

19 January 2018 | Sector Update

PLANTATION**Maintain POSITIVE****Key takeaways from Palm Oil Economic Review & Outlook 2018****KEY HIGHLIGHTS**

- **2017 average CPO price of RM2783/MT is close to our forecast of RM2825/MT**
- **Bullish view on CPO price by GAPKI**
- **Dr. James Fry believes that there is positive upside to CPO price**
- **We maintain our CPO price forecast of RM2900/MT for 2018**
- **Top pick is IOICORP (TP: RM5.50)**

2017 average CPO price of RM2783/MT is close to our forecast of RM2825/MT. We attended the Palm Oil Economic Review & Outlook Seminar 2018 organised by Malaysia Palm Oil Board (MPOB). In the seminar, MPOB announced that the average CPO price for 2017 was RM2783/MT (against CY2016 average of RM2653/MT). This is within our expectation as there is only 1.5% deviation against our forecast of RM2825/MT. As a result, we believe that most plantation companies financial result will likely to come in within our estimate in the next earnings season in Feb-2018.

Bullish view on CPO price by GAPKI. In the seminar, there were two experts providing view on CPO price. Dr. Mohamad Fadhil Hasan (Director of Indonesian Palm Oil Association or GAPKI) believes that CPO should trade between USD710/MT to USD720/MT in 2018. This is equivalent to the range of RM2804/MT to RM2844/MT assuming USDMYR rate of 3.95). He believes that the CPO price outlook will be determined by crude oil price, CPO discount against Soybean Oil price and policy by major consumers such as EU and US. For Indonesia consumption, he estimates it to be 10.0m MT in 2018 (inclusive of biodiesel usage).

Dr. James Fry believes that there is positive upside to CPO price. He believes that CPO price should improve from the current level assuming Brent crude oil price stays and stocks to be drawn down in the next 5 months. However, he did not provide price forecast range.

We maintain our CPO price forecast of RM2900/MT for 2018. On the demand side, we believe that the better global economy outlook for 2018 will lead to higher vegetable oil consumption per capita in major consumer countries such as China and India. For the supply side, we believe that the higher replanting area in the biggest producer in the world Indonesia may cause the overall supply growth to come in below consensus estimate. In the near term, we expect Malaysia palm oil inventory to stay flat in Jan-2018 at 2.73m MT before declining from February onwards.

Maintain POSITIVE on Plantation sector with IOICORP as top pick (TP: RM5.50). Top Pick for the sector is IOICORP due to: i) overall margin improvement at the Group level after sale of 70% stake in Loders Croklaan (Loders), ii) special dividend of 13.0 sen and iii) net gearing is expected to decline significantly to 0.25x (from 0.78x). Other buy calls are KLK, GENP, TSH and FIMACORP.



Table 1: Basis of valuation

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	17.69	NEUTRAL	1.0x Price To Book Value.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.60	BUY	SOP with plantation sector @ 26.3x FY17E PE. 26.3x is the lower valuation between IOICORP and KLK.
IJMP	2.85	NEUTRAL	19.5x Fwd. PE on FY18F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY17F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY17F 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

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

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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.