Sector Update | Thursday, 12 December 2019

PLANTATION

Upgrade to NEUTRAL
(previously NEGATIVE)

Tight supply to keep CPO price elevated

KEY INVESTMENT HIGHLIGHTS

- **Inventory expected to trend lower, mainly driven by moderated production growth and biodiesel mandate in Indonesia and Malaysia**
- **Subdued CY20 production, primarily predicated on dry spell experienced in 3QCY19, lower fertiliser application, reduction on replanting policy and limited expansion of oil palm plantation areas.**
- **Demand from palm oil-importing countries expected to remain strong amidst the active promotion of Malaysian palm oil by the Government**
- **Upgrade sector recommendation to NEUTRAL with CY20 and CY21 CPO target price of RM2,450/mt and RM2,600/mt respectively**

CPO price to remain elevated in CY20. At present, notable recovery in CPO price was mainly driven by anticipation of lower inventory *(refer to Chart 1).* This can already be seen in November 2019's Malaysian palm oil inventory which fell by -25.0%yoy to three-month low of 2.2m metric tonnes (mt) as production tapered off. This resulting from moderated production growth, higher domestic consumption of CPO and higher export in CY20. The slower production growth mainly due to period of dry weather, lower fertiliser inputs, increased matured oil palm age profile and cut back on replanting policy. Meanwhile, we expect the demand growth to remain buoyant, underpinned by domestic consumption through higher biodiesel mandate and export to markets such as India, China, EU and MENA regions. Note that the export demand for Malaysian palm oil as of 11MCY19 increased by +12.1%yoy to 17.0 billion mt. We believe these developments would help to curb the inventory level to below 2.0m mt *(refer to Chart 2)*. Moreover, the cut in soybean production is expected to aid in the recovery of soybean price as supply could become increasingly tight should the tension of the US-China trade war wanes in CY20. This would help in the recovery of the CPO price given that the price of both soybean oil and palm oil is closely correlated.

Production to grow at a slower pace. Post the seasonal output period, the Malaysian CPO output dropped further by -16.6%yoy to 1.5m mt in November 2019, signaling a tapering growth in FFB production. We are of the view that CPO production from both Indonesia and Malaysia is expected to grow marginally in CY20. The Southeast Asia region has been experiencing dry weather in the month of July, August and September of 2019. This could potentially result in lagged negative effects on production, which is expected to be seen in CY20. The strong positive Indian Ocean Dipole phenomenon contributed to the stress which is likely to affect the quality of the fresh fruit bunches (FFB). Premised on historical occurrence, the impact will usually be seen in the 7th month after the end of the dry season i.e. in 2QCY20 and 3QCY20. Citing the strong El-Nino phenomenon in the late 2015, 2016 production declined by -13.2%yoy to 17.2m mt. Meanwhile, the increase in hotspot distribution area could potentially wipe out 1.2m to 1.5m mt of CPO production from Indonesia. On another note, we view that majority of the planters have been controlling their inputs of fertilisers while being less aggressive on their replanting programme in order to control the production growth which seen leading up to an oversupply issue in CY19.

COMPANY IN FOCUS

IOI Corporation Bhd
Upgrade to **NEUTRAL** *(previously SELL)* **|**
Revised Target price: RM4.67 *(previously RM4.22)*
Price @ 10th December 2019: RM4.56

- Elevated CPO price to improve earnings prospects
- We expect steady contribution from the downstream segment
- Future catalyst to rerate the stock would be acquisition of brownfield plantation asset

Share price chart

Genting Plantations Bhd
Upgrade to **BUY** *(previously NEUTRAL)* **|**
Revised Target price: RM11.80 *(previously RM10.30)*
Price @ 10th December 2019: RM10.60

- Higher CPO price to uplift earnings momentum at its upstream operations
- Higher FFB yield is expected from its Indonesian plantation as age profile is improving
- Downstream segment to continue to support the group's earnings momentum

Share price chart

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Table 1: Palm Oil Statistics for November 2019 ('000 MT)

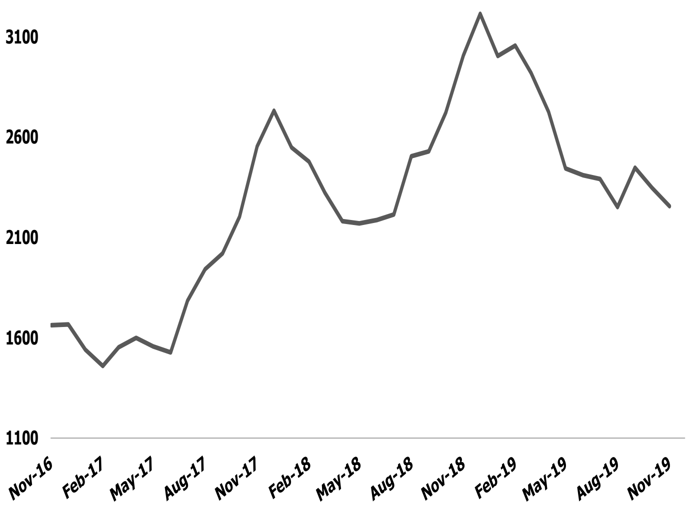
	Nov-19	Oct-19	Nov-18	YoY %	MoM %	11MCY19	11MCY18	Ytd %
Opening Stocks	**2,348.1**	**2,448.3**	**2,722.5**	**-13.8**	**-4.1**	**3,215.1**	**2,732.1**	**17.7**
Production	**1,538.1**	**1,795.9**	**1,845.2**	**-16.6**	**-14.4**	**18,521.7**	**17,707.5**	**4.6**
Imports	74.7	85.0	134.4	-44.4	-12.2	850.3	732.8	16.0
Total Supply	**3,960.8**	**4,329.2**	**4,702.1**	**-15.8**	**-8.5**	**22,587.1**	**21,172.4**	**6.7**
Exports	1,401.5	1,641.7	1,375.4	1.9	-14.6	17,046.8	15,213.1	12.1
Dom Disapp	303.3	339.4	319.7	-5.1	-10.6	3,284.2	2,952.3	11.2
Total Demand	**1,704.8**	**1,981.1**	**1,695.1**	**0.6**	**-13.9**	**20,331.0**	**18,165.4**	**11.9**
End Stocks	**2,256.0**	**2,348.1**	**3,007.0**	**-25.0**	**-3.9**	**2,256.0**	**3,007.0**	**-25.0**
Stock/Usage Ratio (%)	11.0	9.9	14.8			0.9	1.4	

