

03 July 2018 | Sector Update

# PLANTATION

**Average CPO price lowered to RM2400 per tonne**

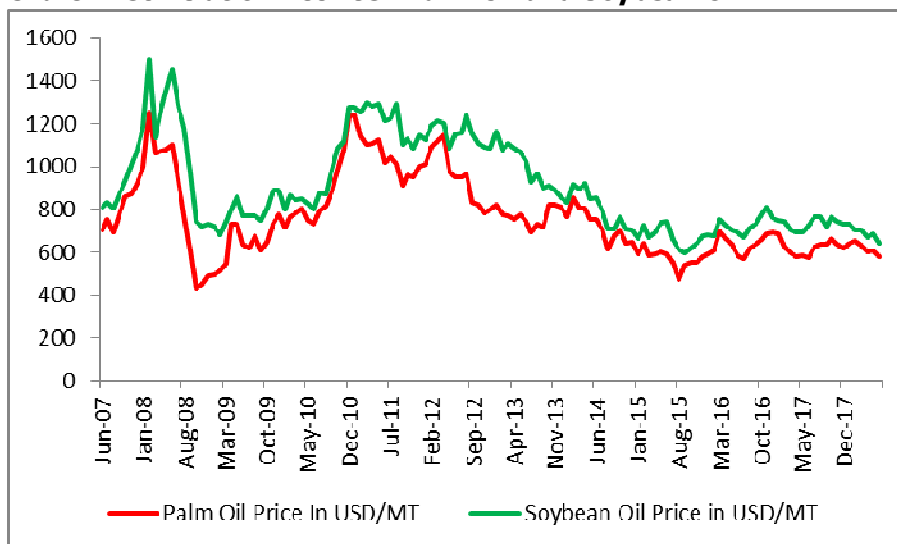
**Downgrade to NEUTRAL**

## KEY HIGHLIGHTS

- **Weaker than expected soybean oil price**
- **Malaysia palm oil inventory should rise from July onwards**
- **But CPO price downside is limited due to strong Brent Crude Oil price**
- **Average CPO price forecast for 2018 revised to RM2400 per tonne**
- **Downgrade our sector view to NEUTRAL**
- **BUY calls on KLK (TP: RM28.00) and GENP (TP: RM11.00)**

**Weaker than expected soybean oil price.** Production of soybean has been higher than expected in Brazil at 118.05m tonnes and this is another record high for Brazil (against last year's 114.08m tonnes). Note that Brazil food statistics agency CONAB has raised their estimate for soybean production on 12-June to 118.05m tonnes (against previous estimate of 117.0m tonnes). This factor coupled with high inventory level of soybean have pretty much neutralised the impact of dryness in Argentina which cause the country's soybean production to plunge 19.1m tonnes yoy to 35.50m tonnes (against last year's 54.60m tonnes).

**Chart 1: Correlation Between Palm Oil and Soybean Oil**



Source: Bloomberg, MIDFR

**Soybean inventory is declining but not soybean oil stocks.** While the decline in soybean production from Argentina has reduced soybean inventory by 4.0% yoy for 2017/2018 season ending September, global soybean oil inventory is expected to rise 5.1% yoy to 5.82m tonnes. Reason for the difference is because soybean can be stored for an extended period of up to twelve months before it is crushed, hence the reduction in soybean production may only cause decline in soybean oil stocks after one year.

