

14 September 2016 | Sector Update

## PLANTATION

*Strong demand from India and China***Maintain POSITIVE**

### KEY HIGHLIGHTS

- **August inventory is the lowest in more than 5 years.**
- **Export to India more than doubled.**
- **As expected, production growth remains low at 7% mom.**
- **Import is at all-time low implying strong biodiesel usage in Indonesia.**
- **Expect Sep-2016 inventory to remain flat at 1.46m MT.**
- **Maintain POSITIVE view on the sector. Top pick is KLK (TP: RM27.38).**


**August inventory is the lowest in more than 5 years.** Malaysia palm oil inventory level of 1.46m MT as of end-August 2016 is 10% below consensus estimate of 1.63m MT. It is also 17% below our estimate of 1.76m MT. Exports were stronger than expected as India started its stocking activity earlier this year. The inventory level is also the lowest in more than 5 years since Jan-2011.

**Export to India more than doubled.** Export to India surged by 126% mom to 428,652 MT due to stocking activity ahead of the Deepavali festival which will fall on 30-Oct this year. Export to China increased by 42% mom to 298,723 MT due to stocking activity ahead of the Mid-Autumn Festival on 15-Sep this year. Export has also improved for European Union (+24% mom to 235,815 MT) and Pakistan (+39% mom to 84,015 MT).

**As expected, production growth remains low at 7% mom.** Peninsular Malaysia production growth is the highest at +11% to 848,250 MT followed by Sarawak (+9% to 374,257 MT) and Sabah (+1% to 479,398 MT). On a yearly basis, production declined 17% and this suggests that the impact of El Nino is still being felt.

**Import is at all-time low implying strong biodiesel usage in Indonesia.** Import of palm oil (almost all from Indonesia) is very low at 7,807 MT. This is a decline 39% mom and 88% yoy. We believe that import from Indonesia has been constricted by demand from the biodiesel program there, which is at B15 currently and the country is trying to move towards B20. We view this positively as it signals that the biodiesel program is running well there.

**Expect Sep-2016 inventory to remain flat at 1.46m MT.** Key assumptions are: i) export decline of 12% and ii) production growth of 7%. We are expecting export decline as China stocking activity should have stopped. Cargo surveyors data shows export declined by 17% mom in the first ten days of September. For production growth we are using seasonal factor to estimate the 5% growth.

**Maintain POSITIVE view on the sector.** Our top pick is KLK due to: i) its earnings is expected to benefit from high CPO price due to its high exposure to palm oil business, ii) good earnings growth of +41%yoy to RM536m in 1HFY16, and iii) it is one of the rare big cap index-linked planters which is Shariah compliant and also an RSPO member. 

**Table 1: Palm Oil Statistics for August-2016 ('000 MT)**

	Aug-16	Jul-16	Diff.	MoM %	Aug-15	YoY%
<b>Opening Stocks</b>	<b>1,771</b>	<b>1,775</b>	<b>(4)</b>	<b>-0.2%</b>	<b>2,267</b>	<b>-21.9%</b>
<b>Production</b>	<b>1,702</b>	<b>1,586</b>	<b>116</b>	<b>7.3%</b>	<b>2,051</b>	<b>-17.0%</b>
Imports	8	13	(5)	-39.1%	66	-88.2%
<b>Total Supply</b>	<b>3,480</b>	<b>3,373</b>	<b>107</b>	<b>3.2%</b>	<b>4,384</b>	<b>-20.6%</b>
Exports	1,812	1,384	428	30.9%	1,608	12.7%
Dom Disapp	203	218	(15)	-6.9%	281	-27.7%
<b>Total Demand</b>	<b>2,016</b>	<b>1,603</b>	<b>413</b>	<b>25.8%</b>	<b>1,889</b>	<b>6.7%</b>
<b>End Stocks</b>	<b>1,465</b>	<b>1,771</b>	<b>(306)</b>	<b>-17.3%</b>	<b>2,495</b>	<b>-41.3%</b>
<b>Stock/Usage Ratio</b>	<b>6.1%</b>	<b>9.2%</b>			<b>11.0%</b>	

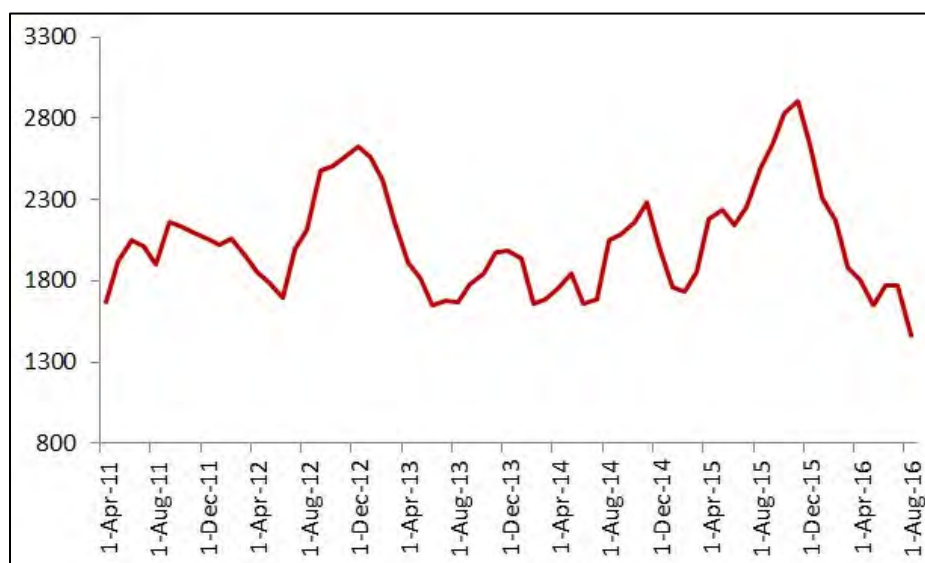
Source: MPOB, MIDF Research

**Table 2: Monthly Exports and YTD Exports ('000 MT)**

Country	Aug-16	Jul-16	Aug-15	MoM%	YoY%	8M16	8M15	YoY%
China	299	211	290	42%	3%	1,111	1,765	-37%
India	429	190	352	126%	22%	2,046	2,161	-5%
EU	236	190	212	24%	11%	1,317	1,484	-11%
Pakistan	84	61	40	39%	108%	513	486	6%
US	53	77	74	-31%	-28%	437	457	-4%
Others	713	656	643	9%	11%	5,062	4,712	7%
<b>Total</b>	<b>1,812</b>	<b>1,384</b>	<b>1,610</b>	<b>31%</b>	<b>13%</b>	<b>10,485</b>	<b>11,065</b>	<b>-5%</b>

Source: MPOB, MIDF Research

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



Source: Malaysia Palm Oil Board (MPOB)

**Table 3: Basis of valuation**

Company	TP	Call	Valuation Basis
SIME	7.85	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.