

06 December 2017 | Sector Update

PLANTATION*La Niña is formally established***Maintain POSITIVE****KEY HIGHLIGHTS**

- **La Niña is formally established**
- **Palm oil production to be affected slightly**
- **Upside for CPO at RM2800 to RM3000 per tonne in the near term**
- **Maintain our contrarian bullish view on plantation**
- **Top pick is IOICORP**

La Niña is formally established. Australia Bureau of Meteorology (ABM) ENSO Outlook has been raised to La Niña. Effectively, ABM has announced that the tropical Pacific has reached La Niña levels. However, ABM mentioned that "climate models suggest this La Niña will be weak and short-lived, persisting until early southern autumn 2018".

Palm oil production to be affected slightly. We expect excessive rains in Malaysia and Indonesia which usually cause flood. The production in flood prone states may be affected. The news is slightly positive to palm oil price as heavy rain can cause flood and disrupt the harvesting and transport of FFB.

Upside for CPO is at RM2800 to RM3000 per tonne in the near term. While the impact of weak La Niña is limited on palm oil production, we believe that its impact will be more severe on soybean production in South America. Historically, La Niña has often led to drier planting seasons in South America. Hence, we believe that soybean oil price will appreciate. We expect palm oil price to increase to the range of RM2800 to RM3000 per tonne. The range has been reduced by RM100 per tonne (from RM2900 to RM3100 per tonne) to reflect the lower USDMYR rate.


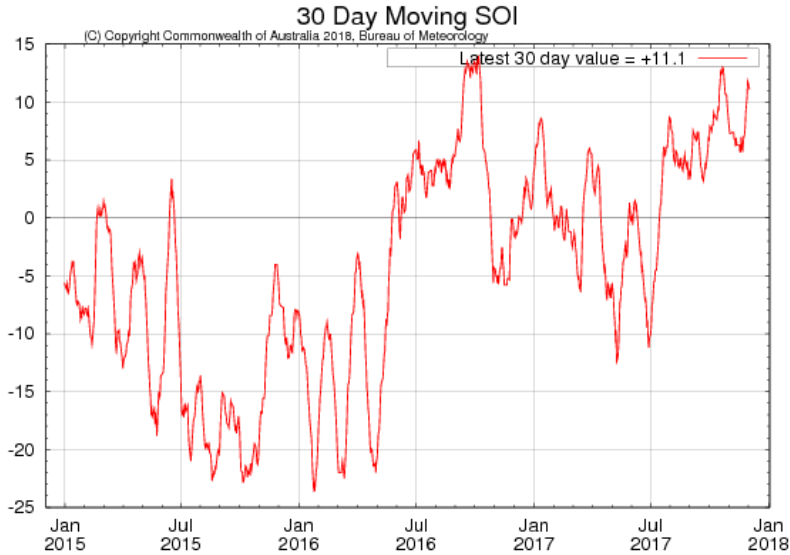
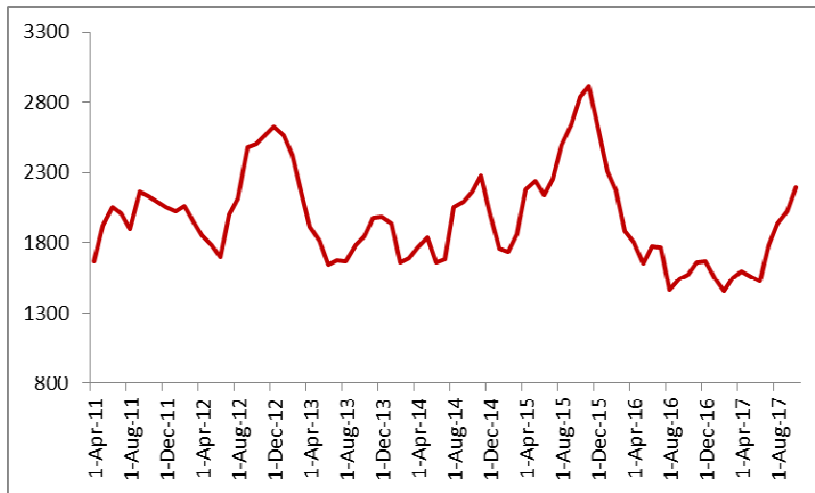
Maintain our contrarian bullish view on plantation. Our top pick for plantation sector is IOICORP. We like IOICORP for three reasons: i) its sale of 70% stake in Loders Croklaan (a low margin business) is likely to result in investment in upstream plantation business which command much better margin, 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 Loders. We also have BUY calls on KLK, GENP, TSH, TAANN and FIMACORP. 

Chart 1: Southern Oscillation Index



Source: Australia Bureau of Meteorology

Chart 2: Malaysia palm oil inventory ('000 MT)



Source: Malaysia Palm Oil Board (MPOB)

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 FY17F 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
GENP	12.60	BUY	SOP with plantation sector @ 24.7x FY17F PE. 24.7x 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	4.50	BUY	16.6x Fwd. PE on FY17F earnings reflecting mean 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

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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.