**Table 1: Global Soybean Demand & Supply**

Soybean: World Demand & Supply	2018/19F	2017/18	2016/17	2015/16
<b>Opening Stocks</b>	<b>92.30</b>	<b>96.10</b>	<b>77.89</b>	<b>83.39</b>
<b>Production</b>	<b>357.27</b>	<b>337.97</b>	<b>348.27</b>	<b>310.89</b>
Out of which from Brazil	117.00	118.05	114.08	95.43
<b>Total Supply</b>	<b>449.57</b>	<b>434.07</b>	<b>426.16</b>	<b>394.28</b>
Crush	303.00	294.21	284.95	273.77
Other Use	50.00	47.56	45.11	42.62
<b>Total Demand</b>	<b>353.00</b>	<b>341.77</b>	<b>330.06</b>	<b>316.39</b>
<b>End Stocks</b>	<b>96.57</b>	<b>92.30</b>	<b>96.10</b>	<b>77.89</b>
<b>Stock/Usage Ratio</b>	<b>27.4%</b>	<b>27.0%</b>	<b>29.1%</b>	<b>24.6%</b>

Source: Oil World

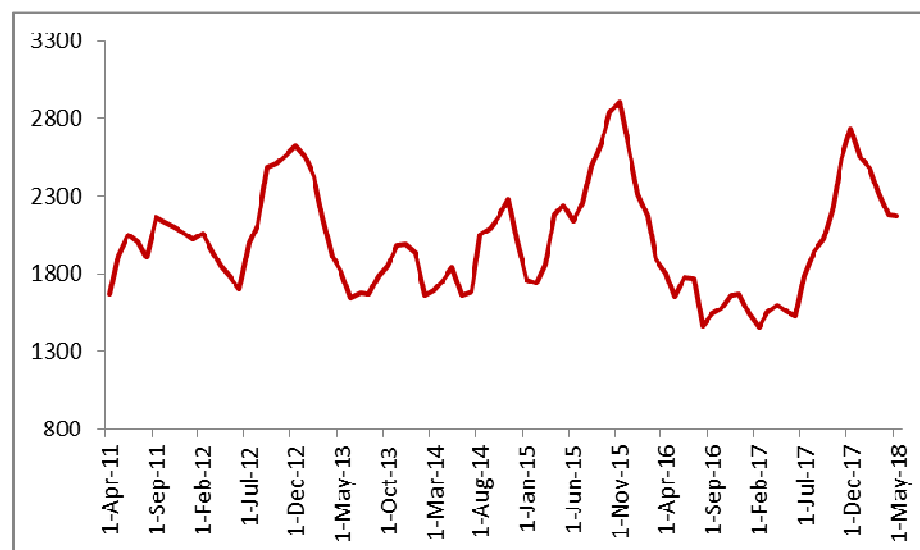
**Table 2: Global Soybean Oil Demand & Supply**

Soybean Oil: World Demand & Supply	2018/19F	2017/18	2016/17	2015/16
<b>Opening Stocks</b>	<b>5.82</b>	<b>5.54</b>	<b>5.23</b>	<b>5.14</b>
Production	56.70	55.05	53.45	51.36
Imports	12.04	10.74	11.76	12.75
Exports	12.20	10.91	11.73	12.42
Disappearance	56.26	54.61	53.16	51.59
<b>End Stocks</b>	<b>6.10</b>	<b>5.82</b>	<b>5.54</b>	<b>5.23</b>
<b>Stock/Usage Ratio</b>	<b>10.8%</b>	<b>10.7%</b>	<b>10.4%</b>	<b>10.1%</b>

Source: Oil World

**Malaysia palm oil inventory should rise from July onwards.** Malaysia palm oil inventory has declined for five consecutive up to end-May 2018. For June, we do expect inventory to continue its downtrend. However, the downtrend should reverse from July onwards as production is expected to rise to the level which exceeds total demand. Hence, inventory should stays above 2.0m tonnes throughout 2H2018 and keep the CPO price upside limited.

