

20 January 2016 | Sector Update

PLANTATION

Maintain POSITIVE***Bullish view from Palm Oil Economic Review & Outlook Seminar 2016***

KEY HIGHLIGHTS

- **99% accuracy in our 2015 average CPO price forecast (Actual outcome at RM2153.50/MT versus our estimate of RM2175/MT).**
- **Oil World expects CPO to surge above RM2600/MT in 1H2016.**
- **GAPKI forecasts CPO to trade between USD580/MT to USD600/MT.**
- **Top picks are IOICORP (TP: RM4.95) and TAANN (RM6.50).**
- **Other BUYs are PPB (TP: RM18.00) and TSH (TP: RM2.33).**

99% accuracy in our 2015 average CPO price forecast (Actual outcome at RM2153.50/MT versus our estimate of RM2175/MT). We attended the Palm Oil Economic Review & Outlook Seminar 2016 organised by Malaysia Palm Oil Board (MPOB). In the seminar, MPOB announced that the average CPO price for 2015 was RM2153.50 (against CY2014 average of RM2383.50/MT). The figure was within our expectation as it accounted for 99% of our forecast at RM2175/MT. As a result, we believe that the financial results of most plantation companies are likely to come in within our estimates during the next earnings season in Feb-2016.

Oil World expects CPO to surge above RM2600/MT in 1H2016. In the seminar, there were two experts providing their CPO price forecasts. Firstly, Mr. Thomas Mielke (Executive Director of ISTA MIELKE GmbH - publishers of Oil World) who believes that CPO price should appreciate by USD50/MT to USD100/MT in 1HCY16. The underlying argument was premised on expected decline in global CPO stocks level (due to reduced production as a lagged response from El Nino) and expected recovery in Indonesia biodiesel demand. Effectively, Mr Thomas Mielke estimate means that CPO price should increase by RM218/MT – RM435/MT to RM2610/MT – RM2840/MT in 1HCY2016 based on current USD/MYR rate of about 4.35.

GAPKI forecasts CPO to trade between USD580/MT to USD600/MT. Dr. Mohamad Fadhil Hasan (Director of Indonesian Palm Oil Association or GAPKI) believes that CPO should trade between USD580/MT to USD600/MT. Effectively, this means CPO price should trade at between RM2523/MT to RM2610/MT in 2016. He believes that the factors affecting CPO price will be the implementation of biodiesel program in Indonesia, price of crude oil, the impact of El Nino and the implementation of Council of Palm Oil Producing Countries (CPOPC). Note that CPOPC is a collaboration between Malaysia and Indonesia to: i) coordinate and collaborate in the development of the global oil palm industry, ii) manage supply through better coordination in stock management, iii) promote and harmonize of sustainable standards, and iv) cooperate in research and development.


