

13 October 2015 | Sector Update

PLANTATION

Maintain POSITIVE

Lower than expected inventory in September

KEY HIGHLIGHTS

- **September 2015 inventory level of 2.63m MT is lower than consensus estimate.**
- **Seasonal production downtrend has started.**
- **Export improved 4%mom.**
- **Expect inventory to stay flat mom in October.**
- **Maintain POSITIVE with 2015 and 2016 average CPO price of RM2,175/MT and RM2,300/MT respectively**
- **SIME (BUY; TP: RM9.10) is our top pick.**
- **Other BUYs are PPB (TP: RM18.00), TSH (TP: RM2.33) and TAANN (TP: RM4.50).**

September 2015 inventory level of 2.63m MT is lower than expected as it is 3% below consensus estimate of 2.70m MT. However, it came in broadly in line with our estimate of 2.58m MT. We believe that consensus may have been too optimistic on production when it actually declined 4%mom to 1.96m MT. As mentioned previously in our Sector Report on 2-Oct-2015, the peak production month has shifted to August this year (instead of the usual September or October historically).

Seasonal production downtrend has started. The 4%mom decline in production was mainly driven by the 8%mom decline in production in Peninsular Malaysia. This is followed by 1%mom decline in Sabah and 2% production growth in Sarawak. We believe that the record high production in August is already the highest this year. Hence, CPO production downtrend has started and we expect it to continue up to Feb-2016. During the seasonal downtrend, we believe that the focus should be on Sabah production in the 4Q15. Recall that Sabah experienced dry weather in 1QCY15 and this is expected to reduce its CPO output in 4QCY15.

Export improved 4%mom. Total Malaysia export for palm oil increased by 4%mom to 1.68m MT due to higher export to India (+35% to 357k MT). Better demand for palm oil from India may be caused by the purchase in anticipation of import tax increase on palm oil import which has been imposed from 20-Sep-2015 onwards. However, export to European Union declined 11%mom to 227k MT and hence limit the overall Malaysia export growth to only 4%mom.

Expect inventory to stay flat mom in October. Although September inventory of 2.63m MT is technically the record high inventory for Malaysia, we are not overly concerned as the Stock/Usage ratio is only at 11.5% (still below the record high of the 13.4% registered in Feb-2013). Additionally, inventory is expected to be flat mom in October at 2.62m MT and decline afterwards. Our key assumptions for October inventory estimate are: i) 6% mom decline in production in line with historical production pattern and ii) export growth of 6%mom as current low price should spur demand from price sensitive countries such as India and Pakistan. All considered, expectation of lower inventory in the next three months should be supportive to CPO price.

Maintain POSITIVE with 2015 and 2016 average CPO price of RM2,175/MT and RM2,300/MT respectively; SIME (BUY; TP: RM9.10) is our top pick. We expect the September inventory data to be positive to CPO price as stocks came in lower than expected. We also maintain our POSITIVE view on plantation sector due to: i) CPO price should benefit from weak Ringgit, ii) soybean oil price should have bottomed and iii) strong El Nino is likely to drive CPO price higher. Our top pick is SIME as its FY16 FFB growth expected at

10%yoy is the highest among big cap peers (average: 2% FFB growth). Most of the FFB growth is expected to come from New Britain Palm Oil Limited (NBPOL) which will start its first full year contribution in FY16.


Other BUYs are PPB (TP: RM18.00), TSH (TP: RM2.33) and TAANN (TP: RM4.50). We like PPB due to its strong 1H FY15 earnings growth of 34%yoy as it rides the earnings recovery from Wilmar. PPB is also poised to benefit from higher USDMYR rate as Wilmar earnings is reported in USD. We also like TSH as its FY16 FFB growth of 12% means that the Company is poised to enjoy superior earnings growth against other mid-cap peers. Its young age profile estimated at 7.3 years old means that its FFB production is more resilient to El Nino. For TAANN, we expect its timber division to benefit from higher USDMYR as the division's product (Export Log and Plywood) prices are quoted in USD. Hence, TAANN is poised to enjoy earnings growth from both plantation and timber divisions. 

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

	Sep-15	Aug-15	Diff.	MoM %	Sep-14	YoY%
Opening Stocks	2,492	2,267	225	9.9%	2,053	21.4%
Production	1,959	2,051	(92)	-4.5%	1,897	3.3%
Imports	76	66	10	15.1%	38	97.4%
Total Supply	4,527	4,384	143	3.3%	3,989	13.5%
Exports	1,678	1,608	70	4.4%	1,628	3.1%
Dom Disapp	221	284	(63)	-22.3%	270	-18.4%
Total Demand	1,899	1,889	10	0.5%	1,899	0.0%
End Stocks	2,628	2,492	136	5.5%	2,090	25.8%
Stock/Usage Ratio	11.5%	11.0%			9.2%	

