

PP14767/09/2012(030761)

Genting Plantations Berhad

“The Worst is Over”

Result Review

- **Actual vs expectations.** Genting Plantations Berhad (GenPlant) registered a lower sales turnover of RM570 million (-10% y-o-y) due to lower FFB production in Plantation-Malaysia as well as lower land sales during the period. Operating profit fell in tandem with weaker sales by 11% y-o-y to RM112 million while PBT declined to RM91 million (-26% y-o-y) as a result of lower crop yields and higher manuring costs. 1H16 PAT came in below our expectation, accounting only 27% of our full year forecast owing to 41% y-o-y plunge in net profit in 1Q16 as a result of weak CPO prices and waning FFB production.
- **Dividend payout.** The board declared an interim dividend of 2 sen during the quarter, half sen lower than previous corresponding period. We expect dividend yield for FY16 to stay below 2%.
- **On the road of recovery.** Along with the rebound in CPO prices, GenPlant staged a firmed recovery after the lurching 1Q16 results. 2Q16 revenue lifted from RM261 million to RM309 million (+18% q-o-q) while PBT jumped 36% q-o-q to RM52 million as average CPO price and PK price rose by 14% q-o-q and 26% q-o-q, respectively. Upstream plantation revenue in Malaysia recorded a strong 36% q-o-q growth with same segment PBT expanded by 39% due to favourable CPO and Palm Kernel (PK) prices.

However, property segment continued to trim the bottom line growth after witnessing 16% q-o-q decline to RM35 million in 2Q16. This was due to the absence of sizable land sales which was reported for the same period last year. PBT in property segment plunged in tandem with lower sales turnover by 42% q-o-q to merely RM11.4 million in 2Q16.

Friday, August 26, 2016

HOLD (TP: RM10.19)

Current Price (RM)	RM10.64
New Target Price (RM)	RM10.19
Previous Target Price (RM)	RM11.59
Previous Recommend.	HOLD
Upside To Target Price	-4.2%
Dividend Yield	1%

Stock Code

Bloomberg	GENP MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	791.6	
Market Cap (RM mn)	8,423.0	
YTD Chg In Share Price	0.54%	
Beta (x)	1.00	
52-week Hi/Lo (RM)	RM11.56	RM8.93
3M Average Volume (000'shrs)	306.9	
Estimated Free Float	23.7%	

Major Shareholders

Genting	51.4%
EPF	12.9%
KWAP	5.1%

- **Fall of inventory level.** Palm oil stockpiles in Malaysia declined in July as exports surged to the highest this year. Inventories dropped 0.2% to 1.77 million MT at July 2016. Palm oil production rose 3.5% to 1.59 million MT while exports soared 21% to 1.38 million MT, the highest since December 2015. Demand from China is set to recover ahead of its major Mid-Autumn festival, potentially boosting demand for edible oil used to make seasonal treats like mooncakes. Concerns over heavy rains caused by La Nina may also hamper harvests that results in the occurrence of stock up activity in advance.
- **Higher production costs offset turnaround CPO prices.** Average CPO and PK prices rebounded by 19% y-o-y and 52% y-o-y, to RM2,588 and RM2,344, respectively on the back of a decline in national palm oil inventory levels and supply tightness in lauric oils market. PBT fell to RM52 million (-6% y-o-y) in 2Q16 owing to higher manuring costs and fall of yields that collectively outweighed the impact of higher palm product selling prices. Notwithstanding that, on quarter-on-quarter basis, PBT improved substantially by 36% q-o-q amid stronger palm product selling prices (CPO increased 14% q-o-q; PK increased 26% q-o-q) and higher FFB production (+4% q-o-q to 315,000 MT). In conjunction with the 12% decline in EBITDA for 1H16, GenPlant's PBT margin was subsequently shaved to 16% or -3% y-o-y.
- **Outlook.** Consumption pick-up in edible oil has started to pare down high inventory stockpile nationwide. Coupled with stocking up by traders ahead of potential shortage over the concerns of harvesting amid raining seasons, the CPO prices are expected to rise and hover between RM2,500-RM2,800 by end-2016. The fading El Nino effect is anticipated to induce crop yields and increase FFB production moving forward. We expect GenPlant's FFB to hit 1.6 million MT and 1.9 million MT in FY16 and 17, respectively.

Property segment is expected to remain soft for the next 2 years in the event of cooling measures by the government including stricter loan approval for applicants and the tax on property gains. Notwithstanding that, as the land value appreciate over the course, the property division will continue to thrive once the market sentiment improves. Of note, mature landbank with low yielding old trees would be converted to property development in GenPlant.

- **Changes of forecast.** We have changed our FY16/17 earnings forecast to incorporate the exceptionally poor result in 1Q16 due to adverse weather condition and weak CPO prices. PAT has been trimmed by 22%/15%/14% in FY16/17/18 to RM187 million/RM218 million/RM293 million, respectively.
- **Valuation.** In view of the changes in earnings forecast, we trim our previous target price of RM11.59 and arrive our new TP at RM10.19 based on SOP valuation. We maintain our target PER of 24x pegged to FY17 earnings for the plantation segment and maintain the forecasts in property and biotech segments. Maintain **HOLD**.

