

13 March 2018 | Sector Update

## PLANTATION

*Higher than expected inventory*

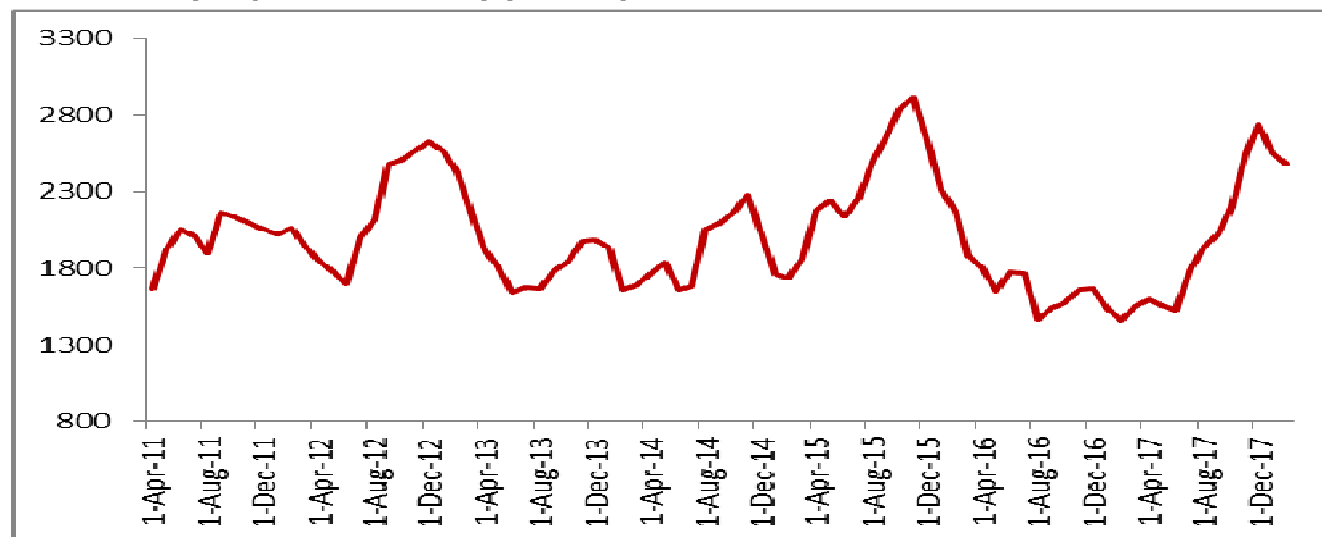
**Maintain POSITIVE**

### KEY HIGHLIGHTS

- **February inventory is higher than expected**
- **Export declined 13% mom in February**
- **Production fell 15% in February**
- **The data is slightly negative to CPO price**
- **Expect March inventory to decline 3% to 2.40m MT**
- **Maintain POSITIVE view on the sector with IOICORP as top pick**

**February inventory is higher than expected.** Malaysia palm oil inventory level of 2.48m MT as of end-February is higher than ours and market expectation of 2.35m-2.37m tonnes. Export came in weaker than expected with 13% decline mom as China slow down their purchases after Chinese New Year. Against last month, inventory level declined by 3% mom as production decline of 15% more than offset the decline in export by 13%.

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



Source: Malaysia Palm Oil Board (MPOB)

**Export declined 13% mom in February.** Export dropped 13% mom to 1.31m tonnes in February. We gather that the export to China weakened 33% mom to 104,962 tonnes. We believe that China has slow down their purchases of palm oil after the pre-stocking activity ahead of Chinese New Year.

**Production fell 15% in February.** Palm oil production declined 15% mom but was up 7% yoy to 1.34m tonnes in February. The yoy increase of 7% is a significant slowdown from Jan-2018 surge of 24% yoy and this could be an indicator that the strong uptrend in production may be over soon. Going forward, we expect March production to increase by 12% mom but only 3% yoy to 1.50m tonnes.

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

	Feb-18	Jan-18	Diff.	MoM %	Feb-17	YoY%
<b>Opening Stocks</b>	<b>2,550</b>	<b>2,732</b>	<b>(182)</b>	<b>-6.6%</b>	<b>1,541</b>	<b>65.5%</b>
<b>Production</b>	<b>1,343</b>	<b>1,587</b>	<b>(244)</b>	<b>-15.4%</b>	<b>1,259</b>	<b>6.7%</b>
Imports	67	35	32	92.9%	40	66.5%
<b>Total Supply</b>	<b>3,960</b>	<b>4,354</b>	<b>(393)</b>	<b>-9.0%</b>	<b>2,840</b>	<b>39.5%</b>
Exports	1,312	1,514	(202)	-13.3%	1,107	18.5%
Dom Disapp	170	289	(119)	-41.0%	274	-37.8%
<b>Total Demand</b>	<b>1,483</b>	<b>1,803</b>	<b>(320)</b>	<b>-17.8%</b>	<b>1,381</b>	<b>7.4%</b>
<b>End Stocks</b>	<b>2,478</b>	<b>2,550</b>	<b>(73)</b>	<b>-2.8%</b>	<b>1,459</b>	<b>69.8%</b>
<b>Stock/Usage Ratio</b>	<b>13.9%</b>	<b>11.8%</b>			<b>8.8%</b>	

