



Takeover of IJM Plantations unlikely

> Pricing concerns and significant increase in net gearing ratio cited

PETALING JAYA: A takeover of IJM Plantations Bhd, eyed due to increased demand for matured plantations in Sabah, is unlikely to materialise, said UOB Kay Hian (UOBKH).

According to a daily, suitors for IJM Plantations include IOI Corp Bhd and Hap Seng Plantations Holdings Bhd. IJM Plantations has 61,000ha of planted area in Sabah, Kalimantan and Sumatra.

"We reckon that IOI's takeover of IJM Plantations is unlikely to materialise due to the pricing, and this acquisition will increase IOI's net gearing ratio significantly," said

UOBKH in its Malaysia Daily highlights.

However, if the deal materialises, it would be a positive to IJM Plantations as the company is trading at a discount from the recent transacted price.

"Assuming IJM Plantations is valued at the recent transacted price in Sabah of RM65,000 per ha and US\$10,000 (RM40,700) per ha for its Indonesia estates, IJM Plantations' planted area should be worth RM3.04 billion or RM3.47 per share, representing share price upside of 54% or implied FY19F PE of 37 times (vs IOI's FY19F PE of 23 times)," said UOBKH.

Based on PE valuation, IJM Plantations is trading at high PE of 31 times FY19F PE.

Over at IOI, 70% of the total proceeds from the disposal of Lodders Crocklaan Group has been used to pare down borrowings and paid out as special dividends while the remaining

30% (about RM1.2 billion) will be used as working capital.

If the deal materialises, UOBKH reckons that IOI would need to fund the acquisition via borrowing, which will result in net gearing ratio increasing to 0.81 times, higher than the net gearing ratio of 0.78 times before paring down the borrowings using proceeds from the disposal of Lodders.

It noted that the high net gearing ratio is above management's comfort level of below 0.5 times while the cash reserves are more likely to be used for replanting. About 17% of IOI's planted areas are more than 18 years old.

UOBKH maintained its "hold" call and target price of RM2.33 for IJM Plantations. It also maintained its "sell" call and target price of RM3.70 for IOI. There are no changes in its net profit forecasts for both companies.