Source: MPOB, MIDFR

Chart 1: Average Malaysian CPO Price (RM/mt)

Source: Bloomberg, MIDFR

Chart 2: Inventory Level (000'mt)

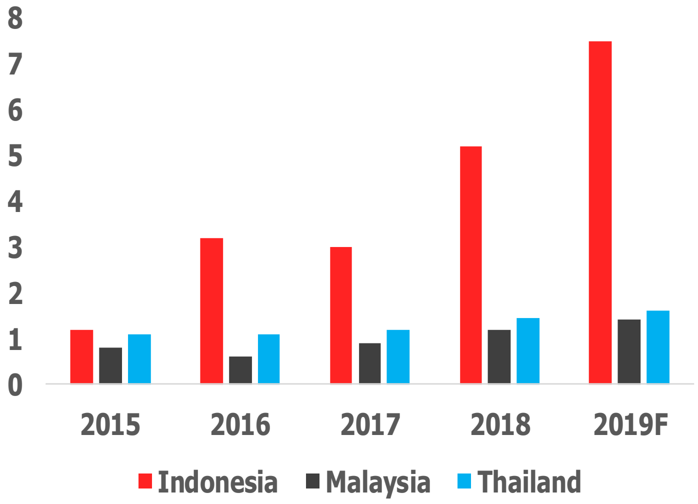


Source: Bloomberg, MIDFR

Limited areas for expansion. In the efforts to fend off negative sentiments, arising from environmentally-conscious countries such as EU, both Malaysia and Indonesia have implemented protective measures on the expansion of palm oil plantation. As at end 2018, the planted area in Malaysia amounted to 5.8m ha. Premised on the land expansion cap of 6.5m by 2023, there is only additional 0.7m ha which is available for planting. Moreover, the Indonesian government has also issued a ban on new permits for palm plantations for three consecutive years since 2018. The ban could translate into the revocation of the previously-issued 1.4m ha of permitted area which has yet been utilised.

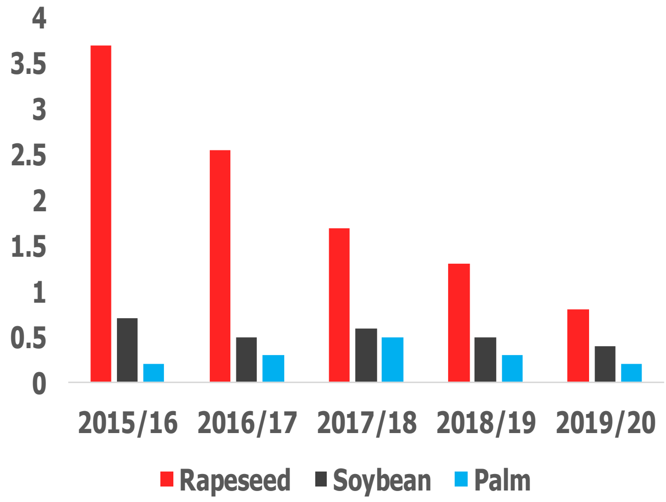
Higher biodiesel mandate to increase consumption. The aggressive palm oil-based biodiesel blending mandate for both Indonesia and Malaysia will translate into higher take-up rate of CPO in CY20. In Indonesia, the domestic consumption of CPO is expected to climb up significantly in conjunction with the implementation of the B30 mandate in CY20 for its transportation sector *(refer to chart 3)*. This is expected to take up approximately 3.4m mt of palm oil in the country, representing more than a 50% increase from an estimated consumption in CY19. Such magnitude could potentially limit the availability of CPO for the export market. Meanwhile, in Malaysia, the increase in biodiesel mandate to B20 and B10 for the transportation and industrial sectors respectively in CY20 is expected to mop up more than 1.2m-1.5m mt of CPO annually. As a result, we expect some supply interruption for the export market.

Chart 3: Biodiesel Production (million mt)



Source: Bloomberg, MIDFR

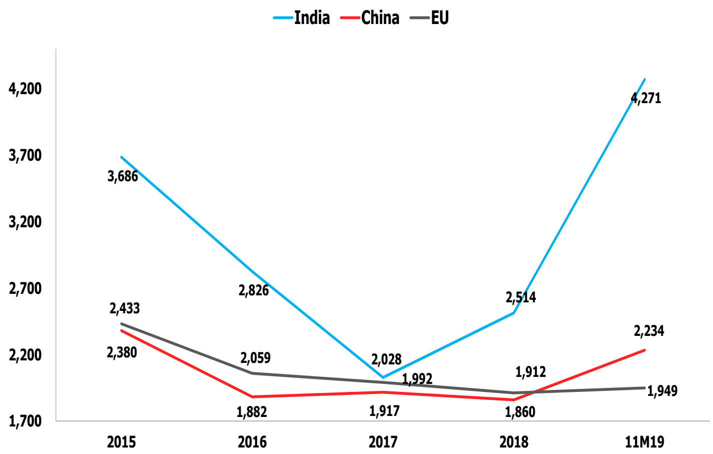
Chart 4: Vegetable Oil Stock in China (million mt)



