

13 February 2018 | Sector Update

PLANTATION

Surprise decline in inventory

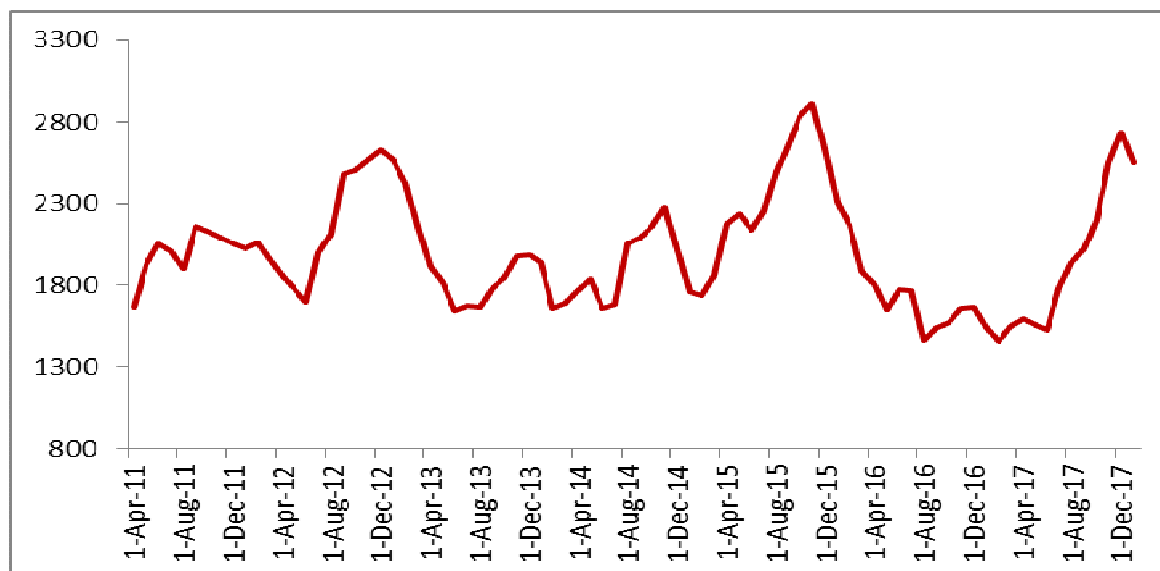
Maintain POSITIVE

KEY HIGHLIGHTS

- **Inventory declined for the first time in seven months**
- **Resilient demand for palm oil with export increase of 6% mom and 19% yoy**
- **Production declined 13.5% in January**
- **The data is positive to CPO price**
- **Expect February inventory to decline 8% to 2.35m MT**
- **Maintain POSITIVE view on the sector with IOICORP as top pick**

Inventory declined for the first time in seven months. Malaysia palm oil inventory level of 2.55m MT as of end-January 2018 is lower than ours and market expectation of 2.73m MT. Export came in stronger than expected with 6% growth mom as the temporary suspension of CPO export tax price (effective 8-Jan-2018) boosted demand from major consumers such as India and Pakistan. Against last month, inventory level declined by 7% as export grew by 6% while production declined by 13.5%.

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



Source: Malaysia Palm Oil Board (MPOB)

Resilient demand for palm oil with export increase of 6% mom and 19% yoy. Export increased 6% mom to 1.51m MT in January 2017. We gather that the export to India jumped 35% mom to 202,000 MT while export to Pakistan was up by 20% to 101,000 MT. We believe that these price sensitive countries have increased their purchase to benefit from the recent suspension of CPO export tax by the Malaysia government.

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

	Jan-18	Dec-17	Diff.	MoM %	Jan-17	YoY%
Opening Stocks	2,732	2,554	178	7.0%	1,667	63.9%
Production	1,587	1,834	(248)	-13.5%	1,277	24.3%
Imports	35	15	20	132.3%	72	-51.4%
Total Supply	4,354	4,403	(49)	-1.1%	3,015	44.4%
Exports	1,513	1,427	86	6.0%	1,287	17.6%
Dom Disapp	293	243	49	20.2%	187	56.3%
Total Demand	1,806	1,671	135	8.1%	1,474	22.5%
End Stocks	2,548	2,732	(184)	-6.7%	1,541	65.3%
Stock/Usage Ratio	11.8%	13.6%			8.7%	