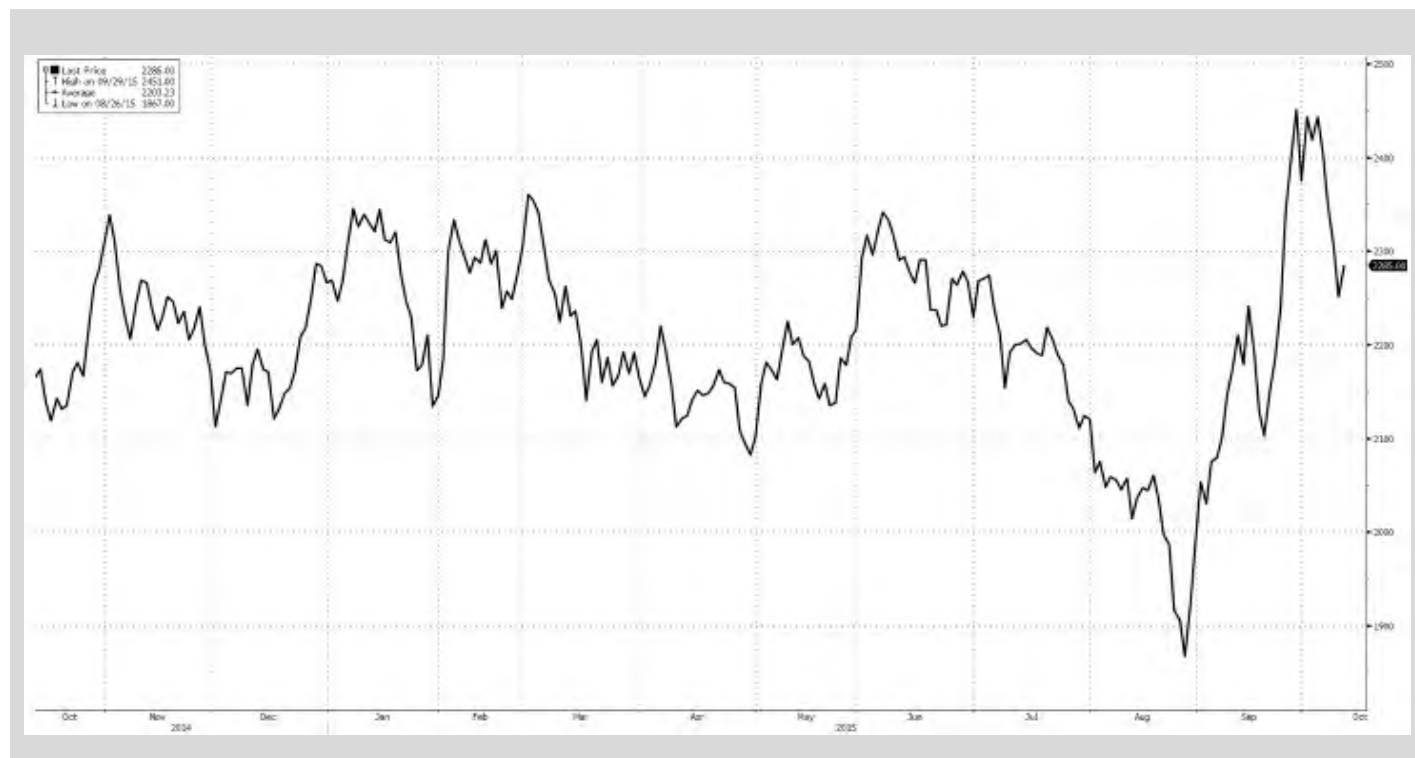
Source: MPOB, MIDF Research

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

	Sep-15	Aug-15	Sep-14	MoM%	YoY%	9M15	9M14	YoY%
China	193	195	164	-1%	17%	1,958	2,007	-2%
India	357	264	444	35%	-20%	2,518	2,302	9%
EU	227	255	185	-11%	22%	1,711	1,706	0%
Pakistan	58	102	48	-43%	21%	544	612	-11%
US	50	57	49	-12%	3%	507	592	-14%
Others	794	735	754	8%	5%	5,998	5,439	10%
Total	1,678	1,608	1,643	4%	2%	13,236	12,658	5%

Source: MPOB, MIDF Research

Chart 1: CPO price movement



Source: Bloomberg, MIDF Research

Table 3: Basis of valuation

Company	TP	Call	Valuation Basis
SIME	9.10	BUY	SOP with plantation sector @ 23.2x FY16E PE. 23.2x is the avg of IOICORP and KLK Target PE.
IOICORP	4.30	NEUTRAL	23.1x Fwd. PE on FY16F earnings reflecting mean valuation.
KLK	23.40	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	NEUTRAL	1.0x Price to Net Tangible Asset (P/NTA).
GENP	10.20	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	4.50	BUY	16.6x Fwd. PE on FY16F earnings reflecting mean valuation.

Source: MIDF Research Estimate

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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.