

11 April 2017 | Sector Update

PLANTATION**Maintain NEUTRAL*****March inventory came in within expectation*****KEY HIGHLIGHTS**

- **March inventory came in within expectation**
- **Production uptrend continues for the fourth months**
- **Good export growth due to strong demand from India**
- **Expect April-2017 inventory to increase 2% mom to 1.59m MT**
- **Maintain NEUTRAL view with BUY call on KLK**

March inventory came in within expectation. Malaysia palm oil inventory level of 1.55m MT as of end-March 2017 is close to our estimate of 1.54m MT. It is also close to consensus estimate of 1.52m MT. Against last month, inventory level increased by 7% as production growth of 16% exceeded export growth of 14%. Against same period last year, inventory remains lower yoy by 18% but the decline rate has is lower against February's 33% decline yoy.

Production uptrend continues for the fourth months. CPO production has shown a strong recovery with 16% increase mom and 20% yoy to 1.46m MT. Sabah CPO production leads the recovery (+19% mom to 386,050 MT) and this is followed by Peninsular Malaysia (+17% to 774,698 MT) and Sarawak (+10% mom to 303,273 MT). March production increase of 20% yoy suggests that the palm trees have fully recovered from the impact of severe El Nino and the uptrend of strong production may have just started.

Good export growth due to strong demand from India. Export to India surged 28% mom to 171,443 MT and we think this is caused by the widening discount of CPO against soybean oil (SBO) in March to average of USD112/MT (against February's average of USD99/MT). This may have caused CPO to gain market share in India which is a price sensitive market. Besides India, export has also improved in Pakistan (+11% to 54,678 MT) and United States (+19% to 43,233 MT).

Expect April-2017 inventory to increase 2% mom to 1.59m MT. Key assumptions are: i) production increase of 7% mom and ii) export growth of 5% mom. We are expecting better export of palm oil as the recent decline in prices has made CPO more competitive against SBO. However, the growth rate is limited at 5% despite cargo surveyors' data showing 21% surge in export by 21%mom in the first ten days of April. We believe that the surge is due to low base effect and hence expect the export growth to taper down for the whole month. For production growth we are using seasonal factor to estimate the 7% increase.


Stay NEUTRAL; Our only BUY call is KLK (TP: RM29.25). We reiterate our NEUTRAL view on the sector with 2017 average CPO price of RM2725 per MT unchanged. The best earnings quarter in the recent years has been registered in 4QCY2016. In the coming quarter of 1QCY17, planters earnings is expected to be lower qoq as the 7% rise in CPO price is not enough to offset the 15% decline in production. Our Top Pick for the sector is KLK (BUY with TP of RM29.25) as the Company's 1QCY17 result should fare better against other planters as it has locked in forward sales when the CPO price is high. The Company's earnings are also resilient and matched consensus expectation most of the time. 

Table 1: Palm Oil Statistics for March-2017 ('000 MT)

	Mar-17	Feb-17	Diff.	MoM %	Mar-16	YoY%
Opening Stocks	1,459	1,541	(82)	-5.3%	2,170	-32.8%
Production	1,464	1,259	205	16.3%	1,220	20.0%
Imports	102	40	62	152.8%	74	36.9%
Total Supply	3,025	2,840	185	6.5%	3,464	-12.7%
Exports	1,266	1,107	159	14.3%	1,334	-5.1%
Dom Disapp	205	274	(68)	-25.0%	245	-16.1%
Total Demand	1,471	1,381	90	6.6%	1,579	-6.8%
End Stocks	1,554	1,459	95	6.5%	1,885	-17.6%
Stock/Usage Ratio	8.8%	8.8%			9.9%	

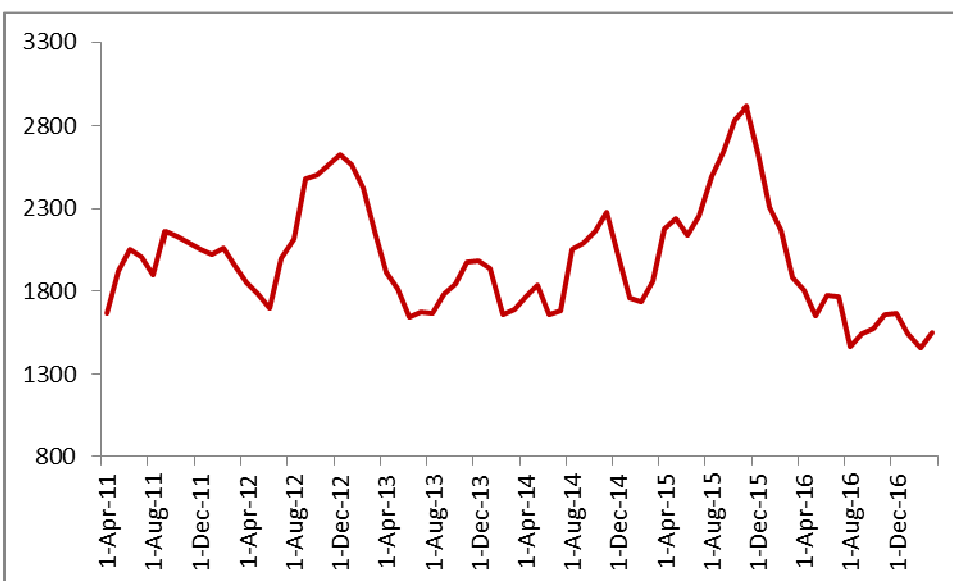
Source: MPOB, MIDF Research

Table 2: Monthly Exports and YTD Exports ('000 MT)

Country	Mar-17	Feb-17	Mar-16	MoM%	YoY%	3M17	3M16	YoY%
China	104	103	142	0%	-27%	374	300	25%
India	171	133	328	28%	-48%	444	768	-42%
EU	135	153	128	-12%	5%	425	522	-19%
Pakistan	55	49	45	11%	22%	151	131	16%
US	43	36	61	19%	-29%	115	168	-31%
Others	758	632	632	20%	20%	2,140	1,810	18%
Total	1,266	1,107	1,335	14%	-5%	3,650	3,700	-1%

Source: MPOB, MIDF Research

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



Source: Malaysia Palm Oil Board (MPOB)

Table 3: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	9.00	NEUTRAL	SOP with plantation sector @ 26.8x FY17E PE. 26.8x is the higher of IOICORP and KLK Target PE.
IOICORP	5.30	NEUTRAL	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	17.69	NEUTRAL	1.0x Price to Book Value
FGV	1.77	NEUTRAL	1.0x Price to Book Value
GENP	11.55	NEUTRAL	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	3.53	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	4.25	NEUTRAL	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.