

11 FEBRUARY 2014
MALAYSIA EQUITY



THE PALM REPORT

JANUARY 2014 STATISTICS

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FOR IMPORTANT DISCLOSURES**

Review & Outlook of Plantation Sector



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Inventory falls for the first time in 5 months

Maintain POSITIVE

HIGHLIGHTS

- *CPO production in January continued to decline by -9.6%mom and -5.8%yoy to 1.51mmt. However, it was still higher compared to the average January production in the last five years of 1.28mmt.*
- *Exports in January fell -9.9%mom and -15.8%yoy to 1.37mmt, the lowest in 18-month.*
- *Despite a weaker export performance, inventory in January dropped slightly to 1.93mmt (Dec 2013:1.99mmt), the first decline in 5 months.*
- *Lower inventory level helped to support the improvement in CPO prices. Yesterday, CPO prices closed higher at RM2,600pmt.*
- *We believe (i) low inventory level, (ii) slower FFB production growth in Malaysia and (iii) better export performance are among the positive catalysts for the plantation sector. Hence, we reiterate our POSITIVE view on the plantation sector with average CPO price forecast of RM2,700pmt.*

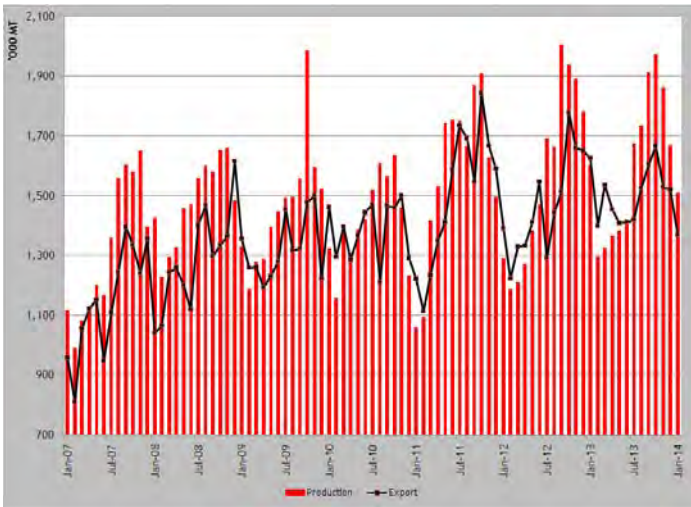
A. REVIEW ON JANUARY 2014 STATISTICS

Production continued to decline. CPO production declined for the third consecutive month in January to 1.51mmt, or -9.6%mom and -5.8%yoy lower. This was attributable to the heavy rainfall which resulted in the delay in the FFB evacuation process. In January, all states in Malaysia recorded lower FFB yield per hectare except for Sarawak, which increased by 4.0%yoy. FFB yield in Peninsular Malaysia and Sabah dropped 8.3%yoy and 8.9%yoy to 1.43 and 1.84 tonnes per hectare respectively.

Exports shrunk by -15.8%yoy. Total exports in January declined -9.9%mom and -15.8%yoy to 1.37mmt, the lowest since July 2012. This could be attributable to lower offtake from China (-15.5%mom), EU countries (-16.2%mom), and India (-12.1%mom). However annual palm oil exports to the aforementioned countries still recorded a positive growth.

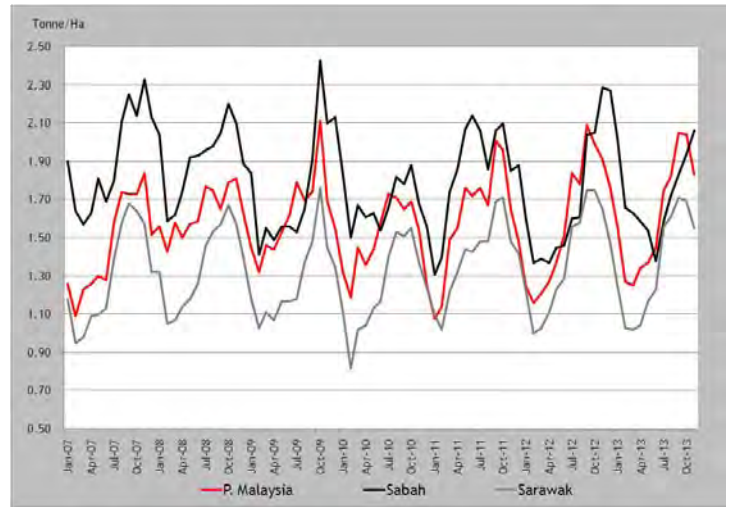
Inventory fell on the back of lower production cycle. Inventory in January fell by -2.6% to 1.93mmt. Lower production in January helped to contain the rise in the inventory. Despite a decline in inventory, the stock-to-usage (SUR) inched up to 10.22%, 0.39%-points higher compared to the SUR in Dec 2013. We believe higher SUR was due to the weaker monthly export performances.

