

25 March 2016 | Sector Update

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PLANTATION

Maintain POSITIVE***Don't Under-estimate the Impact of the Strong El Nino***

KEY HIGHLIGHTS

- **Upgrade forecast of 2016 average CPO price by 6.5% to RM2450/MT from RM2300/MT.**
- **Expect severe stockpile depletion in 2QCY2016 to boost CPO price to RM3000/MT.**
- **United States may produce less soybean than earlier estimation.**
- **Crude oil price is no longer a determinant of CPO price.**
- **Maintain POSITIVE view on the sector.**
- **IOICORP (TP: RM5.55) is our top pick.**

Upgrade 2016 average CPO price to RM2450/MT from RM2300/MT. Reasons for the increase in CPO price assumption are: i) expected severe stockpile depletion in 2QCY2016, ii) United States may produce less soybean than earlier estimation and iii) low crude oil price is not expected to affect CPO price.

Expect severe stockpile depletion in 2QCY2016 to boost CPO price to RM3000/MT. Malaysia palm oil stockpile is expected to drop to the critical level of 1.50m MT towards the end of 2QCY2016. The impact of El Nino on oil palm tree production is only at the beginning stage. Hence, CPO production will be significantly lower than what it used to be in 1HCY2016. We think that there is a chance that the CPO discount against soybean oil (SBO) should narrow even to zero level due to severe supply shock in the market. Such rare phenomenon occurs before in Feb-2011 in which CPO price surge to RM3800/MT as inventory drop to 1.48m MT. Our key assumptions are SBO price to stay at around USD725/MT and USD/MYR rate of 4.15.

United States may produce less soybean than earlier estimated. According to the latest World Agricultural Supply and Demand Estimate (WASDE) by United States Department of Agriculture (USDA), the production of soybean in the US has been reduced to 106.93m MT (against last month estimate of 106.95m MT). Globally, USDA also estimated lower soybean production at 320.21m MT (against last month estimate of 320.51m MT). The news is positive to CPO price as lower soybean production should lead to lower competition from soybean oil towards CPO.

Crude oil price is no longer a main determinant of CPO price. Our observation shows that the correlation between Brent Crude Oil price and CPO price has weakened when the former falls below USD80/barrel in Nov-2014. Since then, CPO price has declined merely 14% to USD545/MT while Brent Crude Oil tumbled 47% to USD37.28/barrel as of end-2015. Statistically, the correlation between Brent Crude Oil and CPO price has weakened to 0.57 between Nov-2014 and Dec-2015 (from above 0.80 before Nov-2014). As a result, we think that crude oil price should not affect CPO price unless it surges above USD80/barrel as this should be the breakeven point for biodiesel players to start producing independent of government subsidy.

Maintain POSITIVE on the sector. In line with higher CPO price assumption, we have increased our earnings assumptions for FY16 and FY17 for all planters under our coverage. Accordingly, our Target Price has been increased for all planters except FGV which is maintained as we are using 1.0x Price to Net Tangible Assets method. Refer Table 1 and Table 2 for full details of changes in Calls and Target Price.

Top pick is IOICORP (New TP: RM5.55; Old TP: RM5.40). Our top pick is IOICORP due to: i) the stock is due for rerating after it regained its Shariah funds on 30-Nov, ii) strong earnings growth of +22%yoy to RM778m in 1HFY16, iii) its earnings profile has the most pure (100%) exposure to palm oil among the big cap index-linked planters and iv) the recent purchase of 4.14m shares by the major shareholder should bode well for investors' confidence in the company.



