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IOI's maiden RE foray seen to unlock land bank value

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IOI's maiden RE foray seen to unlock land bank value

Firm's solar job to yield annual profit of about RM60mil

PETALING JAYA: IOI Corp Bhd's maiden venture into renewable energy (RE) is expected to unlock value from its existing land bank while providing the plantation group with a new stream of recurring income as demand for clean energy grows.

The proposed solar project is expected to generate annual net profit of RM50mil to RM60mil, with IOI potentially receiving RM22mil to RM24.5mil annually from its equity participation and land rental income from 2029, according to CIMB Research.

In a report, the research house said it viewed the venture positively, as it allows IOI to enhance returns from the land while diversifying the earnings base beyond traditional plantation operations.

"While this venture is unlikely to materially alter near-term group earnings, we believe it provides a scalable model for unlocking value from IOI's land bank," the research house said.

CIMB Research retains its earnings forecasts, a sum-of-parts-based target price of RM5.03 and a "buy" call on IOI.

IOI recently announced that its wholly-owned subsidiary Luminous Aspect has entered into a joint venture (JV) with Tenaga Nasional Bhd's (TNB) RE arm, TNB Renewables, to develop a 500-megawatt alternating current solar photovoltaic project in Bahau, Negri Sembilan.

IOI holds a 25% stake in the JV, while TNB Renewables will hold a 70% stake, and a consortium of 12 small and medium enterprises will own the remaining 5%.

> "IOI's latest venture marked a meaningful step towards diversifying its earnings base, with long-term power supply arrangements offering greater income visibility."
>
> An analyst

This is IOI's first large-scale RE project under the Corporate Renewable Energy Supply Scheme. It is backed by a 21-year RE offtake agreement between TNB and DayOne Data Centres Ltd, a Singapore-headquartered global digital infrastructure platform.

The project is estimated to cost RM2bil, funded through 80% debt and 20% equity, implying an equity investment of about RM100mil by IOI.

In addition, the group targets commercial operations in 2028.

Apart from its equity interest, IOI will lease about 1,300 acres (526 ha) of oil palm land to the JV, allowing it to generate rental income without relinquishing ownership of the land.

CIMB Research estimates annual rental income of RM9.5mil, based on an assumed rate of RM18,000 per ha.

This compares with the RM8,000 to RM9,000 per ha currently generated from plantation operations.

"Rentals are expected to commence during construction in 2027, ahead of the solar power plant's full earnings contribution in 2029," the research house said.

"IOI also guided for a 9% to 10% equity internal rate of return," CIMB Research noted.

Based on its 25% stake, IOI could receive RM12.5mil to RM15mil in annual net profit from the project, excluding lease income, according to CIMB Research.

"Including rentals, its combined annual contribution could reach RM22mil to RM24.5mil, before accounting for the loss of existing plantation profits from the converted land," the research house said.

Separately, an analyst told *StarBiz* that IOI's latest venture marked a meaningful step towards diversifying its earnings base, with long-term power supply arrangements offering greater income visibility.

"While the initial earnings contribution may be relatively small, the combination of RE investments and land rental income provides an opportunity for IOI to unlock value from its existing assets while tapping into growing demand for clean energy," he pointed out.

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