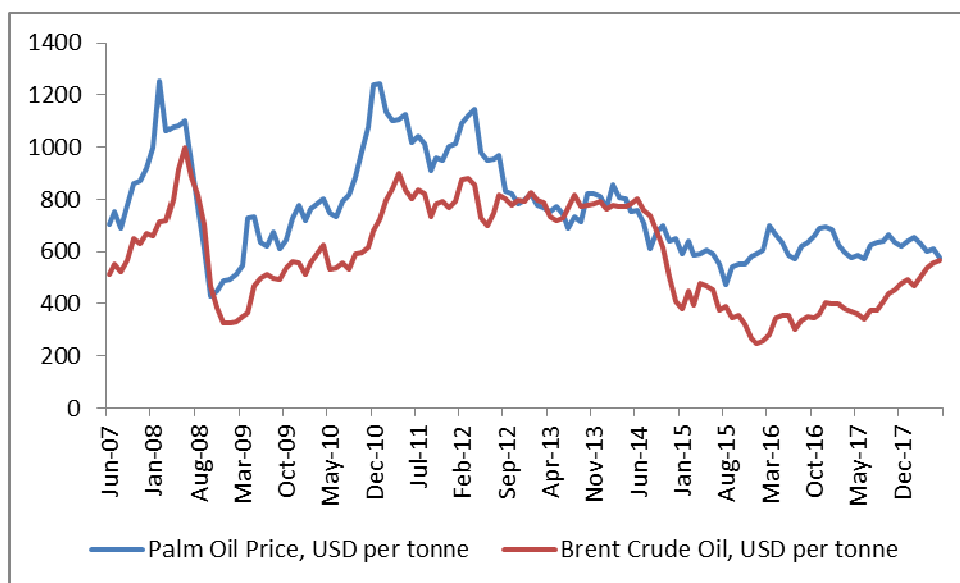
**Chart 2: Malaysia Palm Oil Inventory ('000 MT)**



Source: MPOB, MIDFR

**But CPO price downside is limited due to strong Brent Crude Oil price.** Despite the impact of weak soybean oil price and high inventory of palm oil, we do not expect CPO price to fall significantly from the current level. This is caused by strong Brent Crude Oil price which in turn will lead to higher demand for palm oil from the biodiesel segment. As of end-June, CPO price is trading at USD576 per tonne against Brent Crude Oil price of USD568 per tonne. Historically, Brent Crude Oil serves as the floor price for CPO as CPO-Brent premium exists 100% of the time in the past 3 years. For the past 5 years, CPO-Brent premium exists 87% of the time. Fundamentally, we expect Indonesia biodiesel industry to boost their production as CPO-Brent premium declines as the same amount of money (collected from export levy) can subsidize more volume of biodiesel production.

**Chart 3: Correlation Between Palm Oil and Brent Crude Oil**




Source: Bloomberg, MIDFR

**50% chance of El Niño but it is too early to conclude whether it will materialize.** Australia Bureau of Meteorology (ABM) has activated its El Niño WATCH (from INACTIVE) on 19-June with 50% chance of El Niño forming in austral spring (September-November). However, ABM explained that “an El Niño WATCH is not a guarantee that El Niño will occur; it is an indication that some of the typical precursors of an event are in place.” Hence, we believe that it is still too early to conclude whether El Niño will materialize.

**Average CPO price forecast for 2018 revised to RM2400 per tonne.** We have lowered our CPO price estimate for CPO price to RM2400 per tonne for 2018 after factoring in lower soybean oil price and higher palm oil inventory in our model. For 2019, we expect CPO price to improve to RM2430 per tonne as we believe that soybean oil stocks should decline due to lagged effect of lower soybean stocks kicks in.

**Downgrade our sector view to NEUTRAL.** We have downgraded our sector call to NEUTRAL as we expect CPO price to have limited upside at below RM2500 per tonne in the 2H2018 due to high stocks level expected for palm oil and soybean oil. Earnings estimates for all plantation stocks under our coverage have been reduced. Accordingly, the Target Prices for all planters have been reduced except PPB. Note that PPB valuation is based on Price To Book which is not affected by lower earnings estimates. Refer Table 4 and Table 5 for details.

**BUY calls on KLK and GENP.** We like KLK for: i) improved outlook for its manufacturing earnings due to low CPKO price, ii) earnings resiliency and iii) decent dividend yield of 2.6%. For GENP, we like the Company as we expect its FFB growth of 13% yoy to be the strongest among planters under our coverage. This is due to new contribution from recently acquired estate of 12,893 ha and 5000 ha coming to maturity in Indonesia. 

