(6.4)	(3.5)

Source: IOI CORPORATION, AmInvestment Bank

## Price Chart



## Company profile

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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.

More than 80% of IOI's earnings are from the plantation division while the balance 20% are from the manufacturing unit (refining, oleochemicals and wood panel).

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 (ex-depreciation and taxes) was RM2,032/tonne in FY25 vs. RM2,050/tonne in FY24. 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

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We have a HOLD on IOI as the outlook for refining and oleochemical industry in Malaysia is challenging.

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

## Valuation methodology

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We applied a PE of 18x on IOI's CY26F EPS to arrive at the target price of RM4.12/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

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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

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Target PE (x)	18
CY26F EPS (sen)	22.9
ESG premium	-
12-month target price (RM)	4.12

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## EXHIBIT 2. ESG MATRIX

	Assessment	Parameters	Weightage	Rating				Rationale
1	RSPO certification	100% certification	25%	*	*	*	*	100% of mills, 99% of Malaysian estates and 73% of Indonesian estates were RSPO-certified in FY24
2	Supply chain auditing	100% traceable	25%	*	*	*		For 3rd party suppliers, 97.9% traceable to plantation and 100% traceable to mills
3	Fires	Zero incidences	25%	*	*	*		14 incidences in operating areas and 87 wildfires outside concessions in FY24
4	GHG emissions	Net zero by 2040F	25%	*	*	*		40% GHG reduction in Scope 1 & 2 in FY24
	<b>Weighted score for environmental assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
1	Migrant workers welfare	Number of Workers grievances	40%	*	*	*		3,649 reports in FY24
2	Work site safety	Zero fatal fatalities	30%	*	*	*		3 fatalities in FY24
3	Lost time incident rate	Below 3	30%	*	*	*		4.9 in FY24
	<b>Weighted score for social assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
1	Related party transactions	Value of RPTs	40%	*	*	*		RM639.7mil in FY24, mainly sales of products to associates
2	Women in workforce	% in workforce	30%	*	*	*		31.5% of executives and 23.7% of general workers were women in FY24
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*		RM22.6mil in FY24
	<b>Weighted score for governance assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
	Environmental score		50%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		20%	*	*	*		
	<b>Overall ESG Score</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		

Source: Company, AmInvestment Bank Bhd

## Financial Summary

### Income Statement (RMmil)

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Revenue	9,603.6	11,334.7	12,599.8	13,967.2	15,311.6
EBITDA	1,577.2	1,753.8	1,871.6	2,063.4	2,261.5
Depreciation/Amortisation	(397.1)	(404.6)	(438.8)	(470.3)	(501.8)
Operating income (EBIT)	1,180.1	1,349.2	1,432.7	1,593.1	1,759.7
Other income & associates	355.2	351.4	369.0	387.4	406.8
Net interest	(117.9)	(107.2)	(96.1)	(94.4)	(108.0)
Exceptional items	(18.9)	284.1	-	-	-
<b>Pretax profit</b>	<b>1,398.5</b>	<b>1,877.5</b>	<b>1,705.6</b>	<b>1,886.1</b>	<b>2,058.5</b>
Taxation	(282.2)	(341.1)	(341.1)	(377.2)	(411.7)
Minorities/pref dividends	(6.9)	(15.8)	(16.6)	(17.4)	(18.3)
<b>Net profit</b>	<b>1,109.4</b>	<b>1,520.6</b>	<b>1,347.9</b>	<b>1,491.5</b>	<b>1,628.5</b>
Core net profit	1,128.3	1,236.5	1,347.9	1,491.5	1,628.5