Source: MPOB, MIDF Research

**Table 2: Monthly Exports and YTD Exports ('000 MT)**

Country	Feb-18	Jan-18	Feb-17	MoM%	YoY%	2M18	2M17	YoY%
China	105	157	103	-33%	2%	262	271	-3%
India	314	202	133	56%	135%	515	273	89%
EU	246	187	153	31%	60%	433	290	49%
Pakistan	68	101	49	-33%	38%	169	97	75%
US	41	48	36	-16%	13%	89	72	24%
Others	539	818	783	-34%	-31%	1,358	1,382	-2%
<b>Total</b>	<b>1,312</b>	<b>1,513</b>	<b>1,259</b>	<b>-13%</b>	<b>4%</b>	<b>2,826</b>	<b>2,384</b>	<b>19%</b>

Source: MPOB, MIDF Research

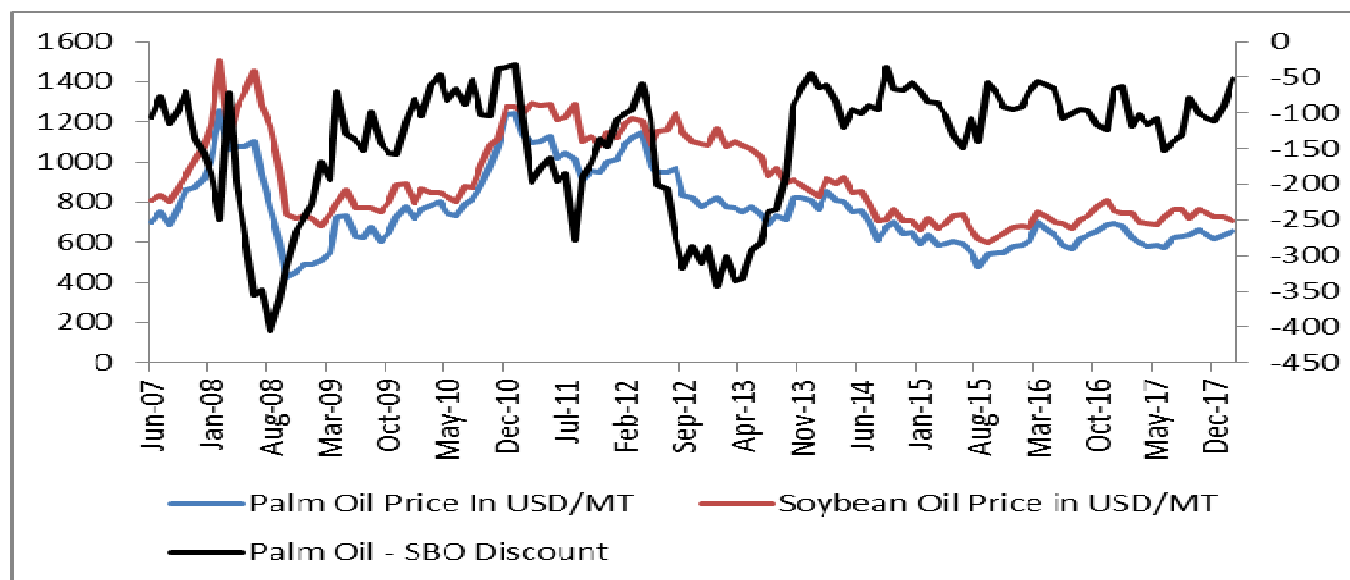
**The data is slightly negative to CPO price.** Overall, we are slightly negative on CPO price as the latest inventory data came in above market expectation. However, we believe that demand should improve from April onwards as the winter has ended in the Northern Hemisphere. This should lead to higher usage of palm oil.

**Expect March inventory to decline 3% to 2.40m MT.** We expect export to improve 8% mom due to the longer calendar month effect. For production, we expect an increase of 12% to 1.50m MT due to seasonal factor.

**Maintain our POSITIVE view on the sector.** We reiterate our positive view on the sector due to improved demand outlook for palm oil in 2018. We believe that the good global economy growth in 2018 should lead to higher consumption per capita. On the supply side, consensus estimate of huge supply growth may not be fully realized due to ongoing labor shortage and the potentially high replanting activity in Indonesia. Note that Indonesia plans to replant up to 165,000 ha of oil palm plantation land this year. This could limit the supply surge by 0.5 to 0.6 million tonnes assuming oil yield of 3.5 MT per ha.

**Top pick is IOICORP.** The immediate term catalyst for IOICORP is the announcement of the special dividend of 11.5 sen (ex-date: 16-March). Post the disposal of its 70% stake in Loders Crokiaan, we also expect margin improvement at the Group level and substantial improvement in its balance sheet. Other buy calls are KLK, PPB, GENP, TSH and FIMACORP.

**Chart 2: Discount between palm oil and soybean oil**



Source: Bloomberg

**Table 1: Target Price and Recommendations**

Company	TP	Call	Valuation Basis
SIMEPLT	5.60	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	5.50	BUY	26.3x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
KLK	29.00	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.46	BUY	1.1x Price To Book Value.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.70	BUY	SOP with plantation sector @ 24.7x FY18F PE. 24.7x is at 10% discount to big cap planters Target PE.
IJMP	2.36	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	2.60	BUY	SOP with plantation sector @ 11.5x FY18F PE. 11.5x is based on 40% discount to average Target PE for mid cap planters.

Source: MIDF Research Estimate

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#### 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.