Disappointing start to the year

IJMP's 1QFY18 core net profit of RM17m came in below expectations. The variance was mainly due to higher operation costs on the Indonesian side. As such, we cut our FY18-20 EPS forecasts by 17-19% to account for the weak 1QFY18 results. Given the limited upside to our new TP of RM3.05, we downgrade the stock to a HOLD.

1QFY18 revenue increased by 32.4% yoy

IJM Plantations (IJMP) reported higher 1QFY18 revenue by 32.4% yoy to RM184.6m, mainly because of higher FFB production as well as higher CPO prices but partially offset by the decline in PKO prices. Own FFB production increased by 26.1% yoy to 241,544MT in 1QFY18, while CPO ASPs for Malaysia and Indonesia were at RM2,753/MT (1QFY17: RM2,570/MT) and RM2,502/MT (1QFY17: RM2,411/MT), respectively. Meanwhile, the PKO ASPs for Malaysia and Indonesia were at RM4,399/MT (1QFY17: RM4,954/MT) and RM4,136/MT (1QFY17: 4,379/MT), respectively. EBITDA margin contracted to 26.7% from 31.3% in 1QFY17, partly attributable to higher operation costs.

Core net profit increased by 27% yoy to RM17m – below expectations

After excluding one-off items, IJMP's core net profit in 1QFY18 improved by 27% yoy to RM17m. This came in below our and consensus expectations, accounting for 11% and 12% of our previous and street forecasts, respectively. The variance was mainly due to higher-than-expected cost of production especially for the Indonesian operations.

TP lowered to RM3.05, downgraded to HOLD

We have cut our FY18-20 EPS forecasts by 17-19% to account for the weak set of results, especially the higher cost of production for the Indonesian operations. Our CPO ASP assumption is maintained at RM2,600/MT. In tandem with our earnings downgrade, our target price for IJMP is now lowered to RM3.05 (from RM3.73 previously), based on an unchanged 22x FY18E PER. We downgrade IJMP to a HOLD rating (from BUY previously) given the limited upside to our new TP.

Key risks

Key upside/downside risks include: 1) a stronger/weaker economic growth leading to a higher/lower consumption of vegetable oils; 2) a sustained rebound/plunge in the CPO price; 3) higher/lower-than-expected FFB and CPO production; and 4) changes in government policies.

Earnings & Valuation Summary

FYE 31 Mar	2016	2017	2018E	2019E	2020E
Revenue (RMm)	557.6	753.7	789.1	846.5	904.7
EBITDA (RMm)	125.1	237.3	241.8	272.6	303.0
Pretax profit (RMm)	50.4	168.5	164.8	195.6	226.0
Net profit (RMm)	24.2	115.1	122.0	145.4	168.4
EPS (sen)	2.7	13.1	13.9	16.5	19.1
PER (x)	109.5	23.0	21.7	18.2	15.7
Core net profit (RMm)	40.3	108.3	122.0	145.4	168.4
Core EPS (sen)	4.6	12.3	13.9	16.5	19.1
Core EPS growth (%)	(70.2)	168.4	12.7	19.2	15.9
Core PER (x)	65.7	24.5	21.7	18.2	15.7
Net DPS (sen)	5.0	7.0	10.0	10.0	10.0
Dividend Yield (%)	1.7	2.3	3.3	3.3	3.3
EV/EBITDA (x)	24.9	13.4	13.3	11.5	10.0
Chg in EPS (%)			(18.5)	(18.5)	(16.7)
Affin/Consensus (x)			0.9	0.9	1.0

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

IJM Plant

IJMP MK
Sector: Plantation

RM3.01 @ 23 August 2017

HOLD (downgrade)

Upside: 1.3%

Price Target: RM3.05

Previous Target: RM3.73

Price Performance

	1M	3M	12M
Absolute	0.3%	-2.9%	-8.8%
Rel to KLCI	-0.4%	-3.2%	-13.4%

Stock Data

Issued shares (m)	880.6
Mkt cap (RMm)/(US$m)	2650.5/619.2
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.95-3.70
Est free float	15.0%
BV per share (RM)	2.03
P/BV (x)	1.5
Net cash/ (debt) (RMm) (1Q18)	(529.9)
ROE (FY18E)	8.2%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

IJM Corp Bhd	56.1%
EPF Board	14.2%
KWAP	4.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Mar (RMm)	1QFY18	*qoq % chg*	*yoy % chg*	Comment
Revenue	184.6	*(4.2)*	*32.4*	**1QFY18**: Higher yoy mainly due to higher CPO ASPs in Malaysia (+7.1%) and Indonesia (+3.8%) and higher own FFB production by 26.1%, but partially offset by decline in PKO ASPs in Malaysia (-11.2%) and Indonesia (-5.5%)
Op costs	(135.4)	*(3.2)*	*41.4*	Higher operation costs especially in Indonesia
EBITDA	49.2	*(6.9)*	*12.8*	
EBITDA margin (%)	*26.7*	*(0.8 ppt)*	*(4.6 ppt)*	
Depn and amort	(20.5)	*0.5*	*38.6*	
EBIT	28.7	*(11.5)*	*(0.4)*	
Int expense	(5.4)	*13.7*	*46.6*	
Int and other inc	1.6	*(15.6)*	*(6.8)*	
Associates	0.0	-	-	
Exceptional item	(0.1)	*n.m*	*n.m*	Mainly net forex losses and fair value gains on CPO pricing swaps
Pretax profit	**24.8**	*(32.9)*	*(35.9)*	
Core pretax	**24.9**	*(15.8)*	*(7.2)*	
Tax	**(8.2)**	*(43.5)*	*(28.7)*	
Tax rate (%)	*33.0*	*(6.1 ppt)*	*(3.3 ppt)*	**1QFY18:** Higher than statutory rate due to tax treatment of forex movements and non-deductibility of certain expenses
MI	0.3	*n.m*	*n.m*	
Net profit	16.9	*(23.3)*	*(33.0)*	
EPS (sen)	1.9	*(23.2)*	*(32.9)*	
Core net profit	**17.0**	*16.0*	*27.0*	Below expectations

Source: Company data, Affin Hwang estimates

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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