

13 July 2015 | Sector Update

PLANTATION

Maintain NEUTRAL***No surprise in June stocks level***

KEY HIGHLIGHTS

- **June 2015 inventory level of 2.15m MT is within expectation.**
- **Export to India and Pakistan increased due to fasting month demand for palm oil.**
- **Production declined due to dry weather.**
- **Expect July inventory to decline 3% to 2.09m MT.**
- **Maintain NEUTRAL with 2015 average CPO price of RM2175/MT**
- **PPB (BUY; TP: RM17.80) is our top pick.**

June 2015 inventory level of 2.15m MT is within expectation as it is only 1% higher than consensus estimate of 2.12m MT. MoM, inventory declined 4% to 2.15m MT as export grew by 5% to 1.70m MT while production dropped by 3% to 1.76m MT. Export is stronger in June due to the stock up activity in India and Pakistan for the fasting month. As for production, the decline is mainly due to the unusually dry weather experienced in June. Overall, we believe that the news is neutral to CPO price as most fundamentals should have been priced in since consensus already expect the inventory to decline slightly MoM.

Export to India and Pakistan increased due to fasting month demand for palm oil. Export increased by 5% to 1.70m MT due to higher export to India (+27% to 436k MT) and Pakistan (+23% to 72k 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. However, export to China (-32% to 244k MT) and European Union (-19% to 217k MT) were lower and hence limit the overall export growth to only 5% MoM.

Production declined due to dry weather. Palm oil production was lower by 3% to 1.76m MT due to the dry weather experienced in June. According to Malaysian Meteorological Department, "Most areas in Peninsular Malaysia experienced hot and dry weather except in the southern and coastal areas of the east coast. Selangor, Perak, Southern Kedah, interior areas of Kelantan, Terengganu and Pahang received rainfall less than 100 mm with the percentage of anomalies less than 60% below the average."

Expect July inventory to decline 3% to 2.09m MT. We believe that the total demand of 1.93m MT is likely to outpace total supply of 1.87m MT in the month of July. Our key assumption is flat production MoM due to the dry weather currently. On the demand side, we expect export to decline slightly by 2% MoM as demand normalize after the fasting month. Despite the expected decline in inventory, we believe that its positive impact to CPO price is limited due to other factors such as rising US Dollar trend and low crude oil price.

Maintain NEUTRAL with 2015 average CPO price of RM2175/MT; PPB (BUY; TP: RM17.80) is our top pick. As the inventory level is not expected to have significant impact on CPO price, 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. For the top pick, we continue to like 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 USDMYR as Wilmar earnings is reported in USD.



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

	Jun-15	May-15	Diff.	MoM %	Jun-14	YoY%
Opening Stocks	2,249	2,189	59	2.7%	1,841	22.1%
Production	1,764	1,811	(47)	-2.6%	1,570	12.4%
Imports	103	101	2	2.4%	11	841.5%
Total Supply	4,116	4,101	15	0.4%	3,422	20.3%
Exports	1,697	1,614	84	5.2%	1,482	14.5%
Dom Disapp	267	239	28	11.8%	284	-5.7%
Total Demand	1,965	1,853	112	6.0%	1,765	11.3%
End Stocks	2,151	2,249	(97)	-4.3%	1,657	29.9%
Stock/Usage Ratio	9.1%	10.1%			7.8%	

Source: MPOB, MIDF Research

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

	Jun-15	May-15	Jun-14	MoM%	YoY%	6M15	6M14	YoY%
China	244	360	272	-32%	-10%	1,280	1,493	-14%
India	436	343	229	27%	90%	1,546	1,145	35%
EU	217	267	226	-19%	-4%	1,018	1,141	-11%
Pakistan	72	58	60	23%	19%	344	413	-17%
US	44	58	83	-24%	-46%	326	414	-21%
Others	685	320	613	114%	12%	3,824	3,526	8%
Total	1,697	1,407	1,483	21%	14%	8,337	8,133	3%

