

21 November 2017 | Sector Update

PLANTATION

Maintain POSITIVE**Limited long-term impact from India's import duties hike**

KEY HIGHLIGHTS

- **India raised the import tax on crude and refined palm oil**
- **The negative impact on CPO price is likely to be short term**
- **Things should normalise after two months as India demand for vegetable oils exceeds its production by 14.47m tonnes**
- **Maintain our contrarian bullish view on plantation**
- **Top pick is IOICORP**

India raised the import duties on crude and refined palm oil. India announced on 17-Nov that it raised the import duty on crude palm oil (CPO) to 30% while the duty for refined palm oil has been raised to 40%. Previously, the CPO import duty was at 15% and the refined palm oil at 25%. We gather that the import duties increase was not only on palm oil as it also involves other crops such as soybean, soybean oil, sunflower oil and canola oil. For soybean oil, the import duty has been increased to 30% while the duty for refined soybean oil has been raised to 35%. Previously, the soybean oil import duty was at 17.5% and the refined soybean oil at 20%.

The negative impact on CPO price is likely to be short term. The news is negative to CPO price in the short term as the export to India from major producers such as Indonesia and Malaysia may be affected in the next one to two months. Within the next two months, we think that local refinery will clear their inventory and try to maximise their purchase of palm oil from local farmers.

Things should normalise after two months as India demand for vegetable oils exceeds its production by 14.47m tonnes. Beyond three months, we think that the impact is neutral as demand for vegetable oils is huge at around 23.88m MT annually and this will not be satisfied by its production of around 9.41m tonnes. Hence, the difference of 14.47m tonnes will still be satisfied mostly from imports. As CPO is still the most competitively priced vegetable oils globally, we believe that the demand from India is unlikely to be affected in the mid to long term.

Maintain our contrarian bullish view on plantation. 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. In the worst case scenario that India consumption is affected by 3% or 0.28m MT (which we think is unlikely to materialize) in 2018, our sensitivity analysis suggests that average CPO price decline by RM25 per tonne to RM2875 per tonne. The limited impact is due to the diversified usage of vegetable oils globally while India's consumption makes up only 11% to total consumption globally.


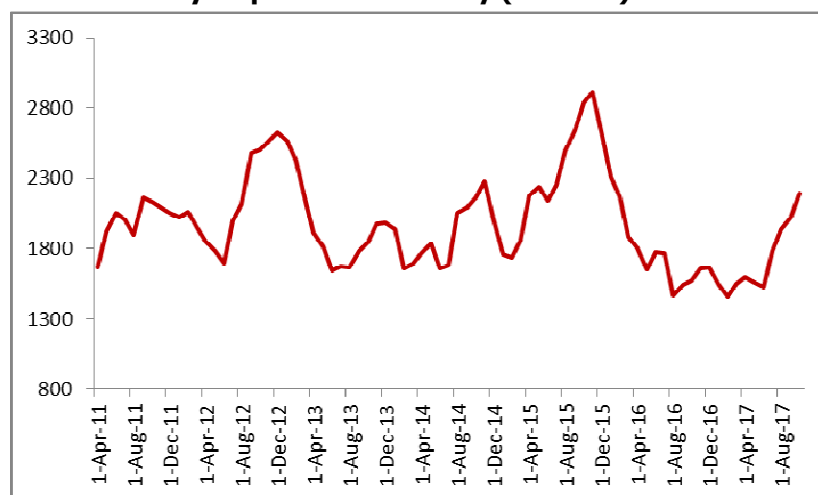
Top pick is IOICORP. We like IOICORP for three reasons: i) its sale of low margin business is likely to result in investment in upstream plantation business which command much better margin, ii) special dividend of 13.0 sen in the next 12 months, and iii) substantial improvement in balance sheet after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

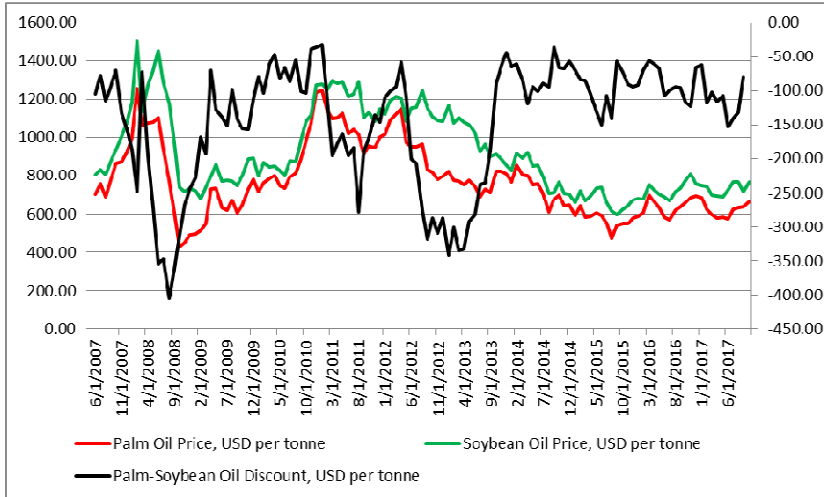
Source: MIDF Research Estimate

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

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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.