Table 1: Change in calls and target prices

Company	Price @ 24-Mar-16 RM	Upside/ (Downside)	Net Dvd Yield (%)	Expected Total Return (%)	New TP	New Call	Previous TP (RM)	Previous Call
SIME	8.00	0.6%	2.1%	2.7%	8.05	NEUTRAL	7.30	NEUTRAL
IOICORP	4.83	14.9%	3.7%	18.6%	5.55	BUY	5.40	BUY
KLK	24.00	0.0%	2.5%	2.5%	24.00	NEUTRAL	22.50	NEUTRAL
PPB	16.68	11.5%	1.5%	13.0%	18.60	NEUTRAL	18.20	NEUTRAL
FGV	1.48	-10.1%	3.3%	-6.8%	1.33	SELL	1.33	SELL
GENP	11.02	-3.3%	0.9%	-2.4%	10.66	NEUTRAL	9.53	NEUTRAL
IJMP	3.70	-3.5%	1.2%	-2.3%	3.57	NEUTRAL	3.30	NEUTRAL
TSH	2.13	7.0%	1.2%	8.2%	2.28	NEUTRAL	2.00	NEUTRAL
TAANN	5.05	34.7%	4.2%	38.9%	6.80	BUY	6.50	BUY

Source: MIDF Research Estimate

Table 2: Summary of change in earnings forecast

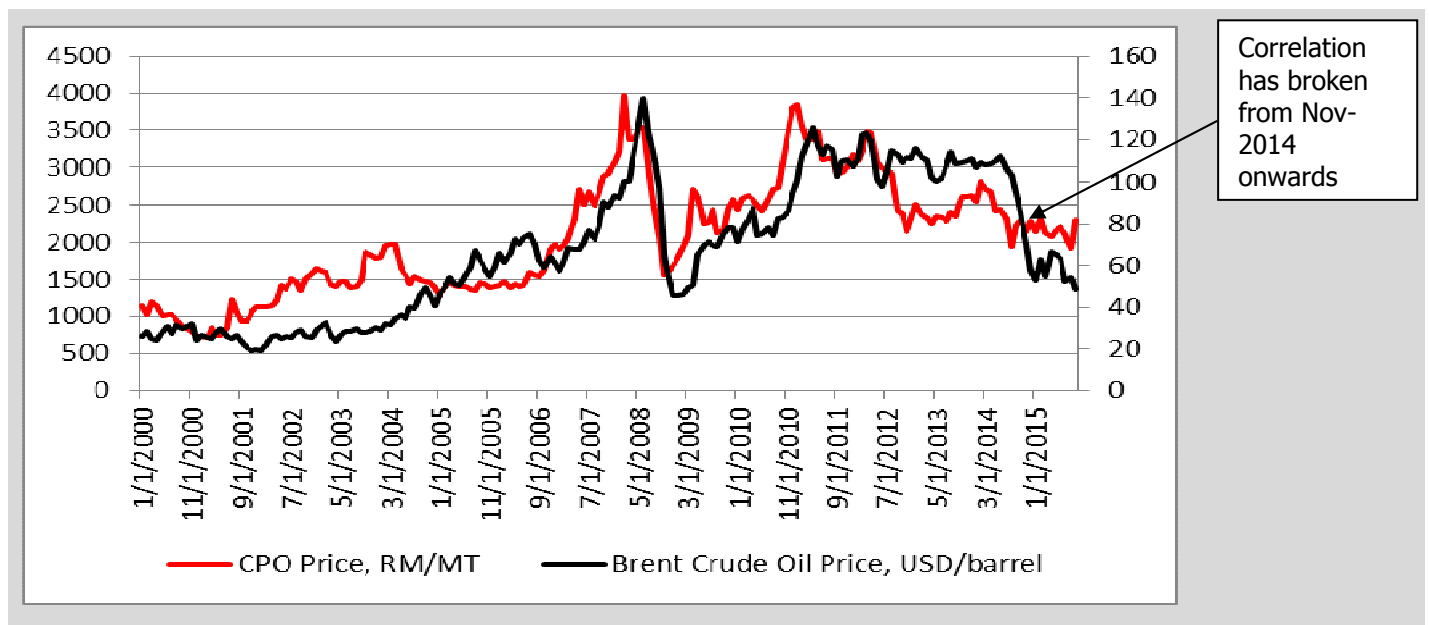
Company	FY16/17 Core Net Profit (New)	FY17/18 Core Net Profit (New)	FY16/17 Core Net Profit (Old)	FY17/18 Core Net Profit (Old)	FY16/17 Core Net Profit Change (%)	FY17/18 Core Net Profit Change (%)	Basis of change
SIME	1611.2	1929.4	1500.6	1752.2	7.4%	10.1%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
IOICORP	1324.1	1469.8	1288.4	1321.5	2.8%	11.2%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
KLK	1087.4	1144.6	1020.0	1046.0	6.6%	9.4%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
PPB	1020.8	1040.8	999.0	1020.0	2.2%	2.0%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
FGV	179.4	188.0	101.7	107.4	76.4%	75.0%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
GENP	137.6	182.6	120.7	165.3	14.0%	10.5%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact.
IJMP	84.1	161.8	84.1	149.6	0.0%	8.2%	CY2016 CPO price increased to RM2450/MT; FFB yield reduced due to El Nino impact
TSH	309.4	313.4	277.6	278.8	11.4%	12.4%	CY2016 CPO price increased to RM2450/MT; FFB yield reduced
TAANN	151.8	159.0	145.1	150.3	4.6%	5.8%	CY2016 CPO price increased to RM2450/MT. FFB yield reduced due to El Nino impact. USD exchange rate for timber products reduced to 4.0 from 4.2

