Steven Chong
(603) 7890 8888 (ext 2068)
stevenchong@apexsecurities.com.my

Recommendation:	**Subscribe**
IPO Price:	**RM 0.84**
Previous Target Price:	**-**
Target Price:	**RM 0.95**
Upside/Downside:	**13.5%**

Company Brief

Engaged in cultivating oil palms and harvest FFB produced on the plantation estates

Stock Information	
Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	5323 / JPG MK
Syariah Compliant	Yes
Shares issued (m)	2,500.0
Market Cap (RM' m)	2,100.0
Free float (%)	35.0

Top 3 Shareholders	**(%)**
Kulim	65.0
Institutional Investors	19.4
Bumiputera Investors	12.5

IPO Timetable	**Date**
Opening of IPO application	12/6/2024
Closing of IPO application	24/6/2024
Balloting of IPO application	27/6/2024
Allotment of IPO shares	4/7/2024
Listing of IPO on Bursa Malaysia	9/7/2024

Johor Plantations Group Berhad

Transforming into an integrated player

Summary

- **Involved in cultivating oil palms and harvest FFB produced on the plantation estates.**
- **Core earnings are projected to improve from the recovery in FFB production as the severity of labour shortages subsides.**
- **JPG is valued by pegging its FY25f core EPS of 8.4 sen to PE of 10.8x, leading to a FV of RM0.95 (13.5% potential upside from IPO price).**

Company Background

- Johor Plantations Group Bhd's (JPG) history traces back to 1978 as a private limited company under the name of Yule Catto Plantations Sdn Bhd. During the year, the Group undertook a first round of share issuance, where Malaya General Holdings Limited (MGH) and Johor Corporation (JCorp) became shareholders with a holding of 65.0% and 35.0% equity interest respectively. Subsequently, JCorp acquired the remaining stake from MGH and transferred its entire holdings to Kulim Bhd.

- Over the years, JPG has expanded its operations through the acquisition of multiple estates and palm oil mills such as Sungai Papan, Pasir Panjang, Mungka and Palong estates. In 2021, JPG rented some Malay Reserved Estates from JCorp. Nonetheless, they are expected to return 1,300-ha of the said land to JCorp upon the expiry of the tenant agreement.

- To date, JPG has completed pre-listing restructuring to consolidate and streamline Kulim's plantation business, which were then own and operate by 7 separate entities, namely Kulim, JPG Plantations, Sindora, Selai, UTMC, UMAC and Kumpulan Bertam. Post IPO, Kulim will own 65.0% stake in JPG while the remaining shareholdings will be split between institutional (34.9%) and retail investors (3.1%).

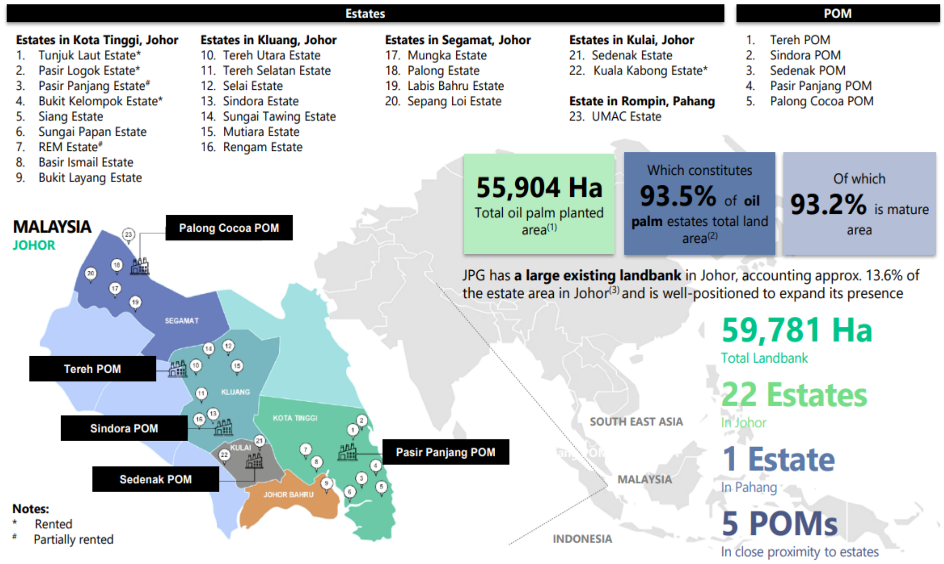
- JPG accounts for a small share of the area under oil palm in Malaysia and Johor. It comprises approximately 1.0% of the planted and mature oil palm area in Malaysia. In Johor, where 22 of its 23 estates are located, it accounts for 8% of the cultivated area.

