

02 April 2018 | Sector Update

PLANTATION

Maintain POSITIVE

United States to plant less soybean in 2018

KEY HIGHLIGHTS

- **United States to plant less soybean in 2018**
- **Positive news for CPO price**
- **Maintain our POSITIVE view on the sector**
- **Top picks are KLK and GENP**

United States to plant less soybean in 2018. According to the Prospective Plantings report by United States Department of Agriculture (USDA), soybean planted area for 2018 is estimated to decline 1% yoy to 89.0m acres in United States. This is lower than even the lowest prediction in Bloomberg survey. We gather that planted acreage intentions are down or unchanged in 20 of the 31 states. Key states with estimated decline of 100,000 acres or more include Iowa, Kansas, Michigan, Minnesota, Nebraska, North Carolina, and Ohio. Inventory is at 2.11b bushels as of 1-March-2018 (+21% yoy from same period last year).

Positive news for CPO price. The news is positive to CPO price as lower soybean supply will eventually cause lower soybean oil (SBO) supply. This should boost SBO price and as a result improve CPO demand. Note that the long term correlation between CPO and SBO exceeds 0.90 as both are used as substitute for each other in food and industry use.

Maintain our POSITIVE view on the sector. We reiterate our positive view on the sector due to improved demand outlook for palm oil in 2018. We believe that the good global 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 potentially 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 limit the supply surge by between 0.5 to 0.6 million tonnes assuming oil yield of 3.5 MT per ha.

Top picks are KLK and GENP. We like KLK for its earnings resiliency and decent dividend yield of 2.5%. We like GENP as we expect its FFB growth at 13% yoy to be the strongest among planters under our coverage. This is due to new contribution from recently acquired estate of 12,893 ha and 5000 ha coming to maturity in Indonesia. Other buy calls are PPB, TSH and FIMACORP.

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	4.80	NEUTRAL	23.0x Fwd. PE on FY18F earnings reflecting mean valuation.
KLK	29.00	BUY	26.8x Fwd. PE on FY18F earnings reflecting +1.0SD valuation.
PPB	19.46	BUY	1.1x Price To Book Value.
FGV	1.96	NEUTRAL	1.23x Price To Book Value reflecting +0.5SD valuation.
GENP	12.70	BUY	SOP with plantation sector @ 23.7x FY18F PE. 23.7x is at 10% discount to big cap planters Target PE.
IJMP	2.36	NEUTRAL	19.5x Fwd. PE on FY19F earnings reflecting mean valuation.
TSH	1.90	BUY	22.3x Fwd. PE on FY18F earnings reflecting mean valuation.
TAANN	3.40	NEUTRAL	12.5x Fwd. PE on FY18F 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

Alan Lim, CFA
alan.lim@midf.com.my
03-21738464

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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.