

07 April 2017 | Sector Update

PLANTATION

Maintain NEUTRAL

Key takeaways from PAC Meeting

KEY HIGHLIGHTS

- **CPO price to fall to RM2250 per MT by year end?**
- **We believe that CPO price should decline but to be supported at RM2500 per MT**
- **Expect March-2017 inventory to increase 5% mom to 1.54m MT**
- **Maintain NEUTRAL view on the sector with BUY call on KLK**

We attended Programme Advisory Committee (PAC) Seminar which is organised by Malaysia Palm Oil Board (MPOB). In the seminar, five papers were presented and these include topics surrounding mechanisation, latest development in nano-cellulose from biomass, formulating personal care cosmetics in the 21st century, the importance of palm oil in a sustainable diet and the outlook for CPO price.

CPO price to fall to RM2250 per MT by year end? Dr James Fry (the Chairman of LMC International Ltd) believes that CPO price should fall to RM2250 per MT by year end. He explained that Malaysia CPO production should experience strong recovery in 2017 by 5.0m MT to 22.5m MT and as a result stocks level should surge to 2.5m MT. Other assumption is that Brent crude oil stays at around USD55 per barrel and good production for other vegetable oils (rapeseed oil, soybean oil and sunflower oil).

We believe that CPO price should decline but to be supported at RM2500 per MT. We agreed that CPO production should increase significantly as palm trees are recovering from El Nino and they tend to produce more after having a resting period. Recall that in Feb-2017, Malaysia CPO production has increased by 21% yoy to 1.26m MT we expect the trend of higher production yoy to continue at least for another three months. Having said that, we also noticed that Indonesia biodiesel industry has consumed more palm oil as the CPO – Brent premium shrink to a decent level. Note that Malaysia import of palm oil has declined 44% mom to 40,331 MT and we think that this is a signal of increased usage of biodiesel in Indonesia.

Expect March-2017 inventory to increase 5% mom to 1.54m MT. Our March inventory level growth forecast has been lowered to 5% (from 11% previously) as export performance has been better than expected. Note that cargo surveyors data shows that Malaysia palm oil export has improved by 7% in March and this is a significant improvement against the 25% mom decline in the first ten days of March. For production growth we are expecting 15% increase in line with seasonal pattern.

Stay NEUTRAL; Our only BUY call is KLK (TP: RM29.25). We reiterate our NEUTRAL view on the sector with 2017 average CPO price of RM2725 per MT unchanged. Our Top Pick for the sector is KLK (BUY with TP of RM29.25) as the Company's 1QCY17 result should fare better against other planters as it has locked in forward sales when the CPO price is high. The Company's earnings are also resilient and matched consensus expectation most of the time.

Table 1: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	9.00	NEUTRAL	SOP with plantation sector @ 26.8x FY17E PE. 26.8x is the higher of IOICORP and KLK Target PE.
IOICORP	5.30	NEUTRAL	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	17.69	NEUTRAL	1.0x Price to Book Value
FGV	1.77	NEUTRAL	1.0x Price to Book Value
GENP	11.55	NEUTRAL	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	3.53	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	4.25	NEUTRAL	16.6x Fwd. PE on FY17F 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.