



# Regional Plantations

**NEUTRAL** (Unchanged)

## Inventory still high at 2.15m MT

- 32-month high exports lowered June 2015's inventory to 2.15m MT (-4% MoM), but still high relative to the past.
- Weak CPO fundamentals are held up by the potential return of a strong El Nino in 2H15.
- NEUTRAL on the sector. Top Buys are FR, BAL, GENP and SOP.

### What's New

The Malaysian Palm Oil Board's (MPOB) June 2015 inventory fell 4% MoM to 2.15m MT (+30% YoY), below street's estimates of 2.18m MT. The lower June stockpile was mainly due to strong exports (32-month high) of 1.7m MT (+5% MoM, +15% YoY). The combination of higher exports and relatively healthy domestic consumption of 0.27m (+12% MoM, -6% YoY) offset a MoM decline in CPO production of 1.76m MT (-3% MoM, +12% YoY).

The robust June 2015 exports were partly negated by weak exports estimates for the first 10 days of July. According to independent cargo surveyors, Intertek and SGS, the preliminary export estimates for the first 10 days of July were weak at 0.32m MT (-33% MoM) and 0.31m MT (-35% MoM) respectively. While still preliminary, the decline in exports could be partly due to the high base of June, and partly due to lower output as productivity is anticipated to drop during the Ramadhan month.

### What's Our View

The June 2015 stock level of 2.15m MT is however considered high by historical standards. In addition, CPO production typically peaks in 2H and will push inventory levels higher which would be negative for prices. The good news is weather indicators continue to suggest that a confirmed El Nino is gaining strength; it will peak sometime in 2-3 months and may last till early 2016. Sea surface temperatures reading in the Pacific Ocean continues to mirror those of the strong 1997/98 El Nino. An El Nino typically brings below average rainfall to this region that could result in lower CPO output (although with some time lag), boosting prices.

Palm oil exports may gather momentum if El Nino also affects soybean crop development in the USA and South America in 2H15. Furthermore, a strict enforcement of Indonesia's B15 programme (funding mechanism is in place) from Aug 2015 onwards could help boost CPO price as well. The present CPO price discount to US soyoil at USD139/t compared to the past 12M's average of USD88/t has improved palm oil's price competitiveness vis-a-vis soyoil.

Our MYR2,400/t CPO ASP forecast for 2015 is unchanged for now. Our long term top BUYs in the region are First Resources, Bumitama Agri, Genting Plantations, and Sarawak Oil Palms for their growth propositions and the embedded deep values of their landbank (for the two Malaysian planters).

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### Regional CPO price forecast

	2014A	2015F
	MYR/t	MYR/t
Full year average (FOB)	2,416	2,400
<b>MDEX:</b>		
3M CPO price (10 July)	-	2,194
YTD (10 July) CPO ASP	-	2,228

Source: Maybank KE, Bloomberg

### Regional Plantation coverage

Company	Rec	Shr px	Target	Upside
			px	
<b>M'sia listed</b>				
		LCY	LCY	%
Sime Darby	Hold	8.54	8.87	3.9
IOI Corp	Hold	4.25	3.85	(9.4)
KL Kepong	Hold	22.68	21.40	(5.6)
FGVH	Hold	1.63	1.94	19.0
Gent Plant	Buy	10.20	11.26	10.4
SwkOil Palms	Buy	4.62	6.72	45.5
TSH Res	Hold	2.25	2.32	3.1
Ta Ann	Buy	3.85	5.90	53.2
TH Plant	Hold	1.55	1.37	(11.6)
BPlant	Buy	1.39	1.65	18.7
<b>S'pore listed</b>				
Wilmar	Buy	3.23	4.04	25.1
First Res	Buy	2.16	2.22	2.8
Bumitama	Buy	1.01	1.14	13.4
<b>Indo listed</b>				
Astra Agro	Hold	25575	24000	(6.2)

