

11 October 2018 | Sector Update

PLANTATION

Maintain NEUTRAL

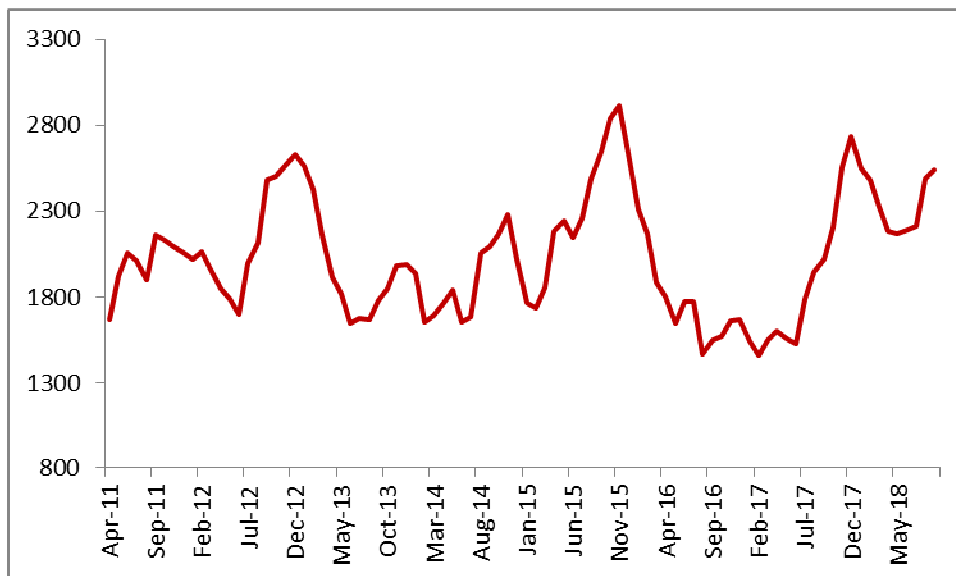
September inventory is above market expectation

KEY HIGHLIGHTS

- **September inventory is above market expectation**
- **Export growth is strong at 47% mom but it trailed market expectation**
- **Production rebounded yoy after four consecutive month of yoy decline**
- **The data is slightly negative to CPO price**
- **Maintain NEUTRAL on the sector; buy calls on KLK and GENP**

September inventory is above market expectation. Malaysia palm oil inventory level of 2.54m tonnes as of end-September is above consensus estimate of 2.49m tonnes. Export volume growth of 47% mom disappointed against market estimate of 50% growth mom. Inventory level is higher yoy by 26% against September-2017 (against 26% increase yoy in August-2018 against August-2017).

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



Source: Malaysia Palm Oil Board (MPOB)

Export growth is strong at 47% mom but it trailed market expectation. Export did surged by 47% mom to 1.62m tonnes in September-2018. Among major export destinations, the biggest jump was seen in export to European Union (+185% mom to 228,398 tonnes). This is followed by India (+64% mom to 228,091 tonnes) and Pakistan (+86% to 104,983 tonnes). However, export to China declined 2% mom to 110,008 tonnes. Overall, the surge in export is caused by the decline in Malaysia export tax of crude palm oil to zero percent in September. However, the decline in export to China may have caused the disappointment in the quantum of export against market expectation.

Production rebounded yoy after four consecutive month of yoy decline. Palm oil production grew by 14% mom and 4% yoy to 1.85m tonnes in September. Note that September production increase in production is the first after fourth yoy decline in production. This could be a sign that the 4-month tree stress period may have ended.

The data is slightly negative to CPO price. As the latest inventory data came in higher than market expectation, we expect the news to be slightly negative on CPO price. Having said that, the downside is limited in our view due to strong Brent crude oil price at above USD83 per barrel currently.

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

	Sep-18	Aug-18	Diff.	MoM %	Sep-17	YoY%
Opening Stocks	2,505	2,215	290	13.1%	1,942	29.0%
Production	1,854	1,621	233	14.4%	1,780	4.1%
Imports	62	80	(19)	-23.2%	41	49.6%
Total Supply	4,420	3,915	505	12.9%	3,763	17.5%
Exports	1,619	1,100	519	47.2%	1,518	6.6%
Dom Disapp	260	311	(51)	-16.3%	225	15.9%
Total Demand	1,879	1,411	468	33.2%	1,742	7.8%
End Stocks	2,541	2,505	36	1.4%	2,021	25.8%
Stock/Usage Ratio	11.3%	14.8%			9.6%	

Source: MPOB, MIDF Research

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

	Sep-18	Aug-18	Sep-17	MoM%	YoY%	9M18	9M17	YoY%
China	110	112	268	-2%	-59%	1,214	1,344	-10%
India	228	139	189	64%	20%	1,940	1,651	18%
EU	228	80	109	185%	110%	1,509	1,425	6%
Pakistan	105	56	128	86%	-18%	882	712	24%
US	49	47	47	5%	5%	399	395	1%
Others	898	665	775	35%	16%	6,313	6,692	-6%
Total	1,619	1,100	1,515	47%	7%	12,258	12,219	0%

Source: MPOB, MIDF Research

Maintain NEUTRAL on the sector; buy calls on KLK and GENP. We maintain our average CPO price forecast of RM2,400 per tonne for 2018. We like KLK for its earnings resiliency and decent dividend yield of 2.6%. We like GENP as its FFB growth should improve 13% yoy and this is at the first quartile of planters under our coverage. 

Target Price and Recommendations

Company	TP	Call	Valuation Basis
SIMEPLT	5.25	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	4.45	NEUTRAL	23.0x Fwd. PE on FY19F earnings reflecting mean valuation.
KLK	27.38	BUY	26.8x Fwd. PE on FY19F earnings reflecting +1.0SD valuation.
PPB	17.63	NEUTRAL	1.2x Price To Book Value
FGV	1.54	NEUTRAL	1.0x Price To Book Value reflecting mean valuation
GENP	10.70	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.00	SELL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.18	NEUTRAL	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	2.76	NEUTRAL	15.0x Fwd. PE on FY19F earnings reflecting mean valuation.
FIMACOR	1.90	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.