Exhibit 1: SOP valuation

Segments	Valuation basis	Multiples	Value (RM'm)
Plantation	FY17 PER	24.2x	5,276
Property	RNAV	0.5x	3,354
Biotech	BV	1x	288
Downstream	BV	1x	256
Less: Net debt	2Q FY16		-822
SOP value			8,352
Share outstanding (m)	FY17E		820
Target Price (RM)			10.19

Source: M&A Securities

Exhibit 2: Palm Products ASP & FFB

ASP (RM)	1Q15	2Q15	1Q16	2Q16	q-o-q	y-o-y
ASP-CPO	2,246	2,171	2,273	2,588	14%	19%
ASP-PK	175	1,538	1,866	2,344	26%	52%
FFB production ('000 MT)	353	405	315	329	4%	-19%

Source: M&A Securities

Exhibit 3: Financial Summary

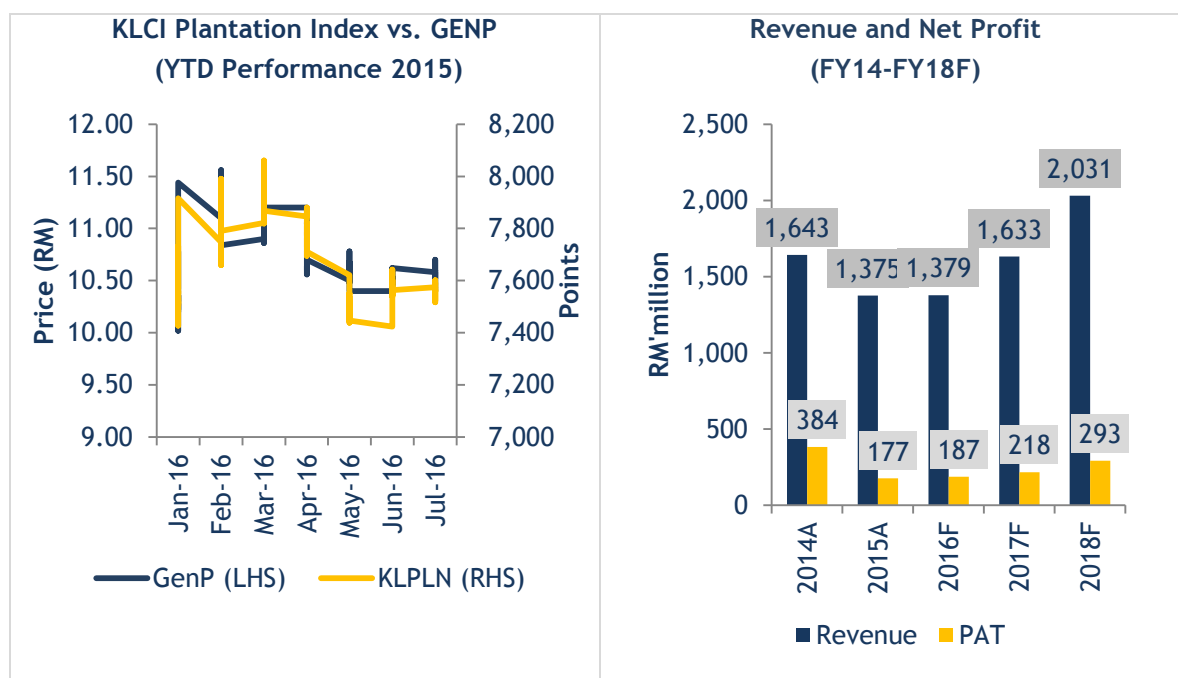
YE: December (RM million)	2014A	2015A	2016F	2017F	2018F
Revenue	1,643	1,375	1,527	1,719	2,106
EBITDA	591	386	504	543	687
EBIT	513	276	377	389	506
Finance cost	-11	-50	-67	-59	-63
PBT	520	247	330	356	472
Tax	-136	-71	-90	-100	-131
PAT	384	177	240	256	341
EPS (sen)	49	24	27	30	40
Minority interest	7	-13	-7	-13	-14
PATMI	377	190	247	269	355
PBT margin	32%	18%	22%	21%	22%
PAT margin	23%	13%	16%	15%	16%

Source: Company, M&A Securities

Result Review -Genting Plantations

Exhibit 4: Results Comparison

FYE DEC (RM million)	2Q15	1Q16	2Q16	Q-o-Q	Y-o-Y	6M15	6M16	Y-o-Y
Revenue	306	261	309	18%	1%	630	570	-10%
EBITDA	114	74	88.6	20%	-23%	180	163	-10%
D&A	54	25	25	1%	-53%	54	50	-7%
EBIT	60	49	63	29%	5%	126	112	-11%
Finance cost	-9	-17	-16	-2%	86%	-14	-33	137%
PBT	56	38	52	36%	-6%	122	91	-26%
Tax	-17	-10	-15	40%	-16%	-36	-25	-30%
PAT	38	28	38	34%	-1%	86	66	-24%
PATMI	40	27	41	51%	2%	93	68	-27%
EPS	5	3	5.20	51%	0%	12	9	-28%
EBITDA margin	37%	28%	29%	0%	-9%	29%	29%	0%
EBIT margin	20%	19%	20%	2%	1%	20%	20%	0%
PBT margin	18%	15%	17%	2%	-1%	19%	16%	-3%
Net profit margin	13%	10%	13%	3%	0%	15%	12%	-3%



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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