Higher yoy earnings as production and ASPs rise

Results Note

Genting Plant

GENP MK
Sector: Plantation

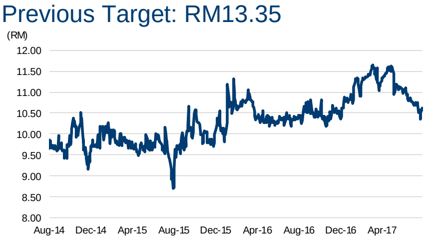
RM10.58 @ 23 August 2017

BUY (maintain)

Upside: 13.4%

Price Target: RM12.00

Previous Target: RM13.35



GENP's 1H17 core net profit of RM153.6m (>100% yoy) was below our expectations. The variance was mainly due to a lower-than-expected margin from the plantation division. We cut our 2017-19E EPS by 10-11% to account for the weaker margin, which leads us to lower our TP to RM12.00. Maintain BUY.

1H17 core net profit more than doubled to RM153.6m

Genting Plantations (GENP) reported a higher 1H17 revenue of RM846.5m, up 48.5% yoy, mainly because of higher contribution from the upstream plantation and downstream manufacturing divisions, but partially offset by lower property sales. The blended CPO and PK ASPs were higher yoy at RM2,861/MT (1H16: RM2,444/MT) and RM2,513/MT (1H16: RM2,108/MT), respectively, while FFB production increased by 34% yoy to 862k MT. PBT for 1H17 more than tripled yoy to RM210.8m. After adjusting for one-off items, 1H17 core net profit more than doubled yoy to RM153.6m, accounting for 37% and 41% of our previous and consensus 2017E forecast respectively. Despite the strong yoy improvement, this came in below our expectation mainly due to a lower-than-expected margin from the plantation division. GENP declared a DPS of 5.5 sen (1H16: 2 sen).

Slightly higher core net profit sequentially

Sequentially, 2Q17 revenue was higher by 11.5% qoq to RM446.2m, attributable to increase in revenue contribution from the property and downstream manufacturing divisions but partially offset by the decline in upstream plantation division. After adjusting for one-off items, 2Q17 core net profit increased slightly by 1.3% qoq to RM77.3m.

Maintain BUY but with a lower TP of RM12.00

We cut our 2017-19E core EPS by 10-11%, mainly to take into account the weaker-than-expected 1H17 results given the weaker margins in the plantation division. As such, our 12-month target price for GENP has been reduced to RM12.00 (from RM13.35 previously), based on an unchanged 2018E PER of 22x. We still like GENP as we expect a rising matured plantation area, and higher FFB and CPO production to drive growth. With the 13.4% upside potential to our new TP, we maintain our BUY rating on GENP. Key risks to our BUY rating include: 1) a weaker-than-expected recovery in the global economy; 2) lower vegetable oil and crude oil prices; 3) weaker-than-expected FFB and CPO production; and 4) adverse changes in policies.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,374.9	1,411.8	1,601.6	1,746.2	1,895.3
EBITDA (RMm)	322.0	350.6	551.6	617.4	670.1
Pretax profit (RMm)	247.4	501.0	500.6	566.4	619.1
Net profit (RMm)	189.7	367.5	370.5	420.4	460.5
EPS (sen)	24.6	47.7	48.1	54.5	59.7
PER (x)	43.0	22.2	22.0	19.4	17.7
Core net profit (RMm)	205.8	300.6	370.5	420.4	460.5
Core EPS (sen)	26.7	39.0	48.1	54.5	59.7
Core EPS growth (%)	(31.8)	46.1	23.2	13.5	9.5
Core PER (x)	39.6	27.1	22.0	19.4	17.7
Net DPS (sen)	5.5	21.0	10.0	10.0	10.0
Dividend Yield (%)	0.5	2.0	0.9	0.9	0.9
EV/EBITDA (x)	28.0	26.4	15.6	13.6	12.2
Chg in EPS (%)			-11.0	-10.2	-9.9
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Price Performance

	1M	3M	12M
Absolute	-1.9%	-8.6%	1.2%
Rel to KLCI	-2.6%	-8.9%	-4.0%

Stock Data

Issued shares (m)	803.2
Mkt cap (RMm)/(US$m)	8497.8/1985.1
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	10.2-11.76
Est free float	25.4%
BV per share (RM)	5.91
P/BV (x)	1.79
Net cash/ (debt) (RMm) (2Q17)	(978.5)
ROE (2017E)	7.5%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Genting Berhad	50.7%
EPF	17.1%
KWAP	4.6%

Source: Affin Hwang, Bloomberg

Nadia Aquidah
(603) 2146 7528
nadia.subhan@affinhwang.com

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	qoq % chg	yoy % chg	1H17	yoy % chg	Comment
Revenue	446.2	*11.5*	*44.4*	846.5	*48.5*	**1H17**: Higher selling prices of CPO (RM2,861/MT vs. RM2,444/MT in 1H16) and PK (RM2,513/MT vs. RM2,108/MT in 1H16)
Op costs	(291.8)	*(17.7)*	*(18.1)*	(539.6)	*20.4*	
EBITDA	154.4	*1.3*	*>100*	306.8	*>100*	
EBITDA margin (%)	*34.6*	*-3.5ppt*	*14.5ppt*	*36.2*	*14.9ppt*	
Depn and amort	(45.6)	*8.0*	*80.1*	(87.8)	*74.5*	
EBIT	**108.9**	*(1.2)*	*>100*	219.1	*>100*	
Int expense	(16.7)	*9.1*	*1.3*	(32.0)	*(4.1)*	
Int and other inc	10.4	*6.5*	*(2.5)*	20.2	*(10.9)*	
Associates	7.6	*25.3*	*41.3*	13.6	*17.9*	
Exceptional items	(6.3)	*68.9*	*n.m*	(10.1)	*88.4*	Mainly attributable to write-off of receivables and forex loss
Pretax profit	**103.8**	*(2.9)*	*>100*	**210.8**	*>100*	
Core pretax profit	**110.2**	*(0.5)*	*>100*	**220.9**	*>100*	Adjusted for exceptional items
Tax	(27.8)	*(5.8)*	*>100*	**(57.3)**	*>100*	
Tax rate (%)	*26.7*	*-0.8ppt*	*-2.6ppt*	*27.2*	*-1.9ppt*	Higher than the statutory rate due to expenses not deductible for tax purposes and deferred tax assets not recognised
MI	(5.1)	*2.4*	*n.m*	(10.1)	*n.m*	
Net profit	**71.0**	*(2.1)*	*>100*	**143.5**	*>100*	
EPS (sen)	8.6	*(1.8)*	*99.3*	17.9	*>100*	
Core net profit	**77.3**	*1.3*	*>100*	**153.6**	*>100*	Below expectations

Source: Affin Hwang, Company

Fig 2: Quarterly revenue breakdown

FYE 31 Dec (RMm)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Plantation	202.3	256.9	342.0	457.2	253.5	221.0
Property	35.0	29.3	32.6	28.7	20.8	28.7
Downstream	23.6	22.9	22.1	27.5	125.9	196.6
Total	**260.9**	**309.1**	**396.7**	**513.4**	**400.2**	**446.3**

Source: Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com