

13 August 2018 | Sector Update

## PLANTATION

**Maintain NEUTRAL**

**Expect positive impact to CPO price from July inventory statistics**

### KEY HIGHLIGHTS

- **July inventory is within ours but below consensus**
- **Export to European Union improved**
- **Tree stress may have started as production declined consecutively for the third month**
- **The data is positive to CPO price**
- **Expect August inventory to increase 2% to 2.25m tonnes**
- **Maintain NEUTRAL on the sector; buy calls on KLK and GENP**

**July inventory is within ours but below consensus.** Malaysia palm oil inventory level of 2.21m tonnes as of end-July is within our estimate of 2.24m tonnes. However, it is below consensus estimate of 2.34m tonnes. The production growth of 13% mom came in below market expectation of 16% growth mom. Local consumption of 313,907 tonnes is also higher than expected and it is the new record high. We believe this is caused by the strong biodiesel production in line with high Brent crude oil price at above USD70 per barrel currently. Inventory level is higher yoy by 24% against July-2017 (against 43% increase yoy in June-2018 against June-2017).

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



Source: Malaysia Palm Oil Board (MPOB)

**Export to European Union improved.** Export increased 7% mom to 1.21m tonnes in July-2018. Among major export destinations, export to European Union jumped 16% mom to 157,219 tonnes. We believe that the increase in demand is caused by the warm weather in Northern Hemisphere as palm oil usage tends to increase during summer season.

**Tree stress may have started as production declined consecutively for the third month.** Palm oil production grew by 13% mom to 1.50m tonnes in July. However, a closer look shows that July production represents the third yoy decline in production as it was down 18% yoy. We believe that the tree stress period has started after 17 months of production uptrend.

**The data is positive to CPO price.** As the latest inventory data came in below market expectation, we expect the news to be positive on CPO price. In our view, major consumer countries are likely to boost their purchase of palm oil in the current low price environment due to higher risk of lower than usual supply in the coming months. As explained previously, tree stress period may have started and we expect this to cause the seasonal production increase to be weaker than what it used to be.

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

	Jul-18	Jun-18	Diff.	MoM %	Jul-17	YoY%
<b>Opening Stocks</b>	<b>2,187</b>	<b>2,171</b>	<b>16</b>	<b>0.8%</b>	<b>1,527</b>	<b>43.2%</b>
<b>Production</b>	<b>1,503</b>	<b>1,333</b>	<b>171</b>	<b>12.8%</b>	<b>1,827</b>	<b>-17.7%</b>
Imports	44	86	(42)	-48.7%	53	-16.9%
<b>Total Supply</b>	<b>3,734</b>	<b>3,589</b>	<b>145</b>	<b>4.0%</b>	<b>3,407</b>	<b>9.6%</b>
Exports	1,206	1,130	76	6.8%	1,398	-13.7%
Dom Disapp	314	273	41	15.1%	225	39.4%
<b>Total Demand</b>	<b>1,520</b>	<b>1,402</b>	<b>118</b>	<b>8.4%</b>	<b>1,623</b>	<b>-6.4%</b>
<b>End Stocks</b>	<b>2,215</b>	<b>2,187</b>	<b>28</b>	<b>1.3%</b>	<b>1,785</b>	<b>24.1%</b>
<b>Stock/Usage Ratio</b>	<b>12.1%</b>	<b>13.0%</b>			<b>9.2%</b>	

Source: MPOB, MIDF Research

**Expect August inventory to increase 2% to 2.25m tonnes.** We expect export to improve by 6% mom to 1.28m tonnes as we expect demand to improve in the Northern Hemisphere as palm oil usage tend to increase during summer season. For production, we expect an increase of 5% mom to 1.58m tonnes due to seasonal factor. Local disappearance is expected at 314k tonnes with imports at 54k tonnes.

**Table 2: Export performance for July-2018 ('000 MT)**

	Jul-18	Jun-18	Jul-17	MoM%	YoY%	7M18	7M17	YoY%
China	112	156	189	-28%	-41%	992	882	13%
India	131	160	161	-18%	-19%	1,573	1,279	23%
EU	157	135	213	16%	-26%	1,201	1,140	5%
Pakistan	78	99	78	-21%	-1%	720	516	40%
US	33	47	51	-30%	-35%	303	304	0%
Others	695	534	706	30%	-1%	4,760	5,095	-7%
<b>Total</b>	<b>1,206</b>	<b>1,130</b>	<b>1,398</b>	<b>7%</b>	<b>-14%</b>	<b>9,549</b>	<b>9,216</b>	<b>4%</b>

Source: MPOB, MIDF Research

**Maintain NEUTRAL on the sector; buy calls on KLK and GENP.** We maintain our average CPO price forecast of RM2400 per tonne for 2018. We like KLK for its earnings resiliency and decent dividend yield of 2.6%. 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.



**Target Price and Recommendations**

<b>Company</b>	<b>TP</b>	<b>Call</b>	<b>Valuation Basis</b>
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	16.16	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 FY19F 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

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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.