

11 April 2018 | Sector Update

# PLANTATION

**Maintain POSITIVE**

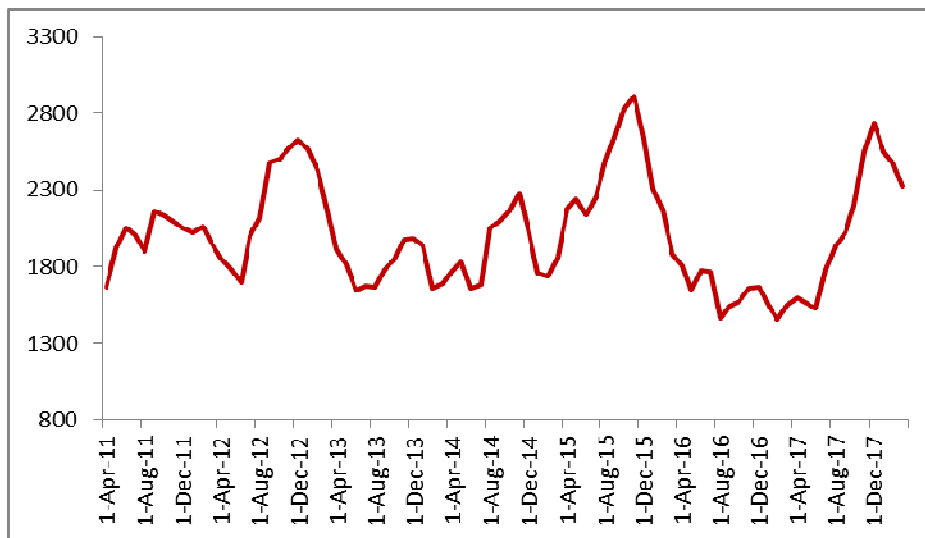
**Average CPO price lowered to RM2600 per tonne**

## KEY HIGHLIGHTS

- **March inventory is higher than consensus estimate**
- **Production increased 17% in March; export surged 19% mom in March**
- **The data is neutral to CPO price as export in the first 10 days of April has been strong**
- **Expect April inventory to decline 8% to 2.13m tonnes**
- **CPO price assumption revised to RM2600 per tonne as USD-Ringgit rate has weakened 9%**
- **Maintain POSITIVE on the sector with KLK and GENP as our top picks**

**March inventory is higher than consensus estimate.** Malaysia palm oil inventory level of 2.32m tonnes as of end-March is higher than consensus estimate of 2.28m tonnes. Production was stronger than expected as it increased 17% mom due to higher production in Sarawak and Peninsular Malaysia. Against last month, inventory level declined by 6% mom as export surge of 19% more than offset the production growth of 17%.

**Chart 1: Malaysia palm oil inventory ('000 MT)**



Source: Malaysia Palm Oil Board (MPOB)

**Production increased 17% in March.** Palm oil production increased 17% mom and 8% yoy to 1.57m tonnes in March. This is higher than our initial estimate of 1.50m tonnes as the production from Sarawak came in stronger than expected (+22% mom to 285,704 tonnes). The yoy increase of 8% is considered a slowdown from Jan-2018 surge of 24% yoy and this could be an indicator that the strong uptrend in production may be over soon. Going forward, we expect April production to increase by 3% mom and only 5% yoy to 1.62m tonnes.

**Export surged 19% mom in March.** Export surged 19% mom to 1.57m tonnes in March due to strong demand from India, China and Pakistan. The strong export growth to India (+26% mom to 394,947 tonnes) and Pakistan (+71% mom to 115,914 tonnes) is caused by pre-stocking activity ahead of Ramadhan which should start in mid-May. For China (+28% mom to 134,303 tonnes), the strong demand for palm oil may be caused by warmer weather as winter has ended.

