

05 March 2018 | Sector Update

**PLANTATION****Maintain POSITIVE****Short term negative but long term neutral impact from India raise of import tax****KEY HIGHLIGHTS**

- **India raised the import duties on crude and refined palm oil**
- **Expect negative impact to CPO price in the short term**
- **Things should normalize after two months as India consumption is only 11% of oils and fats globally**
- **We maintain our positive view on the sector**
- **Top pick is IOICORP (TP: RM5.50).**

**India raised the import duties on crude and refined palm oil.** India has raised the import duty on crude palm oil (CPO) to 44% while the duty for refined palm oil has been raised to 54%. Previously, the CPO import duty was at 30% and the refined palm oil at 40%. We gather that the import duty for other vegetable oils such as soybean oil and rapeseed oil remains unchanged. The increase in the import duties was aimed to improve local farmer income in India. As the difference of the import duty between CPO and the refined palm oil stays at 10%, the local refineries in India do not benefit much. Lastly, we expect the cooking oil price to increase in India.

**Expect negative impact to CPO price in the short term.** Effectively, the all in duty on CPO (inclusive of 10% surcharge) is estimated to be 48.4%. As for refined palm oil, the effective duty is estimated to be 59.4%. As the increase is targeted only to palm oil, we do expect India to boost their purchase of soybean oil and rapeseed oil as the import duty on these oils are lower as compared to palm oil. Hence, the immediate impact will be negative impact on CPO price due to reduced demand for palm oil from India.

**Things should normalize after two months as India consumption is only 11% of oils and fats globally.** We believe that the news should result in higher price for soybean oil and rapeseed oil globally in the near term as India increase their purchase. As a result, the discount between palm oil against soybean oil and rapeseed oil are expected to increase. In the long run, this will improve the competitiveness of palm oil against soybean oil and rapeseed oil and hence increase the demand for palm oil in other major consumer countries such as China, European Union, United States and Pakistan. Overall, the impact on palm oil is expected to be neutral in the long run as the demand for palm oil is still resilient due to its price competitiveness in the global vegetable oil market. While India is a major consumer of oils and fats globally (annual consumption of around 24 to 25 million tonnes), its total share of the global market is estimated to be only 11%. Hence, the demand from the other 89% is expected to remain intact.

**We maintain our positive view on the sector.** We reiterate our positive view on the sector due to improved demand outlook for palm oil in 2018. We believe that the good global economy growth in 2018 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 labor shortage and the potentially high replanting activity in Indonesia. Note that Indonesia plans to replant up to 165,000 ha of oil palm plantation land this year. This could limit the supply surge by between 0.5 to 0.6 million tonnes assuming oil yield of 3.5 MT per ha.

**Top pick is IOICORP.** IOICORP has recently completed its disposal of 70% stake in Lodders Crokkaan. Hence, we expect the special dividend (estimated at 13.0 sen) to be announced in the next 6 months. Post the disposal, we also expect margin improvement at the Group level and substantial improvement in the Company's balance sheet. Other buy calls are KLK, PPB, GENP, TSH and FIMACORP. 

**Table 1: Basis of valuation**

Company	TP	Call	Valuation Basis
SIMEPLT	5.60	NEUTRAL	Blended 26.5x Target PE and 3.0x PB method.
IOICORP	5.50	BUY	26.3x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
KLK	29.00	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.46	BUY	1.1x Price To Book Value.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.70	BUY	SOP with plantation sector @ 24.7x FY18E PE. 24.7x is at 10% discount to big cap planters Target PE.
IJMP	2.36	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY18F earnings reflecting -0.5SD valuation.
FIMACOR	2.60	BUY	SOP with plantation sector @ 11.5x FY18F 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.