

13 November 2018 | Sector Update

PLANTATION

Higher inventory in October

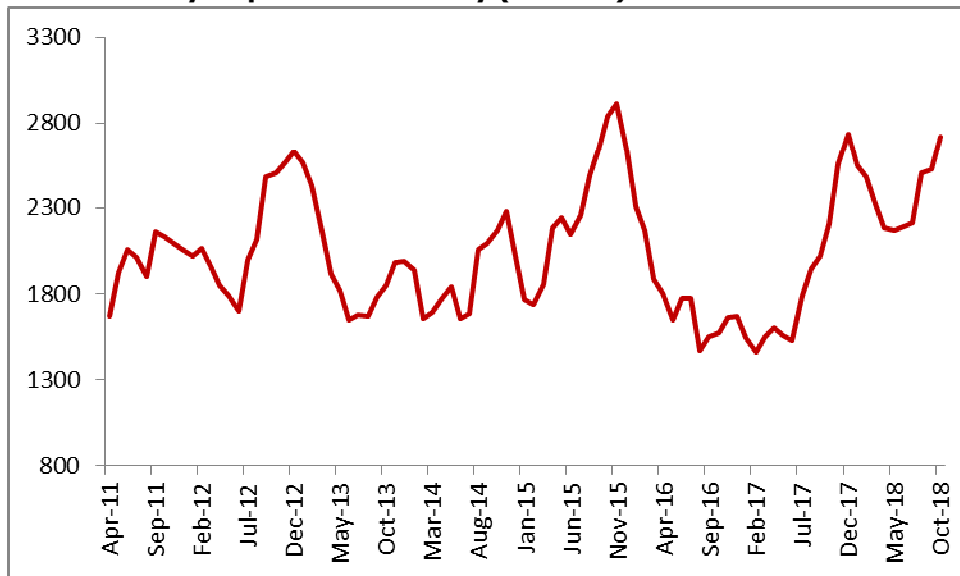
Maintain NEUTRAL

KEY HIGHLIGHTS

- **Inventory increased by 8% mom to 2.72m tonnes**
- **Export weakened by 3% mom to 1.57m tonnes**
- **Production is up by 6% mom to 1.96m tonnes**
- **Maintain NEUTRAL on the sector; buy calls on KLK and GENP; IJMLNT upgraded to NEUTRAL**

Inventory increased by 8% mom to 2.72m tonnes. In October, Malaysia palm oil inventory has swelled by 8% mom to 2.72m tonnes (from 2.53m tonnes as of end-September). The higher inventory is mainly caused by higher production (up by 6% mom to 1.96m tonnes) and lower exports (down by 3% mom to 1.57m tonnes).

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



Source: Malaysia Palm Oil Board (MPOB)

Export weakened by 3% mom to 1.57m tonnes. Among major export destinations, we notice that exports to India and European Union have slowed down. Note that export to India declined by 56% mom to 99,293 tonnes as demand waned off after Deepavali festival. As for EU, the export was down by 27% mom to 166,243 tonnes. We believe that the weaker demand is caused by the cooler weather in October. Note that palm oil usage tend to decline during cool weather.

Production is up by 6% mom to 1.96m tonnes. Palm oil production growth mom is the strongest in Sabah (+15% mom to 508,522 tonnes). This is followed by Peninsular Malaysia (+6% to 1,010,782 tonnes) and Sarawak (down 2% to 445,650 tonnes).


Maintain NEUTRAL on the sector; buy calls on KLK and GENP; IJMLNT upgraded to NEUTRAL. We maintain our average CPO price forecast of RM2400 per tonne for 2018. We like KLK for its earnings resiliency and decent dividend yield. We like GENP as its FFB growth should improve 13% yoy and this is at the first quartile of planters under our coverage. For IJMLNT, the share price has declined 21% to RM1.90 since our SELL call issued on 29-Aug-2018. We maintain our Target Price of RM2.00 (19.5x Fwd. PE on FY19F earnings reflecting mean valuation) but has reverted our call to NEUTRAL (from SELL) in view of the share price change. 

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

	Oct-18	Sep-18	Diff.	MoM %	Oct-17	YoY%
Opening Stocks	2,529	2,505	25	1.0%	2,021	25.2%
Production	1,965	1,854	111	6.0%	2,009	-2.2%
Imports	117	62	56	90.4%	13	770.0%
Total Supply	4,612	4,420	192	4.3%	4,043	14.1%
Exports	1,571	1,618	(47)	-2.9%	1,538	2.2%
Dom Disapp	318	271	47	17.2%	301	5.7%
Total Demand	1,889	1,890	(0)	0.0%	1,839	2.7%
End Stocks	2,722	2,529	193	7.6%	2,204	23.5%
Stock/Usage Ratio	12.0%	11.3%			10.0%	

Source: MPOB, MIDF Research

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

	Oct-18	Sep-18	Oct-17	MoM%	YoY%	10M18	10M17	YoY%
China	214	110	194	94%	10%	1,428	1,538	-7%
India	99	228	166	-56%	-40%	2,040	1,818	12%
EU	166	228	200	-27%	-17%	1,676	1,626	3%
Pakistan	105	105	126	0%	-16%	987	849	16%
US	47	49	41	-5%	14%	446	436	2%
Others	940	898	810	5%	16%	7,252	7,502	-3%
Total	1,571	1,619	1,538	-3%	2%	13,829	13,768	0%

Source: MPOB, MIDF Research

Target Price and Recommendations

Company	TP	Call	Valuation Basis
SIMEPLT	5.25	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.45	NEUTRAL	23.0x Fwd. PE on FY19F earnings reflecting mean valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY19F earnings reflecting +1.0SD valuation.
PPB	17.63	NEUTRAL	1.2x Price To Book Value
FGV	1.54	NEUTRAL	1.0x Price To Book Value reflecting mean valuation
GENP	10.70	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.00	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.18	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.76	NEUTRAL	15.0x Fwd. PE on FY19F earnings reflecting mean 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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.