Source: Maybank KE

Fig 1: Sector Summary Table

Company	Rating	Mkt Cap 10 Jul (USD m)	Shr px 10 Jul (LCY)	TP (LCY)	EPS Growth (%)		PE (x)		Div Yield (%)		EV/EBITDA (x)		P/B (x)	ROE (%)
					15F	16F	15F	16F	15F	16F	15F	16F		
Sime Darby	Hold	13,981	8.54	8.87	(9.6)	30.3	22.6	17.3	2.5	3.2	13.5	11.4	1.8	7.9
IOI Corp	Hold	7,096	4.25	3.85	(15.1)	19.3	26.4	22.1	1.5	2.3	20.3	15.3	4.5	12.6
KL Kepong	Hold	6,366	22.68	21.40	(6.3)	14.6	27.1	23.6	2.3	2.5	16.3	14.3	3.1	11.5
FGVH	Hold	1,567	1.63	1.94	261.5	28.7	17.3	13.5	3.3	3.7	9.0	7.7	0.9	5.3
Gent Plant'ns	Buy	2,082	10.20	11.26	(2.0)	26.5	21.1	16.7	1.0	1.2	15.9	13.0	1.9	8.9
SOP	Buy	536	4.62	6.72	18.1	47.9	15.2	10.3	0.9	1.1	8.2	6.2	1.4	9.6
TSH Resources	Hold	804	2.25	2.32	(1.7)	22.0	22.5	18.4	1.3	1.6	19.2	16.3	2.3	10.8
Ta Ann	Buy	376	3.85	5.90	(9.2)	42.4	14.2	10.0	3.2	4.5	7.0	5.2	1.3	9.3
TH Plant	Hold	361	1.55	1.37	2.8	92.5	38.8	20.1	1.3	2.5	15.6	11.3	1.1	2.9
Boustead Plant	Buy	586	1.39	1.65	(26.1)	79.3	47.9	26.7	2.9	2.2	21.0	15.1	1.0	3.7
<b>Malaysia Average</b>							<b>24.3</b>	<b>19.3</b>						
Wilmar	Buy	15,321	3.23	4.04	15.3	11.4	10.9	9.8	1.7	1.9	12.0	11.0	1.0	9.1
Golden Agri *	N.R.	3,589	0.380	N.R.	11.8	31.6	14.8	11.3	2.5	3.2	11.0	9.2	0.4	2.8
First Resources	Buy	2,538	2.16	2.22	0.0	18.3	14.7	12.4	2.0	2.4	10.0	8.4	2.1	14.6
Bumitama Agri	Buy	1,310	1.01	1.14	5.0	17.0	13.4	11.4	1.5	1.8	10.0	8.7	2.3	18.6
Indofood Agri *	N.R.	699	0.68	N.R.	4.5	27.9	11.9	9.3	0.8	1.0	7.7	6.4	0.6	5.0
<b>Singapore Average</b>							<b>12.1</b>	<b>10.4</b>						
Astra Agro	Hold	3,025	25,575	24,000	(9.8)	11.6	17.8	16.0	1.9	2.1	11.0	10.4	3.0	18.7
Salim Ivomas Pratama*	N.R.	713	600	N.R.	(29.5)	49.1	15.8	10.6	1.7	2.2	6.6	5.4	0.7	4.7
London Sumatera	N.R.	815	1,590	N.R.	(9.6)	13.6	13.1	11.6	2.9	2.9	7.2	6.3	1.4	12.1
Sampoerna Agro *	N.R.	236	1,660	N.R.	(10.2)	26.4	10.3	8.1	2.7	1.7	6.8	5.6	1.0	10.9
BW Plant'n *	N.R.	964	407	N.R.	(50.4)	103.7	50.5	24.8	0.2	0.1	14.8	11.1	0.9	10.2
<b>Indonesia Average</b>							<b>22.1</b>	<b>15.8</b>						

Source: Maybank-KE, \*bloomberg estimates

Fig 2: Malaysia's Monthly Palm Oil Statistics for April - June 2015

	Apr 15 (tonne)	May 15 (tonne)	Jun 15 (tonne)	MoM chg (%)	YoY chg (%)	Jan-Jun 15 (tonne)	YoY chg (%)
Production	1,693,424	1,810,709	1,763,928	(3)	12	9,045,527	0.2
Import	65,007	101,108	103,496	2	841	464,608	223
Disappearance	259,631	239,153	267,458	12	(6)	1,560,777	10
Exports	1,175,248	1,613,566	1,697,256	5	15	7,813,860	(4)
Closing stock	2,189,479	2,248,577	2,151,287	(4)	30	2,151,287	30

