

11 August 2015 | Sector Update

PLANTATION

Maintain NEUTRAL

Ample stocks in July, but neutralized by strong exports early August

KEY HIGHLIGHTS

- **July 2015 inventory level of 2.27m MT is higher than consensus estimate.**
- **Export to India and Pakistan declined as demand normalized after fasting month.**
- **Production improved 3% MoM to 1.76m MT.**
- **Expect Aug inventory to increase 4% to 2.35m MT.**
- **Maintain NEUTRAL with 2015 and 2016 average CPO price of RM2,175/MT and RM2,100/MT respectively**
- **PPB (BUY; TP: RM17.80) is our top pick.**

July 2015 inventory level of 2.27m MT is higher than consensus estimate as it is only 4% higher than consensus estimate of 2.19m MT. However, it is within our estimate of 2.27m MT. We believe that consensus may have overestimated the strength of export trend MoM. Overall, July inventory increased 5% MoM to 2.27m MT as production grew by 3% MoM to 1.76m MT while export dropped by 6% MoM to 1.60m MT. Production is stronger MoM in July in line with seasonal production pattern. As for export, the decline is mainly due to the normalizing demand in India and Pakistan after the fasting month.

Export to India and Pakistan declined as demand normalized after fasting month. Total Malaysia export for palm oil dropped by 6% MoM to 1.60m MT due to lower export to India (-19% to 352k MT) and Pakistan (-44% to 40k MT). Note that palm oil demand tend to increase during the fasting month as the breaking fast activity leads to higher demand of palm oil for cooking purposes. Hence, it is natural for India and Pakistan to slow down their purchase after the pick-up in June. On the positive side, export to China (+15% to 280k MT) and United States (+66% to 74k MT) improved and hence limit the export decline to only 6% MoM.

Production improved 3% MoM to 1.76m MT. This is in line with seasonal pattern seen in the past. The increase is driven by higher output from Peninsular Malaysia (+5% to 1.01m MT) and Sarawak (+5% MoM to 327k MT). However, Sabah production declined 3% MoM to 476k MT.

Exports looking good so far in August, but we remain conservative. We believe that the total supply of 1.97m MT is likely to outpace total demand of 1.89m MT in the month of August. Our key assumption is 3% production increase MoM in line with historical production pattern. On the demand side, we expect export to improve 5% MoM as current low price should spur demand from price sensitive countries such as India and Pakistan. Our export assumption is considered conservative as export for the first 10 days of August surged 58% against the same period in July based on cargo surveyor's data. All considered, we expect August inventory to be 2.35m MT.

Maintain NEUTRAL with 2015 and 2016 average CPO price of RM2,175/MT and RM2,100/MT respectively; PPB (BUY; TP: RM17.80) is our top pick. We expect the July inventory data to have a neutral impact on CPO price as its negative impact was neutralized by the high export growth seen in the first ten days of August. We maintain our average CPO price for 2015 and 2016. Our top pick is PPB as we expect the upcoming result by end-August to register strong growth of at least 20%yoy in view of recent good set of result from Wilmar (1HFY15 Core Net Profit increased 21%yoy). We also expect PPB's 1HFY15 earnings growth to outperform all other index-linked planters (SIME, IOICORP and KLK). Lastly, PPB is poised to benefit from higher USD/MYR rate as Wilmar earnings is reported in US Dollar.



Table 1: Palm Oil Statistics for July-2015 ('000 MT)

	Jul-15	Jun-15	Diff.	MoM %	Jul-14	YoY%
Opening Stocks	2,152	2,249	(97)	-4.3%	1,657	29.9%
Production	1,816	1,764	52	2.9%	1,666	9.0%
Imports	105	103	1	1.3%	13	688.0%
Total Supply	4,072	4,116	(44)	-1.1%	3,336	22.1%
Exports	1,602	1,697	(95)	-5.6%	1,444	11.0%
Dom Disapp	205	267	(62)	-23.4%	207	-1.3%
Total Demand	1,807	1,964	(158)	-8.0%	1,651	9.4%
End Stocks	2,265	2,152	114	5.3%	1,685	34.5%
Stock/Usage Ratio	10.4%	9.1%			8.5%	

