



## Genting Plantations (GENP MK) : HOLD

**Mkt. Cap:** US\$1,926m | **3m Avg. Daily Val:** US\$0.99m

**Last Traded Price ( 23 May 2018):** RM9.51

**Price Target 12-mth:** RM10.45 (10% upside) (Prev RM10.45)

**Shariah Compliant:** Yes

### Analyst

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### Profit lifted by several one-off items

- In-line 1Q18 core earnings, gains from mandatory acquisition and forex boosted headline profit
- Plantations EBIT supported by inventory drawdown, with higher output offsetting lower ASPs
- Refining operations improving utilisation and volumes, though margins remain mild
- Maintain HOLD, RM10.45 TP

### What's New

**Several one-offs boosted headline.** GENP posted a 1Q18 headline profit of RM101m (+39% y-o-y, -14% q-o-q); though this included a hefty gain of RM14.4m from the compulsory acquisition of its land by the Government of Malaysia, and forex gains of RM13.8m. Stripping these and other smaller non-core items out, core earnings came to RM73.3m (-4% y-o-y, -21% q-o-q) – forming 20% of our/street forecasts, which is in-line as 1Q is seasonally a weaker quarter.

**Plantations boosted by inventory drawdown.** 1Q18 Plantations EBITDA was 5% higher y-o-y at RM152.6m (+1% q-o-q). The y-o-y increase occurred despite CPO ASP falling 22% y-o-y to RM2,365/MT (-8% q-o-q) primarily due to significant inventory drawdown by its refining operations from prior inter-co transactions. The company estimates that c.RM25m of contribution can be attributed to this factor. However, in terms of production output, 1Q18 still saw a respectable increase with FFB rising 20% y-o-y to 485.5k MT (-9% q-o-q); led by 30% expansion from Indonesia given its KO1 acquisition last year, while Malaysian output showed a 15% increase. Management revealed that new planting activities had yet to pick up in 1Q18, with 28ha being carried out; though 500ha was replanted.

**Refining margins not yet kicking in.** The Downstream segment increased its 1Q18 revenue contribution 156% y-o-y to RM281.9, as refining volumes were on a lower base in 1Q17. However, EBITDA contribution remained minimal at RM0.4m (improving from RM0.4m loss in 1Q17), primarily supported by biodiesel sub-segment earnings as refining operations achieved breakeven given margin pressures from the nil export CPO taxes in Malaysia until early-April. Due to this, utilisation was lower at c.40%, but management aims to bring this up to an average of c.60% going forward. That

### Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,804	2,318	2,517	2,691
EBITDA	618	690	737	822
Pre-tax Profit	461	519	554	634
Net Profit	338	375	399	456
Net Pft (Pre Ex.)	326	375	399	456
Net Pft Gth (Pre-ex) (%)	20.0	15.2	6.5	14.3
EPS (sen)	42.0	46.0	44.5	50.8
EPS Pre Ex. (sen)	40.5	46.0	44.5	50.8
EPS Gth Pre Ex (%)	19	14	(3)	14
Diluted EPS (sen)	37.6	41.8	44.5	50.8
Net DPS (sen)	26.0	16.1	15.6	17.8
BV Per Share (sen)	539	598	577	612
PE (X)	22.6	20.7	21.4	18.7
PE Pre Ex. (X)	23.5	20.7	21.4	18.7
P/Cash Flow (X)	12.8	19.1	16.3	14.6
EV/EBITDA (X)	15.1	14.0	14.1	12.6
Net Div Yield (%)	2.7	1.7	1.6	1.9
P/Book Value (X)	1.8	1.6	1.6	1.6
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	7.8	8.1	7.9	8.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

## Flash Note

aside, 1Q18 Property EBITDA was flattish y-o-y at RM4.8m, as a different sales mix offset 28% higher revenue.

**Improving refining contribution and CPO prices are the required catalysts.** Ramping up utilisation and achieving improved refining margins are, in our view, the key factors that could drive the outperformance of GENP relative to our expectations. However, there remains execution risks to

reaching the targeted 60% utilisation. Plantations earnings will be supported by strong volume growth this year, but a recovery in CPO prices will be required to further galvanise earnings. All in, as GENP's prospects appear well priced at current levels, we maintain our HOLD call.

### Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	400	528	529	32.2	0.1
Cost of Goods Sold	(256)	(358)	(381)	48.8	6.4
<b>Gross Profit</b>	<b>144</b>	<b>170</b>	<b>148</b>	<b>2.7</b>	<b>(13.0)</b>
Other Oper. (Exp)/Inc	(27.4)	(15.5)	(1.0)	(96.3)	(93.5)
<b>Operating Profit</b>	<b>117</b>	<b>155</b>	<b>147</b>	<b>26.0</b>	<b>(5.0)</b>
Other Non Opg (Exp)/Inc	3.74	(24.8)	(27.7)	nm	11.8
Associates & JV Inc	6.04	11.8	9.82	62.6	(16.5)
Net Interest (Exp)/Inc	(15.3)	(24.2)	(26.1)	(70.8)	(8.0)
Exceptional Gain/(Loss)	(3.7)	24.8	27.7	nm	11.8
<b>Pre-tax Profit</b>	<b>107</b>	<b>142</b>	<b>131</b>	<b>21.7</b>	<b>(8.1)</b>
Tax	(29.6)	(30.2)	(36.3)	22.6	19.9
Minority Interest	(5.1)	5.78	6.63	nm	14.6
<b>Net Profit</b>	<b>72.7</b>	<b>118</b>	<b>101</b>	<b>38.8</b>	<b>(14.2)</b>
Net profit bef Except.	76.5	93.0	73.3	(4.1)	(21.1)
EBITDA	117	155	147	26.0	(5.0)
<b>Margins (%)</b>					
Gross Margins	36.0	32.2	28.0		
Opg Profit Margins	29.1	29.2	27.8		
Net Profit Margins	18.2	22.3	19.1		

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 May 17	11.46	12.20	HOLD
2:	14 Jun 17	11.06	12.20	HOLD
3:	10 Jul 17	10.94	12.20	HOLD
4:	20 Jul 17	10.80	11.05	HOLD
5:	10 Aug 17	10.70	11.05	HOLD
6:	14 Aug 17	10.52	11.05	HOLD
7:	21 Aug 17	10.62	11.05	HOLD
8:	24 Aug 17	10.56	11.05	HOLD
9:	13 Sep 17	10.64	11.05	HOLD
10:	10 Oct 17	10.50	11.05	HOLD
11:	10 Nov 17	10.74	11.05	HOLD
12:	23 Nov 17	10.50	10.95	HOLD
13:	27 Nov 17	10.48	10.95	HOLD
14:	21 Dec 17	10.38	10.95	HOLD
15:	12 Jan 18	10.58	10.95	HOLD
16:	12 Feb 18	10.04	10.95	HOLD
17:	27 Feb 18	10.10	10.45	HOLD
18:	13 Mar 18	9.99	10.45	HOLD
19:	12 Apr 18	10.08	10.45	HOLD
20:	11 May 18	9.86	10.45	HOLD

Source: AllianceDBS

Analyst: Marvin KHOR

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**DISCLOSURE**


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**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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