

22 March 2018 | Sector Update

PLANTATION

Maintain POSITIVE

EU scraps import duties on biodiesel import from Indonesia

KEY HIGHLIGHTS

- **EU scraps import duties on biodiesel import from Indonesia**
- **Positive news for CPO price**
- **Maintain our POSITIVE view on the sector**
- **Top picks are KLK and GENP**

EU scraps import duties on biodiesel import from Indonesia. According to Reuters, “the European Union has removed duties on biodiesel imports for 13 Argentine and Indonesian producers following the end of legal proceedings at the European Court of Justice (ECJ)”. The article explained that for companies that did not lodge a legal challenge at the ECJ, EU duties would still apply. Recall that the duties on biodiesel import from Argentina and Indonesia was set in 2013.

Positive news for CPO price. We are not surprised by the news as World Trade Organisation (WTO) has ruled in favour of Indonesia on this issue and recommended changes to the measures in Jan-2018. However, the final decision by ECJ which is the highest court in EU is positive to Crude Palm Oil (CPO) price as we expect higher demand for palm oil in the biodiesel segment. In the long run, this should lead to lower palm oil inventory level.

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

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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.