

08 January 2018 | Sector Update

PLANTATION

Maintain POSITIVE

Temporary suspension of palm oil export tax in Malaysia

KEY HIGHLIGHTS

- **Temporary suspension of palm oil export tax in Malaysia**
- **The news is positive to CPO price**
- **Maintain POSITIVE view on the sector with IOICORP as top pick**

Temporary suspension of palm oil export tax in Malaysia. Malaysia has announced that it is temporary suspending palm oil export tax for three months. Effective period will be from 8 January 2018 to 7 April 2018. However, should Malaysia inventory level fall to 1.6 million tonnes, the export tax suspension will be lifted earlier. We gather that the measure is implemented to manage the fall in CPO prices. This will help to ensure that the smallholders' income is supported and also ensure the competitiveness of the oil palm industry.

The news is positive to CPO price as lower inventory usually leads to higher CPO price. We also believe that major consumers such as India and China will take this opportunity to buy more palm oil from Malaysia. We believe that palm oil inventory has shrink in India as export to the country (from Malaysia) dropped 40% mom to 100,161 MT in Dec-2017. This was caused by the country's decision to raise its import duty on both crude and refined palm oil earlier in Nov-2017. The demand from China is supported by pre-stocking activity ahead of the Chinese New Year which will fall on 16-February this year.


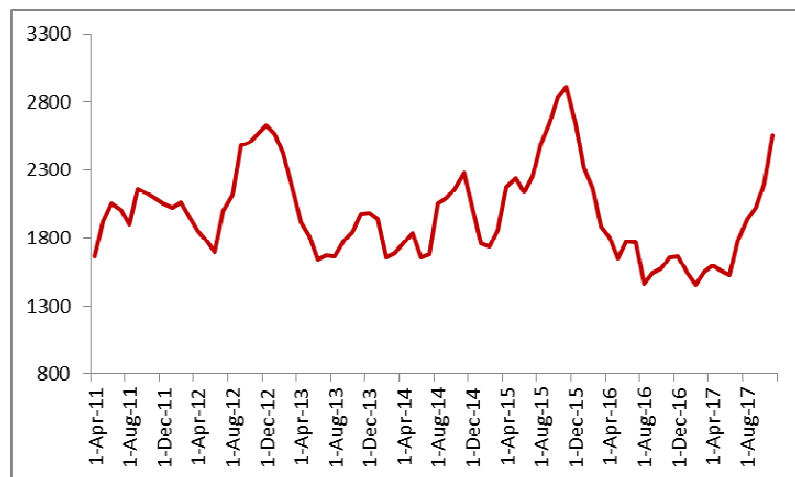
Maintain POSITIVE view on the sector with IOICORP as top pick. We maintain our palm oil price forecast of RM2900 per tonne for 2018. Top Pick for the sector is IOICORP (BUY with TP of RM5.50) due to: i) its sale of 70% stake in Loders Croklaan (a low margin business) is likely to result in investment 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. 

Table 1: Export Duty Rate for Malaysia

CPO Price (FOB RM per tonne)	Export Duty (%)
< RM2250	Nil
RM2250 - RM2400	4.5
RM2401 - RM2550	5
RM2551 - RM2700	5.5
RM2701 - RM2850	6
RM2851 - RM3000	6.5
RM3001 - RM3150	7
RM3151 - RM3300	7.5
RM3301 - RM3450	8
> RM3450	8.5

Source: Malaysian Royal Customs Department

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



Source: Malaysia Palm Oil Board (MPOB)

Table 2: 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 >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.