

PLANTATION

Maintain POSITIVE**Upgrading 2017 average CPO price to RM2725/MT**

KEY HIGHLIGHTS

- **Upgrade 2017 average CPO price by 11% to RM2725/MT from RM2450/MT**
- **Beneficiary of strong USD**
- **Inventory to dip below the critical level of 1.5m MT in 1QCY2017**
- **US record high biofuel mandate is positive for CPO price**
- **Strong CPO price seen in 1H2017; 2H2017 outlook will depend on Indonesia biodiesel consumption**
- **Maintain POSITIVE view on the sector; Upgrade SIME to BUY (New TP: RM9.05)**
- **KLK (TP: RM29.25) is our top pick. We also have BUY calls on IOICORP (New TP: RM5.30) and TAANN (New TP: RM4.70)**

Upgrade 2017 average CPO price by 11% to RM2725/MT from RM2450/MT. Reasons for the increase in CPO price assumption are: i) CPO stand to benefit from strong USD, ii) we expect inventory to dip below the critical level of 1.5m MT in 1QCY2017, and iii) US record high biofuel mandate is positive for CPO price. For 2016, we have increased our average CPO price to RM2625/MT (from RM2450/MT).

Beneficiary of strong USD. CPO price stands to gain from the strong USD as it gains competitiveness against soybean oil which is priced in USD. A strong USD should increase the demand for CPO as it will be cheaper for consumers to use palm oil instead of soybean oil. We have incorporated the latest assumption of 2017 average USDMYR rate of RM4.20 for our CPO price estimate.

Inventory to dip below the critical level of 1.5m MT in 1QCY2017. Malaysia palm oil stockpile is expected to drop below the critical level of 1.50m MT towards in 1QCY2017. The impact of El Nino on oil palm tree production is still lingering and we expect production to recover only in 2QCY2017. Coupled with the seasonal low cycle in first quarter, CPO production will not be enough to satisfy demand. As a result, inventory is expected to drop to the range of 1.45m to 1.50m MT by end-Feb 2017. This is a positive factor to CPO price which we think has not been fully realized by the market.

US record high biofuel mandate is positive for CPO price. Recently, United States has increased its biofuel mandate by 6% to 19.28b gallons in 2017 which is a new record. The news has caused soybean oil price to surge in the Chicago Board of Trade (CBOT) market. Note that soybean oil is the main input used to produce biofuel in the US. In August-2016, 54% of the total input used to produce biofuel in US came from soybean oil. The news is positive to CPO price as it is used as a common substitute to soybean oil.

Strong CPO price seen in 1H2017; 2H2017 outlook will depend on Indonesia biodiesel consumption. We expect 2017 to be "a year of two halves" – the first dominated by ongoing low stockpiles at well below 2.0m MT; the second by the strong palm oil production recovery especially in Indonesia. For 1H2017, we expect CPO price to stay at the higher range of RM2800/MT to RM3300/MT. As for 2H2017, the strong production recovery

should limit CPO price upside but we see downside to be well supported at RM2300 per MT. If Indonesia biodiesel industry continues its excellence in absorbing the additional supply, we may see the downside at RM2500/MT.

Maintain POSITIVE on the sector. In line with higher CPO price assumption, we have increased our earnings assumption for FY16 and FY17 for all planters under our coverage. Accordingly, our Target Price has been increased for all planters except FGV which is maintained as we are using 1.0x Price to Book Value method. For PPB, we are changing our valuation method to 1.0x Price To Book Value as we noticed that the stock price stability reflects its Book Value rather than the volatile earnings of the Company. Refer Table 1 and Table 2 for full details of changes in Calls and Target Price.

Upgrade SIME to BUY (New TP: RM9.05; Old TP: RM7.70). We have upgraded SIME due to: i) its plantation division is set to benefit from high CPO price, ii) expected positive newsflow from the potential demerger exercise to unlock its value and iii) decent dividend yield of 3.8%.