**Table 4: New Target Price and Recommendations**

Company	TP	Call	Valuation Basis
SIMEPLT	5.15	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.48	NEUTRAL	23.0x Fwd. PE on FY19F earnings reflecting mean valuation.
KLK	28.00	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.40	NEUTRAL	1.1x Price To Book Value
FGV	1.69	NEUTRAL	1.1x Price To Book Value reflecting mean valuation
GENP	11.00	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.20	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.20	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.30	SELL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	1.90	NEUTRAL	SOP with plantation sector @ 11.5x FY19F, PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.

Source: MIDF Research Estimate

**Table 5: Previous Target Price and Recommendations**

Company	TP	Call	Valuation Basis
SIMEPLT	5.55	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.50	NEUTRAL	23.0x Fwd. PE on FY18F earnings reflecting mean valuation.
KLK	28.50	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.40	NEUTRAL	1.1x Price To Book Value.
FGV	1.75	NEUTRAL	1.1x Price To Book Value reflecting mean valuation.
GENP	12.00	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.30	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.30	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.35	SELL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	1.95	NEUTRAL	SOP with plantation sector @ 11.5x FY19F, PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.

Source: MIDF Research Estimate

**Table 6: SIMEPLT Earnings Forecast**

<b>FYE Jun</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	10,304	11,946	14,779	15,828	16,908
EBIT	1,571	1,268	4,538	1,872	1,696
PBT	1,316	839	4,031	1,506	1,347
Net Income	997	967	3,507	1,080	979
Core Net Income	697	963	944	1,080	979
EPS (sen)	14.66	14.22	51.57	15.88	14.40
Core EPS (sen)	10.24	14.15	13.89	15.88	14.40
Net DPS (sen)	NA	NA	NA	7.94	7.20
Net Dvd Yield	NA	NA	NA	1.5%	1.4%
Core PER	52.0	37.7	38.4	33.6	37.0
NTA/share (RM)	0.92	0.99	1.71	1.95	2.17
P/NTA	5.82	5.37	3.11	2.73	2.46
ROE (%)	11.2%	10.1%	23.9%	6.6%	5.5%
ROA (%)	3.6%	3.4%	11.9%	3.5%	3.0%

Source: Company, MIDF Research

**Table 7: IOICORP Earnings Forecast**

<b>FYE Jun</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	11,542	11,739	14,127	14,004	13,402
EBIT	1,142	1,355	1,560	1,643	1,672
PBT	316	966	1,087	1,560	1,595
Net Income	52	630	733	1,224	3,757
Core Net Income	1,134	1,176	1,007	1,224	1,226
EPS (sen)	0.82	9.99	11.65	19.46	59.77
Core EPS (sen)	17.83	18.66	16.00	19.46	19.50
Net DPS (sen)	9.00	8.00	9.50	22.73	9.75
Net Dvd Yield	2.0%	1.7%	2.1%	5.0%	2.1%
Core PER	25.7	24.5	28.6	23.5	23.5
NTA/share (RM)	1.04	1.05	1.10	1.26	1.76
P/NTA	4.40	4.36	4.15	3.64	2.60
ROE	0.7%	8.8%	9.8%	14.5%	32.5%
ROA	0.3%	3.6%	4.1%	7.3%	22.3%