IPO Utilisation

Details of utilisation	**Estimated time frame for utilisation**	**RM 'm (%)**
Capital expenditure	Within 30 months	RM196.8m (50.5%)
Repayment of bank borrowings	Within 6 months	RM167.4m (43.0%)
Working capital	Within 3 months	RM6.7m (1.7%)
Estimated listing expenses	Within 1 month	RM18.8m (4.8%)

Source: JPG, prospectus

Business Overview



Source: JPG

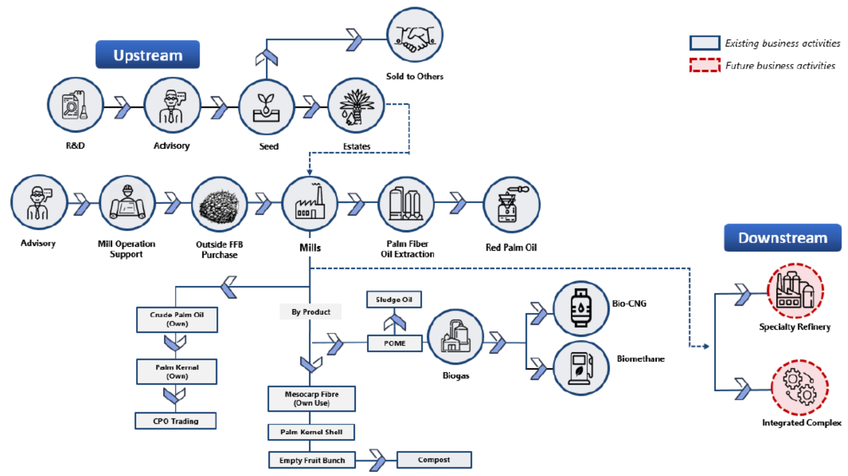
- JPG is regarded as one of the small-sized upstream oil palm plantation players in Malaysia, principally involved in the production of palm oil and palm kernels. JPG presently operate 23 plantation estates, consisting of 22 plantation estates in Johor and a plantation estate in Pahang, with a total landbank of 59,860-ha and planted area of 55,982-ha.

- Currently, the Group rents the Malay Reserved Estates and the Kuala Kabong Estate from JCorp. JPG also rent 486-ha of the REM Estates, with 270-ha rented from Johor Land and 216-ha from Kulim. However, Johor Land has expressed their intention to terminate the rental agreement for 41-ha of the REM Estate. As a result, the total REM Estate land area rented by JPG from Johor Land has reduced to 229-ha.

- The Group also manage three third-party plantation estates with total land area of 1,549-ha. JPG generate management fee income and purchase all FFB harvested from these managed estates.

- In addition to that, JPG own five palm oil mills that are strategically located within close proximity to most of its plantation estates. JPG uses majority of its milling by-products such as mesocarp fibre and PK shell for internal power and steam generation. The Group also act as a biomass distributor by selling most of the remaining by-products to third parties.