Table 3: Basis of valuation

Company	Valuation Basis
SIME	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the avg of IOICORP and KLK Target PE.
IOICORP	26.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
KLK	23.5x Fwd. PE on FY16F earnings reflecting mean valuation.
PPB	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGVH	1.0x Price to Net Tangible Asset (P/NTA).
GENP	SOP with plantation sector @ 23.5x FY16E PE. 23.5x is the lower valuation between IOICORP and KLK.
IJMP	18.6x Fwd. PE on FY16F earnings reflecting mean valuation.
TSH	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

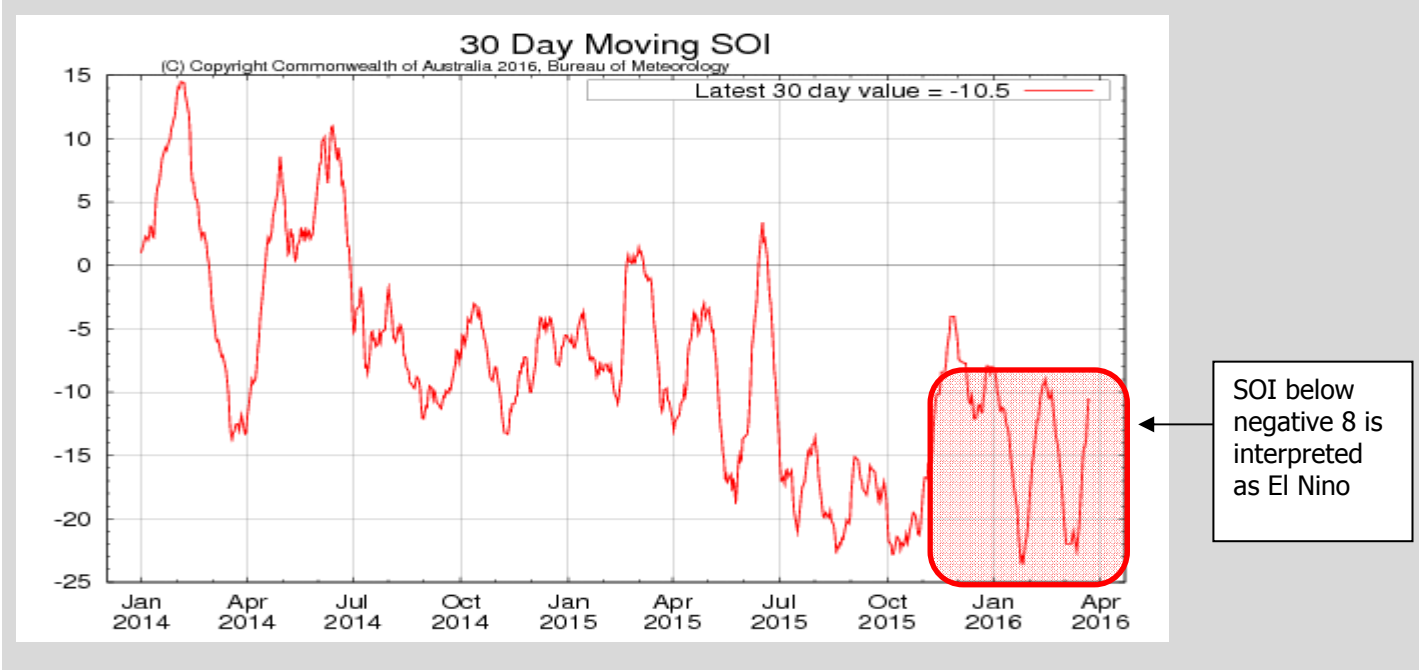
Source: MIDF Research Estimate

Chart 1: The correlation between Brent crude oil and CPO



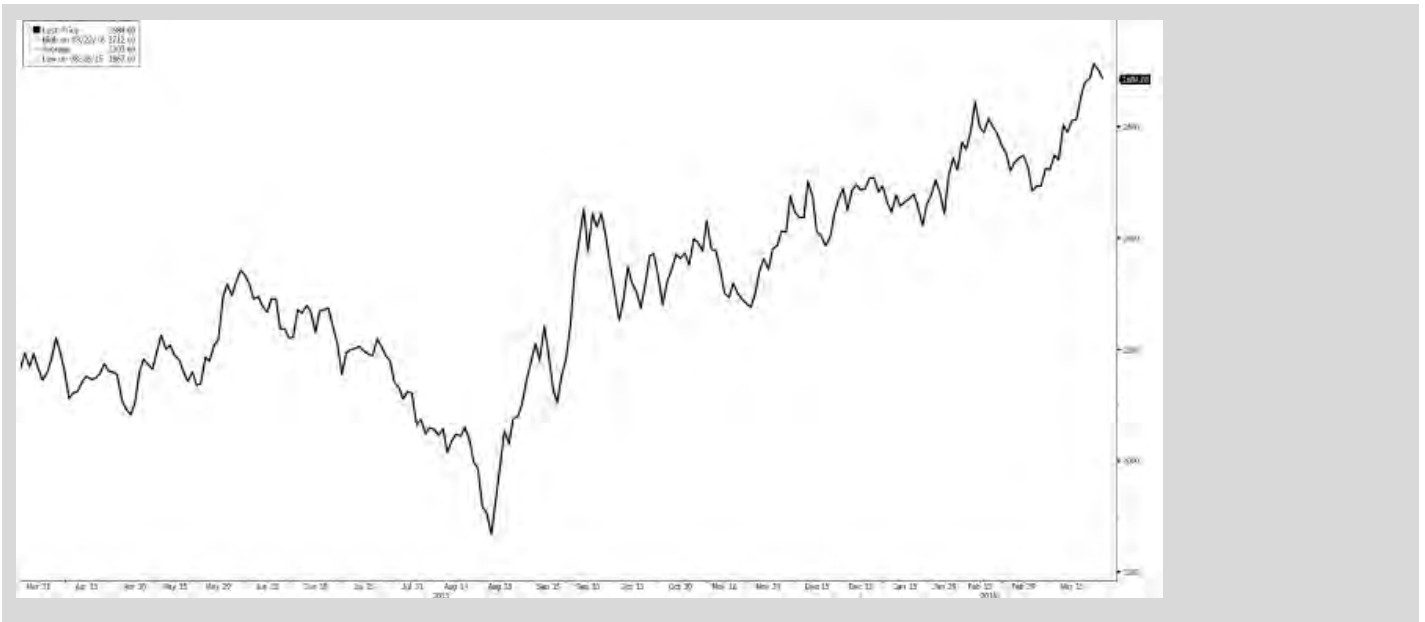
Source: Bloomberg, MIDF Research

Chart 2: SOI Index is still in the El Nino zone



Source: Australia Bureau of Meteorology, MIDF Research

Chart 3: CPO price movement



Source: Bloomberg, MIDF Research

Table 4: SIME Earnings Forecast

FYE Jun	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	46,109	43,908	43,729	42,270	43,162
EBIT	4,493	4,219	3,277	2,754	3,187
PBT	4,314	3,965	3,003	2,267	2,665
Net Income	3,701	3,353	2,313	1,611	1,929
Core Net Income	2,995	3,270	2,071	1,611	1,929
EPS (sen)	61.58	55.50	37.68	26.25	31.43
Core EPS (sen)	49.83	54.13	33.74	26.25	31.43
Net DPS (sen)	34.0	36.0	25.0	17.1	20.4
Net Dvd Yield	4.3%	4.5%	3.1%	2.1%	2.6%
Core PER	16.1	14.8	23.7	30.5	25.5
NTA/share (RM)	4.36	4.53	4.29	4.24	4.35
P/NTA	1.84	1.77	1.86	1.89	1.84
ROE	13.7%	11.7%	7.6%	5.4%	6.3%
ROA	7.6%	6.6%	3.8%	3.0%	3.4%