Sources: MPOB, Maybank-KE

Fig 3: Malaysia's Monthly Exports for April - June 2015

	Apr 15 (tonne)	May 15 (tonne)	Jun 15 (tonne)	MoM chg (%)	YoY chg (%)	Jan-Jun 15 (tonne)	YoY chg (%)
China	262,713	359,660	243,932	(32)	(10)	1,280,045	(14)
India	87,391	342,859	435,833	27	90	1,545,964	35
EU	130,520	267,245	216,678	(19)	(4)	1,017,861	(11)
USA	77,324	45,410	44,331	(2)	(46)	333,222	(20)
Pakistan	64,562	58,385	71,559	23	19	343,711	(17)
Others	552,738	540,007	684,923	27	12	3,293,057	(6)
<b>Total</b>	<b>1,175,248</b>	<b>1,613,566</b>	<b>1,697,256</b>	<b>5</b>	<b>15</b>	<b>7,813,860</b>	<b>(4)</b>

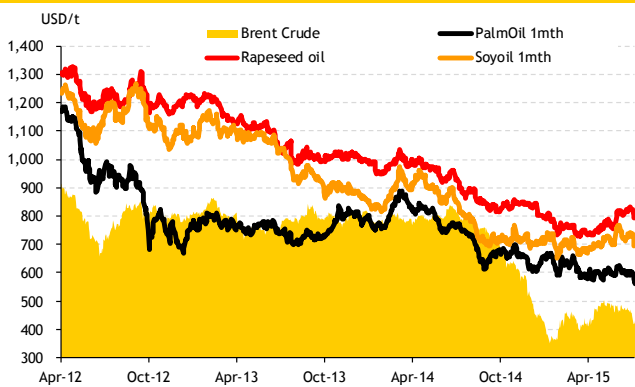
Sources: MPOB, Maybank-KE

### June 2015 exports at 32-month high

The Malaysian Palm Oil Board's (MPOB) June 2015 inventory fell 4% MoM to 2.15m MT (+30% YoY), below street's estimates of 2.18m MT. The lower June stockpile was mainly due to strong exports (32-month high) of 1.7m MT (+5% MoM, +15% YoY). The combination of higher exports and relatively healthy domestic consumption of 0.27m (+12% MoM, -6% YoY) offset a MoM decline in CPO production of 1.76m MT (-3% MoM, +12% YoY).

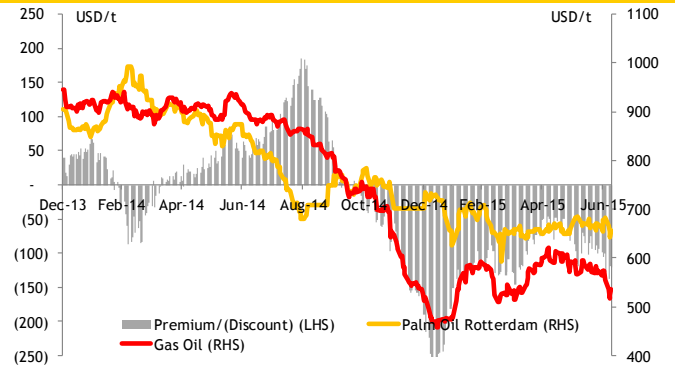
As for exports breakdown, there was notably MoM export increase to India (436k MT, +27% MoM, +90% YoY), Pakistan (72k MT, +23% MoM, +19% YoY) and Others (685k MT, +27% MoM, +12% YoY). Conversely, a slowdown in exports were recorded to China (244k MT, -32% MoM, -10% YoY), EU (217k MT, -19% MoM, -4% YoY), and USA (44k MT, -2% MoM, -46% YoY).