### Balance Sheet (RMmil)

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	9,229.1	9,432.6	9,693.8	9,923.4	10,121.6
Intangible assets	427.7	429.3	429.3	429.3	429.3
Other long-term assets	3,300.8	3,478.4	3,847.4	4,234.8	4,641.6
<b>Total non-current assets</b>	<b>12,957.6</b>	<b>13,340.3</b>	<b>13,970.4</b>	<b>14,587.5</b>	<b>15,192.4</b>
Cash & equivalent	2,181.7	1,578.4	1,407.6	1,325.6	1,368.4
Stock	1,221.2	1,419.8	1,622.4	1,798.5	1,971.6
Trade debtors	1,283.4	1,393.3	1,553.4	1,722.0	1,887.7
Other current assets	298.3	398.9	429.1	455.4	481.1
<b>Total current assets</b>	<b>4,984.6</b>	<b>4,790.4</b>	<b>5,012.6</b>	<b>5,301.5</b>	<b>5,708.9</b>
Trade creditors	788.5	821.9	1,035.6	1,148.0	1,258.5
Short-term borrowings	708.7	740.1	754.9	770.0	785.4
Other current liabilities	83.6	88.6	83.0	90.5	97.9
<b>Total current liabilities</b>	<b>1,580.8</b>	<b>1,650.6</b>	<b>1,873.5</b>	<b>2,008.5</b>	<b>2,141.8</b>
Long-term borrowings	2,996.0	2,474.5	2,449.8	2,425.3	2,401.0
Other long-term liabilities	1,355.7	1,372.8	1,344.8	1,344.8	1,345.8
<b>Total long-term liabilities</b>	<b>4,351.7</b>	<b>3,847.3</b>	<b>3,794.6</b>	<b>3,770.1</b>	<b>3,746.8</b>
<b>Shareholders' funds</b>	<b>11,678.6</b>	<b>12,294.0</b>	<b>12,959.5</b>	<b>13,737.6</b>	<b>14,621.6</b>
Minority interests	331.1	338.8	355.4	372.8	391.1
BV/share (RM)	1.48	1.55	1.64	1.74	1.85

### Cash Flow (RMmil)

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	1,398.5	1,877.5	1,705.6	1,886.1	2,058.5
Depreciation/Amortisation	397.1	404.6	438.8	470.3	501.8
Net change in working capital	(264.3)	(784.7)	(526.0)	(628.2)	(658.5)
Others	(297.5)	(454.3)	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1,233.8</b>	<b>1,043.1</b>	<b>1,618.5</b>	<b>1,728.3</b>	<b>1,901.9</b>
Capital expenditure	(663.9)	(685.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(16.3)	(156.3)	0.0	0.0	0.0
Others	187.1	205.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(493.1)</b>	<b>(637.1)</b>	<b>(700.0)</b>	<b>(700.0)</b>	<b>(700.0)</b>
Debt raised/(repaid)	(15.7)	(234.3)	(9.9)	(9.4)	(8.9)
Equity raised/(repaid)	0.3	0.0	0.0	0.0	0.0
Dividends paid	(604.1)	(628.5)	(682.4)	(713.4)	(744.4)
Others	(176.8)	(141.9)	(397.0)	(387.4)	(405.8)
<b>Cash flow from financing</b>	<b>(796.3)</b>	<b>(1,004.7)</b>	<b>(1,089.3)</b>	<b>(1,110.2)</b>	<b>(1,159.1)</b>
<b>Net cash flow</b>	<b>(55.6)</b>	<b>(598.7)</b>	<b>(170.8)</b>	<b>(82.0)</b>	<b>42.8</b>
<b>Net cash/(debt) b/f</b>	<b>2,235.0</b>	<b>2,181.7</b>	<b>1,578.4</b>	<b>1,407.6</b>	<b>1,325.6</b>
Forex	2.3	(4.6)	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>2,181.7</b>	<b>1,578.4</b>	<b>1,407.6</b>	<b>1,325.6</b>	<b>1,368.4</b>

### Key Ratios

YE to Jun	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	-17.1	18.0	11.2	10.9	9.6
EBITDA growth (%)	-10.5	30.8	-8.2	10.3	9.6
Pretax margin (%)	14.6	16.6	13.5	13.5	13.4
Net profit margin (%)	11.6	13.4	10.7	10.7	10.6
Interest cover (x)	13.2	19.0	19.5	21.9	20.9
Effective tax rate (%)	20.2	18.2	20.0	20.0	20.0
Dividend payout (%)	53.1	42.8	50.6	47.8	45.7
Debtors turnover (days)	48.8	44.9	45.0	45.0	45.0
Stock turnover (days)	46.4	45.7	47.0	47.0	47.0
Creditors turnover (days)	30.0	26.5	30.0	30.0	30.0

Source: Company, AmInvestment Bank

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