**Table 1: Palm Oil Statistics for March-2018 ('000 MT)**

	Mar-18	Feb-18	Diff.	MoM %	Mar-17	YoY%
<b>Opening Stocks</b>	<b>2,478</b>	<b>2,550</b>	<b>(72)</b>	<b>-2.8%</b>	<b>1,459</b>	<b>69.8%</b>
<b>Production</b>	<b>1,574</b>	<b>1,343</b>	<b>231</b>	<b>17.2%</b>	<b>1,464</b>	<b>7.5%</b>
Imports	40	67	(28)	-41.0%	102	-61.1%
<b>Total Supply</b>	<b>4,092</b>	<b>3,960</b>	<b>131</b>	<b>3.3%</b>	<b>3,025</b>	<b>35.3%</b>
Exports	1,565	1,313	252	19.2%	1,266	23.7%
Dom Disapp	203	169	34	20.0%	206	-1.7%
<b>Total Demand</b>	<b>1,768</b>	<b>1,482</b>	<b>286</b>	<b>19.3%</b>	<b>1,472</b>	<b>20.1%</b>
<b>End Stocks</b>	<b>2,323</b>	<b>2,478</b>	<b>(155)</b>	<b>-6.2%</b>	<b>1,553</b>	<b>49.6%</b>
<b>Stock/Usage Ratio</b>	<b>10.9%</b>	<b>13.9%</b>			<b>8.8%</b>	

Source: MPOB, MIDF Research

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

Country	Mar-18	Feb-18	Mar-17	MoM%	YoY%	3M18	3M17	YoY%
China	134	105	104	28%	30%	396	374	6%
India	395	314	171	26%	130%	910	444	105%
EU	133	247	135	-46%	-1%	567	425	34%
Pakistan	116	68	55	71%	112%	285	151	88%
US	42	41	43	4%	-2%	132	115	14%
Others	745	539	758	38%	-2%	2,103	2,140	-2%
<b>Total</b>	<b>1,565</b>	<b>1,313</b>	<b>1,266</b>	<b>19%</b>	<b>24%</b>	<b>4,393</b>	<b>3,650</b>	<b>20%</b>

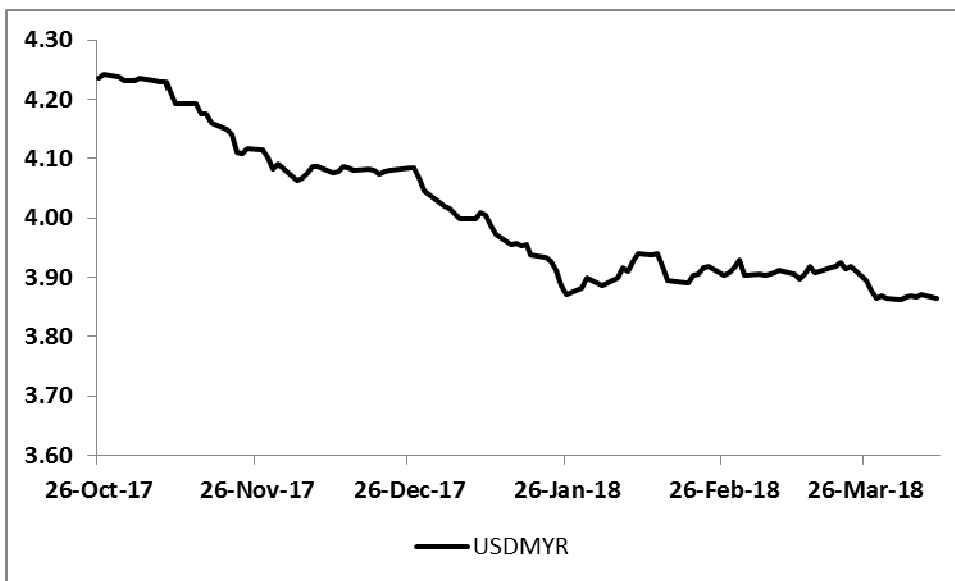
Source: MPOB, MIDF Research

**The data is neutral to CPO price as export in the first 10 days of April has been strong.** Although the latest inventory data came in above market expectation, the impact to CPO price is likely to be neutral. Strong export numbers in the first 10 days with growth exceeding 26% should neutralised the slightly negative impact from the inventory data.

**Expect April inventory to decline 8% to 2.13m tonnes.** We expect export to improve 5% mom as we expect demand to remain strong due to pre-stocking activity ahead of Ramadhan. For production, we expect an increase of 3% mom to 1.62m tonnes due to seasonal factor.

**CPO price assumption revised to RM2600 per tonne as USD-Ringgit rate has weakened 9%.** Since our last CPO price forecast revision on 26-Oct-2017, USD-Ringgit rate has declined by 9% to 3.86 as of 10-April-2018. Lower USD-Ringgit rate usually leads to lower CPO price as it reduce the price competitiveness of CPO against other vegetable oils. This is especially true for the soybean oil which is quoted in US Dollar. Coupled with higher than expected inventory of palm oil (due to stronger than expected production in 4Q2017), we have revised our 2018 CPO price assumption to RM2600 per tonne.

**Chart 2: USD to Ringgit rate has weakened 9% in the past 6 months**



Source: Bloomberg

**Maintain POSITIVE on the sector.** Despite the reduction in our CPO price assumption, we maintain our positive view on the sector as CPO price has remained strong in USD. We also believe that CPO price should trend upwards in 2Q2018 and 2H2018 due to improved demand outlook for palm oil. The good global economy growth should lead to higher consumption per capita. On the supply side, consensus estimate of huge supply growth may not be fully realized due to ongoing labor shortage and the potentially high replanting activity in Indonesia. Note that Indonesia plans to replant up to 165,000 ha of oil palm plantation land this year. This could limit the supply surge by between 0.5 to 0.6 million tonnes assuming oil yield of 3.5 MT per ha.

**Top picks are KLK and GENP.** We have reduced the earnings and Target Price for most planters under our coverage. The recommendations are intact except TSH which has been downgraded to NEUTRAL. Our top picks are KLK and GENP. We like KLK for its earnings resiliency and decent dividend yield of 2.5%. 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. Other buy calls are PPB and FIMACORP.



## New Target Price and Recommendations

Company	TP	Call	Valuation Basis
KLK	28.50	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.46	BUY	1.1x Price To Book Value.
GENP	12.00	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
FIMACOR	2.30	BUY	SOP with plantation sector @ 11.5x FY19F PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.
SIMEPLT	5.40	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.
FGV	1.75	NEUTRAL	1.1x Price To Book Value reflecting mean valuation.
IJMP	2.25	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.45	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.20	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.

Source: MIDF Research Estimate

## Previous Target Price and Recommendations

Company	TP	Call	Valuation Basis
KLK	29.00	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.46	BUY	1.1x Price To Book Value.
GENP	12.70	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
TSH	1.90	BUY	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
FIMACOR	2.60	BUY	SOP with plantation sector @ 11.5x FY18F PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.
SIMEPLT	5.60	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.80	NEUTRAL	23.0x Fwd. PE on FY18F earnings reflecting mean valuation.
FGV	1.75	NEUTRAL	1.1x Price To Book Value reflecting mean valuation.
IJMP	2.36	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.

Source: MIDF Research Estimate

**Table 3: 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	15,841	17,080
EBIT	1,571	1,268	4,538	1,825	1,866
PBT	1,316	839	4,031	1,460	1,516
Net Income	997	967	3,507	1,045	1,107
Core Net Income	697	963	944	1,045	1,107
EPS (sen)	14.66	14.22	51.57	15.37	16.28
Core EPS (sen)	10.24	14.15	13.89	15.37	16.28
Net DPS (sen)	NA	NA	NA	7.69	8.14
Net Dvd Yield	NA	NA	NA	1.3%	1.4%
Core PER	39.6	40.8	11.2	37.7	35.6
NTA/share (RM)	56.6	41.0	41.8	37.7	35.6
P/NTA	0.92	0.99	1.71	1.94	2.19
ROE	6.33	5.85	3.39	2.98	2.65
ROA	11.2%	10.1%	23.9%	6.4%	6.2%

Source: Company, MIDF Research

**Table 4: 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	14,050	13,915
EBIT	1,142	1,355	1,560	1,654	1,712
PBT	316	966	1,087	1,570	1,635
Net Income	52	630	733	1,232	3,790
Core Net Income	1,134	1,176	1,007	1,232	1,258
EPS (sen)	0.82	9.99	11.65	19.60	60.29
Core EPS (sen)	17.83	18.66	16.00	19.60	20.01
Net DPS (sen)	9.00	8.00	9.50	22.80	10.01
Net Dvd Yield	1.9%	1.7%	2.0%	4.8%	2.1%
Core PER	26.6	25.4	29.6	24.2	23.7
NTA/share (RM)	1.04	1.05	1.10	1.26	1.76
P/NTA	4.56	4.52	4.30	3.76	2.69
ROE	0.7%	8.8%	9.8%	14.6%	32.7%
ROA	0.3%	3.6%	4.1%	7.3%	22.4%

Source: Company, MIDF Research

**Table 5: 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	24,543	26,369
EBIT	1,134	1,865	1,624	1,632	1,644
PBT	1,135	1,712	1,450	1,555	1,566
Net Income	870	1,592	1,005	1,132	1,141
Core Net Income	789	1,052	1,080	1,132	1,141
EPS (sen)	81.7	149.5	94.4	106.3	107.2
Core EPS (sen)	74.1	98.8	101.4	106.3	107.2
Net DPS (sen)	45.0	50.0	50.0	62.8	63.3
Net Dvd Yield	1.8%	2.0%	2.0%	2.5%	2.5%
Core PER	34.5	25.9	25.2	24.1	23.9
NTA/share (RM)	7.81	9.79	10.86	9.50	9.94
P/NTA	3.27	2.61	2.35	2.69	2.57
ROE	10.4%	15.2%	8.7%	11.2%	10.8%
ROA	6.6%	8.7%	5.2%	7.1%	6.9%

Source: Company, MIDF Research

**Table 6: 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	4,349	4,576
EBIT	399	401	262	391	412
PBT	1,181	1,211	1,293	1,261	1,283
Net Income	1,051	1,045	1,205	1,135	1,154
Core Net Income	1,051	1,045	1,205	1,135	1,154
EPS (sen)	88.7	88.1	101.7	95.7	97.3
Core EPS (sen)	88.7	88.1	101.7	95.7	97.3
Net DPS (sen)	25.0	25.0	30.0	28.7	29.2
Net Dvd Yield	1.3%	1.3%	1.6%	1.5%	1.6%
Core PER	20.9	21.0	18.2	19.4	19.0
NTA/share (RM)	16.74	17.63	17.56	16.34	17.02
P/NTA	1.11	1.05	1.06	1.13	1.09
ROE	5.3%	5.0%	5.8%	5.8%	5.7%
ROA	4.8%	4.6%	5.3%	5.5%	5.4%

Source: Company, MIDF Research

**Table 7: 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	20,352	21,259
EBIT	682	446	801	536	610
PBT	384	260	417	347	366
Net Income	117	31	144	106	117
Core Net Income	(106)	(157)	59	106	117
EPS (sen)	3.21	0.86	3.94	2.90	3.21
Core EPS (sen)	(2.91)	(4.30)	1.62	2.90	3.21
Net DPS (sen)	4.0	0.0	5.0	5.0	5.0
Net Dvd Yield	2.1%	0.0%	2.6%	2.6%	2.6%
Core PER	(65.4)	(44.1)	117.2	65.4	59.2
NTA/share (RM)	1.19	1.16	1.11	1.09	1.07
P/NTA	1.60	1.64	1.71	1.75	1.78
ROE	2.0%	0.5%	2.6%	1.9%	2.1%
ROA	0.6%	0.1%	0.7%	0.5%	0.5%

Source: Company, MIDF Research

**Table 8: GEPN 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	1,791	1,995
EBIT	276	483	501	441	463
PBT	247	449	461	460	517
Net Income	190	338	338	346	379
Core Net Income	210	271	336	346	379
EPS (sen)	24.8	42.8	42.1	43.2	47.3
Core EPS (sen)	27.5	34.4	41.9	43.2	47.3
Net DPS (sen)	5.5	21.0	26.0	23.7	26.0
Net Dvd Yield	0.6%	2.1%	2.6%	2.4%	2.6%
Core PER	36.4	29.1	23.8	23.2	21.1
NTA/share (RM)	5.31	5.38	5.37	5.56	5.77
P/NTA	1.88	1.86	1.86	1.80	1.73
ROE	4.5%	7.9%	7.8%	7.7%	8.1%
ROA	3.7%	4.3%	4.0%	4.1%	4.5%

