

13 February 2017 | Sector Update

PLANTATION

Maintain POSITIVE**January inventory is near the critical level of 1.5m MT**

KEY HIGHLIGHTS

- **January inventory declined 8% mom.**
- **Production is down 13% mom but it has increased yoy consecutively for the second month**
- **Export to China increased**
- **Expect Feb-2017 inventory to decline 4% mom to the critical level of 1.47m MT**
- **Maintain POSITIVE view with BUY calls on KLK, IOICORP and TAANN**

January inventory declined 8% mom. Malaysia palm oil inventory level of 1.54m MT as of end-January 2017 is within expectation as it falls within the consensus estimate of 1.49m MT and our estimate of 1.60m MT. Against last month, inventory level declined by 8% as production decline of 13% while export grew marginally by 1%. Against same period last year, inventory remains significantly lower yoy as it has tumbled 33%yoy.

Production is down 13% mom but it has increased yoy consecutively for the second month. The monthly decline in production was driven by lower production in Peninsular Malaysia (down 18% mom to 633,767 MT). This is followed by Sabah in which production slipped 10% mom to 347,609 MT. Lastly, Sarawak production fell 6% mom to 295,472 MT. On a yearly basis, production has increased by 13% and this suggests that the palm trees have started to recover from the impact of severe El Nino.

Export to China increased. Export to China increased 5% mom to 167,359 MT and we think this is caused by the stocking activity ahead of Chinese New Year festival. Meanwhile, export to India declined 15% mom to 139,427 MT, possibly due to the switch to soybean oil by some consumers there. Note that CPO discount to soybean oil (SBO) has narrowed average USD53/MT in Jan-2017 (against USD94/MT in Dec-2016).

Expect Feb-2017 inventory to decline 4% mom to the critical level of 1.47m MT. Key assumptions are: i) production decline of 5% mom and ii) export decline of 8% mom. We are expecting lower export of palm oil as February is the coldest month in the Northern Hemisphere. This should translate to lower palm oil usage as it tends to consolidate in the cold temperature. Our export decline assumption of 8% is conservative as cargo surveyors data shows export growth of only 3%mom in the first ten days of January. For production growth we are using seasonal factor to estimate the 5% decline.

BUY KLK (TP: RM29.25), IOICORP (TP: RM5.30) and TAANN (TP: RM4.70). Our top pick is KLK as 64% of its earnings came from upstream plantation division which will benefit from high CPO price. We also like IOICORP as its upstream plantation division (63% profit contributor) should benefit from high CPO price. The Company's downstream division profit is also expected to recover in FY17 after the uplift of RSPO suspension. For mid and small cap, we like TAANN due to its FFB production growth which is the strongest among peers (+8%yoy in 9MFY16) and better outlook for timber division due to recent strengthening of USD.

Table 1: Palm Oil Statistics for January-2017 ('000 MT)

	Jan-17	Dec-16	Diff.	MoM %	Jan-16	YoY%
Opening Stocks	1,667	1,663	4	0.2%	2,909	-42.7%
Production	1,277	1,474	(197)	-13.4%	1,399	-8.8%
Imports	72	45	27	60.0%	82	-13.2%
Total Supply	3,015	3,181	(166)	-5.2%	4,391	-31.3%
Exports	1,283	1,268	15	1.2%	1,483	-13.5%
Dom Disapp	192	247	(55)	-22.3%	276	-30.5%
Total Demand	1,474	1,515	(40)	-2.7%	1,759	-16.2%
End Stocks	1,541	1,667	(126)	-7.6%	2,631	-41.4%
Stock/Usage Ratio	8.7%	9.2%			12.5%	

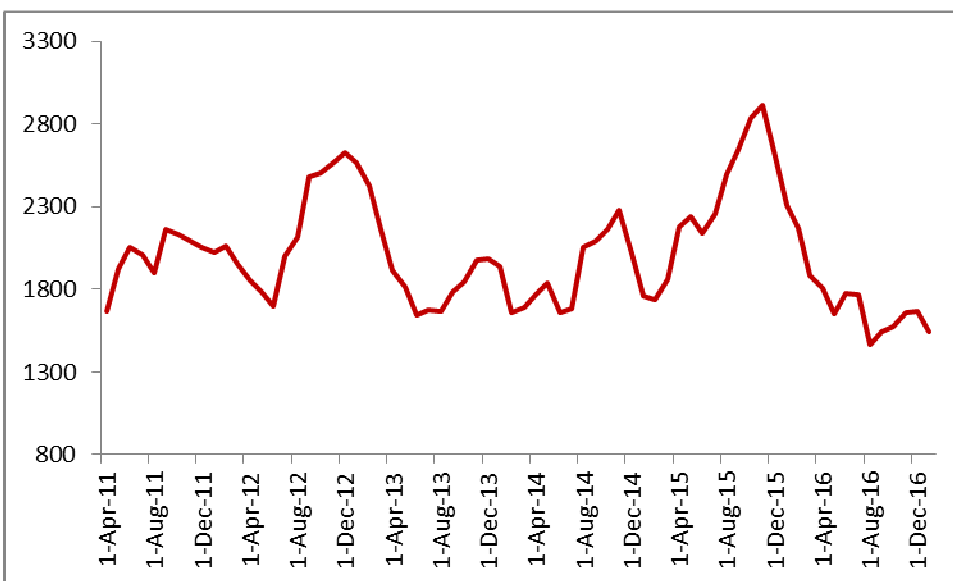
Source: MPOB, MIDF Research

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

Country	Jan-17	Dec-16	Jan-16	MoM%	YoY%	1M17	1M16	YoY%
China	167	159	105	5%	60%	167	105	60%
India	139	165	263	-15%	-47%	139	263	-47%
EU	137	173	185	-21%	-26%	137	185	-26%
Pakistan	48	96	65	-50%	-27%	48	65	-27%
US	36	35	58	2%	-38%	36	58	-38%
Others	755	640	604	18%	25%	755	604	25%
Total	1,283	1,268	1,279	1%	0%	1,283	1,279	0%

Source: MPOB, MIDF Research

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



Source: Malaysia Palm Oil Board (MPOB)

Table 3: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	9.05	NEUTRAL	SOP with plantation sector @ 26.8x FY17E PE. 26.8x is the higher Target PE between of IOICORP and KLK
IOICORP	5.30	BUY	24.7x Fwd. PE on FY17F earnings reflecting +0.5SD valuation
KLK	29.25	BUY	26.8x Fwd. PE on FY17F earnings reflecting +1.0SD valuation
PPB	16.80	NEUTRAL	1.0x Price to Book Value (previously PE valuation)
FGV	1.77	NEUTRAL	1.0x Price to Book Value
GENP	11.50	NEUTRAL	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK
IJMP	3.30	NEUTRAL	18.6x Fwd. PE on FY17F earnings reflecting mean valuation
TSH	2.15	NEUTRAL	22.3x Fwd. PE on FY17F earnings reflecting mean valuation
TAANN	4.70	BUY	16.6x Fwd. PE on FY17F earnings reflecting mean valuation

Source: MIDF Research Estimate

Alan Lim, CFA
alan.lim@midf.com.my
03-21738464

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 >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.