Source: Company, MIDF Research

Table 5: IOICORP Earnings Forecast

FYE Jun	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	12,199	11,911	11,621	12,159	12,522
EBIT	1,719	1,800	1,347	1,781	1,957
PBT	1,604	1,671	457	1,686	1,868
Net Income	1,280	1,255	168	1,324	1,470
Core Net Income	1,233	1,391	1,054	1,324	1,470
EPS (sen)	20.03	19.69	2.65	20.86	23.15
Core EPS (sen)	19.29	21.83	16.60	20.86	23.15
Net DPS (sen)	15.50	20.00	9.00	17.73	19.68
Net Dvd Yield	3.2%	4.1%	1.9%	3.7%	4.1%
Core PER	25.0	22.1	29.1	23.2	20.9
NTA/share (RM)	2.07	0.88	0.72	1.09	1.12
P/NTA	2.33	5.52	6.67	4.45	4.31
ROE	9.4%	20.8%	3.3%	17.9%	19.3%
ROA	5.4%	8.2%	1.3%	8.0%	9.0%

Source: Company, MIDF Research

Table 6: KLK Earnings Forecast

FYE Sep	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	9,147	11,130	13,650	13,964	14,598
EBIT	1,241	1,395	1,134	1,530	1,605
PBT	1,200	1,318	1,135	1,495	1,571
Net Income	918	992	870	1,087	1,145
Core Net Income	912	1,032	789	1,087	1,145
EPS (sen)	86.2	93.1	81.7	102.1	107.5
Core EPS (sen)	85.6	96.9	74.1	102.1	107.5
Net DPS (sen)	50.0	55.0	45.0	60.3	63.5
Net Dvd Yield	2.1%	2.3%	1.9%	2.5%	2.6%
Core PER	28.0	24.8	32.4	23.5	22.3
NTA/share (RM)	7.06	7.26	7.81	8.23	8.67
P/NTA	3.39	3.30	3.07	2.91	2.76
ROE	12.2%	12.8%	10.4%	12.4%	12.4%
ROA	7.8%	7.7%	6.6%	7.9%	8.0%

Source: Company, MIDF Research

Table 7: PPB Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	3,313	3,701	4,048	3,933	4,135
EBIT	278	313	399	352	371
PBT	1,063	1,028	1,181	1,135	1,160
Net Income	983	917	1,051	1,021	1,041
Core Net Income	953	917	1,051	1,021	1,041
EPS (sen)	82.9	77.3	88.7	86.1	87.8
Core EPS (sen)	80.3	77.3	88.7	86.1	87.8
Net DPS (sen)	25.0	23.0	25.0	25.8	26.3
Net Dvd Yield	1.5%	1.4%	1.5%	1.5%	1.6%
Core PER	20.8	21.6	18.8	19.4	19.0
NTA/share (RM)	13.14	14.12	16.74	14.92	15.54
P/NTA	1.27	1.18	1.00	1.12	1.07
ROE	6.3%	5.5%	5.3%	5.7%	5.6%
ROA	5.8%	4.9%	4.8%	5.4%	5.3%

Source: Company, MIDF Research

Table 8: FGV Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	12,568	15,258	15,670	18,331	19,143
EBIT	1,478	1,111	682	703	766
PBT	1,536	971	384	593	613
Net Income	982	325	117	179	188
Core Net Income	42	121	(180)	179	188
EPS (sen)	26.92	8.92	3.21	4.92	5.15
Core EPS (sen)	1.16	3.32	(4.93)	4.92	5.15
Net DPS (sen)	16.0	10.0	4.0	4.9	5.2
Net Dvd Yield	10.8%	6.8%	2.7%	3.3%	3.5%
Core PER	127.8	44.6	(30.0)	30.1	28.7
NTA/share (RM)	1.53	1.32	1.33	1.33	1.33
P/NTA	0.97	1.12	1.11	1.11	1.11
ROE	14.9%	5.1%	1.8%	2.8%	2.9%
ROA	4.7%	1.6%	0.5%	0.8%	0.8%