Source: USDA, MIDFR

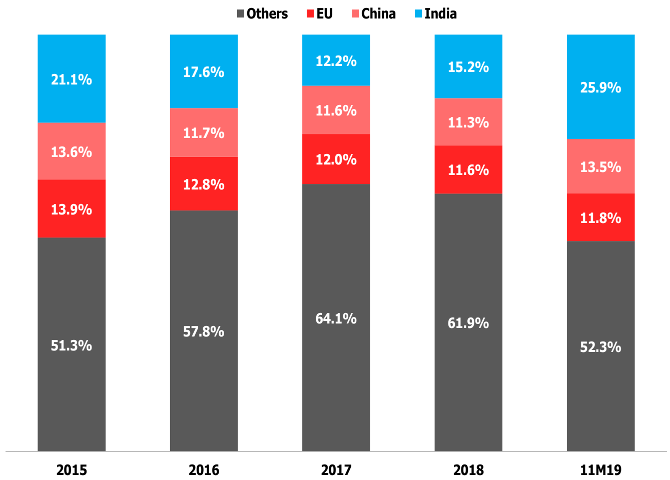
Demand from India to remain robust. As of 11MCY19, India's imports of Malaysian palm oil leapt by +91.5%yoy to 4.3m mt and its share has increased to about 25.9% from 15.2% the prior year *(refer to chart 6)*. Citing the trade agreement between Malaysia and India, the tariff rate on Malaysian refined palm oil will be reduced to 37.5% in CY20. Coupled with the logistic proximity as compared to Indonesia, we do not expect any let up in demand from India. In addition, lower crushing rapeseed, soybean and peanuts in India would also lend support to the demand of CPO. To further facilitate trade, Malaysia has also tied-up with Hakan Agro DMCC, a major supply chain manager in the Indian subcontinent, to export more than one millon tonnes of CPO in CY20. Moving forward, we opine that with the favourable trade agreement and strong partnership, India would remain one of the top export destinations. *(refer to chart 6)*.

Chart 5: Top Export Market for Malaysian CPO (000' mt)



Source: Bloomberg, MIDFR

Chart 6: Share of Malaysian Export Market



Source: USDA, MIDFR

More trade dealing with China. As of 11MCY19, China's imports of Malaysian palm oil jumped by +40.4%yoy to 2.2m mt and its share has increased to about 13.5% from 11.3% the prior year *(refer to chart 6)*. The ongoing US-China trade war and African Swine Fever (ASF) has lead to lower soybean crushing. This could potentially signal the need to import more palm oil given that the latter is the next best alternative. Note that only palm oil can provide the quantity required at a much more competitive price as compared to other competing oilseeds. We posit that the adverse effects of ASF on the shrunken swine herd will likely be pervasive through CY20. Coupled with a declining domestic rapeseed production and lower soybean crushing, the vegetable oil stocks in China has declined to a four-year low and is expected to continue to trend lower even lower in CY20 *(refer to chart 4)*. Thus, there is a more pressing need to increase the import of vegetable oil. To recall, Malaysia has signed a memorandum of understanding (MOU) with the China Chamber of commerce of Foodstuff and Native Produce (CFNA) to increase purchases of palm oil by an additional 1.9m mt between 2019-2023. Malaysia has also partnering with China's Bohai Commodity Exhange which the aim of supplying about 1.5m mt of CPO by CY20. Moving forward, we believe that these developments would reinforce the demand of CPO from China.

Act of defiance from the EU market. The latest EU Renewable Energy Directive II (RED II) has officially called for the cap of conventional biofuels, such as e.g. palm oil, rapeseed oil, soybean oil to name a few, meant for the transport energy at 7% from 2020 to 2030. Moreover, palm oil has been the focal point as it is the only vegetable oil identified as a higher indirect land-use change, which will be phased out after 2030. To recall, the EU-28 biodiesel feedstock mixes for palm oil stood at 29% in 2017, which is second to rapeseed oil at 44%. Moving forward, we are of the view that both biodiesel and CPO export to EU might be under pressure as 53% of EU's palm oil imports are directed for biodiesel consumption. Nonetheless, the recent heatwave in the region is expected to shrink the supply of its major rapeseed crops. This, in-turn, would help to partially encourage the import of more vegetable oils for the consumption in the food, animal, heating and electricity segments. To diffuse the condition, the Malaysian government has imposed MSPO-certification on all its palm oil production by end of 2019. As of 11MCY19, EU's imports of Malaysian palm oil increased by +7.2%yoy to 1.9m mt and its share has increased to about 11.8% from 11.6% the prior year *(refer to chart 6)*, possibly stocking up before the cap kicks in and increased consumption for other segments.

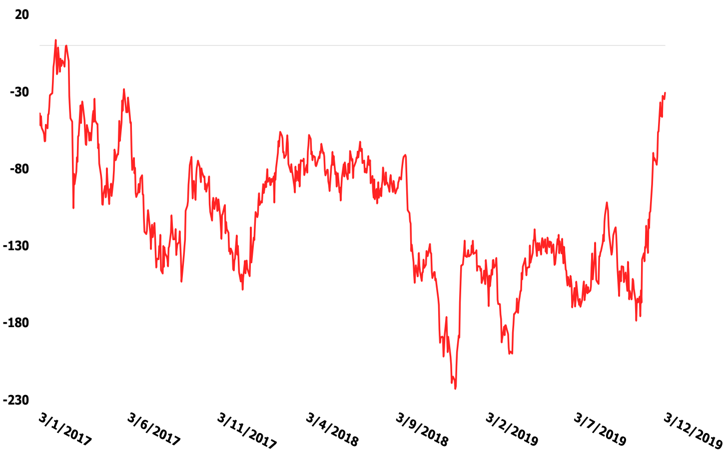
Table 2: November 2019 Export Performance ('000 MT)

Market	Nov-19	Oct-19	Nov-18	MoM%	YoY%	11M19	11M18	Ytd%
China	340.2	275.4	172.9	23.5	96.8	2,233.7	1,590.8	40.4
India	142.7	220.0	242.3	-35.1	-41.1	4,270.9	2,229.8	91.5
EU	177.7	200.9	148.8	-11.5	19.4	1,949.2	1,818.5	7.2
Pakistan	91.3	81.6	84.3	11.8	8.3	994.5	1,057.0	-5.9
US	15.8	28.1	35.6	-43.9	-55.7	510.1	482.2	5.8
Others	633.8	835.8	691.8	-24.2	-8.4	7,110.9	6,312.7	12.6
Total	**1,401.5**	**1,641.7**	**1,375.7**	**-14.6**	**1.9**	**17,069.3**	**15,104.2**	**13.0**