Business Model

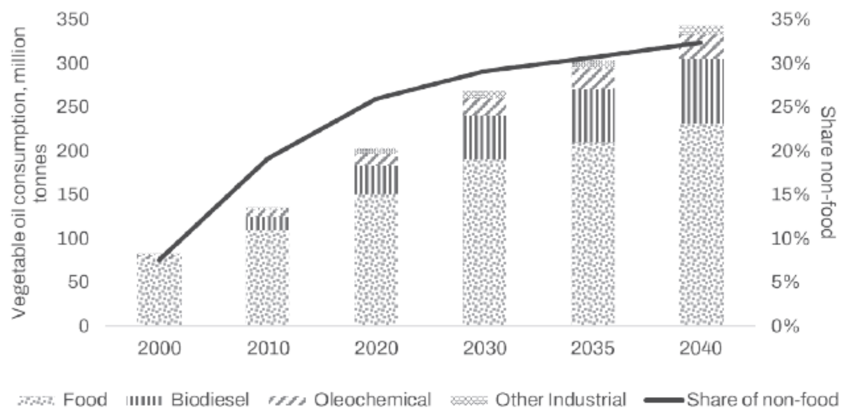


Source: Prospectus

- Moving forward, JPG intends to expand downstream through the construction of integrated sustainable palm oil complex. This complex, which is a large-scale facility will house a palm oil mill, refinery, kernel crushing plant, a bio-energy power plant as well as an animal feedmill. Construction of the complex is scheduled to complete in 1Q26 and begin commissioning by 2Q26.
- Total cost for the construction of the new complex is estimated to be RM429.6m. That said, JPG has entered into shareholders' agreement with Fuji Oil Asia Pte Ltd to jointly manage the refinery business. Subsequently, the refinery plant within the complex (construction cost of RM180.2m) will be funded by both Fuji Oil Asia Pte Ltd (49%) and JPG (51%).

Industry Overview

Global vegetable oil consumption



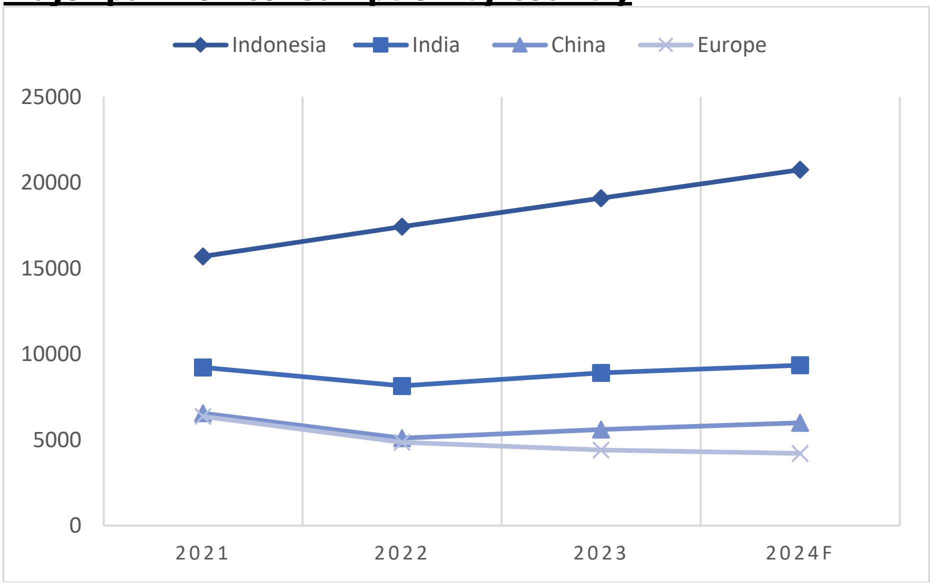
Source: Glenauk Economics

- Demand for vegetable oil is largely driven by food consumption using vegetable oils for frying foods which enhances flavour and texture. Increased urbanisation also results in greater consumption of processed food, as well as food from restaurants, both of which consume more vegetable oil. Palm oil in food consumption is forecasted to grow at a ten-year CAGR of 0.8% from 2020 to 2030 followed by a ten-year 1.0% from 2030 to 2040.

- Meanwhile, supply of palm oil is expected to slow down in Indonesia due to scarcity of land expansion following difficulties in finding appropriate land and sustainability pressures. Elsewhere, Malaysia will see no growth up to 2030 as the country faces multiple headwinds such as labour shortages, underinvestment in maintenance, over-age trees and the spread of Ganoderma. While Latin America has begun venturing into the palm oil space, high labour costs prevented the industry from taking off further.

