28 April 2016 | Sector Update

PLANTATION

***Maintain* POSITIVE**

First increase in Indonesia CPO export tax in 20 months

KEY HIGHLIGHTS

- **First increase in Indonesia CPO export tax in 20 months.**
- **The news is positive to CPO price.**
- **Expect April inventory to decline 9%mom to 1.71m MT.**
- **Maintain our positive view on the sector.**
- **Top pick is KLK (TP: RM27.38).**

First increase in Indonesia CPO export tax in 20 months. According to Reuters, Indonesia has raised its crude palm oil export tax to USD3 per MT for May 2016. Note that this is the first export tax increase since Oct-2014. We gather that the CPO reference price used by Indonesia is USD754.10/MT in May (against USD682.32/MT in April). As CPO prices exceed USD750/MT, the export tax will start from USD3/MT onwards on top of the existing export levy of USD50/MT. All in, the total tax and levy on CPO export from Indonesia will be USD53/MT for May.

The news is positive to CPO price as it should lead to higher export of CPO from Malaysia. As a result, inventory should be depleted further and hence provide support to CPO price. As it is, Malaysia export tax on crude palm oil (CPO) at around USD33/MT is lower than Indonesia's all-in tax and levy of USD53/MT. Our estimate of USD33/MT is based on USD/MYR rate of 3.90 and 5.0% export tax on the reference price of RM2531.53/MT for May.

Expect April inventory to decline 9% mom to 1.71m MT. Besides the Indonesia export tax news, we believe that Malaysia palm oil inventory should continue its downtrend in April. Strong local consumption expected at 237k MT and stable export should more than enough to offset the seasonal increase in production.

Maintain our POSITIVE view on the sector. We maintain our bullish view on CPO price as we expect it to surge to RM3000/MT by end-June as inventory is expected to tumble to the critical level of 1.50m MT. Key reason for the significant drop is the significantly low production due to the impact of El Nino.

Our top pick is KLK (TP: RM27.38) due to: i) its earnings is expected to benefit from high CPO price due to its high exposure to palm oil business at 88%, ii) good earnings growth of +13%yoy to RM225m in 1QFY16, and iii) it is one of the rare big cap index-linked planters which is Shariah compliant and also an RSPO member.

Table 1: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	8.05	NEUTRAL	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the average of IOICORP and KLK Target PE.
IOICORP	4.82	NEUTRAL	23.1x Fwd. PE on FY16F earnings reflecting mean valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY16F earnings reflecting +1.0SD valuation.
PPB	18.60	NEUTRAL	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGV	1.33	NEUTRAL	1.0x Price to Net Tangible Asset (P/NTA).
GENP	10.66	NEUTRAL	SOP with plantation sector @ 23.5x FY16E PE. 23.5x is the lower valuation between IOICORP and KLK.
IJMP	3.57	NEUTRAL	18.6x Fwd. PE on FY17F earnings reflecting mean valuation.
TSH	2.28	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	6.80	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 *rise* 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 *fall* 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.