

25 May 2018 | Sector Update

PLANTATION

Indonesia to implement B25 in 2019

Maintain POSITIVE

KEY HIGHLIGHTS

- **Indonesia to implement B25 in 2019**
- **Positive impact on CPO price**
- **Maintain our POSITIVE view on the sector**
- **Top picks are KLK and GENP**

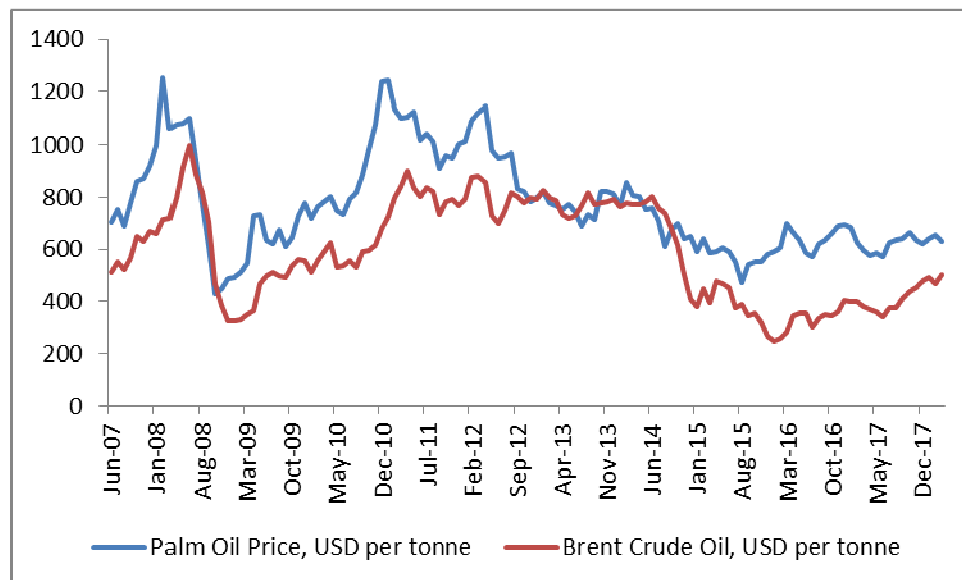
Indonesia to implement B25 in 2019. According to The Jakarta Post, "Indonesia government is planning to issue a regulation on the production of B25 biodiesel early next year". If this is successfully implemented, the new regulation will replace the current B20 biodiesel. The news further elaborate that 5% increase in biodiesel is expected to save USD1.0b in oil imports annually for Indonesia while supporting clean energy at the same time. Note that B25 means that the ratio of biodiesel to petroleum diesel will be 25:75 at the pump. Indonesia Energy and Mineral Resources Minister Ignasius Jonan has been quoted for the news.

Positive impact on CPO price. The news is a positive surprise to CPO price as the implementation has been brought forward to 2019 (instead of 2020). We estimated that palm oil consumption could be boosted by 1.0m tonnes in 2019 due to increased biodiesel consumption in Indonesia. As for this year, Indonesia is targeting to consume between 3.28m to 3.52m kilolitres of biodiesel which is at least 28% higher than 2017 production of 2.57m kilolitres. This should translate to at least 3.0m tonnes of palm oil consumption in 2018.

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 between 0.5 to 0.6 million tonnes assuming oil yield of 3.5 MT per ha.

Top picks are KLK and GENP. We like KLK for its earnings resiliency and decent dividend yield of 2.5%. We like GENP as we expect its FFB growth at 13% yoy to be the strongest among planters under our coverage. This is due to new contribution from recently acquired estate of 12,893 ha and 5000 ha coming to maturity in Indonesia.

Exhibit 1: CPO price is strongly correlated with Brent crude oil



Source: Bloomberg

Table 1: Target Price and Recommendations

Company	TP	Call	Valuation Basis
SIMEPLT	5.40	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.50	NEUTRAL	23.0x Fwd. PE on FY18F earnings reflecting mean valuation.
KLK	28.50	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.40	NEUTRAL	1.1x Price To Book Value.
FGV	1.75	NEUTRAL	1.1x Price To Book Value reflecting mean valuation.
GENP	12.00	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.25	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.30	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.35	SELL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	2.30	BUY	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

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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.