Figure 1: Monthly CPO production and export



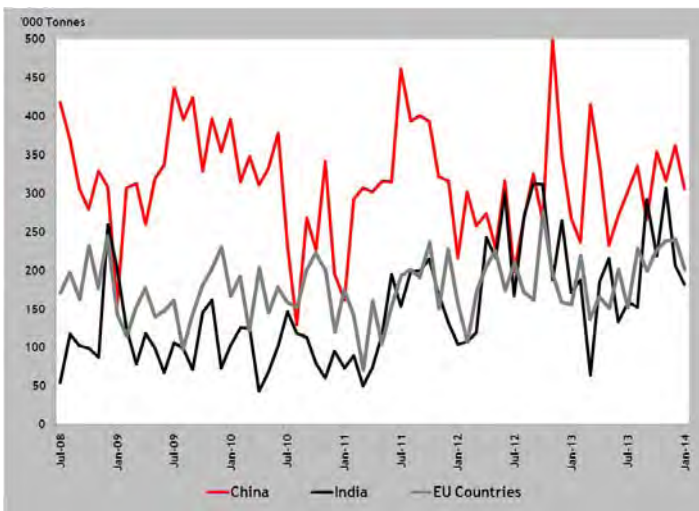
Source: MPOB, MIDFR

Figure 2: Monthly FFB yield



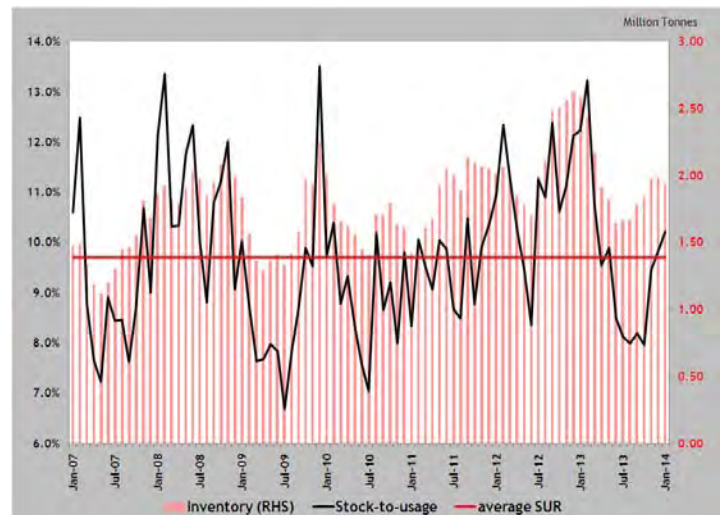
Source: MPOB, MIDFR

Figure 3: Palm oil exports to China, India & EU



Source: MPOB, MIDFR

Figure 4: Inventory and stock-to-use ratio (SUR)



Source: MPOB, MIDFR

B. SUPPLY OUTLOOK

Early signs of El Niño. The recent El-Niño Southern Oscillation (ENSO) indicators released by the Australian Bureau of Meteorology (ABM) shows that the climate are biased towards the occurrence of El-Niño event. According to ABM, the climate model still suggests a neutral weather condition. However, they added that some warming of the tropical Pacific is likely.

El-Niño, a prolonged hot and dry condition (8-16 weeks) could hurt FFB production. According to some of the industry expertise, the prolonged dry conditions could reduce production up to 30%, depending on severity. The occurrence of El-Niño will be positive to CPO prices, as it will reduce the supply of CPO, limit the rise in the inventory, and push CPO prices higher.