Fig 4: Major vegetable oils vs crude oil price



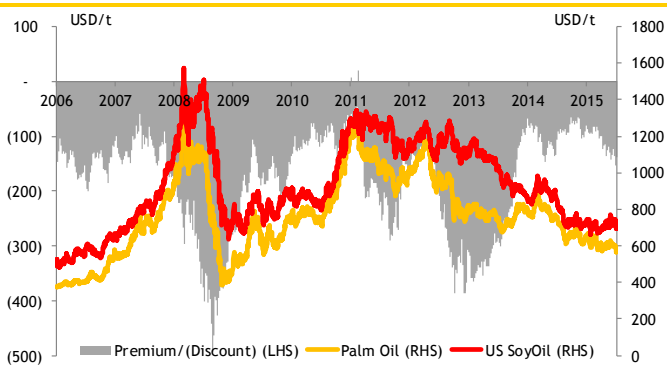
Source: Bloomberg, Maybank-KE

Fig 5: Palm oil- gas oil (POGO) spread at ~USD121/t



Source: Bloomberg, Maybank-KE

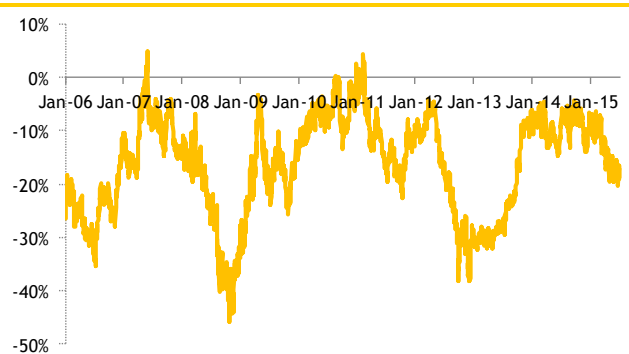
Fig 6: 3M Palm Oil price discount to US Soybean Oil has widened slightly to USD139/t (9 July 15)