Top pick is KLK (New TP: RM29.25; Old TP: RM29.05). Our top pick is KLK due to: i) 70% of its EBIT is from upstream palm oil plantation business, ii) positive outlook for downstream division from new capacities in the fatty acid business and iii) good track record in earnings delivery historically.

Other BUY calls are for IOICORP (New TP: RM5.30; Old TP: RM5.05) and TAANN (New TP: RM4.70; Old TP: RM4.50). We like IOICORP due to its pure exposure to palm oil business both in the upstream and downstream divisions. The Company's profit is also expected to recover in FY17 after the uplift of RSPO suspension. We also like TAANN due to: i) its FFB production growth is the strongest among peers (+8%yoy in 9MFY16), ii) better outlook for timber division due to recent strengthening of USD and Sarawak State Government's effort to promote timber products in Japan.

Table 1: Basis of valuation

Company	Valuation Basis
SIME	SOP with plantation sector @ 25.1x FY17E PE. 25.1x is the avg of IOICORP and KLK Target PE.
IOICORP	24.7x Fwd. PE on FY17F earnings reflecting +0.5SD valuation.
KLK	26.8x Fwd. PE on FY17F earnings reflecting +1.0SD valuation.
PPB	1.0x Price to Book Value (previously PE valuation)
FGVH	1.0x Price to Book Value
GENP	SOP with plantation sector @ 24.7x FY17E PE. 24.7x is the lower valuation between IOICORP and KLK.
IJMP	18.6x Fwd. PE on FY17F earnings reflecting mean valuation.
TSH	22.3x Fwd. PE on FY17F earnings reflecting mean valuation.
TAANN	16.6x Fwd. PE on FY17F earnings reflecting mean valuation.

Source: MIDF Research Estimate

Table 2: Change in calls and target prices

Company	Last Price (RM) @ 6-Dec-16	Upside / (Downside)	Net Dvd Yield (%)	Expected Total Return (%)	New TP	New Call	Previous TP (RM)	Previous Call
SIME	8.11	11.6%	3.8%	15.4%	9.05	BUY	7.70	NEUTRAL
IOICORP	4.38	21.0%	3.7%	24.7%	5.30	BUY	5.05	BUY
KLK	23.80	22.9%	2.5%	25.4%	29.25	BUY	29.05	BUY
PPB	16.00	5.0%	1.5%	6.5%	16.80	NEUTRAL	14.70	NEUTRAL
FGV	1.61	9.9%	1.9%	11.8%	1.77	NEUTRAL	1.77	NEUTRAL
GENP	10.74	6.9%	0.8%	7.7%	11.50	NEUTRAL	9.72	NEUTRAL
IJMP	3.49	-5.4%	2.3%	-3.1%	3.30	NEUTRAL	3.13	NEUTRAL
TSH	1.90	13.2%	0.8%	14.0%	2.15	NEUTRAL	2.05	NEUTRAL
TAANN	3.77	24.7%	4.2%	28.9%	4.70	BUY	4.50	BUY