Source: MPOB, MIDFR

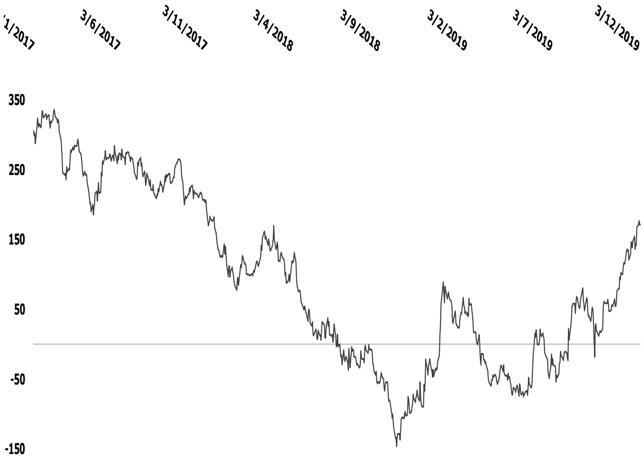
Sudden spike in CPO price could serve as a double-edge sword. In November 2019, the average selling price of CPO has jumped by +18.0%mom and +38.0%yoy to above RM2,500/mt with a prevailing price of about RM2,800/mt in December 2019. Nonetheless, the year-to-date average CPO price of about RM2,070/mt is still within our target CPO price for CY19 of RM2,090/mt. Moving forward, we opine that the CPO price will remain elevated into CY20. While the current elevated CPO price provides a breather and helps to possibly uplift the plantation companies' earnings, we opine the impressive surge in CPO price might dampen demand. This is predicated on the diminishing pricing advantage of CPO to soybean oil as well as brent crude oil. The spread between palm oil and soybean oil has narrowed significantly to a new high in two years *(refer to chart 7)*. Meanwhile, the premium of palm oil over gas oil currently stand at about USD84/mt as compared to average discount of USD61/mt in past year *(refer to chart 8)*.

Chart 7: Spread between Palm Oil Spot Price (PAL2MALY) and Soybean Oil (BO1) (USD)



Source: Bloomberg, MIDFR

Chart 8: Spread between Palm Oil Spot Price (PAL2MALY) and Brent Crude Oil (CO1) (USD)



Source: Bloomberg, MIDFR

Stronger fundamental moving into 2020. The outlook of the plantation is expected to improve considerably in 2020, supported by expectancy that CPO price will remain elevated. This is subsequent to the poor price performance seen throughout 9MCY19. Incremental growth in CPO production is expected to be meager, while the biodiesel mandate should push consumption higher. These would potentially lead to a continual declining trend of inventory level and diminishing inventory level. On the export front, the Government's effort of promoting palm oil has led to the recent signing of MOUs with two commodities supply chain managers to cater for major importing countries such as China, India and Middle East. In addition, the reduction of export duties on Malaysian palm oil from January 2020 onwards will further lend support to the export demand. However, the potential restriction of palm oil imports by the Indian government to help its local farmers might result in tapering demand from the region and stifle export demand growth. The pricing advantage of CPO to be used as feedstock for biodiesel is getting less appealing and might affect the demand for palm oil-based biodiesel as well. All factors considered, we are upgrading our recommendation to **NEUTRAL** *(previously NEGATIVE)* with a CPO target price of **RM2,450/mt** and **RM2,600/mt** in CY20 and CY21 respectively. In conjunction with the sector upgrade, we are upgrading our recommendation on **Genting Plantations Berhad (BUY,TP:11.80)**, **Kuala Lumpur Kepong Berhad (NEUTRAL,TP:RM23.63)** and **Sime Darby Plantation Berhad (NEUTRAL,TP:RM4.96)**.

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 10-Dec-19	TP (RM)	Core EPS (sen)		CORE PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
					CY19F	CY20F	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F
Genting Plantation	Dec	BUY	10.60	11.75	16.4	32.5	64.6	32.6	8.7	11.4	0.8	1.1
IOI Corporation	Jun	NEUTRAL	4.56	4.67	12.8	14.7	35.6	31.0	9.5	10.3	2.1	2.2
IJM Plantation	Mar	NEUTRAL	2.16	1.92	2.6	6.5	83.1	33.2	3.0	3.0	1.4	1.4
Kuala Lumpur Kepong	Sep	NEUTRAL	24.50	23.63	62.8	84.5	39.0	29.0	45.0	45.0	1.8	1.8
Sime Darby Plantation	Dec	NEUTRAL	5.28	4.96	2.1	8.9	251.4	59.3	1.1	5.4	0.2	1.0
PPB Group	Dec	NEUTRAL	18.38	17.88	72.2	81.4	25.5	22.6	21.6	24.4	1.2	1.3
Ta Ann Holdings	Dec	NEUTRAL	3.18	3.06	13.6	21.4	23.4	14.9	10.0	10.0	3.1	3.1
TSH Resources	Dec	NEUTRAL	1.37	1.27	3.6	5.2	37.7	26.4	1.0	1.2	0.7	0.9
FGV Holdings	Dec	NEUTRAL	1.42	1.30	-5.1	1.8	-27.7	79.3	N/A	N/A	N/A	N/A

Source: Company, MIDFR

FGV Holdings Berhad

Maintain NEUTRAL

(5222 | FGV MK) Plantation | Plantation

Plantation sector to display stronger fundamentals

Revised Target Price: RM1.30

(previously RM1.20)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM65.3m and RM104.2m respectively. Apart from the upward revision on CPO price, we also assume higher FFB yield and lower cost of production in view of the progressive transformation plan. This is also after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively.

Target price. We are revising our target price to RM1.30 *(previously RM1.20)*. This is derived by pegging its FY20BVPS of RM1.30 to PBV of 1.0x which is the group's 2-year historical average.