- YTD, price spread between palm oil and soybean oil has been narrowing. While palm oil is trading at a discount to soybean oil, the discount has narrowed towards below USD150/MT, dragged by weakness in soybean oil price following the recovery in production after the drought in Argentina. In contrast, palm oil prices remained resilient despite increased production in Indonesia and Malaysia following the end of La Nina.

Major palm oil consumption by country



Source: USDA

- Moving forward, we anticipate CPO price to average at RM4,000/tonne in 2024 dragged by higher palm oil productions. We foresee inventory to further expand in 2H24 when the peak season starts. According to USDA, demand for palm oil may increase by 4.3% in 2024 led by growing consumption from Indonesia, India and China.

Investment Highlights

- **RSPO certified planter.** JPG benefits from a pricing advantage due to its RSPO-certified plantation operations, allowing the Group to charge premium against the standard MPOB CPO prices. Furthermore, JPG is well-positioned to meet the European Union Deforestation Regulation (EUDR) requirements, thanks to its comprehensive traceability system that extends to its oil palm fields. This capability is expected to help JPG gain access to international markets more effectively and maintain strong pricing power.

- **Diversifying towards downstream**. JPG sells CPO and PK to third-party downstream refineries in Malaysia, where these products are further processed into edible oils or specialty oil products. Looking ahead, the Group intends to expand vertically downstream by constructing an integrated sustainable palm oil complex. This strategic move is expected to not only generate an additional revenue stream but also allows the Group to stabilise bottom line from the flexibility to divert CPO and PK to own refinery when market prices are low. That said, earnings from this complex will only start contributing in 3Q26.

- **Good mix of tree age profile**. As at FY23, 69.8% of JPG oil palms are in their peak production age, with an average oil page tree age of 12.9 years. We opined JPG has excellent age profile which would lead to an increase in CPO and PK production with minimal increase in costs. Given the young age profile, JPG maintain a relatively low annual replanting target of 4% of total planted area.

- **FFB yield set to recover soon.** FFB yield and OER are set to improve in FY24 onwards after the severe labour shortages encountered last year was resolved. We estimate CPO production may surged to 318k mt (+17.3% yoy) for FY24, based on FFB yield at 23 mt/ha (vs 20.3mt/ha in FY23) and OER at 20%. While we anticipate a slight reduction in the mature planted area due to JPG returning some of its rented land to Kulim, we do not expect this to have a significant impact on FFB production.

Financial Highlights

- JPG's top line over the past 4 years were choppy, recording strong growth of 51.8% yoy and 13.1% yoy during the period FY20-FY22 bolstered by surge in CPO and PK prices in view of the tight supply from labour shortages and the Russian-Ukraine war. Since then, revenue slid by 28.4% yoy following the normalisation of both CPO and PK price. Similarly, core net profit has also showed a similar trend rising by 556.7% yoy and 43.7% yoy in FY20-FY22 and subsequently fell 66.2% yoy in FY23.

- Moving forward, we are projecting core net profit to expand 25.0% yoy in FY24F to RM209.2m and 5.9% yoy to RM221.5m in FY25F, driven by improved FFB production. Growth in earnings will also be supported by an assumption of CPO ASP at RM4,100, which is at a slight premium over our MPOB CPO assumption of RM4,000 for FY24F.

- We also note that JPG's gearing level stood at 0.7x, which is relatively high compared to its typically cash-rich peers. This high gearing is primarily due to the transfer of plantation assets and associated borrowings from Kulim to JPG following the restructuring at Kulim. Looking ahead, we anticipate the gearing level to drop to 0.5x after utilising part of the IPO proceeds to pare down borrowings.