Source: MIDF Research Estimate

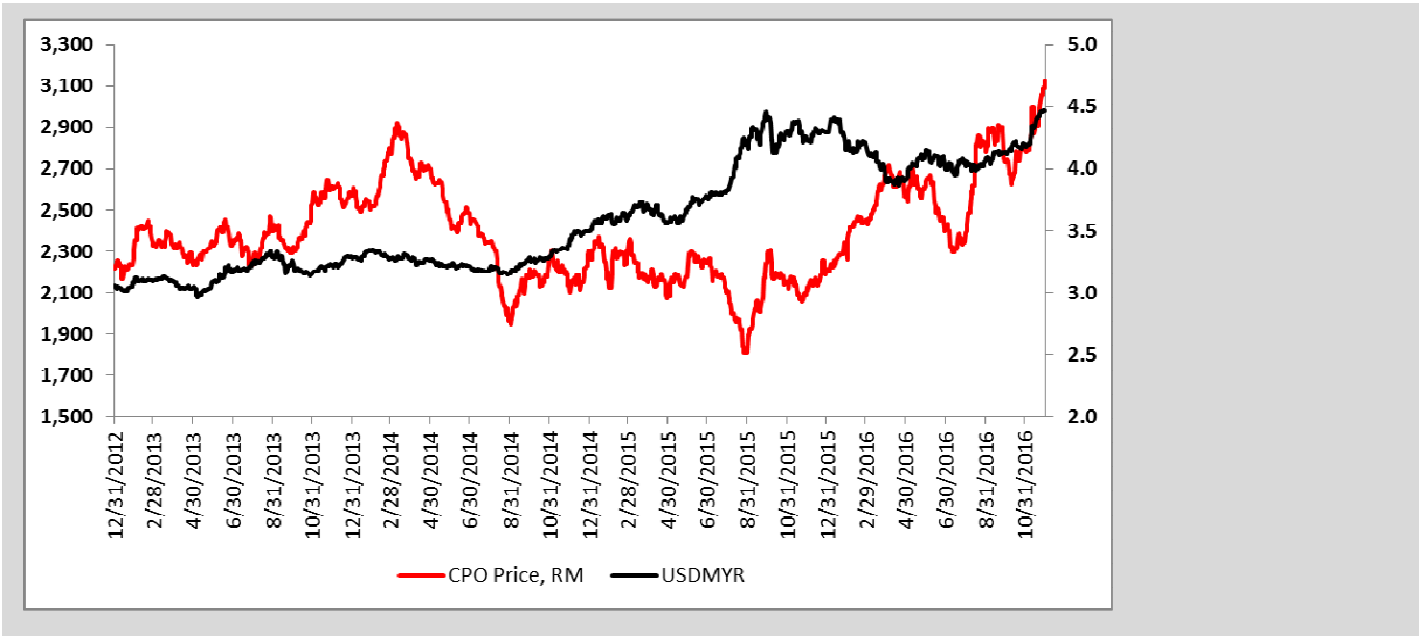
Table 3: Summary of change in earnings forecast

Company	FY16/17 Core Net Profit (New)	FY17/18 Core Net Profit (New)	FY16/17 Core Net Profit (Old)	FY17/18 Core Net Profit (Old)	FY16/17 Core Net Profit Change (%)	FY17/18 Core Net Profit Change (%)	Basis of change
SIME	2258.6	2346.6	1937.3	1990.7	16.6%	17.9%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact.
IOICORP	1353.0	1506.3	1289.0	1330.8	5.0%	13.2%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact. Downstream margin reduced due to high palm kernel price.
KLK	1162.5	1233.1	1154.6	1179.6	0.7%	4.5%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact. Downstream margin reduced due to high palm kernel price.
PPB	732.7	910.3	720.3	893.7	1.7%	1.9%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact. Downstream margin reduced due to high palm kernel price.
FGV	-67.4	124.9	-67.4	101.9	0.0%	22.6%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact. Assume downstream and TMLO division to breakeven (from slight profitable).
TSH	79.0	129.8	75.9	123.7	4.0%	4.9%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact.

IJMP	149.3	206.8	141.5	183.0	5.5%	13.0%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact.
GENP	265.5	336.6	203.3	262.6	30.6%	28.2%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact.
TAANN	122.2	125.9	116.8	120.4	4.6%	4.6%	CY2016 average CPO price increased to RM2625/MT. CY2017 average CPO price increased to RM2725/MT. FFB yield reduced due to El Nino impact.