Average discount since 2006: USD164/t

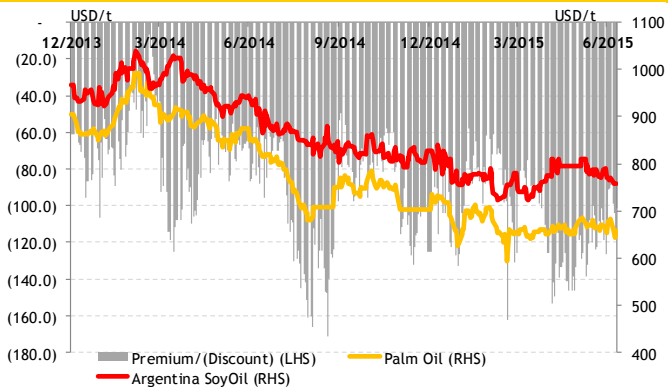
Source: Bloomberg, Maybank-KE

Fig 7: 3M palm oil price discount to US soybean oil



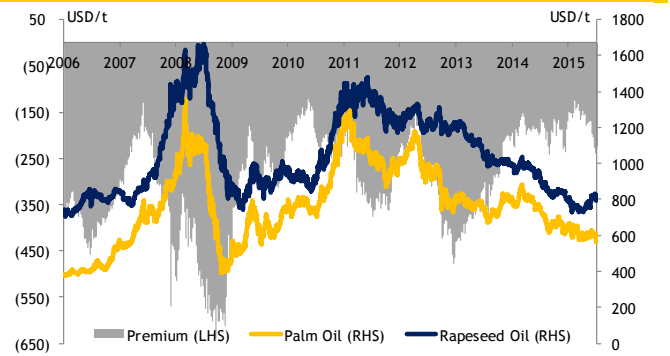
Source: Bloomberg, Maybank-KE

**Fig 8: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil has widened to USD101/t (9 July 15)**



Source: Bloomberg, Maybank-KE

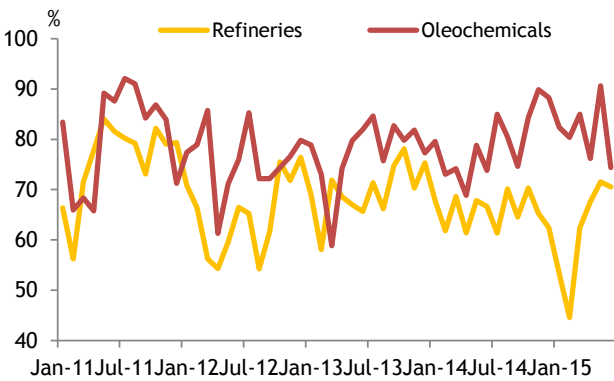
**Fig 9: 3M Palm Oil price discount to Rapeseed Oil still narrow at USD224/t (9 July 15)**



