

13 December 2017 | Sector Update

## PLANTATION

**Maintain POSITIVE**

*Temporary weakness in demand from India*

### KEY HIGHLIGHTS

- **November inventory is higher than expected**
- **Export is affected by twin impact of stronger Ringgit and temporary weak demand from India**
- **Production declined in November**
- **The data is slightly negative to CPO price**
- **Expect December inventory to increase by 1% to 2.59m MT**
- **Maintain POSITIVE view on the sector with IOICORP as top pick**

**November inventory is higher than expected.** Malaysia palm oil inventory level of 2.56m MT as of end-November 2017 is higher than market expectation of 2.50m MT. It is also higher than our estimate of 2.30m MT as export came in weaker than expected. Note that November export drop of 12% mom is more than our expectation of 3% decline. Against last month, inventory level increased by 16% as export drop of 12% exceeded production decline of 3%. Against same period last year, inventory is higher by 54% (against October's increase of 39% yoy).

**Table 1: Palm Oil Statistics for November-2017 ('000 MT)**

	Nov-17	Oct-17	Diff.	MoM %	Nov-16	YoY%
<b>Opening Stocks</b>	<b>2,204</b>	<b>2,021</b>	<b>183</b>	<b>9.1%</b>	<b>1,574</b>	<b>40.0%</b>
<b>Production</b>	<b>1,943</b>	<b>2,009</b>	<b>(66)</b>	<b>-3.3%</b>	<b>1,575</b>	<b>23.4%</b>
Imports	30	13	17	124.0%	63	-52.4%
<b>Total Supply</b>	<b>4,177</b>	<b>4,043</b>	<b>134</b>	<b>3.3%</b>	<b>3,213</b>	<b>30.0%</b>
Exports	1,354	1,538	(184)	-11.9%	1,370	-1.2%
Dom Disapp	266	301	(35)	-11.7%	179	48.0%
<b>Total Demand</b>	<b>1,620</b>	<b>1,839</b>	<b>(219)</b>	<b>-11.9%</b>	<b>1,550</b>	<b>4.5%</b>
<b>End Stocks</b>	<b>2,557</b>	<b>2,204</b>	<b>353</b>	<b>16.0%</b>	<b>1,663</b>	<b>53.8%</b>
<b>Stock/Usage Ratio</b>	<b>13.2%</b>	<b>10.0%</b>			<b>8.9%</b>	

Source: MPOB, MIDF Research

### **Export is affected by twin impact of stronger Ringgit and temporary weak demand from India.**

Export fell 12% mom to 1.35m MT due to the twin impact of stronger Ringgit and temporary weak demand from India. In November, Ringgit has appreciated 3.3% against USD to 4.091 by end-Nov (from 4.232). Additionally, export to India fell 40% mom to 100,161 MT as the country raised the its import duty on both crude and refined palm oil. Despite the severe decline in India purchase of palm oil, we are not overly concerned as we expect it to continue its purchase after two months. Note that the consumption of vegetable oils in India is huge at around 23.88m MT annually or 2.5 times more than its production.

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

Country	Nov-17	Oct-17	Nov-16	MoM%	YoY%	11M17	11M16	YoY%
China	204	194	218	5%	-6%	1,742	1,713	2%
India	100	166	131	-40%	-24%	1,918	2,655	-28%
EU	155	200	162	-23%	-4%	1,781	1,876	-5%
Pakistan	94	126	91	-25%	4%	932	784	19%
US	53	41	42	28%	25%	489	555	-12%
Others	749	810	727	-8%	3%	8,251	7,166	15%
<b>Total</b>	<b>1,354</b>	<b>1,538</b>	<b>1,370</b>	<b>-12%</b>	<b>-1%</b>	<b>15,112</b>	<b>14,749</b>	<b>2%</b>

