

16 March 2016 | Sector Update

PLANTATION

Malaysia CPO export tax set at 5.0%

Maintain POSITIVE

KEY HIGHLIGHTS

- **Crude palm oil export tax of 5.0% for April 2016.**
- **Malaysia's palm oil downstream industry to benefit from the export tax.**
- **Earnings estimate is unchanged for all planters under our coverage.**
- **Maintain our positive view on the sector.**
- **Top pick is IOICORP (TP: RM5.40).**

CPO tax at 5.0% for April 2016. Malaysia has implemented its tax on crude palm oil (CPO) exports at 5.0% for April 2016. The news is not a surprise as it is consistent with the export duty rate table which mentioned the export tax rate of 5.0% when CPO price is trading at between RM2401/MT to RM2550/MT (Refer Table 1 at Page 2). The reference price is RM2500.34 per MT and effective export tax works out to be around RM125/MT. Note that this is the first export tax after the duty-free period during low CPO price period since May 2015.

Malaysia's palm oil downstream industry to benefit from the export tax. We expect Malaysia export of processed palm oil products to increase as the export tax is expected to improve the competitiveness of Malaysia's downstream products. However, we do expect lower export of CPO due to the export tax. Having said that, Malaysia's export tax estimated at RM125/MT is still lower than Indonesia's USD50/MT (or RM206/MT) levy on CPO.

Earnings estimate is unchanged for all planters under our coverage. We maintain our earnings estimate for all planters as we have already imputed in the export tax assumption previously.

Maintain our positive view on the sector. Our positive view on the sector is premised on our view that CPO price should rise to RM3000/MT in 2Q16. In March, we expect inventory level to decline to 2.02m MT and subsequently tumble to the "critical" level of around 1.50m MT in 2QCY16. Key reason for the significant drop is the extremely low production due to the impact of El Nino. During the period of critical level of inventory, we expect CPO discount against soybean oil to diminish and hence our short term CPO price target of RM3000/MT. Other key assumptions are SBO price to stay at current level of USD725/MT and exchange rate at USD/RM4.15.

Top pick is IOICORP (TP: RM5.40). We like 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: Malaysia CPO export tax structure

CPO Prices (RM/mt)	CPO Export Tax Rate (%)
2250-2400	4.5
2400-2550	5.0
2550-2700	5.5
2700-2850	6.0
2850-3000	6.5
3000-3150	7.0
3150-3300	7.5
3300-3450	8.0
>3450	8.5

Source: Malaysia Palm Oil Board

Table 2: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	7.30	NEUTRAL	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the average of IOICORP and KLK Target PE.
IOICORP	5.40	BUY	26.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
KLK	22.50	NEUTRAL	23.5x Fwd. PE on FY16F earnings reflecting mean valuation.
PPB	18.20	NEUTRAL	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGV	1.33	SELL	1.0x Price to Net Tangible Asset (P/NTA).
GENP	9.53	NEUTRAL	SOP with plantation sector @ 23.1x FY16E PE. 23.1x is the lower valuation between IOICORP and KLK.
IJMP	3.30	NEUTRAL	18.6x Fwd. PE on FY17F earnings reflecting mean valuation.
TSH	2.00	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	6.50	BUY	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

Source: MIDF Research Estimate

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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.