AmInvestment Bank

Company Report

PLANTATION

IOI CORPORATION

(IOI MK EQUITY, IOIB.KL)

7 Jul 2025

5% SST on PKO may hit margins

HOLD

(Maintained)

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Rationale for report: Company Update

Price	**RM3.74**
Target Price	**RM4.05**
52-week High/Low	RM4.08/RM3.42

Key Changes

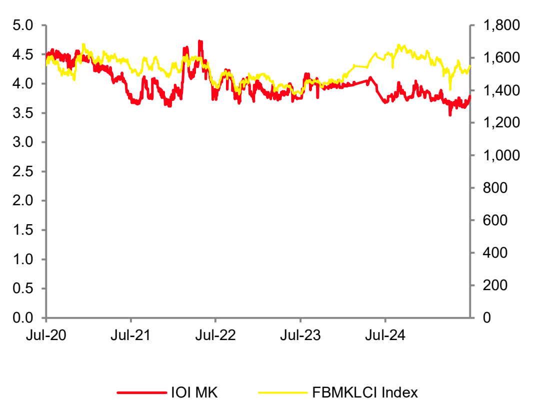
Target Price	⇔
EPS	⇔

YE to Jun	FY24	FY25F	FY26F	FY27F
Revenue (RMmil)	9,603.6	10,585.6	9,360.8	9,905.4
Net Profit (RMmil)	1,109.4	1,257.7	1,328.3	1,473.0
EPS (sen)	17.9	20.3	21.4	23.7
EPS growth (%)	(0.4)	13.4	5.6	10.9
Consensus net (RMmil)		1,295.0	1,322.0	1,349.0
DPS (sen)	9.5	11.0	12.0	13.0
PE (x)	20.9	18.4	17.5	15.8
EV/EBITDA (x)	15.9	13.7	13.2	12.2
Div Yield (%)	2.5	2.9	3.2	3.5
ROE (%)	9.5	10.3	10.3	10.9
Net Gearing (%)	13.0	10.0	7.8	7.6

Stock and Financial Data

Shares Outstanding (million)	6,203.7
Market Cap (RMmil)	23,201.8
Book Value (RM/Share)	1.48
P/BV (x)	2.5
ROE (%)	9.5
Net Gearing (%)	13.0
Major Shareholders	Progressive Holdings (50.5%) EPF (11.0%)
Free Float	52.6
Avg Daily Value (RMmil)	6.6

Price performance	3mth	6mth	12mth
Absolute (%)	+0.1	-2.8	+2.5
Relative (%)	-0.1	+2.5	+5.7



Investment Highlights

We expect IOI Corporation's core net profit (ex-forex changes) to rise QoQ in 4QFY25 as a higher volume of CPO production compensates for lower palm product prices. We believe that manufacturing EBIT would retrace in 4QFY25 dragged by the refining unit. Going forward, we believe that oleochemical EBIT margin will be affected if the 5% sales tax on palm kernel oil (PKO) in Malaysia is not exempted. We believe that it will be difficult to pass on the cost of the sales tax to customers when Indonesian players are selling their products at lower prices. We maintain HOLD on IOI with a TP of RM4.05/share.

- **HOLD with TP of RM4.05/share.** Our target price is based on a CY26F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters. We applied a discount as the oleochemical industry is facing structural changes resulting from the build-up of capacity in Indonesia and China.

- **Upstream EBIT to improve in 4QFY25.** IOI's FFB production is estimated to climb by more than 30% QoQ in 4QFY25. This is anticipated to offset a 14.3% decline in average CPO price. We estimate IOI's average CPO price realised to be RM4,000/tonne in 4QFY25 vs. RM4,667/tonne in 3QFY25.

- **Challenging outlook for manufacturing (mainly refining and oleochemicals).** We forecast IOI's manufacturing EBIT to decline by 6% in FY26F as global economic uncertainties affect demand. There is risk that the 5% sales tax on PKO in Malaysia may affect oleo earnings further. IOI's oleochemical EBIT was RM14.6mil in 3QFY25. The group has an annual oleochemical production capacity of 890,000 tonnes, which are mainly in Malaysia.

- **Paper pulp factory in Pekan, Pahang is under way.** Earnings contribution is expected to come in FY28F as the factory would only be completed in 2027F. Production capacity of the first phase of the plant is about 150,000 tonnes per year. The plant will be producing paper made from empty fruit bunches. Xiamen C&D will be the main off-taker. The plant is jointly owned by Xiamen C&D and Nextgreen IOI Pulp. Nextgreen IOI Pulp is 55%-owned by Nextgreen Global and 45%-owned by IOI.

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 87% of IOI's FY24 pre-tax profit (ex-associates) came from the plantation division while the balance 13% 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 Unon (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 at the EBIT level) was RM2,505/tonne in FY24. This is one of the lowest in the industry. In the oleochemical segment, about 10% of IOI's production volume are high-value items, which are sold to the healthcare industries.

Investment thesis and catalysts

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

We applied a PE of 18x on IOI's CY26F EPS to arrive at the target price of RM4.05/share. The PE of 18x is one SD below the average of 20x for big-cap planters in the past five years.

Risk factors

Key risks are a fall in CPO prices and non-recovery in the oleochemical industry.

A RM100/tonne decline in CPO price would affect IOI's net profit by 2% to 4% assuming everything else is constant.