Financial Highlights

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	**1549.2**	**1751.6**	**1253.4**	**1455.3**	**1492.6**
EBITDA	**662.4**	**744.6**	**383.5**	**455.6**	**476.2**
Pre-tax Profit	**488.5**	**569.1**	**186.9**	**273.2**	**365.4**
Profit After Tax	**344.6**	**495.4**	**165.7**	**207.6**	**277.7**
Net Profit	**344.8**	**495.6**	**167.3**	**209.2**	**279.3**
Core Net Profit	**344.8**	**495.6**	**167.3**	**209.2**	**279.3**
Core EPS (sen)	**13.8**	**19.8**	**6.7**	**8.4**	**8.9**
Core P/E (x)	**6.1**	**4.2**	**12.6**	**10.0**	**9.4**
Dividend Yield (%)	**10.0**	**4.0**	**0.0**	**5.0**	**5.0**
P/B (x)	**1.1**	**1.1**	**0.9**	**0.8**	**0.7**
ROE (%)	**19.6**	**25.7**	**7.9**	**8.4**	**10.0**
Gearing (%)	**100.2**	**89.4**	**72.5**	**53.7**	**53.7**

Source: JPG, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.84, JPG's forward PE valuation for FY24F and FY25F is projected at 10.0x and 9.5x, based on our estimated FY24F and FY25F EPS of 8.4 sen and 8.9 sen respectively. We arrived at our fair value of RM0.95 (13.5% potential upside from its IPO price) by assigning a target PE of 10.8x to the FY25F EPS.

- The assigned target PE represents approximately 20% discount to selected peers that has similar size in planted area that are trading at an average forward PE of 13.4x. The discount to selected peers is justifiable, premised on JPG high debt borrowings.

- We are optimistic about JPG's transform into an integrated plantation players which allows the group to have a more stable cashflow. We opined that integrated planters tend to command higher valuation because the diversification of revenue streams reduces dependency on any single segment, making the group more resilient to market fluctuations.

- JPG will adopt a minimum 50.0% dividend payout from net profit going forward. Based on IPO price and our projected core net profit for FY24F and FY25F, the projected dividend yield at 5.0% is fairly attractive.

Peers Comparison

Company	*Market Group*	*FYE*	*Price (RM)*	*Market Cap (RM 'm)*	*P/E (x) FY23*	*P/E (x) FY24F*	*Gross DY (%)*	*Revenue RM 'm*	*Net Income RM 'm*
Johor Plantations Group Bhd	*MAIN*	*Dec*	*0.840*	*2100.0*	*0.1*	*0.1*	*0.0*	*1253.4*	*167.3*
TH Plantation Bhd	*MAIN*	*Dec*	*0.64*	*565.7*	*14.3*	*16.4*	*3.1*	*752.0*	*46.6*
United Plantations Bhd	*MAIN*	*Dec*	*23.70*	*9830.8*	*10.1*	*13.2*	*4.7*	*2014.0*	*707.8*
TSH Resources Bhd	*MAIN*	*Dec*	*1.14*	*1573.4*	*13.8*	*15.0*	*2.2*	*1067.0*	*95.0*
Hap Seng Plantation Bhd	*MAIN*	*Dec*	*1.77*	*1415.5*	*14.6*	*13.0*	*3.8*	*667.8*	*91.4*
Avg ex-Johor Plantations Group Bhd							*3.4*	*1125.2*	*235.2*

Source: JPG, Bloomberg, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex,
Off Jalan Semenyih,
Bukit Mewah 43000 Kajang,
Selangor Darul Ehsan, Malaysia

General Line: (603) 8736 1118

Mutiara Damansara Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

DEALING TEAM

Head Office:
Kong Ming Ming (ext 2002)
Shirley Chang (ext 2026)
Norisam Bojo (ext 2027)
Ahmad Mujib (ext 2028)

Institutional Dealing Team:
Siti Nur Nadhirah (ext 2032)

PJ Office:
General Line: (603) 7620 1118
Azfar Bin Abdul Aziz (Ext 822)

RESEARCH TEAM

Mutiara Damansara Office:
Kenneth Leong (ext 2093)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)
Chelsea Chew (ext 2070)
Tan Sue Wen (ext 2095)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER