

05 April 2018 | Sector Update

PLANTATION

Maintain POSITIVE

CPO to benefit from China 25% tariff on soybean from US

KEY HIGHLIGHTS

- **China to levy 25% tariff on soybean from United States**
- **Positive impact on CPO price**
- **Maintain our POSITIVE view on the sector**
- **Top picks are KLK and GENP**

China to levy 25% tariff on soybean from United States. According to Bloomberg, China would levy 25% tariffs on imports of U.S. soybeans and more than 100 other products in response to proposed American duties on its high-tech goods. We gather that the move is to match the scale of proposed tariffs earlier by United States on Tuesday and charges will apply to around USD50.0b of imports.

Positive impact on CPO price. The impact is positive to CPO price as we expect higher China demand on palm oil in the long run. We expect the 25% tariff in China to lead to lower purchase of soybean from United States and this should lead to lower crushing volume of soybean in the country. Although we expect China to increase soybean import from Brazil, the volume is not enough to compensate the lower volume from US. In the long run, we expect lower soybean oil (which is a by-product of soybean crushing) supply in China. Palm oil stands to benefit from this as it is a common substitute for soybean oil for use in the food processing industry.

Maintain our POSITIVE view on the sector. We reiterate our positive view on the sector due to improved demand outlook for palm oil in 2018. We believe that the good global economy growth in 2018 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 like KLK for its earnings resiliency and decent dividend yield of 2.5%. We like GENP as we expect its FFB growth at 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, TSH and FIMACORP.

Table 1: Target Price and Recommendations

Company	TP	Call	Valuation Basis
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.
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.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.70	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.36	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD 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.

Source: MIDF Research Estimate

Alan Lim, CFA
alan.lim@midf.com.my
03-21738464

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.