Source: Company, MIDF Research

**Table 9: IJMP Earnings Forecast**

<b>FYE Mar</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	668	558	754	633	697
EBIT	141	72	192	81	126
PBT	89	50	169	73	119
Net Income	90	24	115	62	97
Core Net Income	142	25	119	62	97
EPS (sen)	10.7	2.9	13.1	7.4	11.5
Core EPS (sen)	16.8	3.0	13.5	7.4	11.5
Net DPS (sen)	6.0	5.0	7.0	2.7	5.2
Net Dvd Yield	2.7%	2.2%	3.1%	1.2%	2.3%
Core PER	13.3	75.4	16.6	30.4	19.4
NTA/share (RM)	1.91	1.92	2.12	2.02	2.09
P/NTA	1.17	1.17	1.06	1.11	1.07
ROE	5.6%	1.5%	6.4%	3.6%	5.5%
ROA	3.5%	0.9%	4.4%	2.3%	3.6%

Source: Company, MIDF Research

**Table 10: 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	1,072	1,106
EBIT	113	133	205	202	217
PBT	(86)	113	192	165	179
Net Income	(106)	57	114	90	96
Core Net Income	87	79	109	90	96
EPS (sen)	(7.85)	4.20	8.35	6.48	6.97
Core EPS (sen)	6.48	5.89	7.98	6.48	6.97
Net DPS (sen)	2.00	2.00	2.00	1.62	1.74
Net Dvd Yield	1.4%	1.4%	1.4%	1.2%	1.3%
Core PER	21.3	23.4	17.3	21.3	19.8
NTA/share (RM)	1.07	1.19	1.12	1.17	1.23
P/NTA	1.29	1.16	1.23	1.18	1.12
ROE	-7.8%	3.8%	7.7%	5.8%	6.0%
ROA	-3.3%	1.6%	3.4%	2.6%	2.7%

Source: Company, MIDF Research

**Table 11: 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	1,087	1,125
EBIT	255	195	221	168	178
PBT	234	176	197	154	163
Net Income	188	126	119	114	121
Core Net Income	170	117	120	114	121
EPS (sen)	42.34	28.24	26.82	25.60	27.24
Core EPS (sen)	38.21	26.32	26.93	25.60	27.24
Net DPS (sen)	20.00	10.00	10.00	9.73	10.35
Net Dvd Yield	6.1%	3.0%	3.0%	3.0%	3.2%
Core PER	8.6	12.5	12.2	12.8	12.0
NTA/share (RM)	2.62	2.83	2.80	3.01	3.18
P/NTA	1.25	1.16	1.17	1.09	1.03
ROE	15.9%	9.9%	8.9%	7.9%	8.0%
ROA	9.5%	6.1%	5.1%	5.2%	5.3%

Source: Company, MIDF Research

**Table 12: FIMACORP Earnings Forecast**

<b>FYE Mar</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	378.0	375.2	372.1	285.3	302.5
EBIT	84.5	75.8	58.7	63.4	66.9
PBT	87.8	77.3	61.3	66.4	69.8
Net Income	55.8	51.3	37.7	40.5	44.3
Core Net Income	55.9	49.6	71.5	40.5	44.3
EPS (sen)	23.17	20.55	29.64	16.78	18.36
Core EPS (sen)	23.17	20.55	29.64	16.78	18.36
Net DPS (sen)	12.50	12.50	17.50	12.50	12.50
Net Dvd Yield	6.3%	6.3%	8.9%	6.3%	6.3%
Core PER	8.5	9.6	6.6	11.7	10.7
NTA/share (RM)	2.20	2.29	2.33	2.37	2.43
P/NTA	0.90	0.86	0.85	0.83	0.81
ROE	10.5%	9.3%	6.7%	7.1%	7.6%
ROA	7.8%	7.5%	5.3%	5.7%	6.0%

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.