

14 May 2018 | Sector Update

## PLANTATION

*Positive signal from April inventory numbers*

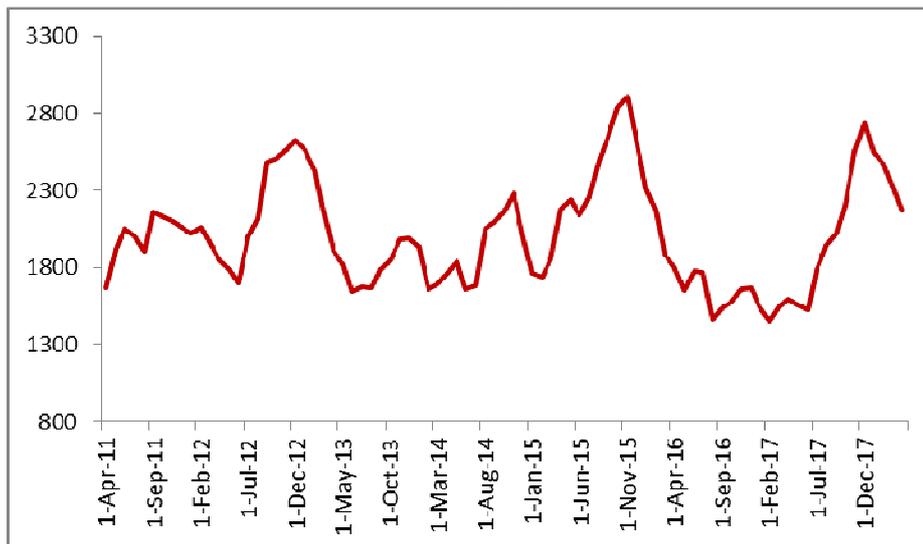
**Maintain POSITIVE**

### KEY HIGHLIGHTS

- **April inventory is lower than consensus estimate**
- **Production declined 1% mom in April which is the first time in 8 years**
- **The data is positive to CPO price**
- **Expect May inventory to decline 2% to 2.11m tonnes**
- **General Election result is Neutral to plantation sector**
- **Maintain POSITIVE on the sector with KLK and GENP as our top picks**

**April inventory is lower than consensus estimate.** Malaysia palm oil inventory level of 2.17m tonnes as of end-April is close to our estimate of 2.13m tonnes but was lower than consensus estimate of 2.24m tonnes. The decline of 1.5% mom in export volume was less severe than market estimate of 5.5% export drop. This could be explained by strong demand in the Northern Hemisphere as the weather gets warmer in April. Note that palm oil usage usually increase in warm weather as it stays in liquid form. Against last month, inventory level declined by 6% mom as total demand (export and local usage) of 1.74m tonnes exceed total supply (import and production) of 1.59m tonnes. While inventory level is still higher yoy by 36% against April-2017, it has improved significantly from 50% surge yoy (March-2018 against March-2017).

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



Source: Malaysia Palm Oil Board (MPOB)

**Production declined 1% mom in April which is the first time in 8 years.** Palm oil production declined 1% mom but increased 0.7% yoy to 1.56m tonnes in April. The production decline mom from March to April is rare and this is the first time it occurs in 8 years. The yoy increase of 0.7% is a significant slowdown from March-2018 increase of 7.5% yoy and this could be an indicator that the strong uptrend in production may be over soon. Going forward, we expect May production to increase by merely 0.8% yoy to 1.67m tonnes.

**The data is positive to CPO price.** As the latest inventory data came in below market expectation, we expect the impact to CPO price to be positive. While export numbers in the first 10 days declined 10%, we expect export performance to improve as we expect better demand from Northern Hemisphere.

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

	Apr-18	Mar-18	Diff.	MoM %	Apr-17	YoY%
<b>Opening Stocks</b>	<b>2,323</b>	<b>2,478</b>	<b>(155)</b>	<b>-6.2%</b>	<b>1,553</b>	<b>49.6%</b>
<b>Production</b>	<b>1,558</b>	<b>1,574</b>	<b>(16)</b>	<b>-1.0%</b>	<b>1,548</b>	<b>0.7%</b>
Imports	36	40	(4)	-10.2%	54	-34.6%
<b>Total Supply</b>	<b>3,917</b>	<b>4,092</b>	<b>(174)</b>	<b>-4.3%</b>	<b>3,156</b>	<b>24.1%</b>
Exports	1,541	1,565	(24)	-1.5%	1,284	20.1%
Dom Disapp	202	203	(1)	-0.6%	272	-25.8%
<b>Total Demand</b>	<b>1,743</b>	<b>1,768</b>	<b>(25)</b>	<b>-1.4%</b>	<b>1,556</b>	<b>12.1%</b>
<b>End Stocks</b>	<b>2,174</b>	<b>2,323</b>	<b>(149)</b>	<b>-6.4%</b>	<b>1,600</b>	<b>35.9%</b>
<b>Stock/Usage Ratio</b>	<b>10.4%</b>	<b>10.9%</b>			<b>8.6%</b>	

Source: MPOB, MIDF Research

**Expect May inventory to decline 2% to 2.11m tonnes.** We expect export to improve 2% mom to 1.57m tonnes as we expect demand to remain strong from Northern Hemisphere. For production, we expect an increase of 7% mom to 1.67m tonnes due to seasonal factor.

**General Election result is Neutral to plantation sector.** The election result is Neutral to plantation sector as CPO price is determined by global demand and supply. On the cost side, we believe that any cost pressure due to implementation of minimum wage is likely to be neutralised by better CPO price due to better inventory management. We expect Malaysia inventory to be better managed under the new government through higher biodiesel usage and increased replanting effort.

**Maintain POSITIVE on the sector.** We maintain our positive view on the sector as we expect CPO price to increase to USD650 per tonne in the next 3 months. The good global economy growth should lead to higher consumption per capita. On the supply side, consensus estimate of huge supply growth may not be fully realized due to ongoing labour shortage and the potentially high replanting activity in Indonesia. Recently on 9-May, Indonesia has announced its plan to expand its replanting scheme to 185,000 ha of oil palm plantation land this year. This could limit the supply surge by between 0.6m to 0.7m tonnes assuming oil yield of 3.5 MT per ha.

**Top picks are KLK and GENP.** We like KLK for its earnings resiliency and decent dividend yield of 2.5%. For GENP, we like the Company as we expect its FFB growth of 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**

<b>Company</b>	<b>TP</b>	<b>Call</b>	<b>Valuation Basis</b>
SIMEPLT	5.40	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	2.25	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.45	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.20	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	2.30	BUY	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

Alan Lim, CFA  
[alan.lim@midf.com.my](mailto:alan.lim@midf.com.my)

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.