

20 November 2017 | Sector Update

PLANTATION

Maintain POSITIVE

Key takeaways from PIPOC 2017

KEY HIGHLIGHTS

- **Attended PIPOC 2017**
- **Multiple factors driving CPO price**
- **Price forecast range from RM2700 to RM3000 per tonne**
- **Maintain our contrarian bullish view on plantation**
- **Top pick is IOICORP**

Attended PIPOC 2017. We attended the International Palm Oil Congress And Exhibition (PIPOC 2017) at Kuala Lumpur Convention Centre (KLCC). For this year, the theme for PIPOC is "Treasuring the Past, Charting the Future" as Malaysia celebrates 100 years of commercial planting of oil palm. There were five conferences held concurrently and we attended the "Global Economics & Marketing Conference".

Multiple factors driving CPO price. Dr James Fry (LMC International Chairman) presented his view on crude palm oil (CPO) price. He believes that CPO price could be in the range of RM2700 to RM2800 per tonne if Brent crude oil price settles at USD 60 per barrel. However, if Brent crude oil appreciate to USD 65 per barrel, CPO price may increase to the range of RM2800 to RM3000 per tonne. For next year, he believes that CPO price movement will be affected by global crude oil prices and the level of stocks.

Price forecast range from RM2700 to RM3000 per tonne. Ms. Ivy Ng (Regional Head of Agribusiness at CIMB Investment Bank) expects average CPO price of RM2700 per tonne for 2018. For 2017, she believes the average CPO price should be at RM2,800 per tonne. Factors driving CPO price include weather condition in key planting countries of oil palm and soybean, demand of biodiesel from Indonesia and crude oil price movement.

Maintain our contrarian bullish view on plantation. Since our sector upgrade on the sector on 26-Oct-2017, consensus average palm oil price forecast has been increased and we expect this trend to continue. We think that the demand factor is still largely ignored by the market as global economy situation is expected to improve in 2018 and this bodes well for better palm oil consumption in the industry and biodiesel segment. Our contrarian palm oil price estimate of average RM2900 per tonne for 2018 is maintained. For 2017, we expect CPO price to be at RM2825 per tonne.


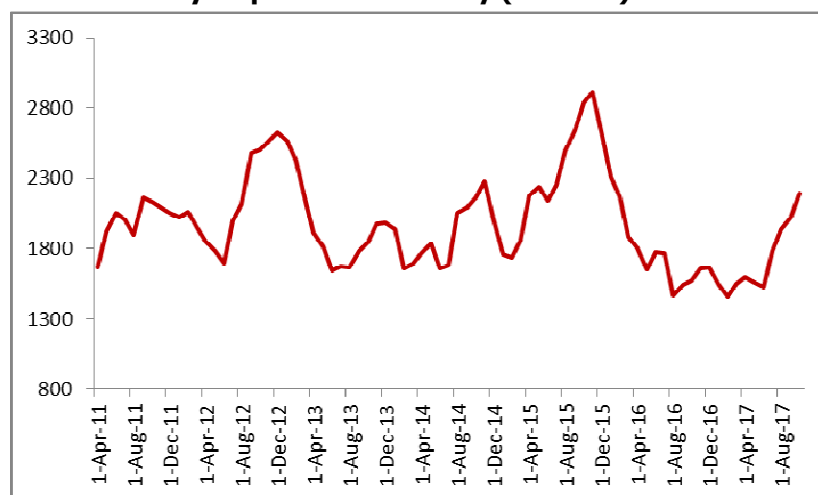
Top pick is IOICORP. We like IOICORP for three reasons: i) its sale of low margin business is likely to result in investment in upstream plantation business which command much better margin, ii) special dividend of 13.0 sen in the next 12 months, and iii) substantial improvement in balance sheet after the 70% stake sale in Lodors. We also have BUY calls on KLK, GENP, TSH, TAANN and FIMACORP. 

Table 1: Target Price and Recommendations

Company	TP	Call	Valuation Basis
SIME	9.25	NEUTRAL	SOP with plantation sector @ 26.8x FY18F PE. 26.8x is the higher of IOICORP and KLK Target PE.
IOICORP	5.50	BUY	26.3x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
KLK	29.65	BUY	26.8x Fwd. PE on FY17F earnings reflecting +1.0SD valuation.
PPB	17.69	NEUTRAL	1.0x Price to Book Value
FGV	1.59	NEUTRAL	1.0x Price to Book Value
GENP	12.60	BUY	SOP with plantation sector @ 24.7x FY17F PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	3.15	NEUTRAL	18.6x Fwd. PE on FY18F earnings reflecting mean valuation.
TSH	2.25	BUY	22.3x Fwd. PE on FY17F earnings reflecting mean valuation.
TAANN	4.50	BUY	16.6x Fwd. PE on FY17F earnings reflecting mean valuation.
FIMACORP	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.

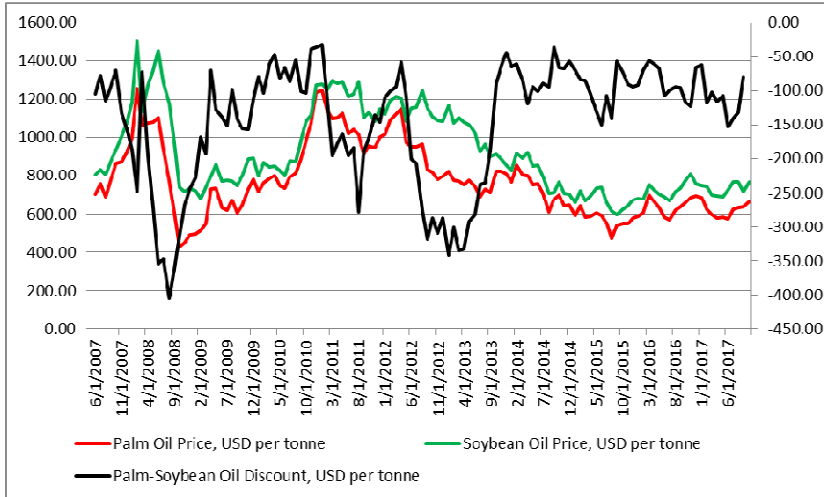
Source: MIDF Research Estimate

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



Source: Malaysia Palm Oil Board (MPOB)

Chart 2: Discount between palm oil and soybean oil



Source: Bloomberg

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 >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.