

27 September 2016 | Sector Update

PLANTATION**Maintain POSITIVE*****India lowered the import duties on palm oil*****KEY HIGHLIGHTS**

- **India reduced its import duties on palm oil**
- **Positive on the news as India demand for palm oil should increase**
- **Sep-2016 inventory is expected to stay low at 1.55m MT**
- **Maintain POSITIVE view on the sector**
- **Top picks are KLK (BUY; TP: RM27.38) and IOICORP (BUY; TP: RM5.05)**

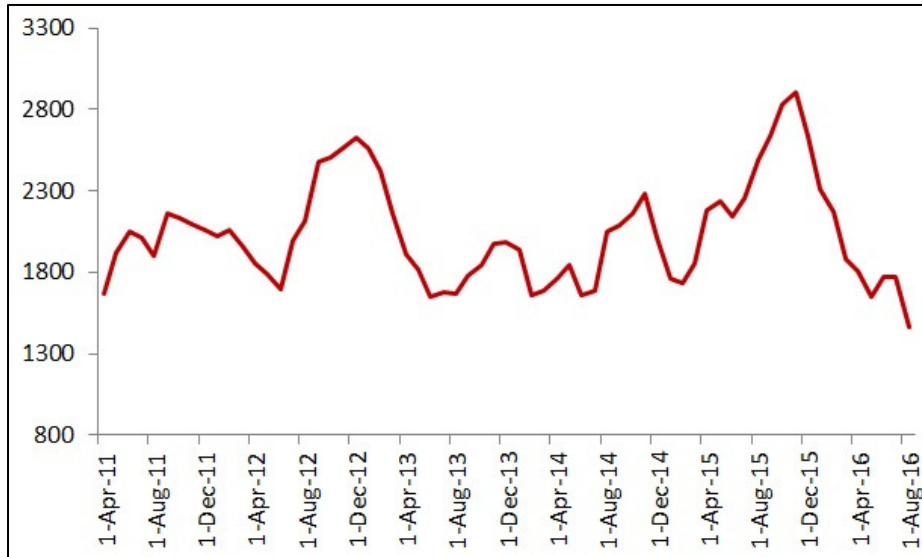
India reduced its import duties on palm oil. India has cut the import duty on crude palm oil to 7.5% (from 12.5%). As for refined vegetable oils, it has been reduced to 15.0% (from 20.0%). Besides palm oil, the import duty for wheat and potatoes were also reduced. We gather that the reduction is aimed to curb the food inflation in India.

Positive on the news as India demand for palm oil should increase. We are positive on the news as the reduction in import duty should make palm oil more competitive against other edible oils in India. We also think that the move is timely as it should relieve consumer burden in India ahead of the Deepavali festival which will fall on 30-Oct this year. All in, we expect export of palm oil to India to stay strong in September after a very strong pickup in August (+126%mom to 428,652 MT) due to sustained pre-stocking activity ahead of Deepavali.

Sep-2016 inventory is expected to stay low at 1.55m MT. We believe that palm oil inventory in Malaysia should stay low at 1.55m MT in September (+6%mom). Key assumptions are: i) export decline of 15%, and ii) production growth of 7%. Cargo surveyors' data shows export declined by 16%mom in the first 25 days of September. We have increased our inventory estimate slightly (previously 1.46m MT) as demand has weakened slightly as price approached RM3000/MT in the spot market.

Maintain POSITIVE view on the sector. CPO price is expected to stay strong at the range of RM2500/MT to RM3000/MT in the next three months. Our top pick is KLK (BUY; TP RM27.38) due to its high exposure to palm oil business and good earnings growth of +18%yoy to RM747m in 9MFY16. We also like IOICORP (BUY; TP RM5.05) due to its pure exposure to palm oil business both in the upstream and downstream divisions. The Company's earnings are also expected to recover in FY17 after the uplift of RSPO suspension.

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



Source: Malaysia Palm Oil Board (MPOB)

Table 1: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	7.85	NEUTRAL	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the avg of IOICORP and KLK Target PE.
IOICORP	5.05	BUY	24.7x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY16F earnings reflecting +1.0SD valuation.
PPB	15.00	NEUTRAL	19.5x Fwd. PE on FY16F earnings reflecting mean valuation.
FGV	1.77	NEUTRAL	1.0x Price to Book Value.
GENP	9.72	NEUTRAL	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	3.13	NEUTRAL	18.6x Fwd. PE on FY17F earnings reflecting mean valuation.
TSH	2.10	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	3.50	NEUTRAL	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.