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

* As of 10-July-2015

Table 4: SIME Earnings Forecast

FYE Jun	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	48,318	46,109	43,908	43,462	45,643
EBIT	5,787	4,493	4,119	3,099	3,929
PBT	5,449	5,695	4,314	3,965	2,666
Net Income	4,150	3,701	3,353	1,878	2,503
Core Net Income	4,095	2,995	3,007	1,878	2,503
EPS (sen)	69.1	61.6	55.6	31.1	41.5
Core EPS (sen)	68.1	49.8	49.8	31.1	41.5
Net DPS (sen)	35.0	34.0	36.0	20.2	27.0
Net Dvd Yield	4.1%	4.0%	4.2%	2.4%	3.2%
Core PER	12.5	17.1	17.1	27.4	20.6
NTA/share (RM)	4.19	4.36	4.53	4.64	4.79
P/NTA	2.04	1.96	1.88	1.84	1.78
ROE	16.0%	13.7%	11.7%	6.4%	8.3%
ROA	8.6%	7.6%	6.6%	3.7%	4.8%

Source: Company, MIDF Research

Table 5: IOICORP Earnings Forecast

FYE Jun	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	14,599	12,199	11,911	11,320	11,018
EBIT	1,648	1,719	1,778	1,672	1,661
PBT	1,592	1,604	1,671	1,572	1,566
Net Income	1,161	1,280	1,255	1,233	1,228
Core Net Income	1,203	1,233	1,391	1,233	1,228
EPS (sen)	18.1	20.0	19.7	19.4	19.3
Core EPS (sen)	18.8	19.3	21.8	19.4	19.3
Net DPS (sen)	15.5	15.5	20.0	16.4	16.4
Net Dvd Yield	3.6%	3.6%	4.7%	3.9%	3.9%
Core PER	22.6	22.0	19.5	22.0	22.1
NTA/share (RM)	1.89	2.07	0.88	1.08	1.10
P/NTA	2.24	2.05	4.86	3.95	3.85
ROE	9.2%	9.4%	20.8%	16.7%	16.3%
ROA	5.0%	5.4%	8.2%	7.4%	7.4%

Source: Company, MIDF Research

Table 6: KLK Earnings Forecast

FYE Sep	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	10,570	9,147	11,130	9,945	10,371
EBIT	1,471	1,241	1,395	1,205	1,333
PBT	1,560	1,200	1,318	1,189	1,317
Net Income	1,211	918	992	853	952
Core Net Income	1,127	912	1,032	853	952
EPS (sen)	113.7	86.2	93.1	80.1	89.4
Core EPS (sen)	105.8	85.6	96.9	80.1	89.4
Net DPS (sen)	65.0	50.0	55.0	47.4	52.8
Net Dvd Yield	2.9%	2.2%	2.4%	2.1%	2.3%
Core PER	21.4	21.5	19.0	21.8	21.5
NTA/share (RM)	6.66	2.07	0.88	1.07	1.10
P/NTA	3.40	2.00	4.73	3.85	3.75
ROE	17.0%	12.2%	12.8%	10.3%	11.0%
ROA	10.6%	7.8%	7.7%	6.6%	7.1%

Source: Company, MIDF Research

Table 7: PPB Earnings Forecast

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	3,018	3,313	3,701	3,742	3,933
EBIT	198	278	313	337	342
PBT	917	1,063	1,028	1,056	1,073
Net Income	842	983	917	963	977
Core Net Income	842	953	917	963	977
EPS (sen)	71.0	82.9	77.3	81.2	82.4
Core EPS (sen)	71.0	80.3	77.3	81.2	82.4
Net DPS (sen)	20.0	25.0	23.0	24.4	24.7
Net Dvd Yield	1.3%	1.6%	1.5%	1.6%	1.6%
Core PER	21.7	19.2	19.9	19.0	18.7
NTA/share (RM)	11.97	13.14	14.12	14.25	14.83
P/NTA	1.29	1.17	1.09	1.08	1.04
ROE	5.9%	6.3%	5.5%	5.7%	5.5%
ROA	5.4%	5.8%	4.9%	5.3%	5.2%

