

18 October 2016 | Sector Update

**PLANTATION****Maintain POSITIVE*****New Normal Of Weather Anomalies*****KEY HIGHLIGHTS**

- **Hurricane Matthew has affected soybean production prospect in United States**
- **New normal of weather anomalies**
- **Soybean oil price gained more than 5% to above 35 US cents per pound**
- **The news is positive to CPO price**
- **Maintain our Oct-2016 inventory forecast of 1.57m MT**
- **Maintain POSITIVE view on the sector with BUY calls on KLK (TP: RM27.38) and IOICORP (TP: RM5.05)**

**Hurricane Matthew has affected soybean production prospect in United States.** According to Reuters, Hurricane Matthew has caused USD1.5b (or RM6.3b) worth of damage to more than 100,000 homes, businesses and government buildings in North Carolina. We gather that Hurricane Matthew has also affected soybean production significantly in North Carolina with yields in other states are likely to be affected as well. Note that North Carolina produced 57.28m bushels of soybean in 2015 or 1.5% of total US production. Hurricane Matthew was a Category 5 Atlantic hurricane (the highest scale) based on Saffir–Simpson scale.

**New normal of weather anomalies.** The Strong El Nino has ended only recently in May-2016 and palm oil production has been severely affected with Malaysia's first 9 months of 2016 (9M16) production down -15%yoy to 12.6m MT (against 14.9m MT in 9M15). Additionally, US Climate Prediction Centre has mentioned that La Niña is favoured to develop (~70% chance) during the Northern Hemisphere fall 2016 (22 Sep 2016 to 20 Dec 2016). As a result, we believe that the world has entered into a new normal of weather anomalies.

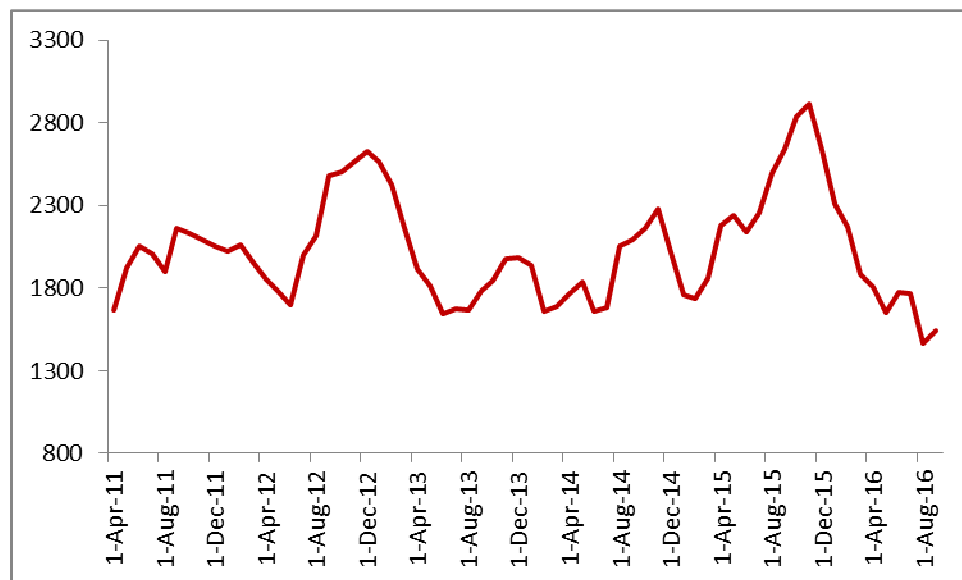
**Soybean oil price gained more than 5% to above 35 US cents per pound.** In the Chicago Board of Trade (CBOT) market, soybean oil price has increased significantly. We believe that the increase is caused by the lower soybean production prospect from United States coupled with strong export of soybean from the country.

**The news is positive to CPO price.** As CPO is commonly used as a substitute for soybean oil, the gain in soybean oil price should improve the price competitiveness of CPO. Yesterday, CPO price has gained RM111/MT (or 4.2%) to RM2,769/MT.

**Maintain our Oct-2016 inventory forecast of 1.57m MT.** Key assumptions are: i) export growth of 7%mom, and ii) production growth of 3%. Although cargo surveyors data show export decline of -5%mom in the first fifteen days of October, the recent increase in soybean oil price should improve the export for CPO. For production growth we are using seasonal factor to estimate the 3% growth.

**Maintain POSITIVE view on the sector; BUY KLK (TP: RM27.38) and IOICORP (TP: RM5.05).** We expect CPO price to stay at the range of RM2,500 to RM3,000 per MT in the next three months. Our top pick is KLK (BUY; TP RM27.38) due to its high exposure to palm oil business and good earnings growth of +18%yoy to RM747m in 9MFY16. We also like IOICORP (BUY; TP RM5.05) due to its pure exposure to palm oil business both in the upstream and downstream divisions. The Company's profit is also expected to recover in FY17 after the uplift of RSPO suspension.

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



Source: Malaysia Palm Oil Board (MPOB)

**Table 1: Basis of valuation**

Company	TP	Call	Valuation Basis
SIME	7.75	NEUTRAL	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the avg of IOICORP and KLK Target PE.
IOICORP	5.05	BUY	24.7x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY16F earnings reflecting +1.0SD valuation.
PPB	15.00	NEUTRAL	19.5x Fwd. PE on FY16F earnings reflecting mean valuation.
FGV	1.77	NEUTRAL	1.0x Price to Book Value.
GENP	9.72	NEUTRAL	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	3.13	NEUTRAL	18.6x Fwd. PE on FY17F earnings reflecting mean valuation.
TSH	2.10	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	3.50	NEUTRAL	16.6x Fwd. PE on FY16F 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.