Source: Company, MIDF Research

Table 9: GEPN Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	1,384	1,643	1,375	1,475	1,571
EBIT	287	513	276	382	387
PBT	300	520	247	422	428
Net Income	228	377	190	309	313
Core Net Income	330	382	210	309	313
EPS (sen)	30.0	49.3	24.8	40.4	41.0
Core EPS (sen)	43.5	50.0	27.5	40.4	41.0
Net DPS (sen)	35.8	10.0	5.5	10.1	10.2
Net Dvd Yield	3.3%	0.9%	0.5%	0.9%	0.9%
Core PER	25.3	22.0	40.0	27.2	26.9
NTA/share (RM)	4.30	4.89	5.31	5.13	5.44
P/NTA	2.56	2.25	2.07	2.14	2.02
ROE	6.6%	9.7%	4.5%	7.6%	7.3%
ROA	4.7%	6.7%	3.7%	5.7%	5.5%

Source: Company, MIDF Research

Table 10: IJMP Earnings Forecast

FYE Mar	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	486	647	668	517	619
EBIT	159	153	141	113	212
PBT	157	109	89	102	205
Net Income	120	89	90	84	162
Core Net Income	129	109	142	84	162
EPS (sen)	14.9	11.1	10.7	10.0	19.2
Core EPS (sen)	16.0	13.7	16.8	10.0	19.2
Net DPS (sen)	7.0	7.0	6.0	4.5	8.6
Net Dvd Yield	1.9%	1.9%	1.6%	1.2%	2.3%
Core PER	16.0	13.7	16.8	10.0	19.2
NTA/share (RM)	1.74	1.73	1.91	1.75	1.86
P/NTA	2.12	2.14	1.94	2.11	1.99
ROE	8.6%	6.4%	5.6%	5.7%	10.4%
ROA	5.6%	4.0%	3.5%	4.0%	7.3%

Source: Company, MIDF Research

Table 11: TSH Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	1,016	1,071	799	1,109	1,126
EBIT	156	185	117	230	289
PBT	164	187	(82)	199	259
Net Income	151	139	(99)	138	183
Core Net Income	140	160	87	138	183
EPS (sen)	11.54	10.31	(7.36)	10.22	13.57
Core EPS (sen)	10.73	11.90	6.48	10.22	13.57
Net DPS (sen)	3.50	2.50	2.00	2.56	3.39
Net Dvd Yield	1.6%	1.2%	0.9%	1.2%	1.6%
Core PER	19.8	17.9	32.9	20.8	15.7
NTA/share (RM)	0.84	0.89	0.97	0.92	1.04
P/NTA	2.54	2.39	2.19	2.31	2.05
ROE	14.3%	12.2%	-7.9%	11.6%	13.7%
ROA	6.4%	5.2%	-3.1%	5.6%	7.3%

Source: Company, MIDF Research

Table 12: TAANN Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	770	1,012	1,047	1,090	1,131
EBIT	64	166	255	215	223
PBT	113	168	234	204	213
Net Income	93	124	186	152	158
Core Net Income	70	126	170	152	158
EPS (sen)	25.09	33.37	45.85	40.96	42.69
Core EPS (sen)	18.84	34.06	45.85	40.96	42.69
Net DPS (sen)	5.00	20.00	20.00	21.01	21.90
Net Dvd Yield	1.0%	4.0%	4.0%	4.2%	4.3%
Core PER	26.8	14.8	11.0	12.3	11.8
NTA/share (RM)	2.57	2.91	3.07	3.42	3.62
P/NTA	1.96	1.73	1.65	1.48	1.39
ROE	9.2%	11.0%	15.7%	11.6%	11.4%
ROA	5.2%	6.6%	9.4%	7.5%	7.5%

Source: Company, MIDF Research

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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.