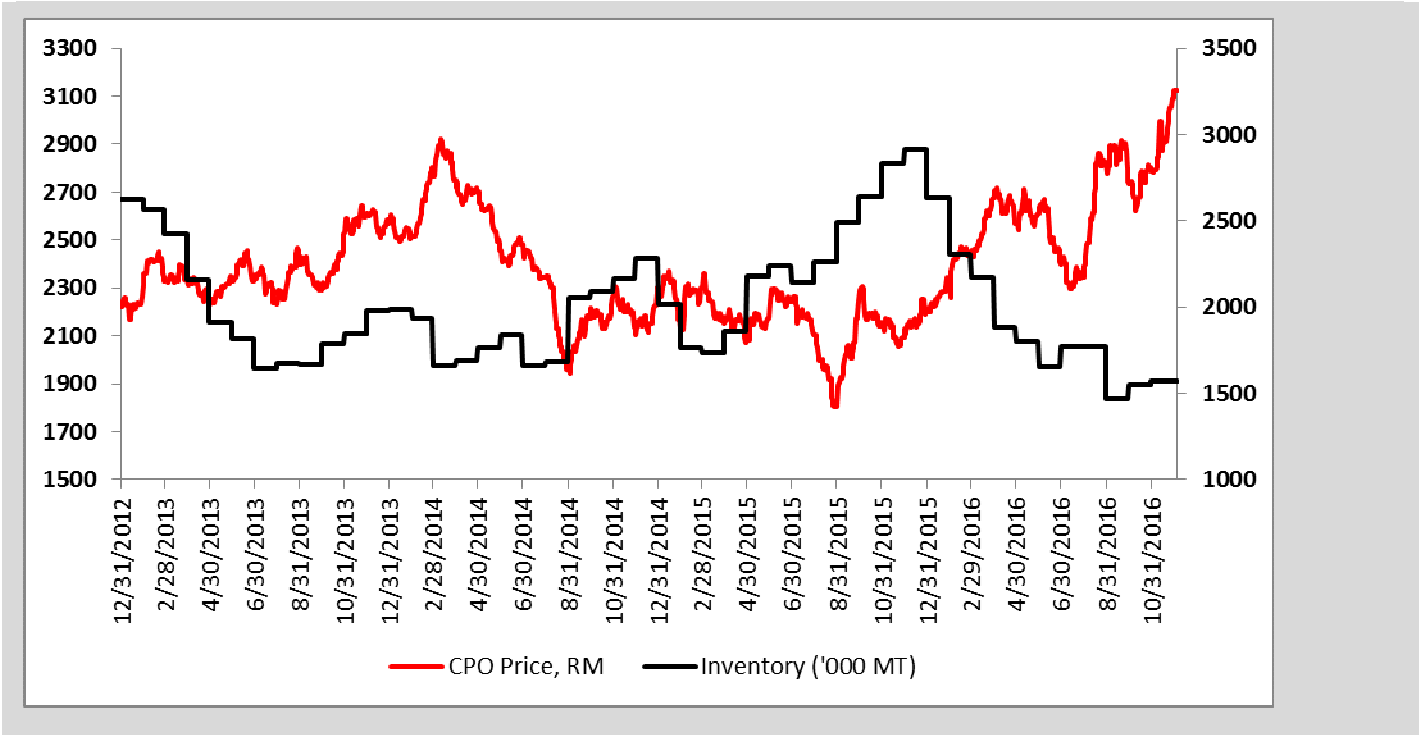
Source: MIDF Research Estimate

Chart 1: The relationship between USDMYR and CPO price



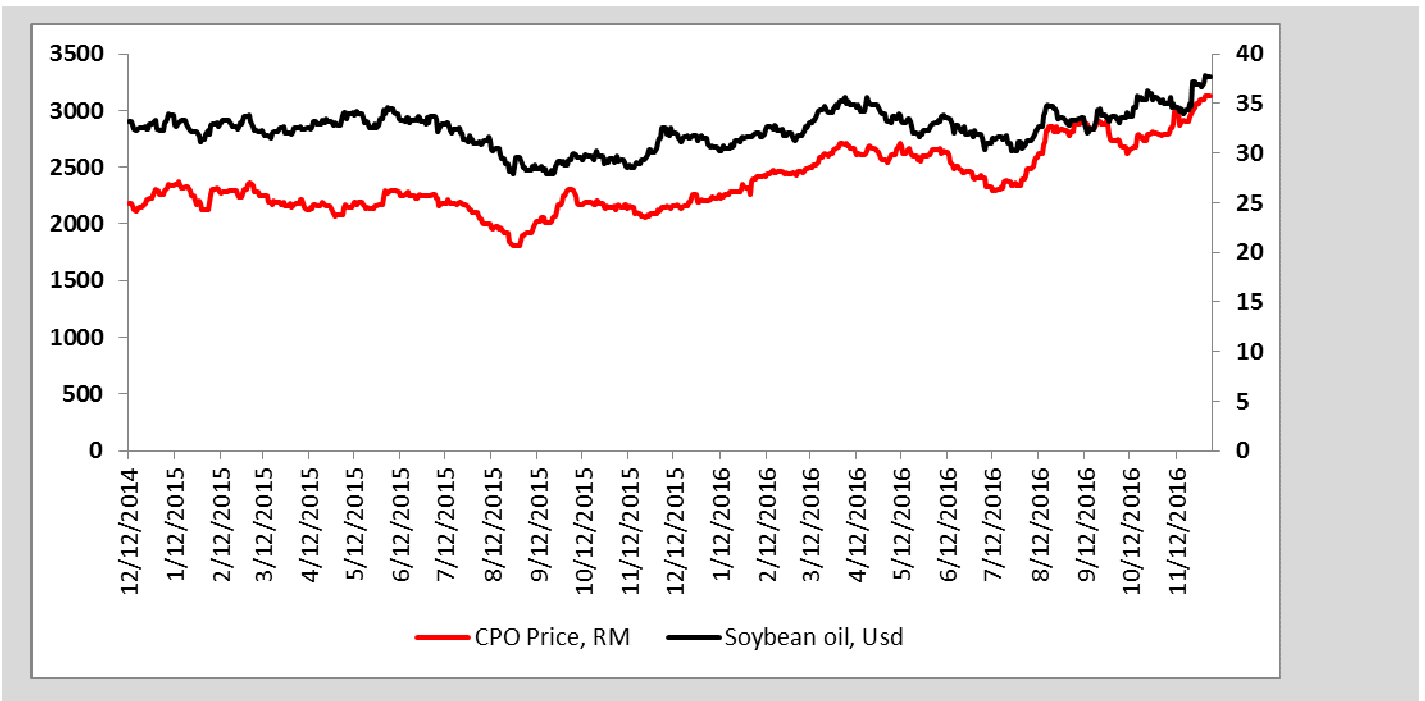
Source: Bloomberg, MIDF Research

Chart 2: Relationship between CPO price and inventory



Source: MPOB, MIDF Research

Chart 3: Relationship between CPO price and soybean oil price



Source: MPOB, MIDF Research

Table 4: SIME Earnings Forecast

FYE Jun	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	43,908	43,729	43,963	44,855	45,236
EBIT	4,219	3,542	3,067	3,549	3,626
PBT	3,965	3,003	2,816	3,093	3,207
Net Income	3,353	2,313	2,409	2,306	2,394
Core Net Income	3,270	2,071	1,500	2,259	2,347
EPS (sen)	55.50	37.68	38.43	35.01	36.35
Core EPS (sen)	54.13	33.74	23.93	34.30	35.64
Net DPS (sen)	36.0	25.0	27.0	31.2	31.6
Net Dvd Yield	4.4%	3.1%	3.3%	3.8%	3.9%
Core PER	15.0	24.0	33.9	23.6	22.8
NTA/share (RM)	4.53	4.29	4.49	4.34	4.38
P/NTA	1.79	1.89	1.81	1.87	1.85
ROE	11.7%	7.6%	7.4%	7.0%	7.2%
ROA	6.6%	3.8%	3.8%	4.1%	4.1%

