

13 September 2018 | Sector Update

# PLANTATION

**Maintain NEUTRAL**

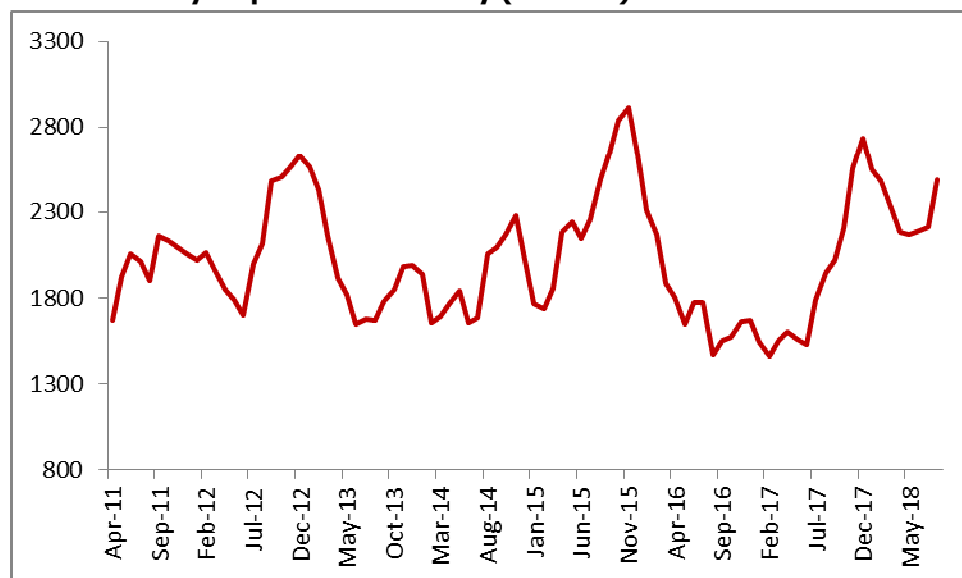
*Slightly negative impact to CPO price from August inventory statistics*

## KEY HIGHLIGHTS

- **August inventory is above expectation**
- **Export to European Union declined 49% mom**
- **Tree stress continues as production declined yoy consecutively for the fourth month**
- **The data is slightly negative to CPO price**
- **Expect September inventory to increase 3% to 2.56m tonnes**
- **Maintain NEUTRAL on the sector; buy calls on KLK and GENP**

**August inventory is above expectation.** Malaysia palm oil inventory level of 2.49m tonnes as of end-August is above our/consensus estimate of 2.25m/2.41m tonnes. Export volume decline of 8% mom is the negative surprise against our estimate of positive growth mom. This could be explained by export to European Union which has declined by 49% mom to 80,129 tonnes. We believe this is caused by the cooler weather in August as summer season is ending. Inventory level is higher yoy by 28% against August-2017 (against 24% increase yoy in July-2018 against July-2017).

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



Source: Malaysia Palm Oil Board (MPOB)

**Export to European Union declined 49% mom.** Export was lower by 49% mom to 1.10m tonnes in August-2018. Among major export destinations, export to European Union declined by 49% mom to 80,129 tonnes. We believe that the weaker demand is caused by the cooler weather in August as summer season is ending. Note that palm oil usage tend to decline during cool weather. Export to Pakistan also weakened by 27% mom to 56,450 tonnes.

**Tree stress continues as production declined yoy consecutively for the fourth month.** Palm oil production grew by 8% mom to 1.62m tonnes in August. However, a closer look shows that August production represents the fourth yoy decline in production as it was down 10% yoy. This confirms our previous belief that the tree stress period has started.

**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. The downside is limited in our view due to strong Brent crude oil price at above USD78 per barrel currently. Additionally, export volume has recovered in the first 10 days of September with cargo surveyor data showing significant improvement of 63% against first 10 days in August.

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

	Aug-18	Jul-18	Diff.	MoM %	Aug-17	YoY%
<b>Opening Stocks</b>	<b>2,215</b>	<b>2,187</b>	<b>28</b>	<b>1.3%</b>	<b>1,785</b>	<b>24.1%</b>
<b>Production</b>	<b>1,622</b>	<b>1,503</b>	<b>119</b>	<b>7.9%</b>	<b>1,811</b>	<b>-10.4%</b>
Imports	80	44	36	82.1%	42	92.5%
<b>Total Supply</b>	<b>3,917</b>	<b>3,734</b>	<b>183</b>	<b>4.9%</b>	<b>3,637</b>	<b>7.7%</b>
Exports	1,100	1,197	(97)	-8.1%	1,488	-26.1%
Dom Disapp	329	323	6	1.8%	208	58.5%
<b>Total Demand</b>	<b>1,428</b>	<b>1,520</b>	<b>(91)</b>	<b>-6.0%</b>	<b>1,695</b>	<b>-15.7%</b>
<b>End Stocks</b>	<b>2,489</b>	<b>2,215</b>	<b>274</b>	<b>12.4%</b>	<b>1,942</b>	<b>28.2%</b>
<b>Stock/Usage Ratio</b>	<b>14.5%</b>	<b>12.1%</b>			<b>9.5%</b>	

Source: MPOB, MIDF Research

**Expect September inventory to increase 3% to 2.56m tonnes.** We expect export to improve by 25% mom to 1.37m tonnes as we expect demand to improve in India and China as low CPO prices should increase demand ahead of upcoming festivals. Note that India will be celebrating Deepavali on 6-Nov and hence pre stocking activity is likely to be in September and October. For China, there will be Mid-Autumn Festival on 24-September and buyers is likely to be more aggressive in buying to take advantage of zero percent export duty in Malaysia. For production, we expect an increase of 5% mom to 1.70m tonnes due to seasonal factor.

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

	Aug-18	Jul-18	Aug-17	MoM%	YoY%	8M18	8M17	YoY%
China	112	112	194	0%	-42%	1,104	1,076	3%
India	139	132	183	5%	-24%	1,712	1,462	17%
EU	80	157	177	-49%	-55%	1,281	1,317	-3%
Pakistan	56	78	68	-27%	-17%	777	584	33%
US	47	33	44	45%	8%	350	348	1%
Others	665	685	822	-3%	-19%	5,415	5,917	-8%
<b>Total</b>	<b>1,100</b>	<b>1,197</b>	<b>1,488</b>	<b>-8%</b>	<b>-26%</b>	<b>10,639</b>	<b>10,704</b>	<b>-1%</b>

Source: MPOB, MIDF Research

**Maintain NEUTRAL on the sector; buy calls on KLK and GENP.** We maintain our average CPO price forecast of RM2400 per tonne for 2018. We like KLK for its earnings resiliency and decent dividend yield of 2.6%. 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**

<b>Company</b>	<b>TP</b>	<b>Call</b>	<b>Valuation Basis</b>
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.