Maintain NEUTRAL. We continue to be encouraged by the progress of the group's transformation plan to improve operational efficiency which is well on-track as evidenced from its positive operational statistics (refer to table 3). We also opine that the recent recovery of CPO price to about RM2,500/mt into 4QCY19 coupled with a robust FFB production to generate a better financial performance for the group in coming quarters. However, the well-being of the group continues to be beleaguered by the heavy losses from its sugar business (i.e. MSM). This is due to the large losses from its Johor refinery amidst a tough operating environment for refined sugars in the domestic market at this juncture. All factors considered, we are maintaining our NEUTRAL recommendation on FGV.

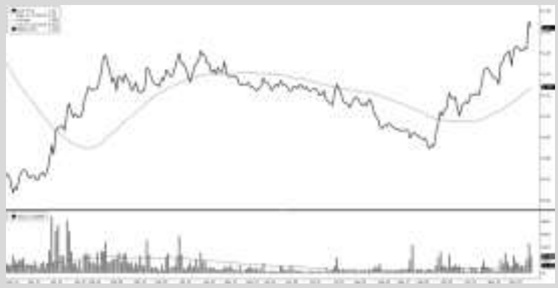
INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017A	2018A	2019E	2020E	2021E
Revenue	16,974.7	13,467.0	13,476.1	14,591.2	14,852.9
EBIT	801.1	-617.2	61.6	469.5	565.3
PBT	416.6	-1,023.0	-162.8	183.0	249.0
PATANCI	143.7	-1,080.0	-186.7	65.3	104.2
Normalised PATANCI	59.2	-92.2	-186.7	65.3	104.2
Normalised EPS (sen)	1.62	-2.53	-5.12	1.79	2.86
Normalised EPS Growth (%)	137.7	-255.8	-102.5	134.9	59.7
PER (x)	87.6	(56.2)	(27.7)	79.4	49.7

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	1.42
Expected share price return (%)	-8.4
Expected dividend yield (%)	+0.0
Expected total return (%)	**-8.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+15.4	+18.9
3 months	+59.6	+55.0
12 months	+97.2	+108.7

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	3648.15
Estimated free float (%)	36.89
Market Capitalisation (RM'm)	5,180.38
52-wk price range (RM)	0.63 - 1.49
Beta vs FBM KLCI (x)	1.50
Monthly velocity (%)	
Monthly volatility (%)	49.81
3-mth average daily volume (m)	11.32
3-mth average daily value (RM'm)	12.95
Top Shareholders (%)	
Lembaga Kemajuan Tanah Per	21.24
FELDA	12.42
Urusharta Jammah Sdn Bhd	7.78

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Genting Plantations Berhad

(2291 | GENP MK) Plantation | Plantation

Higher yield from its Indonesian plantation

***Upgrade to* BUY**
(previously NEUTRAL)

***Revised* Target Price: RM11.80**
(previously RM10.30)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level.

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM273.1m and RM368.6m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively. Apart from the upward revision on CPO price, we also assume relatively higher FFB production.

Target price. Post our earnings adjustment; we are revising our target price to RM11.80 (previously RM10.30). This is premised on higher SOP valuation for its plantations business. We are also attaching a PER of 27.3x to the plantation segment which is 1.0x SD above its two-year historical average.

Maintain NEUTRAL. Moving forward, we believe that the recent upsurge in CPO price to above RM2,500/mt would help in supporting the group's earnings growth momentum. The healthy FFB production growth in the high single-digit domain as compared to its peers and higher demand for its downstream segment would enable the group to have a higher sales volume. This is predicated on the improving age profile at its Indonesia plantations where FFB yield would increase as trees come into maturity soon. Coupled with elevated CPO price, this, would bode well with the group's earnings in coming quarters. All factors considered, we are upgrading our recommendation on GENP to **BUY** from previously NEUTRAL.

INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017A	2018A	2019E	2020E	2021E
Revenue	1,804.3	1,903.0	2,085.0	2,354.3	2,686.9
EBIT	501.0	240.7	220.2	354.2	434.7
PBT	461.1	207.7	211.4	346.4	441.9
PATANCI	337.7	164.9	138.1	273.1	368.6
Normalised PATANCI	336.2	169.0	138.1	273.1	368.6
Normalised EPS (sen)	41.8	21.0	16.4	32.5	43.9
Normalised EPS Growth (%)	21.8	-49.8	-21.8	97.7	35.0
PER (x)	25.3	50.5	64.5	32.6	24.2
Dividend Per Share (sen)	26.0	13.0	8.7	11.4	15.3
Dividend yield (%)	2.45	1.23	0.82	1.07	1.45

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	10.60
Expected share price return (%)	+11.3
Expected dividend yield (%)	+1.1
Expected total return (%)	**+12.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+4.5	+7.6
3 months	+7.0	+9.4
12 months	+12.8	+19.3

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	805.73
Estimated free float (%)	22.33
Market Capitalisation (RM'm)	9,510.30
52-wk price range (RM)	9.06 - 10.8
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	
Monthly volatility (%)	6.33
3-mth average daily volume (m)	0.60
3-mth average daily value (RM'm)	6.11
Top Shareholders (%)	
Genting Bhd	54.44
EPF	8.21
Skim Amanah Saham Bumiputera	6.85

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IJM Plantations Berhad

(2216 | IJMP MK) Plantation | Plantation

Maintain NEUTRAL

FFB production remains healthy

Revised Target Price: RM1.92

(previously RM1.73)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20, FY21 and FY22 earnings to RM32.7m, RM61.7m and RM79.7m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively. Apart from the upward revision on CPO price, we also assume better FFB production.

Target price. Post our earnings adjustment; we are revising our target price to RM1.92 (previously RM1.73). This is premised on the group's FY21 book value per share of RM1.60 to a price-book ratio (PBR) of 1.2x which is the group's two-year historical average.

Maintain NEUTRAL. The group's 2QFY20 has shown improvement in margin as revenue increased by +23.4%yoy due to increased sales volume. In view of the recent recovery of CPO price to above RM2,500/mt into 4QCY19, we expect it would help significantly in improving the group's profitability in the coming quarters. Moreover, we believe the group's healthy growth of FFB production to further boost the earnings momentum moving forward. However, we remain wary on the group's ability to effectively managed production cost which could partially moderate the improvement in group's profit margin. All factors considered, we are maintaining our **NEUTRAL** recommendation on IJMP.