Average discount since 2006: USD277/t

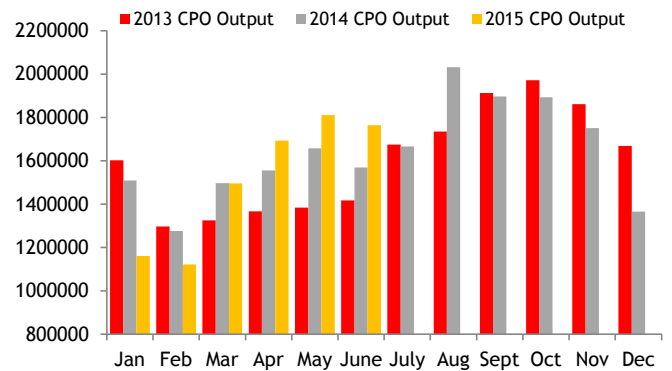
Source: Bloomberg, Maybank-KE

**Fig 10: M'sia's Refinery & Oleochem's Utilisation Rates**



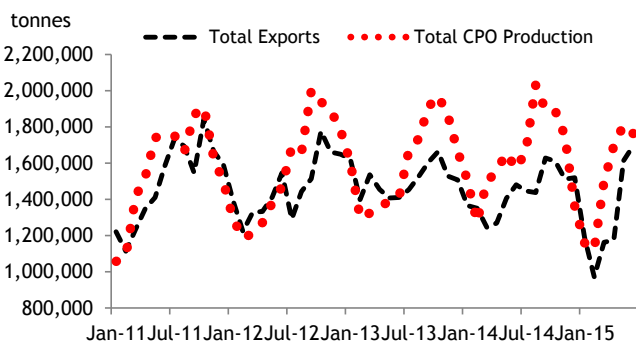
Source: MPOB, Maybank-KE

**Fig 11: Malaysia's CPO production output**



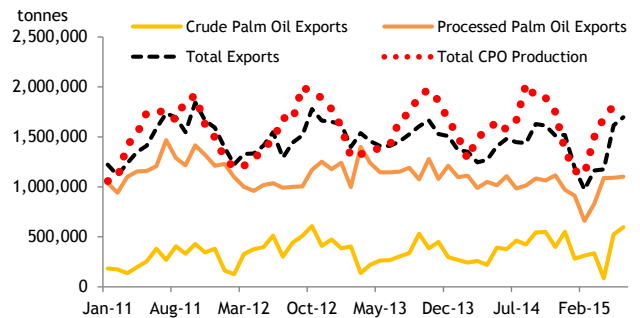
Source: MPOB, Maybank-KE

**Fig12: Malaysia's Monthly Exports vs Production (by tonnes)**



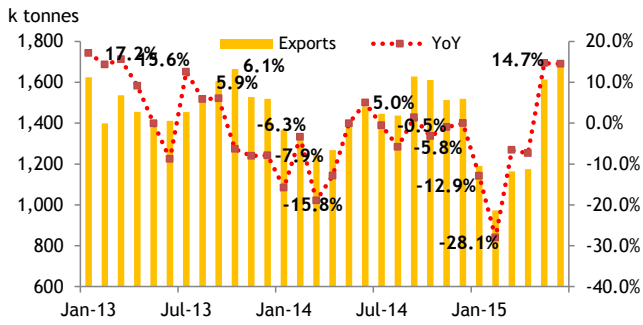
Source: MPOB, Maybank-KE

**Fig 13: Monthly Export of Palm Oil Products (by tonnes)**



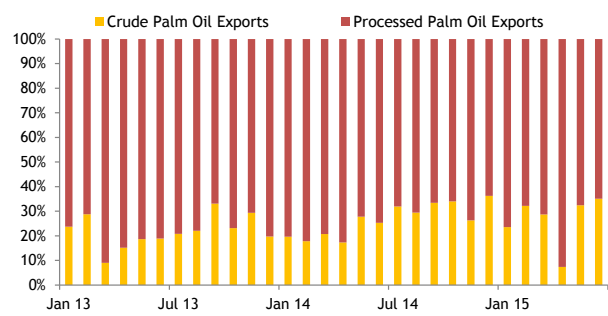
Source: MPOB, Maybank-KE

Fig 14: Monthly Exports Trends of Palm Oil (by tonnes)



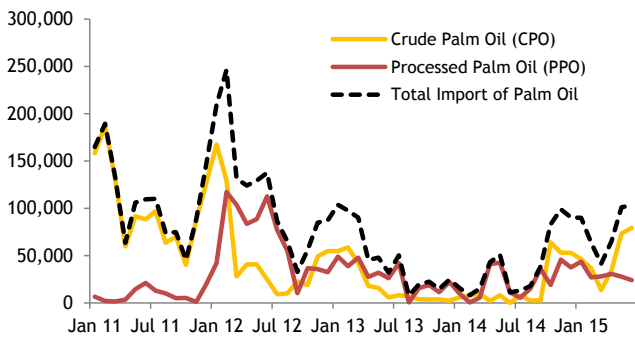
Source: MPOB, Maybank-KE

Fig 15: Monthly Export of Palm Oil Products (by %)



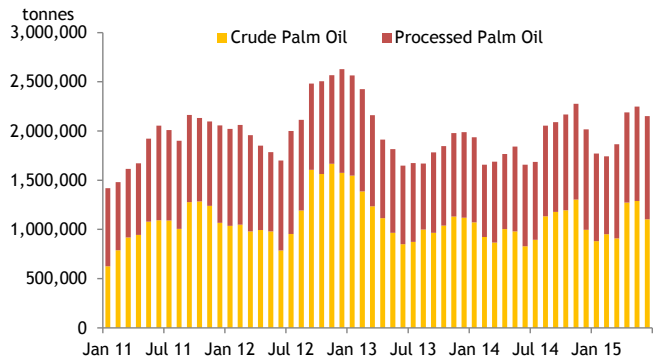
Source: MPOB, Maybank-KE

Fig 16: Import trend of Palm Oil Products (by tonnes)



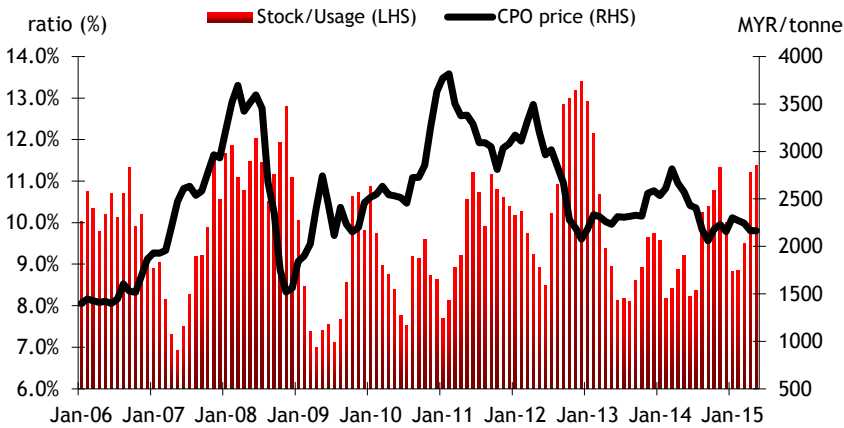
Source: MPOB, Maybank-KE

Fig 17: Monthly Stockpile (by type)



Source: MPOB, Maybank-KE

Fig 18: Monthly Stock-to-Usage Ratio vs. CPO prices



Sources: MPOB, Maybank KE

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