Source: Company, MIDF Research

Table 8: FGV Earnings Forecast

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	12,886	12,568	16,369	17,766	18,396
EBIT	957	1,478	885	746	851
PBT	1,094	1,536	859	700	730
Net Income	806	982	325	256	281
Core Net Income	766	42	176	256	281
EPS (sen)	22.09	26.92	8.92	7.02	7.70
Core EPS (sen)	20.99	1.16	4.84	7.02	7.70
Net DPS (sen)	14.0	16.0	10.0	7.0	7.7
Net Dvd Yield	8.6%	9.8%	6.1%	4.3%	4.7%
Core PER	7.8	140.7	33.7	23.2	21.2
NTA/share (RM)	1.48	1.53	1.33	1.37	1.37
P/NTA	1.10	1.07	1.23	1.19	1.19
ROE	13.2%	14.9%	5.1%	3.9%	4.3%
ROA	4.9%	4.7%	1.6%	1.1%	1.2%

Source: Company, MIDF Research

Table 9: GEPN Earnings Forecast

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	1,233	1,384	1,643	1,432	1,514
EBIT	395	287	513	362	341
PBT	404	300	520	403	381
Net Income	327	228	377	295	279
Core Net Income	329	330	380	295	279
EPS (sen)	43.1	30.0	49.3	38.5	36.5
Core EPS (sen)	43.4	43.5	49.7	38.5	36.5
Net DPS (sen)	9.4	35.8	10.0	9.6	9.1
Net Dvd Yield	0.9%	3.5%	1.0%	0.9%	0.9%
Core PER	23.5	23.5	20.5	26.5	28.0
NTA/share (RM)	4.28	4.30	4.89	4.93	5.20
P/NTA	2.38	2.37	2.09	2.07	1.96
ROE	9.6%	6.6%	9.7%	7.5%	6.7%
ROA	6.9%	4.7%	6.7%	5.6%	5.1%

Source: Company, MIDF Research

Table 10: IJMP Earnings Forecast

FYE Mar	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	486	647	668	579	588
EBIT	159	153	141	213	203
PBT	157	109	89	206	196
Net Income	120	89	90	162	155
Core Net Income	129	109	142	162	155
EPS (sen)	14.9	11.1	10.7	19.2	18.4
Core EPS (sen)	16.0	13.7	16.8	19.2	18.4
Net DPS (sen)	7.0	7.0	6.0	8.7	8.3
Net Dvd Yield	2.0%	2.0%	1.7%	2.5%	2.4%
Core PER	16.0	13.7	16.8	19.2	18.4
NTA/share (RM)	1.74	1.73	1.91	1.80	1.90
P/NTA	2.02	2.03	1.84	1.95	1.85
ROE	8.6%	6.4%	5.6%	10.7%	9.7%
ROA	5.6%	4.0%	3.5%	7.5%	6.9%

Source: Company, MIDF Research

Table 11: TSH Earnings Forecast

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	984	1,016	1,071	989	1,007
EBIT	111	156	174	218	235
PBT	100	164	168	188	203
Net Income	77	151	124	131	140
Core Net Income	89	140	151	131	140
EPS (sen)	5.73	11.54	9.20	9.73	10.42
Core EPS (sen)	6.64	10.73	11.24	9.73	10.42
Net DPS (sen)	2.50	3.50	2.50	2.43	2.61
Net Dvd Yield	1.1%	1.6%	1.1%	1.1%	1.2%
Core PER	33.9	21.0	20.0	23.1	21.6
NTA/share (RM)	0.69	0.84	0.92	1.01	1.09
P/NTA	3.24	2.68	2.44	2.24	2.07
ROE	8.7%	14.3%	10.5%	10.2%	10.1%
ROA	3.5%	6.4%	4.8%	5.1%	5.4%

Source: Company, MIDF Research

Table 12: TAANN Earnings Forecast

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	790	770	1,012	1,008	1,023
EBIT	93	64	166	134	132
PBT	78	113	168	124	122
Net Income	57	93	124	91	89
Core Net Income	80	70	126	91	89
EPS (sen)	15.51	25.09	33.37	24.60	24.12
Core EPS (sen)	21.69	18.84	34.06	24.60	24.12
Net DPS (sen)	5.00	5.00	20.00	9.84	9.65
Net Dvd Yield	1.3%	1.3%	5.2%	2.6%	2.5%
Core PER	17.8	20.4	11.3	15.7	16.0
NTA/share (RM)	2.42	2.57	2.91	3.06	3.21
P/NTA	1.59	1.50	1.32	1.26	1.20
ROE	6.0%	9.2%	11.0%	7.7%	7.2%
ROA	3.4%	5.2%	6.6%	4.8%	4.6%

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.