INVESTMENT STATISTICS

FYE 31st March (RM'm)	2018	2019	2020E	2021F	2022F
Revenue	747	631	625	713	763
EBIT	124	22	44	79	96
PBT	77	-43	36	71	92
PATANCI	46.6	(36.0)	32.6	61.7	78.7
Normalised PATANCI	70.3	(11.0)	32.7	61.7	79.7
Normalised EPS (sen)	5.3	(4.3)	3.9	7.3	9.4
Normalised EPS Growth (%)	-41.0	-116.4	396.8	89.0	29.2
PER (x)	27.0	n.a.	55.7	29.5	22.8
Dividend Per Share (sen)	5.0	2.0	3.0	3.0	4.0
Dividend yield (%)	2.3	0.9	1.4	1.4	1.9

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	2.16
Expected share price return (%)	-11.1
Expected dividend yield (%)	+1.4
Expected total return (%)	**-9.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+34.2	+38.1
3 months	+41.2	+47.7
12 months	+50.0	+58.7

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	No
Issue shares (m)	880.58
Estimated free float (%)	16.27
Market Capitalisation (RM'm)	1,902.05
52-wk price range (RM)	1.3 - 2.19
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	
Monthly volatility (%)	29.76
3-mth average daily volume (m)	0.36
3-mth average daily value (RM'm)	0.63
Top Shareholders (%)	
IJM Corp Bhd	56.20
EPF	13.85
KWAP	4.73

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IOI Corporation Berhad

(1961 | IOI MK) Plantation| Plantation

Maintain NEUTRAL

Stronger support from the downstream segment

Revised Target Price: RM4.67

(previously RM4.22)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM889.3m and RM959.11m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively.

Target price. Post our earnings adjustment, we are revising out target price to **RM4.67** (previously RM4.22). This is premised on pegging FY21 EPS of 16.4sen against forward PER of 28.5x which represents one standard deviation above the two-year historical average.

Maintain NEUTRAL. The notable recovery in commodity prices from October 2019 onwards is expected to have positive impact on the group's plantation division. Nonetheless, the expectancy of flat FFB production in FY20 could limit the earnings upside. Coupled with steady contribution from the downstream segment, we expect the group's overall earnings in the upcoming quarter to improve further. However, we view that there is no upside on the share price given the stretched valuation. Taking all factors into consideration, we are maintaining our **NEUTRAL** recommendation. Further catalyst to rerate the stock would be acquisition of brownfield plantation asset.

INVESTMENT STATISTICS

FYE 31st June (RM'm)	2018	2019	2020E	2021F	2022F
Revenue	7,385.6	8,038.6	8,625.8	8,986.2	9,230.1
EBIT	806.8	1,212.7	1,293.2	1,378.0	1,466.2
PBT	872.6	1,142.2	1,229.5	1,321.6	1,417.3
PATANCI	617.6	889.3	959.1	1,032.8	1,109.4
Normalised PATANCI	717.7	889.3	959.1	1,032.8	1,109.4
Normalised EPS (sen)	11.4	14.2	15.3	16.4	17.7
Normalised EPS Growth (%)	(26.1)	23.9	7.9	7.7	7.4
PER (x)	39.9	32.2	29.9	27.7	25.8
Dividend Per Share (sen)	8.0	9.0	10.0	10.5	11.0
Dividend yield (%)	1.8	2.0	2.2	2.3	2.4

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	4.56
Expected share price return (%)	+2.4
Expected dividend yield (%)	+2.3
Expected total return (%)	**+4.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+3.6	+6.7
3 months	+2.9	+6.3
12 months	+7.3	+13.5

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	6284.64
Estimated free float (%)	24.17
Market Capitalisation (RM'm)	28,657.98
52-wk price range (RM)	4.1 - 4.74
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	
Monthly volatility (%)	9.09
3-mth average daily volume (m)	2.41
3-mth average daily value (RM'm)	10.59
Top Shareholders (%)	
PROGRESSIVE HLDS SDN BHD	47.95
Employees Provident Fund Board	11.76
Skim Amanah Saham Bumiputera	4.72

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Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Plantation | Plantation

Earnings prospect to improve in FY20

Upgrade to NEUTRAL

(*previously SELL*)

Revised Target Price: RM23.63

(previously RM18.78)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM884.5m and RM942.6m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively.

Target price. We are rolling forward our valuation base year to FY21 and derive a new target price of **RM23.63** (*previously RM18.78*). This is premised on pegging FY21 EPS of 88.5sen against forward PER of 26.7x. Our target PER is the group's one standard deviation above the two-year historical average.

Upgrade to Neutral. The improvement in CPO price seen from October 2019 onwards, this fall within the group's 1QFY20 results. Thus, KLK would be the first group, in our coverage, to record annual earnings on the elevated CPO price. This would bode for the upstream segment. Meanwhile, we expect the downstream segment to uphold its contribution in view of additional capacities coming on stream as manufacturing margin expected to taper off. The property segment is expected to out-perform as well, even though the impact to the group is minimal. All factors considered, we view that group's overall earnings performance should improve. As such, we are upgrading our recommendation to **NEUTRAL** from SELL previously.