Table 1: ENSO Indicators

Indicator	Latest anomaly (as of 26Jan2014)	Note
i. Southern Oscillation Index (SOI)	+10.0*	SOI gives an indication of the development and intensity of El Niño or La Niña events in the Pacific Ocean. Sustained positive SOI values above about +8 indicate a La Niña event while sustained negative values below about -8 indicate an El Niño.
ii. Sea Surface Temperature (SST)	-0.3°C^	Neutral state is within -0.5°C to +0.5°C.
iii. Indian Ocean Dipole (IOD) Index	+0.1°C^	Positive IOD events are often associated with El Niño and negative events with La Niña.

* 30-day value

^ Weekly value

Source: Australian Bureau of Meteorology (ABM)

C. DEMAND OUTLOOK

Purchases from China is expected to rebound as the winter season ends. We believe the recent significant sequential month decline in palm oil purchases from China and India is attributable to lower usage of palm oil due to the winter season. Normally, palm oil will crystallize during cold temperature. As the winter season ends, we expect demand for palm oil from these two major importing countries to rebound.

D. CPO PRICE OUTLOOK & RECOMMENDATIONS

Outlook on CPO price. We believe the fundamentals – demand and supply, are still favourable to CPO prices. We are holding on to our conviction that CPO prices will continue to firm up. This will be supported by the expectations of better export performance in the coming months. Apart from that, we also believe the slower growth in FFB production particularly in Malaysia will help to limit the rise in the inventory level and keep the recovery of CPO prices on track.

Maintain POSITIVE. The expectations of (i) low inventory level, (ii) slower FFB production growth in Malaysia and (iii) better export performance are among the positive catalysts for the plantation sector. Hence, we reiterate our POSITIVE view on the plantation sector with average CPO price forecast of RM2,700pmt.

Maintaining our calls on plantation stocks. Pending the quarterly results announcement in the next few days, we are maintaining our recent calls on the plantation stocks under our coverage. Our top picks for the plantation sector are Sime Darby (BUY, TP:RM10.80), TH Plantation (BUY, TP:RM2.10) and Felda Global Ventures (TP: RM5.20). We also continue to recommend NEUTRAL calls on the remaining stocks under our coverage, namely KL Kepong (TP: RM21.40), IJM Plantations (TP: RM2.90), Kulim (RM3.70), TSH (TP: RM2.50), IOI Corp (under review, TP: RM5.67), Genting Plantations (TP: RM9.50) and Ta Ann Holdings (under review,TP: RM3.87).



MPOB Palm Oil Statistics (Tonnes)

	Jan-13	2014			
		Dec-13	Jan-14	m-o-m	y-o-y
Opening Stock	2,627,419	1,977,895	1,987,111		
Production	1,602,493	1,668,668	1,508,969	-9.6%	-5.8%
Imports	103,816	24,574	15,782	-35.8%	-84.8%
Exports	1,625,000	1,519,765	1,368,914	-9.9%	-15.8%
Consumption	130,219	164,261	208,042	26.7%	59.8%
Closing Stock	2,578,509	1,987,111	1,934,906	-2.6%	-25.0%

Source: MPOB

Major Palm Oil Exports Destinations (Tonnes)

	Jan-13	2014			
		Dec-13	Jan-14	m-o-m	y-o-y
China	267,880	361,793	305,815	-15.5%	14.2%
EU Countries	156,449	240,561	201,547	-16.2%	28.8%
Pakistan	179,523	66,427	68,090	2.5%	-62.1%
India	171,503	206,304	181,421	-12.1%	5.8%
USA	102,635	79,634	96,816	21.6%	-5.7%
Bangladesh	78,458	17,294	24,098	39.3%	-69.3%

Source: MPOB

CPO Output by Region (mt)

	Jan-13	2014			
		Dec-13	Jan-14	m-o-m	y-o-y
Peninsular Malaysia	830,360	839,020	779,749	-7.1%	-6.1%
Sabah	534,842	549,590	481,341	-12.4%	-10.0%
Sarawak	237,291	280,058	247,879	-11.5%	4.5%
Total	1,602,493	1,668,668	1,508,969	-9.6%	-5.8%

Source: MPOB

Daily CPO Price Chart



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO ROMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.