

12 June 2018 | Sector Update

PLANTATION

Maintain POSITIVE

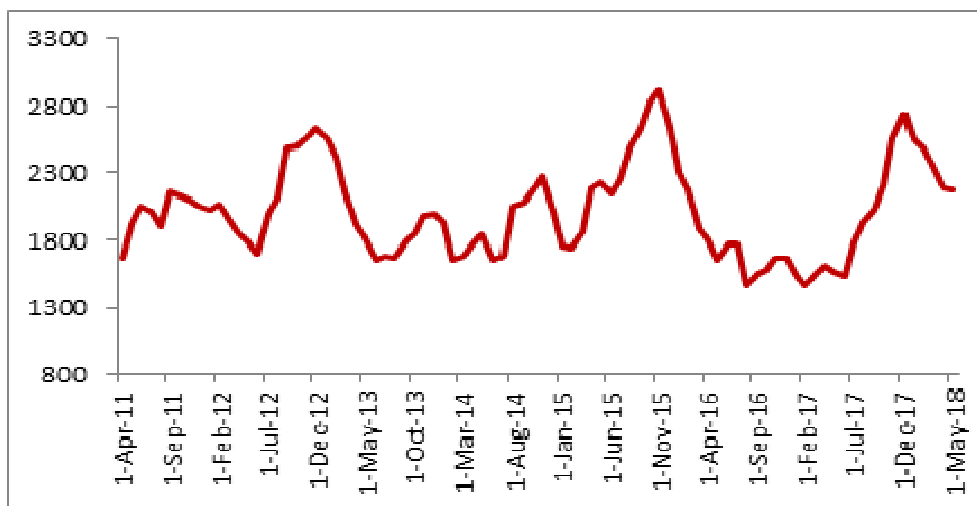
May inventory is higher than expected

KEY HIGHLIGHTS

- **May inventory is higher than consensus estimate**
- **Demand in India is weaker than expected**
- **Production declined 2% mom in May**
- **The data is slightly negative to CPO price**
- **Expect June inventory to decline 3% to 2.11m tonnes**
- **Maintain POSITIVE on the sector with KLK and GENP as our top picks**

May inventory is higher than consensus estimate. Malaysia palm oil inventory level of 2.17m tonnes as of end-May is higher than expected as compared to our/consensus estimate of 2.11m/2.09m tonnes. The decline of 16% mom in export volume was more severe than estimated. This could be explained by unusually low export to India in which it has declined by 75% mom to 75,269 tonnes. We believe that the key consumers in India may be taking a wait and see approach on whether India government will implement import duty on other soft oils (besides palm oil). Inventory level is higher yoy by 39% against May-2017 (against 36% increase yoy in April-2018 against April-2017).

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



Source: Malaysia Palm Oil Board (MPOB)

Demand in India is weaker than expected. Export declined 16% mom to 1.29m tonnes in May-2018. Among major export destinations, export to India tumbled 75% mom to 75,269 tonnes. As mentioned previously, we believe India may be taking a wait and see approach on whether India government will implement import duty on other soft oils. European Union demand also weakened as export to EU declined 34% mom to 136,159 tonnes. Although China export improved by 42% mom to 193,137 tonnes, it was not enough to offset the decline in export to India and EU.

Production declined 2% mom in May. Palm oil production declined 2% mom and 8% yoy to 1.53m tonnes in May. The yoy decline in production yoy increase of 0.7% is the first decline in 12 months but this could be caused by fasting month effect. Going forward, we expect June production to increase by 9% mom to 1.66m tonnes.

The data is slightly negative to CPO price. As the latest inventory data came in above market expectation, we expect the impact to slightly negative to CPO price. Having said that, we believe that the downside is limited due to support from Indonesia biodiesel industry. While export numbers in the first 10 days declined 20%, we expect export performance to improve. We expect better demand from India as we expect some restocking activity after the country decides on whether to increase import duty on other edible oils.

Table 1: Palm Oil Statistics for May-2018 ('000 MT)

	May-18	Apr-18	Diff.	MoM %	May-17	YoY%
Opening Stocks	2,181	2,323	(142)	-6.1%	1,600	36.4%
Production	1,525	1,558	(33)	-2.1%	1,654	-7.8%
Imports	32	36	(3)	-9.4%	47	-32.0%
Total Supply	3,739	3,917	(178)	-4.6%	3,302	13.2%
Exports	1,291	1,530	(240)	-15.7%	1,506	-14.3%
Dom Disapp	278	206	72	35.1%	239	16.5%
Total Demand	1,569	1,736	(167)	-9.6%	1,745	-10.1%
End Stocks	2,170	2,181	(11)	-0.5%	1,557	39.4%
Stock/Usage Ratio	11.5%	10.5%			7.4%	

Source: MPOB, MIDF Research

Expect June inventory to decline 3% to 2.11m tonnes. We expect export to be similar to April export at 1.53m tonnes as we expect demand to improve after India restocking activity. For production, we expect an increase of 9% mom to 1.66m tonnes due to seasonal factor.

Table 2: Export performance for May-2018 ('000 MT)

	May-18	Apr-18	May-17	MoM%	YoY%	5M18	5M17	YoY%
China	193	136	113	42%	71%	725	625	16%
India	75	296	274	-75%	-72%	1,281	879	46%
EU	136	205	169	-34%	-20%	908	758	20%
Pakistan	129	130	108	-1%	19%	544	314	73%
US	46	45	39	2%	20%	223	205	9%
Others	711	717	803	-1%	-11%	3,531	3,658	-3%
Total	1,291	1,530	1,506	-16%	-14%	7,213	6,439	12%

Source: MPOB, MIDF Research

Maintain POSITIVE on the sector; top picks are KLK and GENP. We like KLK for its earnings resiliency and decent dividend yield of 2.5%. We like GENP as we expect its FFB growth at 13% yoy to be the strongest among planters under our coverage. This is due to new contribution from recently acquired estate of 12,893 ha and 5000 ha coming to maturity in Indonesia. 

Target Price and Recommendations

Company	TP	Call	Valuation Basis
SIMEPLT	5.55	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.50	NEUTRAL	23.0x Fwd. PE on FY18F earnings reflecting mean valuation.
KLK	28.50	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.40	NEUTRAL	1.1x Price To Book Value.
FGV	1.75	NEUTRAL	1.1x Price To Book Value reflecting mean valuation.
GENP	12.00	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.30	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.30	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.35	SELL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	1.95	NEUTRAL	SOP with plantation sector @ 11.5x FY19F, 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.