Source: MPOB, MIDF Research

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

Country	Jan-18	Dec-17	Jan-17	MoM%	YoY%	1M18	1M17	YoY%
China	157	175	167	-11%	-6%	157	167	-6%
India	202	107	139	88%	45%	202	139	45%
EU	187	209	137	-10%	37%	187	137	37%
Pakistan	101	84	48	20%	113%	101	48	113%
US	48	66	36	-27%	35%	48	36	35%
Others	818	781	750	5%	9%	818	750	9%
Total	1,513	1,423	1,277	6%	19%	1,513	1,277	19%

Source: MPOB, MIDF Research

Production declined 13.5% in January. Palm oil production declined 13.5% mom but was up 25% yoy to 1.59m MT in January. This confirmed our belief that production has peaked in October and the trend of seasonal production decline has resumed in January. Going forward, we expect February production to decline by 10% to 1.43m MT.

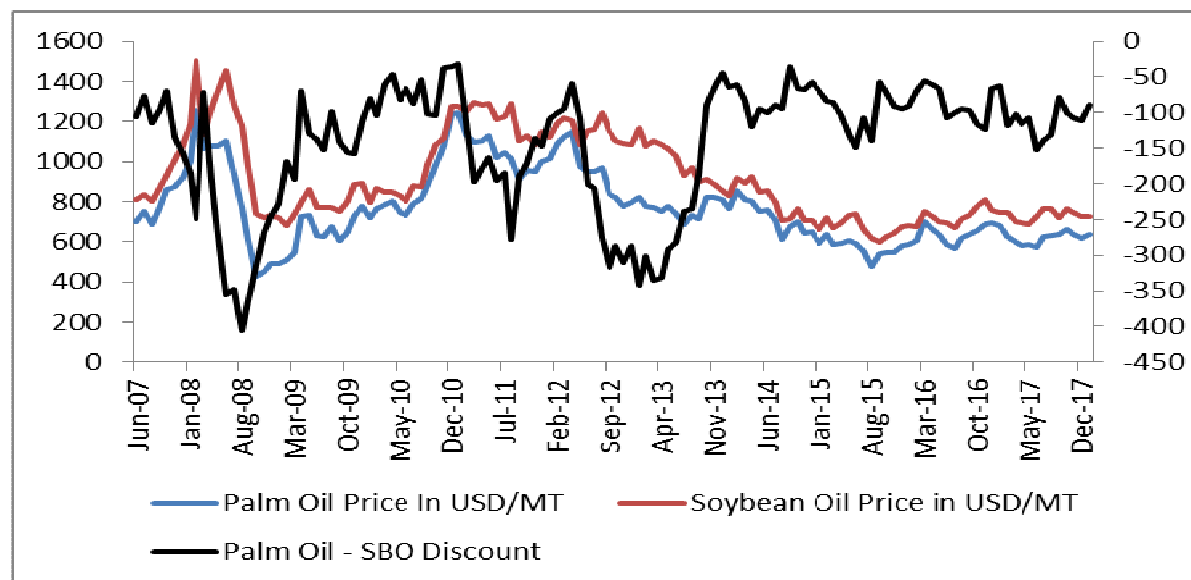
The data is positive to CPO price. Overall, we are positive on CPO price as the latest inventory data came in below market expectation. We believe that demand will continue to be supported by improved global demand as the winter has ended in the Northern Hemisphere. This should lead to higher usage of palm oil.

Expect February inventory to decline 8% to 2.35m MT. We expect export to decline 8% mom due to the shorter calendar month impact. For production, we expect a decline of 10% to 1.43m MT due to seasonal factor.

Maintain our POSITIVE view on the sector. We maintain our palm oil price forecast of RM2900 per MT for 2018. Reiterate positive view on the sector due to improved demand outlook for palm oil in 2018. We believe that the good 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 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 cause supply to decline by 500,000 tonnes assuming oil yield of 3.0 MT per ha.

Top pick is IOICORP (BUY; TP: RM5.50). Top Pick for the sector is IOICORP due to: i) overall margin improvement at the Group level after sale of 70% stake in Lodders Croklaan (Lodders), ii) special dividend of 13.0 sen and iii) net gearing is expected to decline significantly to 0.25x (from 0.78x). We also have BUY calls on KLK, GENP, TSH, TAANN and FIMACORP.

Chart 2: Discount between palm oil and soybean oil



Source: Bloomberg

Table 1: Target Price and Recommendations

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	17.69	NEUTRAL	1.0x Price To Book Value.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.60	BUY	SOP with plantation sector @ 24.7x FY17E PE.
IJMP	2.85	NEUTRAL	19.5x Fwd. PE on FY18F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY17F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY17F 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.