INVESTMENT STATISTICS

FYE 31st September (RM'm)	2018	2019	2020E	2021F	2022F
Revenue	18,384.0	15,533.9	18,520.2	19,124.5	19,743.9
EBIT	1,087.0	913.2	1,336.7	1,413.1	1,565.0
PBT	988.8	823.9	1,241.7	1,318.1	1,470.0
PATANCI	609.4	617.5	884.5	942.6	1,058.0
Normalised PATANCI	794.4	596.1	884.5	942.6	1,058.0
Normalised EPS (sen)	74.6	56.0	83.1	88.5	99.4
Normalised EPS Growth (%)	-26.4	-27.4	32.5	6.6	12.3
PER (x)	32.8	43.8	29.5	27.7	24.6
Dividend Per Share (sen)	45.0	45.0	45.0	45.0	45.0
Dividend yield (%)	1.8	1.8	1.8	1.8	1.8

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	24.50
Expected share price return (%)	-3.5
Expected dividend yield (%)	+1.8
Expected total return (%)	**-1.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+10.4	+13.6
3 months	+6.2	+5.7
12 months	+2.3	+8.2

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	1062.43
Estimated free float (%)	25.30
Market Capitalisation (RM'm)	26,091.66
52-wk price range (RM)	20.9 - 25.7
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	
Monthly volatility (%)	3.43
3-mth average daily volume (m)	1.26
3-mth average daily value (RM'm)	28.35
Top Shareholders (%)	
Batu Kawan Bhd	47.03
Employees Provident Fund Board	13.83
Skim Amanah Saham Bumiputera	5.92

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PPB Group Berhad

(4065 | PEP MK) Consumer Products & Services | Food & Beverages

Maintain NEUTRAL

Impervious to movement in CPO price

Revised Target Price: RM17.88

(Previously RM17.87)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM1,158.1m and RM1,188.0m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively.

Target price. Post our earnings adjustment, we are revising out target price to **RM17.88** (previously RM17.87) based on price-to-book valuation methodology. We are attaching target PBV of 1.1x which is the two years historical average. This translates into an implied PER target of 22.0x.

Maintain NEUTRAL. Wilmar's contribution to the group was depressed by the weaker performance from the oilseeds and grains business in view of the effects of the African Swine Fever. Fortunately, PPB's grains and agribusiness segment's outlook improve, mainly attributable to the higher flour prices. Meanwhile, its core businesses were relatively stable. On another note, dividend is expected to remain unappealing, bearing dividend yield of about one percent only. All factors considered, we are maintaining our **NEUTRAL** recommendation at this juncture.

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	18.38
Expected share price return (%)	-2.7
Expected dividend yield (%)	+1.3
Expected total return (%)	**-1.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+1.5	+4.6
3 months	+1.3	+1.7
12 months	+8.1	+14.4

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	1422.60
Estimated free float (%)	28.41
Market Capitalisation (RM'm)	26,147.39
52-wk price range (RM)	16.7 - 19.6
Beta vs FBM KLCI (x)	0.57
Monthly velocity (%)	
Monthly volatility (%)	4.35
3-mth average daily volume (m)	0.62
3-mth average daily value (RM'm)	11.19
Top Shareholders (%)	
Kuok Brothers Sdn Bhd	50.81
Employees Provident Fund Board	12.29
NAI SENG SDN BERHAD	3.44

INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017	2018	2019E	2020F	2021F
Revenue	4,284.3	4,528.3	4,435.4	4,629.6	4,834.8
EBIT	228.9	232.1	261.7	388.2	405.3
PBT	1,270.6	1,167.7	1,116.7	1,281.1	1,315.5
PATANCI	1,183.6	1,075.1	1,026.5	1,158.1	1,188.0
Normalised PATANCI	1,151.4	1,060.3	1,026.5	1,158.1	1,188.0
Normalised EPS (sen)	80.9	74.5	72.2	81.4	83.5
Normalised EPS Growth (%)	-3.9	-7.9	-3.2	12.8	2.6
PER (x)	22.7	24.7	25.5	22.6	22.0
Dividend Per Share (sen)	30.0	21.3	21.6	24.4	25.1
Dividend yield (%)	1.6	1.2	1.2	1.3	1.4

Source: Company, MIDFR

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Sime Darby Plantation Berhad

(5285 | SDPL MK) Plantation | Plantation

Upgrade to NEUTRAL

(*previously SELL*)

Strengthening its balance sheet

Revised Target Price: RM4.96

(previously RM4.08)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM615.5m and RM687.1m. respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively. We also factor in higher profit margin in view of the continuous drive in operational excellence

Target price. Post our earnings adjustment, we are revising out target price to **RM4.96** (previously RM4.08). This is premised on pegging FY20PBF of RM1.65 against P/B ratio of 3.0x, which is half standard deviation below the average ratio since its listing.

Upgrade to Neutral. The recovery in CPO price is expected to boost the financial performance of the group's upstream division from 1QFY20 onwards. Note that the group has committed to forward sales for 4QFY19. Meanwhile, the downstream segment to record steady growth. Moving forward, the group is focusing on growing the downstream segment to partially made up for the volatile upstream segment. However, we do not expect the strategy to materialize in the foreseeable term. Meanwhile, dividend payout to remain unexciting as the process from the group's asset monetisation exercise will use to pare down the borrowings. All factors considered, we expect the group's financial position to improve, going into 2020. Thus, we are upgrading the stock to **NEUTRAL** from SELL previously.

INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017	2018	2019E	2020F	2021F
Revenue	14,369.0	6,543.0	11,909.9	14,151.1	14,918.1
EBIT	2,573.0	555.0	320.9	1,028.1	1,104.7
PBT	2,377.0	457.0	174.7	868.8	963.0
PATANCI	1,727.0	244.0	143.9	615.5	687.1
Normalised PATANCI	860.0	159.0	143.9	615.5	687.1
Normalised EPS (sen)	12.6	2.3	2.1	8.9	10.0
Normalised EPS Growth (%)	-	-81.5	-10.6	327.8	11.6
PER (x)	41.9	229.6	251.4	59.3	52.8
Dividend Per Share (sen)	17.5	1.7	1.1	5.4	6.0
Dividend yield (%)	3.3	0.3	0.2	1.0	1.1

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	5.28
Expected share price return (%)	-6.0
Expected dividend yield (%)	+1.0
Expected total return (%)	**-5.0**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	6.0	9.2
3 months	11.6	9.9
12 months	18.9	25.8

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	6884.58
Estimated free float (%)	25.62
Market Capitalisation (RM'm)	36,350.56
52-wk price range (RM)	3.95 - 5.32
Beta vs FBM KLCI (x)	0.97
Monthly velocity (%)	
Monthly volatility (%)	16.39
3-mth average daily volume (m)	3.80
3-mth average daily value (RM'm)	18.99
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	43.86
Employees Provident Fund Board	14.14
Kumpulan Wang Persaraan	5.74

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Ta Ann Holdings Berhad

(5012 | TSH MK) Plantation | Plantation

Maintain NEUTRAL

Higher contribution from its timber segment

Revised Target Price: RM3.06

(previously RM2.50)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM95.2m and RM111.8m respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively. Apart from the upward revision on CPO price, we also assume higher sales volume from its timber segment.