Source: Company, MIDF Research

**Table 8: KLK Earnings Forecast**

<b>FYE Sep</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	13,650	16,506	21,004	24,499	26,206
EBIT	1,134	1,865	1,624	1,606	1,574
PBT	1,135	1,712	1,450	1,529	1,496
Net Income	870	1,592	1,005	1,113	1,088
Core Net Income	789	1,052	1,080	1,113	1,088
EPS (sen)	81.7	149.5	94.4	104.5	102.2
Core EPS (sen)	74.1	98.8	101.4	104.5	102.2
Net DPS (sen)	45.0	50.0	50.0	61.7	60.4
Net Dvd Yield	1.9%	2.1%	2.1%	2.6%	2.5%
Core PER	32.7	24.5	23.9	23.2	23.7
NTA/share (RM)	7.81	9.79	10.86	9.49	9.91
P/NTA	3.09	2.47	2.23	2.55	2.44
ROE	10.4%	15.2%	8.7%	11.0%	10.3%
ROA	6.6%	8.7%	5.2%	7.0%	6.6%

Source: Company, MIDF Research

**Table 9: PPB Earnings Forecast**

<b>FYE Dec</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	4,048	4,186	4,305	4,310	4,494
EBIT	399	401	262	241	381
PBT	1,181	1,211	1,293	998	1,152
Net Income	1,051	1,045	1,205	912	1,031
Core Net Income	1,051	1,045	1,205	912	1,031
EPS (sen)	88.7	88.1	101.7	76.9	87.0
Core EPS (sen)	88.7	88.1	101.7	76.9	87.0
Net DPS (sen)	25.0	25.0	30.0	23.1	26.1
Net Dvd Yield	1.3%	1.3%	1.5%	1.2%	1.3%
Core PER	22.3	22.4	19.4	25.7	22.7
NTA/share (RM)	16.74	17.63	17.56	16.21	16.81
P/NTA	1.18	1.12	1.13	1.22	1.18
ROE	5.3%	5.0%	5.8%	4.7%	5.2%
ROA	4.8%	4.6%	5.3%	4.5%	4.9%

Source: Company, MIDF Research

**Table 10: FGV Earnings Forecast**

<b>FYE Dec</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	15,670	17,241	16,975	19,889	20,731
EBIT	682	446	801	330	414
PBT	384	260	417	141	169
Net Income	117.1	31.5	143.7	80.4	97.8
Core Net Income	(106.0)	(157.0)	59.2	80.4	97.8
EPS (sen)	3.21	0.86	3.94	2.20	2.68
Core EPS (sen)	(2.91)	(4.30)	1.62	2.20	2.68
Net DPS (sen)	4.0	0.0	5.0	5.0	5.0
Net Dvd Yield	2.7%	0.0%	3.4%	3.4%	3.4%
Core PER	(51.3)	(34.6)	91.9	67.6	55.6
NTA/share (RM)	1.19	1.16	1.11	1.08	1.06
P/NTA	1.25	1.29	1.34	1.38	1.41
ROE	2.0%	0.5%	2.6%	1.5%	1.8%
ROA	0.6%	0.1%	0.7%	0.4%	0.4%

Source: Company, MIDF Research

**Table 11: GENP Earnings Forecast**

<b>FYE Dec</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	1,375	1,480	1,804	1,729	1,947
EBIT	276	483	501	384	418
PBT	247	449	461	402	473
Net Income	190	338	338	302	347
Core Net Income	210	271	336	302	347
EPS (sen)	24.8	42.8	42.1	37.7	43.3
Core EPS (sen)	27.5	34.4	41.9	37.7	43.3
Net DPS (sen)	5.5	21.0	26.0	20.7	23.8
Net Dvd Yield	0.6%	2.2%	2.8%	2.2%	2.5%
Core PER	34.2	27.3	22.4	24.9	21.7
NTA/share (RM)	5.31	5.38	5.37	5.54	5.73
P/NTA	1.77	1.75	1.75	1.70	1.64
ROE	4.5%	7.9%	7.8%	6.8%	7.5%
ROA	3.7%	4.3%	4.0%	3.6%	4.1%