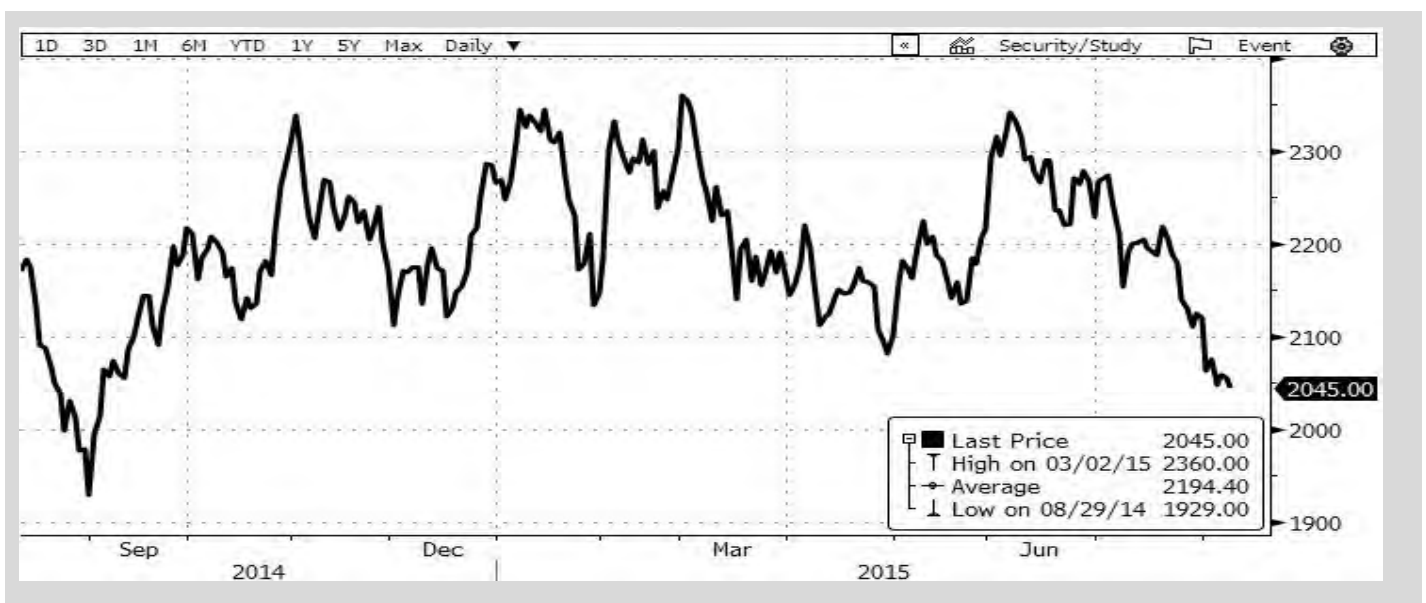
Source: MPOB, MIDF Research

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

	Jul-15	Jun-15	Jul-14	MoM%	YoY%	7M15	7M14	YoY%
China	280	244	194	15%	45%	1,560	1,687	-8%
India	352	436	351	-19%	0%	1,897	1,496	27%
EU	212	217	203	-2%	4%	1,013	1,344	-25%
Pakistan	40	72	55	-44%	-27%	384	468	-18%
US	74	44	62	66%	18%	399	477	-16%
Others	645	685	578	-6%	12%	4,686	4,104	14%
Total	1,602	1,697	1,444	-6%	11%	9,939	9,577	4%

Source: MPOB, MIDF Research

Chart 1: CPO price movement



Source: Bloomberg, MIDF Research

Table 3: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	8.80	NEUTRAL	SOP with plantation sector @ 23.2x FY16E PE. 23.2x is the avg of IOICORP and KLK Target PE.
IOICORP	4.45	NEUTRAL	23.1x Fwd. PE on FY16F earnings reflecting mean valuation. Target price is higher despite lower CPO price as we have rollover to FY16F.
KLK	21.00	NEUTRAL	23.5x Fwd. PE on FY16F earnings reflecting mean valuation. Target price is higher despite lower CPO price as we have rollover to FY16F.
PPB	17.80	BUY	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGVH	1.60	NEUTRAL	20.8x Fwd. PE on FY16F earnings reflecting -2.0SD valuation.
GENP	9.06	NEUTRAL	SOP with plantation sector @ 23.1x FY16E PE. 23.1x is the lower valuation between IOICORP and KLK.
IJMP	3.50	NEUTRAL	18.6x Fwd. PE on FY16F earnings reflecting mean valuation.
TSH	2.33	NEUTRAL	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	4.00	NEUTRAL	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

Source: MIDF Research Estimate

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.