

29 July 2015 | Sector Update

PLANTATION

Maintain NEUTRAL

New Indonesian palm oil export tax structure

KEY HIGHLIGHTS

- **New Indonesian palm oil export tax structure.**
- **Positive on the changes as it will make the calculation simpler for the industry.**
- **No impact to earnings as export tax savings will only come when CPO price exceeds USD750/MT.**
- **New July inventory estimate at 6% increase MoM to 2.27m MT.**
- **Maintain NEUTRAL with 2015 average CPO price of RM2175/MT**
- **PPB (BUY; TP: RM17.80) is our top pick.**

New Indonesian palm oil export tax structure. Indonesia Finance Ministry has issued a new regulation with regards to export taxes for palm oil products. Based on the new regulation, the export tax for palm oil products will now be expressed in USD/MT (previously in percentage of price). This is the second changes in July after the introduction of USD50/MT levy on palm oil exports on 16-July. Effectively, there is no change to CPO exporters at current CPO price of ~USD560/MT as they will still pay the same USD50/MT (which is the new export levies). Note that the new regulation will still maintain the previous tax in which CPO attracts no export tax when it is below USD750/MT. Please refer to Table 1, Table 2 and Table 3 for the details.

Positive on the changes as it will make the calculation simpler for the industry. We are positive on the changes as it provides better clarity for plantation industry in Indonesia. With the new system, the all in tax will be the CPO export tax plus the USD50/MT levy. Recall that the previous calculation sets the base price on monthly basis in which the percentage of tax will be determined. For example, export tax for CPO range from 7.5% to 22.5% when CPO price exceeds USD750/MT.

No impact to earnings as export tax savings will only come when CPO price exceeds USD750/MT. Our calculation shows that there is indeed some savings in CPO export tax under the new palm oil export tax structure as compared to previous one. However, the savings will only materialize when CPO price exceeds USD750/MT (or RM2850/MT based on current USDMYR rate of 3.80). The savings range from USD3.25/MT to USD31.25/MT or 5.8% to 11.1%. However, all these savings will only happen when CPO price exceed USD750/MT or RM2850/MT. We do not expect such scenario to happen in the near term as our forecast for average CPO price for 2015 and 2016 are RM2175/MT and RM2100/MT respectively.

New July inventory estimate at 6% increase MoM to 2.27m MT. On a separate note, we have increased our inventory estimate to 2.27m MT (from 2.09m MT). This is due to worse than expected CPO export. Note that cargo surveyor data shows that Malaysia palm oil export declined 18% MoM in the first 25 days of July. All in, we now expect July inventory to increase 6% MoM to 2.27m MT. This is expected to keep the CPO price upside limited.


Maintain NEUTRAL with 2015 average CPO price of RM2175/MT; PPB (BUY; TP: RM17.80) is our top pick. The news is not expected to impact CPO price as effective tax remains at USD50/MT at current level. Hence, we maintain our average CPO price of RM2175/MT for 2015. This represents a decline of 9%yoy against 2014 average CPO price of RM2383.50/MT. Our top pick is PPB as we expect the Company to benefit from low CPO price as Wilmar's Consumer Products segment margin is likely to expand in view of lower palm olein prices. Additionally, PPB's 1Q15 earnings growth at +61%yoy is also the strongest among index-linked planters which registered on average earnings decline of 48%yoy. Lastly, PPB earnings is poised to benefit from stronger USD as Wilmar earnings is reported in USD. 

Table 1: New Export Tax Structure for Indonesia (in USD/MT)

CPO Prices (USD/MT)	Products			
	CPO	Olein (bulk)	RBD Palm Oil	Biodiesel
<750	0	0	0	0
751-800	3	0	0	0
801-850	18	0	0	0
851-900	33	2	0	0
901-950	52	12	5	0
951-1000	74	26	17	0
1001-1050	93	40	30	1
1051-1100	116	56	44	3
1101-1150	144	70	57	3
1151-1200	166	83	70	36
1201-1250	183	100	81	36
>1250	200	117	92	64

Source: Indonesian Finance Ministry

Table 2: Previous Export Tax Structure for Indonesia (in %)

CPO Prices (USD/MT)	Products			
	CPO	Olein (bulk)	RBD Palm Oil	Biodiesel
<750	0.0%	0.0%	0.0%	0.0%
751-800	7.5%	2.0%	0.0%	0.0%
801-850	9.0%	3.0%	0.0%	0.0%
851-900	10.5%	4.0%	2.0%	0.0%
901-950	12.0%	5.0%	3.0%	0.0%
951-1000	13.5%	6.0%	4.0%	0.0%
1001-1050	15.0%	7.0%	5.0%	2.0%
1051-1100	16.5%	8.0%	6.0%	2.0%
1101-1150	18.0%	9.0%	7.0%	2.0%
1151-1200	19.5%	10.0%	8.0%	5.0%
1201-1250	21.0%	11.5%	9.0%	5.0%
>1250	22.5%	13.0%	10.0%	7.5%

Source: Indonesian Finance Ministry

Table 3: All In Export Tax Structure for Indonesia (in USD/MT)

CPO Prices (USD/MT)	Tax On Products (USD/MT)			
	CPO	Olein (bulk)	RBD Palm Oil	Biodiesel
<750	50	30	20	20
751-800	53	30	20	20
801-850	68	30	20	20
851-900	83	32	20	20
901-950	102	42	25	20
951-1000	124	56	37	20
1001-1050	143	70	50	21
1051-1100	166	86	64	23
1101-1150	194	100	77	23
1151-1200	216	113	90	56
1201-1250	233	130	101	56
>1250	250	147	112	84

Source: Indonesian Finance Ministry, MIDF Research Estimate

*Inclusive of USD50/MT export tax on CPO, USD30/MT on Olein, USD20/MT on RBD Palm Oil and USD20/MT on Biodiesel

Table 4: Comparison between New and Old Export Tax Structure for Indonesia

CPO Prices (USD/MT)	Tax On Products (USD/MT)			Savings, %
	New	Old	Savings	
<750	50.00	50.00	0.00	0.0%
751-800	53.00	56.25	3.25	5.8%
801-850	68.00	72.00	4.00	5.6%
851-900	83.00	89.25	6.25	7.0%
901-950	102.00	108.00	6.00	5.6%
951-1000	124.00	128.25	4.25	3.3%
1001-1050	143.00	150.00	7.00	4.7%
1051-1100	166.00	173.25	7.25	4.2%
1101-1150	194.00	198.00	4.00	2.0%
1151-1200	216.00	224.25	8.25	3.7%
1201-1250	233.00	252.00	19.00	7.5%
>1250	250.00	281.25	31.25	11.1%

Source: Indonesian Finance Ministry, MIDF Research Estimate

Table 5: Export Tax Structure for Malaysia (in RM/MT)

CPO Prices (RM/mt)	CPO Export Tax Rate (%)
2250-2400	4.5
2400-2550	5.0
2550-2700	5.5
2700-2850	6.0
2850-3000	6.5
3000-3150	7.0
3150-3300	7.5
3300-3450	8.0
3450-3600	8.5

Source: MPOB

Table 6: 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

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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.