EXHIBIT 1: VALUATIONS

Target PE (x)	18
CY26F EPS (sen)	22.5
ESG premium	-
12-month target price (RM)	4.05

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
	Weighted score for environmental assessment		**100%**	*	*	*			
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
	Weighted score for social assessment		**100%**	*	*	*			
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
	Weighted score for governance assessment		**100%**	*	*	*			
	Environmental score		50%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		20%	*	*	*			
	Overall ESG Score		**100%**	*	*	*			

Source: AmInvestment Bank

EXHBIIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	11,583.8	9,603.6	10,585.6	9,360.8	9,905.4
EBITDA	1,915.4	1,577.2	1,782.9	1,838.6	1,983.9
Depreciation/Amortisation	(374.2)	(397.1)	(407.1)	(431.1)	(455.1)
Operating income (EBIT)	1,541.2	1,180.1	1,375.8	1,407.5	1,528.8
Other income & associates	274.3	355.2	408.5	469.8	540.2
Net interest	(115.0)	(117.9)	(97.7)	(96.1)	(94.4)
Exceptional items	(174.5)	(18.9)	-	-	-
Pretax profit	**1,526.0**	**1,398.5**	**1,686.6**	**1,781.2**	**1,974.7**
Taxation	(396.0)	(282.2)	(421.6)	(445.3)	(493.7)
Minorities/pref dividends	(15.8)	(6.9)	(7.2)	(7.6)	(8.0)
Net profit	**1,114.2**	**1,109.4**	**1,257.7**	**1,328.3**	**1,473.0**
Core net profit	1,288.7	1,128.3	1,257.7	1,328.3	1,473.0

Balance Sheet (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	8,995.2	9,229.1	9,322.0	9,390.9	9,436.8
Intangible assets	433.4	427.7	427.7	427.7	427.7
Other long-term assets	3,227.0	3,300.8	3,724.1	4,210.0	4,768.1
Total non-current assets	**12,655.6**	**12,957.6**	**13,473.8**	**14,028.7**	**14,632.7**
Cash & equivalent	2,235.0	2,181.7	2,457.5	2,666.7	2,639.1
Stock	1,113.9	1,221.2	1,363.1	1,205.4	1,275.5
Trade debtors	1,307.1	1,283.4	1,160.1	1,025.8	1,085.5
Other current assets	270.3	298.3	267.9	247.8	256.7
Total current assets	**4,926.3**	**4,984.6**	**5,248.5**	**5,145.7**	**5,256.8**
Trade creditors	711.1	788.5	928.1	820.7	868.4
Short-term borrowings	861.5	708.7	722.9	737.3	752.1
Other current liabilities	102.9	83.6	157.4	140.6	148.1
Total current liabilities	**1,675.5**	**1,580.8**	**1,808.3**	**1,698.6**	**1,768.6**
Long-term borrowings	2,895.7	2,996.0	2,966.0	2,936.4	2,907.0
Other long-term liabilities	1,340.1	1,355.7	1,355.7	1,355.7	1,355.7
Total long-term liabilities	**4,235.8**	**4,351.7**	**4,321.7**	**4,292.1**	**4,262.7**
Shareholders' funds	**11,330.8**	**11,678.6**	**12,253.9**	**12,837.7**	**13,504.3**
Minority interests	339.8	331.1	338.3	346.0	353.9
BV/share (RM)	1.43	1.48	1.55	1.62	1.71

Cash Flow (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	1,526.0	1,398.5	1,686.6	1,781.2	1,974.7
Depreciation/Amortisation	374.2	397.1	407.1	431.1	455.1
Net change in working capital	140.3	(264.3)	(196.4)	(257.4)	(577.2)
Others	32.7	(297.5)	0.0	0.0	0.0
Cash flow from operations	**2,073.2**	**1,233.8**	**1,897.2**	**1,954.9**	**1,852.5**
Capital expenditure	(604.9)	(663.9)	(660.0)	(660.0)	(660.0)
Net investments & sale of fixed assets	311.1	(16.3)	147.7	162.5	178.7
Others	389.4	187.1	0.0	0.0	0.0
Cash flow from investing	**95.6**	**(493.1)**	**(512.3)**	**(497.5)**	**(481.3)**
Debt raised/(repaid)	(1,420.3)	(15.7)	(15.8)	(15.2)	(14.6)
Equity raised/(repaid)	(34.1)	0.3	0.0	0.0	0.0
Dividends paid	(883.8)	(604.1)	(682.4)	(744.4)	(806.5)
Others	(165.1)	(176.8)	(411.0)	(488.5)	(577.8)
Cash flow from financing	**(2,503.3)**	**(796.3)**	**(1,109.1)**	**(1,248.1)**	**(1,398.9)**
Net cash flow	**(334.5)**	**(55.6)**	**275.8**	**209.3**	**(27.7)**
Net cash/(debt) b/f	**2,552.9**	**2,235.0**	**2,181.7**	**2,457.5**	**2,666.7**
Forex	**22.7**	**2.3**	**0.0**	**0.0**	**0.0**
Net cash/(debt) c/f	**2,241.1**	**2,181.7**	**2,457.5**	**2,666.7**	**2,639.1**

Key Ratios (YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-25.6	-17.1	10.2	-11.6	5.8
EBITDA growth (%)	-30.3	-10.5	14.4	3.1	7.9
Pretax margin (%)	13.2	14.6	15.9	19.0	19.9
Net profit margin (%)	9.6	11.6	11.9	14.2	14.9
Interest cover (x)	15.1	13.2	18.2	19.1	21.0
Effective tax rate (%)	26.0	20.2	25.0	25.0	25.0
Dividend payout (%)	61.3	53.1	54.3	56.0	54.8
Debtors turnover (days)	40.0	40.0	40.0	40.0	40.0
Stock turnover (days)	47.0	47.0	47.0	47.0	47.0
Creditors turnover (days)	32.0	32.0	32.0	32.0	32.0

Source: Company, AmInvestment Bank estimates

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