Source: Company, MIDF Research

Table 5: IOICORP Earnings Forecast

FYE Jun	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	11,911	11,542	11,739	12,865	13,372
EBIT	1,800	1,142	1,355	1,811	1,997
PBT	1,671	316	966	1,722	1,913
Net Income	1,255	52	630	1,353	1,506
Core Net Income	1,391	1,134	1,176	1,353	1,506
EPS (sen)	19.69	0.82	9.99	21.46	23.90
Core EPS (sen)	21.83	17.83	18.66	21.46	23.90
Net DPS (sen)	20.00	9.00	8.00	9.66	10.75
Net Dvd Yield	4.6%	2.1%	1.8%	2.2%	2.5%
Core PER	20.1	24.6	23.5	20.4	18.3
NTA/share (RM)	0.88	1.04	1.05	1.23	1.36
P/NTA	5.00	4.21	4.17	3.56	3.22
ROE	20.8%	0.7%	8.8%	16.4%	16.6%
ROA	8.2%	0.3%	3.6%	7.9%	8.7%

Source: Company, MIDF Research

Table 6: KLK Earnings Forecast

FYE Sep	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	11,130	13,650	16,506	14,694	15,381
EBIT	1,395	1,134	1,865	1,672	1,765
PBT	1,318	1,135	1,712	1,594	1,687
Net Income	992	870	1,592	1,163	1,233
Core Net Income	1,032	789	1,052	1,163	1,233
EPS (sen)	93.1	81.7	149.5	109.2	115.8
Core EPS (sen)	96.9	74.1	98.8	109.2	115.8
Net DPS (sen)	55.0	45.0	50.0	64.5	68.4
Net Dvd Yield	2.3%	1.9%	2.1%	2.7%	2.9%
Core PER	24.6	32.1	24.1	21.8	20.6
NTA/share (RM)	7.26	7.81	9.79	9.17	9.64
P/NTA	3.27	3.04	2.43	2.59	2.46
ROE	12.8%	10.4%	15.2%	11.9%	12.0%
ROA	7.7%	6.6%	8.7%	8.0%	8.1%

Source: Company, MIDF Research

Table 7: PPB Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	3,313	3,701	4,048	3,933	4,135
EBIT	278	313	399	352	371
PBT	1,063	1,028	1,181	847	1,031
Net Income	983	917	1,051	733	910
Core Net Income	953	917	1,051	733	910
EPS (sen)	82.9	77.3	88.7	61.8	76.8
Core EPS (sen)	80.3	77.3	88.7	61.8	76.8
Net DPS (sen)	25.0	23.0	25.0	18.5	23.0
Net Dvd Yield	1.6%	1.4%	1.6%	1.2%	1.4%
Core PER	19.9	20.7	18.0	25.9	20.8
NTA/share (RM)	13.14	14.12	16.74	14.75	15.29
P/NTA	1.22	1.13	0.96	1.08	1.05
ROE	6.3%	5.5%	5.3%	4.2%	5.0%
ROA	5.8%	4.9%	4.8%	4.0%	4.8%

Source: Company, MIDF Research

Table 8: FGV Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	12,568	15,258	15,670	18,307	19,375
EBIT	1,478	1,111	682	102	633
PBT	1,536	971	384	(7)	472
Net Income	982	325	117	(67)	125
Core Net Income	42	121	(180)	(67)	125
EPS (sen)	26.92	8.92	3.21	(1.85)	3.42
Core EPS (sen)	1.16	3.32	(4.93)	(1.85)	3.42
Net DPS (sen)	16.0	10.0	4.0	4.0	4.0
Net Dvd Yield	9.9%	6.2%	2.5%	2.5%	2.5%
Core PER	139.0	48.5	(32.6)	(87.2)	47.0
NTA/share (RM)	1.53	1.32	1.33	1.27	1.27
P/NTA	1.05	1.22	1.21	1.27	1.27
ROE	14.9%	5.1%	1.8%	-1.1%	2.0%
ROA	4.7%	1.6%	0.5%	-0.3%	0.6%

