

11 May 2016 | Sector Update

PLANTATION**Maintain POSITIVE****5th consecutive monthly decline in inventory****KEY HIGHLIGHTS**

- **April 2016 inventory level of 1.80m MT is within expectation.**
- **Inventory downtrend continues in Apr-2016 as it declined -5%mom.**
- **Strong Brent crude oil price has improved biodiesel consumption in Malaysia and Indonesia.**
- **Tree stress impact continues as Apr-2016 production is down -23%yoy.**
- **Export likely to improve in May (after decline in April) due to Ramadhan demand.**
- **Expect May inventory to decline -7%mom to 1.70m MT.**
- **Maintain POSITIVE view on the sector and our top pick is KLK (TP: RM27.38).**

April 2016 inventory level of 1.80m MT is within expectation as it is close to the consensus forecast of 1.82m MT. Stronger than expected local consumption and low import of palm oil from Indonesia are more than enough to counter the impact of weaker than expected export. Note that the local consumption grew by 9%mom to 264k MT and we believe that this is likely to be caused by higher biodiesel consumption in April. Import of palm oil from Indonesia has also tumbled 44%mom to 42k MT.

Inventory downtrend continues in Apr-2016 as it declined -5%mom. Total demand (export + local consumption) of 1.43m MT exceeds total supply (import + local production) of 1.34m MT. Overall, the data is positive to CPO price as the continuous decline in inventory suggests that demand has outpaced supply.

Strong Brent crude oil price has improved biodiesel consumption in Malaysia and Indonesia. Average Brent crude oil price has increased 9%mom to USD43.34/barrel in April and we believe that this has contributed to the improvement of local consumption in Malaysia (via higher biodiesel consumption). The significantly lower month-on-month imports of palm oil from Indonesia should likewise be caused by the high usage of biodiesel in Indonesia hence limiting the supply from that country.

Tree stress impact continues as Apr-2016 production is down -23%yoy. Although palm oil production increased by 7%mom, we wish to highlight that it has tumbled -23%yoy. As a result, we believe that the tree stress impact caused by the Super El Nino still lingers and is likely to continue throughout 2Q2016 and 3Q2016.

Export likely to improve in May (after decline in April) due to Ramadhan demand. Total Malaysia export of palm oil declined by -13%mom to 1.17m MT as major palm oil consumers (India, China, European Union and United States) purchased less palm oil from Malaysia. This is likely due to the implementation of 5% export tax in April-2016. Looking ahead, we expect May export to improve as the market adjust to the existing export tax and starts to shift its focus on stocking up activity ahead of Ramadhan.

Expect May inventory to decline -7%mom to 1.70m MT. Our key assumptions are: i) 7%mom increase in production in line with historical production pattern, and ii) 11% improvement in export due to stocking up activity ahead of Ramadhan. Note that the usage of palm oil usually picks up during Ramadhan month (which should begin around 6-June) as Muslims break day-long fasts with communal meals.


Maintain POSITIVE view on the sector and our top pick is KLK (TP: RM27.38). We maintain our bullish view on CPO price and expect it to surge to RM3000/MT by end-June. Our top pick is KLK due to: i) its earnings is expected to benefit from high CPO price due to its high exposure to palm oil business at 88%, ii) good earnings growth of +13%yoy to RM225m in 1QFY16, and iii) it is one of the rare big cap index-linked planters which is Shariah compliant and also an RSPO member. 

Table 1: Palm Oil Statistics for Apr-2016 ('000 MT)

	Apr-16	Mar-16	Diff.	MoM %	Apr-15	YoY%
Opening Stocks	1,886	2,170	(285)	-13.1%	1,866	1.1%
Production	1,301	1,219	82	6.7%	1,693	-23.2%
Imports	42	74	(33)	-43.9%	65	-35.7%
Total Supply	3,229	3,464	(236)	-6.8%	3,624	-10.9%
Exports	1,165	1,336	(171)	-12.8%	1,175	-0.9%
Dom Disapp	264	243	21	8.7%	260	1.6%
Total Demand	1,428	1,579	(150)	-9.5%	1,435	-0.5%
End Stocks	1,800	1,886	(85)	-4.5%	2,189	-17.8%
Stock/Usage Ratio	10.5%	10.0%			12.7%	

Source: MPOB, MIDF Research

Table 2: Monthly Exports and YTD Exports ('000 MT)

Country	Apr-16	Mar-16	Apr-15	MoM%	YoY%	4M16	4M15	YoY%
China	95	142	263	-33%	-64%	395	676	-42%
India	180	328	87	-45%	105%	948	767	24%
EU	101	128	131	-22%	-23%	623	534	17%
Pakistan	72	45	65	61%	12%	203	214	-5%
US	50	61	65	-17%	-22%	218	223	-2%
Others	667	632	568	6%	17%	2,477	2,110	17%
Total	1,165	1,335	1,178	-13%	-1%	4,865	4,524	8%

Source: MPOB, MIDF Research

Table 3: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	8.05	NEUTRAL	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the avg of IOICORP and KLK Target PE.
IOICORP	4.82	NEUTRAL	23.1x Fwd. PE on FY16F earnings reflecting mean valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY16F earnings reflecting +1.0SD valuation.
PPB	18.60	BUY	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGV	1.33	NEUTRAL	1.0x Price to Net Tangible Asset (P/NTA).
GENP	10.66	NEUTRAL	SOP with plantation sector @ 23.5x FY16E PE. 23.5x is the lower valuation between IOICORP and KLK.
IJMP	3.57	NEUTRAL	18.6x Fwd. PE on FY16F earnings reflecting mean valuation.
TSH	2.28	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	6.80	BUY	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

Source: MIDF Research Estimate

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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	Total return is expected to be <-15% 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.