Source: MPOB, MIDF Research

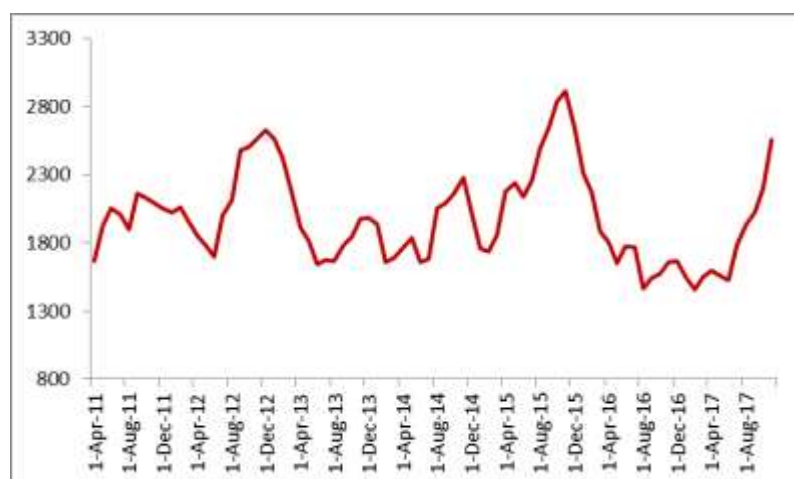
**Production declined in November.** Palm oil production declined 3% mom but was up 23% yoy to 1.94m MT in November. This confirmed our belief that production has peaked in October and we expect December production to decline.

**The data is slightly negative to CPO price.** Overall, we are slightly negative on CPO price as the latest inventory data came in higher than market expectation. However, we remain positive on the sector as CPO price should appreciate once India starts to buy again.

**Expect December inventory to increase by 1% to 2.59m MT.** We expect December production to decline by 10% mom in line with seasonal decline. Export is expected to weaken by 10% mom due to winter in Northern Hemisphere. Note that the usage of palm oil tend to be lower during winter as it solidifies in cold temperatures. All said, we expect November inventory of 2.59m MT.

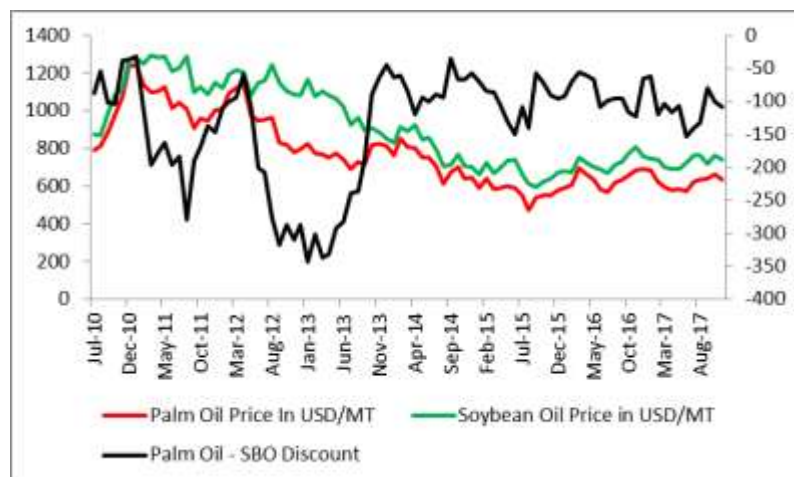
**Maintain POSITIVE view on the sector with IOICORP as top pick.** We maintain our palm oil price forecast of RM2825 per MT for 2017 and RM2900 per MT for 2018. Top Pick for the sector is IOICORP (BUY with TP of RM5.50) due to: i) its sale of 70% stake in Loders Croklaan (a low margin business) is likely to result in investment in upstream plantation business which command much better margin, ii) special dividend of 13.0 sen in the next 12 months and iii) substantial improvement in balance sheet after the 70% stake sale in Loders. We also have BUY calls on KLK, GENP, TSH, TAANN and FIMACORP.

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



Source: Malaysia Palm Oil Board (MPOB)

**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 FY17F PE. 24.7x is the lower valuation between IOICORP and KLK.
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	4.50	BUY	16.6x Fwd. PE on FY17F earnings reflecting mean 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.