Source: Company, MIDF Research

**Table 12: IJMP Earnings Forecast**

<b>FYE Mar</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue	558	754	747	691	723
EBIT	72	192	124	123	124
PBT	50	169	77	115	117
Net Income	24.2	115.1	46.6	95.0	96.7
Core Net Income	25.0	119.1	70.3	95.0	96.7
EPS (sen)	2.9	13.1	5.3	11.3	11.5
Core EPS (sen)	3.0	13.5	8.0	11.3	11.5
Net DPS (sen)	5.0	7.0	7.0	5.1	5.2
Net Dvd Yield	2.3%	3.3%	3.3%	2.4%	2.4%
Core PER	72.0	15.8	26.8	19.0	18.6
NTA/share (RM)	1.92	2.12	1.93	2.02	2.09
P/NTA	1.11	1.01	1.11	1.06	1.02
ROE	1.5%	6.4%	2.9%	5.6%	5.5%
ROA	0.9%	3.9%	1.8%	3.5%	3.5%

Source: Company, MIDF Research

**Table 13: TSH Earnings Forecast**

<b>FYE Dec</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	800	873	1,074	1,052	1,086
EBIT	113	133	205	181	194
PBT	(86)	113	192	145	156
Net Income	(105.5)	56.5	114.0	74.3	79.5
Core Net Income	87.2	79.3	108.9	74.3	79.5
EPS (sen)	(7.85)	4.20	8.35	5.38	5.75
Core EPS (sen)	6.48	5.89	7.98	5.38	5.75
Net DPS (sen)	2.00	2.00	2.00	1.34	1.44
Net Dvd Yield	1.7%	1.7%	1.7%	1.2%	1.2%
Core PER	17.9	19.7	14.5	21.6	20.2
NTA/share (RM)	1.07	1.19	1.12	1.16	1.21
P/NTA	1.08	0.98	1.04	1.00	0.96
ROE	-7.8%	3.8%	7.7%	4.9%	5.0%
ROA	-3.3%	1.6%	3.4%	2.1%	2.2%

Source: Company, MIDF Research

**Table 14: TAANN Earnings Forecast**

<b>FYE Dec</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	1,047	1,147	1,173	990	1,004
EBIT	255	195	221	103	126
PBT	234	176	197	88	111
Net Income	188.2	125.6	119.3	64.6	81.8
Core Net Income	169.9	117.0	119.7	64.6	81.8
EPS (sen)	42.34	28.24	26.82	14.53	18.40
Core EPS (sen)	38.21	26.32	26.93	14.53	18.40
Net DPS (sen)	20.00	10.00	10.00	5.52	6.99
Net Dvd Yield	7.7%	3.8%	3.8%	2.1%	2.7%
Core PER	6.8	9.9	9.7	18.0	14.2
NTA/share (RM)	2.62	2.83	2.80	2.94	3.06
P/NTA	0.99	0.92	0.93	0.89	0.85
ROE	15.9%	9.9%	8.9%	4.6%	5.6%
ROA	9.5%	6.1%	5.1%	3.0%	3.7%

Source: Company, MIDF Research

**Table 15: FIMACORP Earnings Forecast**

<b>FYE Mar</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue	375.2	372.1	284.6	280.9	279.1
EBIT	75.8	58.7	53.6	54.9	50.3
PBT	77.3	61.3	63.3	57.9	53.2
Net Income	51.3	37.7	36.1	35.7	32.3
Core Net Income	49.6	71.5	32.3	35.7	32.3
EPS (sen)	20.55	29.64	14.98	14.80	13.41
Core EPS (sen)	20.55	29.64	13.38	14.80	13.41
Net DPS (sen)	12.50	17.50	12.50	12.50	12.50
Net Dvd Yield	6.3%	8.9%	6.3%	6.3%	6.3%
Core PER	9.6	6.6	14.7	13.3	14.7
NTA/share (RM)	2.29	2.33	2.27	2.38	2.39
P/NTA	0.86	0.85	0.87	0.83	0.83
ROE	9.3%	6.7%	6.6%	6.2%	5.6%
ROA	7.5%	5.3%	5.6%	4.9%	4.4%

Source: Company, MIDF Research

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.