

18 March 2016 | Sector Update

PLANTATION

Maintain POSITIVE

France National Assembly approves additional tax on palm oil

KEY HIGHLIGHTS

- **Additional 90 Euro tax on palm oil approved by France's National Assembly.**
- **Still needs France upper house review.**
- **The move is unlikely to affect CPO price.**
- **Maintain our positive view on the sector.**
- **Top pick is IOICORP (TP: RM5.40).**

Additional 90 Euro tax on palm oil approved by France's National Assembly. According to Reuters, France's National Assembly has approved an additional tax of 90 Euro (to 194 Euro) per MT on palm oil used in food from 2017 onwards. Justification for the increase is to reflect the environmental damage palm oil plantations can cause. However, we gather that there is an exemption if producers can meet the "criteria of environmental sustainability".

Still needs France upper house review. The tax still needs to be reviewed in the Upper House in three to four months' time. Cosmetics and biofuels sectors are not involved.

The move is unlikely to affect CPO price. Based on MPOB data, Malaysia palm oil export to France is only 11,156 MT or less than 0.1% of Malaysia total export of 17.45m MT in 2015. Separately, the proposed new tax of 194 Euro per MT is also lower than the initial proposal of 300 Euro per MT. We maintain our earnings estimate for all planters as we maintain our CPO price forecast.

Maintain our positive view on the sector. Since the first mention of our bullish view on CPO price target of RM3000 per MT made on 7-March-2016 (when it was at RM2493 per MT), CPO 3-months futures has surged by 6.5% to RM2,654 per MT yesterday. We maintain our positive view on the sector and our target of RM3000/MT in 2Q2016. 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 2QCY2016. 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 remain at around USD725/MT and USD/MYR rate of 4.15.

Top pick is IOICORP (TP: RM5.40). We like IOICORP due to: i) rerating potential after it regained its Shariah status on 30-Nov, ii) strong earnings growth of +22%yoy to RM778m in 1HFY16, iii) exceptional earnings profile, which 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: 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.