

18 January 2017 | Sector Update

PLANTATION

Maintain POSITIVE**Key takeaways from Palm Oil Economic Review & Outlook Seminar 2017**

KEY HIGHLIGHTS

- **99% accuracy in our 2016 average CPO price forecast. (Final outcome @ RM2653/MT; our estimate RM2625/MT).**
- **Bullish view on CPO price in 1H2017 by GAPKI.**
- **Average CPO price of RM2600 per MT by Ganling.**
- **We maintain our CPO price forecast of RM2725 per MT for 2017. For Jan-2017, we expect inventory to decline 4% mom to 1.60m MT.**
- **Maintain BUY calls on KLK, IOICORP, SIME and TAANN.**

99% accuracy in our 2016 average CPO price forecast. (Final outcome @ RM2653/MT; our estimate RM2625/MT). We attended the Palm Oil Economic Review & Outlook Seminar 2017 organised by Malaysia Palm Oil Board (MPOB). In the seminar, MPOB announced that the average CPO price for 2016 was RM2653/MT (against CY2015 average of RM2153.50/MT). This is within our expectation as there is only 1% deviation against our forecast of RM2625/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-2017.

Bullish view on CPO price in 1H2017 by GAPKI. In the seminar, there were two experts providing their CPO price forecast. Firstly, Dr. Mohamad Fadhil Hasan (Director of Indonesian Palm Oil Association or GAPKI) believes that CPO should trade between USD680/MT to USD690/MT (or RM3026/MT to RM3070/MT assuming USDMYR of 4.45). He believes that the CPO price outlook will be significantly determined by mandatory program of biodiesel in Indonesia and other countries. For Indonesia consumption, he estimates it to be in the range of 9.0m to 10.0m MT in 2017 (inclusive of high biodiesel usage).

Average CPO price of RM2600 per MT by Ganling. Mr. Ling Ah Hong (Director of Ganling Sdn Bhd) believes that CPO price should surge to RM3400 per MT in the near term. This is caused by the delayed impact of El Nino, which should still linger in 1Q2017. However, CPO price should weaken to RM2200 per MT in the second half of 2017 as production recovers. Another expert Mr. James Fry believes that CPO price should fall in the 2H2017 but Indonesia biodiesel industry is expected to absorb the additional supply and limit the price fall. However, he does not provide price forecast.

We maintain our CPO price forecast of RM2725/MT for 2017. We expect 2017 to be "a year of two halves" – the first dominated by ongoing low stockpiles at well below 2.0m MT, the second by the strong palm oil production recovery especially in Indonesia. For 1H2017, we expect CPO price to stay at the higher range of RM2800/MT to RM3300/MT. In the near term, we expect inventory to decline 4% mom to 1.60m MT by end-Jan 2017. As for 2H2017, the strong production recovery should limit CPO price upside but we see downside to be well supported at RM2300/MT. If Indonesia biodiesel industry continues its excellence in absorbing the additional supply, we may see the higher downside at RM2500/MT.


BUY KLK (TP: RM29.25), IOICORP (TP: RM5.30), SIME (TP: RM9.05) and TAANN (TP: RM4.70). Direct beneficiary of high CPO price include KLK (70% of earnings contribution came from upstream plantation) and IOICORP (63% of earnings contribution from upstream plantation). We like SIME as we expect positive news flow resulting from potential corporate exercise to unlock the value of the conglomerate. For mid 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: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	9.05	BUY	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the average of IOICORP and KLK Target PE
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
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

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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.