Target price. Post our earnings adjustment, we are revising our target price to RM3.11 (previously RM2.50). This is achieved by pegging its FY20EPS of 21.4sen to target PER of 14.3x which is about 1.0x SD above its 2-year historical average

Maintain NEUTRAL. Historically, the oil palm segment accounted for more than 95% of the PBT. However, profit contribution from the timber segment is gaining traction as seen in its latest quarterly earnings result. Moving forward, we are of the view the elevated CPO price in would help to partially support the earnings contribution from its oil palm segment. In addition, the higher export logs quota is expected to continue to support the group's profitability. However, the expected lower production of products such as CPO and FFB coupled with continued decline in the ASP of export logs remains as key concerns as well. In addition, no dividend has been proposed yet as compared to 5sen during the corresponding period in FY18. All in, we are maintaining our **NEUTRAL** recommendation on Ta Ann.

INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017A	2018A	2019E	2020E	2021E
Revenue	1,173	962	907	969	1,067
EBIT	221	111	97	145	166
PBT	197	122	83	129	151
PATANCI	119.3	80.9	60.4	95.2	111.8
Normalised PATANCI	119.7	79.5	60.4	95.2	111.8
Normalised EPS (sen)	26.82	18.19	13.59	21.41	25.13
Normalised EPS Growth (%)	2.3	-33.6	-24.0	57.6	17.4
PER (x)	11.8	17.8	23.4	14.9	12.7
Dividend Per Share (sen)	10.00	10.01	10.00	10.00	10.00
Dividend yield (%)	3.1	3.1	3.1	3.1	3.1

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	3.18
Expected share price return (%)	-3.8
Expected dividend yield (%)	+3.1
Expected total return (%)	**-0.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	24.7	28.4
3 months	43.9	48.3
12 months	53.6	62.6

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	440.97
Estimated free float (%)	54.17
Market Capitalisation (RM'm)	1,400.67
52-wk price range (RM)	2 - 3.23
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	
Monthly volatility (%)	34.32
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	0.40
Top Shareholders (%)	
MOUNTEX SDN BHD	21.26
Wahab Haji Dolah Bin	12.90
Haji Dolah Sa'Id Bin	9.43

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TSH Resources Berhad

(9059 | TSH MK) Plantation | Plantation

Maintain NEUTRAL

Elevated CPO price to support earnings momentum

Revised Target Price: RM1.27

(previously RM1.08)

CPO price assumption. We are maintaining our 2019 CPO price assumption of RM2,090/mt. However, we are revising upwards 2020 and 2021 CPO price assumption to RM2,450/mt and RM2,600/mt respectively. The upward trend on CPO price is mainly premised on: i) Higher export demand, ii) Moderating growth of FFB production and, iii) Lower inventory level

Impact to earnings. We are revising upwards FY20 and FY21 earnings to RM71.6M and RM85.8M respectively. This is after taking into consideration CY20 and CY21 CPO price assumption of RM2,450/mt and RM2,600/mt respectively Apart from the upward revision on CPO price, we also assume better profit margin due to the group's ability to effectively manage cost of production.

Target price. Post our earnings adjustment, we are revising our target price to RM1.27 (previously RM1.08). This is premised on pegging its FY20 EPS of 5.18sen to target PER of 24.5x which is 1.0x SD above the group's 5-year average PER.

Maintain NEUTRAL. We believe that the recent upsurge in CPO price would help to add momentum to the group's earnings in 4QFY19, as the year-to-date CPO price of RM2,070/mt remains well within our CPO forecast of RM2,090/mt for CY19. The group's FFB production also likely remains consistent as it continues to maintain its commitment in diligently carrying out the fertilizer application, which will inadvertently lead to a FFB higher yield. These would translate into positive developments to the group's earnings in the upcoming quarters. We are still expecting a recovery in the group's 4QFY19 earnings results. Nonetheless, we believe the valuation of the stock is stretched, trading at a current PE of 30.4x which is 2.0x SD-premium to its 5-year historical average. We are maintaining our **NEUTRAL** recommendation.

INVESTMENT STATISTICS

FYE 31st December (RM'm)	2017A	2018A	2019E	2020E	2021E
Revenue	1,074	906	947	1,171	1,260
EBIT	205	110	114	140	15
PBT	192	81	118	150	162
PATANCI	114.0	40.1	50.2	71.6	85.8
Normalised PATANCI	108.9	54.9	50.2	71.6	85.8
Normalised EPS (sen)	7.98	3.97	3.63	5.18	6.20
Normalised EPS Growth (%)	90.0	-50.2	-8.6	42.6	19.8
PER (x)	17.2	34.5	37.7	26.5	22.1
Dividend Per Share (sen)	2.00	1.00	1.00	1.20	1.50
Dividend yield (%)	1.5	0.7	0.7	0.9	1.1

Source: Company, MIDFR

RETURN STATISTICS	
Price @10th Dec 2019 (RM)	1.37
Expected share price return (%)	-7.3
Expected dividend yield (%)	+0.9
Expected total return (%)	**-6.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+44.2	+48.5
3 months	+53.1	+60.6
12 months	+38.4	+46.4

KEY STATISTICS	
FBM KLCI	1,561.79
Syariah compliant	Yes
Issue shares (m)	1381.80
Estimated free float (%)	31.46
Market Capitalisation (RM'm)	1,890.84
52-wk price range (RM)	0.86 - 1.38
Beta vs FBM KLCI (x)	0.53
Monthly velocity (%)	
Monthly volatility (%)	16.90
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	0.52
Top Shareholders (%)	
Tan Aik Pen	13.85
Employees Provident Fund Board	7.04
Tunas Lestari Sdn Bhd	6.19

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DISCLOSURES AND DISCLAIMER

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 *rise* 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 *fall* 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.