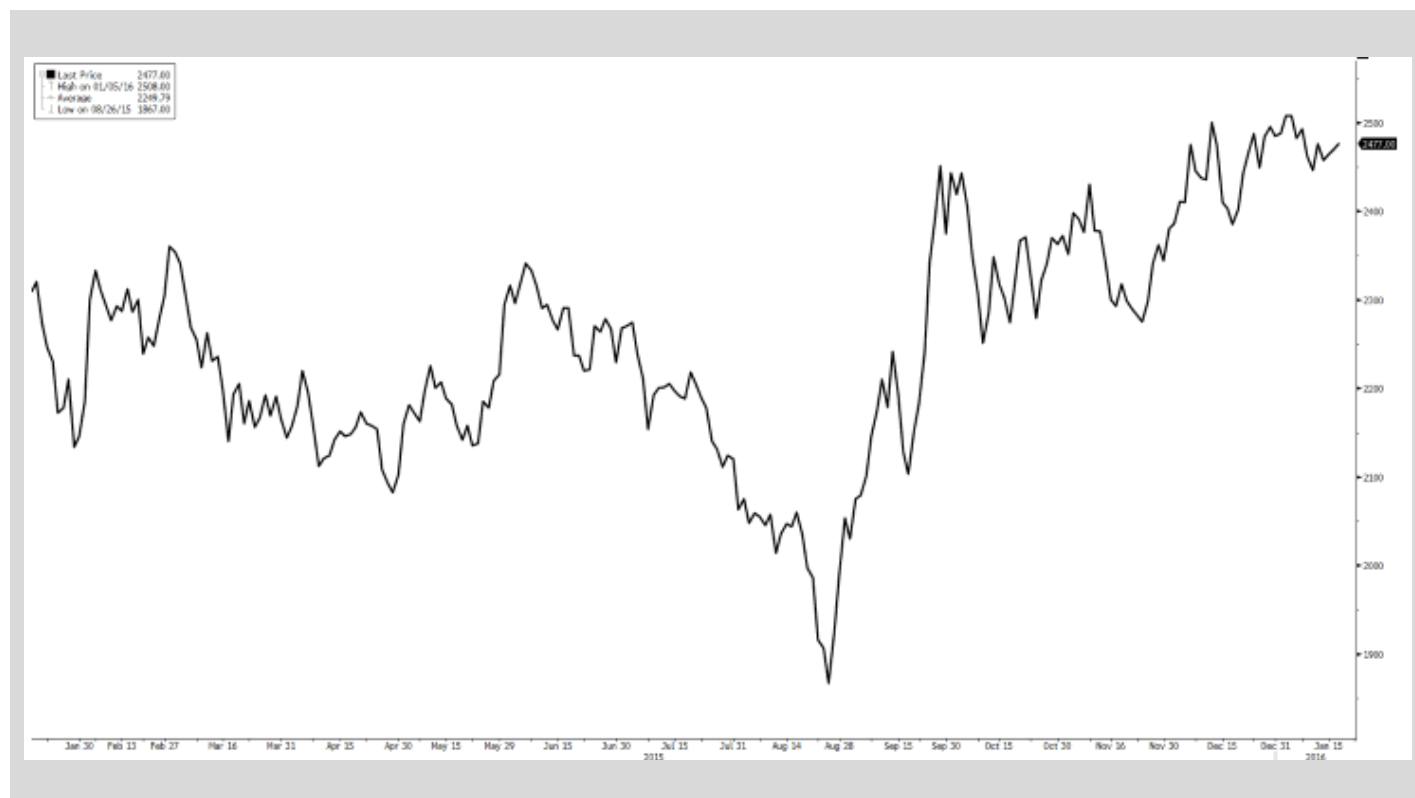
Maintain POSITIVE view on the sector. Top picks are IOICORP (TP: RM4.95) and TAANN (RM6.50). The positive takeaways from the seminar reinforce our positive view on plantation sector. In the short term, we expect CPO price to range between RM2400/MT to RM2600/MT with an average of RM2500/MT in 1Q2016. Key catalyst in the near term will be the depletion in Malaysia palm oil stocks level in which we expect Jan-2016 inventory to decline 9%mom to 2.40m MT. Our top picks are IOICORP due to: i) the stock is due for re-rating after it regained its Shariah status on 30-Nov, ii) strong earnings growth of +41%yoy to RM338m in 1QFY16, and iii) its earnings profile has the most pure exposure to palm oil among the big cap index-linked planters. Moreover, we also like TAANN due to: i) strong earnings growth of +38%yoy to RM115m in 9MFY15, and ii) its timber division should benefit from elevated USD/MYR as the division's product (Export Log and Plywood) prices are quoted in USD. **Other BUYs are PPB (TP: RM18.00) and TSH (TP: RM2.33).** 

Chart 1: CPO price movement



Source: Bloomberg

Table 1: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	8.20	NEUTRAL	SOP with plantation sector @ 23.2x FY16E PE. 23.2x is the avg of IOICORP and KLK Target PE.
IOICORP	4.95	BUY	26.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
KLK	22.50	NEUTRAL	23.5x Fwd. PE on FY16F earnings reflecting mean valuation.
PPB	18.00	BUY	21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation.
FGV	1.30	SELL	1.0x Price to Net Tangible Asset (P/NTA).
GENP	9.53	NEUTRAL	SOP with plantation sector @ 23.1x FY16E PE. 23.1x is the lower valuation between IOICORP and KLK.
IJMP	3.65	NEUTRAL	18.6x Fwd. PE on FY16F earnings reflecting mean valuation.
TSH	2.33	BUY	22.3x Fwd. PE on FY16F earnings reflecting mean valuation.
TAANN	6.50	BUY	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

Source: MIDF Research Estimate

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.