Source: Company, MIDF Research

Table 9: GENP Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	1,384	1,643	1,375	1,400	1,620
EBIT	287	513	276	390	465
PBT	300	520	247	368	459
Net Income	228	377	190	265	337
Core Net Income	330	382	210	265	337
EPS (sen)	30.0	49.3	24.8	33.5	42.4
Core EPS (sen)	43.5	50.0	27.5	33.5	42.4
Net DPS (sen)	35.8	10.0	5.5	8.4	10.6
Net Dvd Yield	3.3%	0.9%	0.5%	0.8%	1.0%
Core PER	24.8	21.5	39.2	32.2	25.4
NTA/share (RM)	4.30	4.89	5.31	4.90	5.22
P/NTA	2.50	2.20	2.03	2.19	2.06
ROE	6.6%	9.7%	4.5%	6.6%	7.8%
ROA	4.7%	6.7%	3.7%	4.9%	5.9%

Source: Company, MIDF Research

Table 10: IJMP Earnings Forecast

FYE Mar	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	647	668	558	601	683
EBIT	153	141	72	196	272
PBT	109	89	50	188	264
Net Income	89	90	24	149	207
Core Net Income	109	142	25	149	207
EPS (sen)	11.1	10.7	2.9	17.7	24.6
Core EPS (sen)	13.7	16.8	3.0	17.7	24.6
Net DPS (sen)	7.0	6.0	5.0	8.0	11.0
Net Dvd Yield	2.0%	1.7%	1.4%	2.3%	3.2%
Core PER	25.6	20.7	117.5	19.7	14.2
NTA/share (RM)	1.73	1.91	1.92	2.01	2.14
P/NTA	2.02	1.83	1.82	1.74	1.63
ROE	6.4%	5.6%	1.5%	8.8%	11.5%
ROA	4.0%	3.5%	0.9%	5.7%	7.6%

Source: Company, MIDF Research

Table 11: TSH Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	1,016	1,071	799	1,034	1,127
EBIT	156	185	117	152	214
PBT	164	187	(82)	121	189
Net Income	151	139	(99)	79	130
Core Net Income	140	160	87	79	130
EPS (sen)	11.54	10.31	(7.36)	5.87	9.65
Core EPS (sen)	10.73	11.90	6.48	5.87	9.65
Net DPS (sen)	3.50	2.50	2.00	1.47	2.41
Net Dvd Yield	1.8%	1.3%	1.1%	0.8%	1.3%
Core PER	17.7	16.0	29.3	32.4	19.7
NTA/share (RM)	0.84	0.89	0.97	0.88	0.97
P/NTA	2.26	2.13	1.96	2.16	1.97
ROE	14.3%	12.2%	-7.9%	7.0%	10.5%
ROA	6.4%	5.2%	-3.1%	3.3%	5.4%

Source: Company, MIDF Research

Table 12: TAANN Earnings Forecast

FYE Dec	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	770	1,012	1,047	1,045	1,038
EBIT	64	166	255	175	180
PBT	113	168	234	165	170
Net Income	93	124	186	122	126
Core Net Income	70	126	170	122	126
EPS (sen)	25.09	33.37	45.85	27.48	28.32
Core EPS (sen)	18.84	34.06	45.85	27.48	28.32
Net DPS (sen)	5.00	20.00	20.00	14.09	14.53
Net Dvd Yield	1.3%	5.3%	5.3%	3.7%	3.9%
Core PER	20.0	11.1	8.2	13.7	13.3
NTA/share (RM)	2.57	2.91	3.07	2.81	2.95
P/NTA	1.46	1.29	1.23	1.34	1.28
ROE	9.2%	11.0%	15.7%	9.4%	9.3%
ROA	5.2%	6.6%	9.4%	6.1%	6.1%

Source: Company, MIDF Research

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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.