SECTOR RESEARCH | Regional

Maybank IB Research

December 11, 2015

Regional Plantations

NEUTRAL (Unchanged)

Red flag by Malaysian refiners

- Expect slower drawdown of stockpile in 1Q16 as Malaysia refiners are not operating optimally; mutes CPO price upside.
- Third consecutive month of record stockpile of 2.91m (Nov 2015) despite seasonal decline in CPO production.
- Stay NEUTRAL for now, but El Nino provides situational play (not structural) in 1H16.

What's New

The Malaysian Palm Oil Board's (MPOB) Nov 2015 inventory inched higher to post another record stockpile of 2.91m MT (+3% MoM, +28% YoY). This was despite a seasonal decline in CPO production whereby November production was down 19% MoM to 1.65m MT (-6% YoY). The decline in production was offset by higher imports (0.12m MT, +66% MoM, +23% YoY). Together with lower exports at 1.50m (-12% MoM, -1% YoY), this resulted in the higher stockpile.

The good news is CPO production peaked in Aug-Oct 2015 and is on a seasonal decline till Feb 2016. The bad news is exports have been below potential in Sept and Oct 2015, as reflected in the low refinery utilization rate at 67%/64% (a red flag to us) despite ample feedstock. Malaysian refiners have clearly lost price competitiveness vis-à-vis Indonesian refiners as the latter benefit from the USD20-30/t export tax differential introduced in Jul 2015.

Malaysia has traditionally exported more processed palm oil (PPO) compared to CPO; averaging 81% of total exports in the past decade. But since Malaysian refiners are no longer as competitive, one key engine of export growth is no longer functioning optimally. Hence, the drawdown in Malaysia's palm oil stockpile could be slower than anticipated in 1Q16 and this could mute CPO price upside. Already Intertek's (an independent cargo surveyor) preliminary export estimates for the first 10 days of Dec suggest a 35% MoM decline to 0.28m MT. Although this is partly seasonal, the sharp contraction in export is not healthy.

What's Our View

The Northeast monsoon has brought back the much needed rainfall, but the El Nino damage has been done with the market expecting FFB yield to be sharply lower YoY in 2016, especially for areas badly affected by the Aug-Oct 2015 dry spell. This situational play should benefit CPO price in general as it typically more than compensates for the decline in production. Still, November's high stockpile and present low crude oil price will likely cap the upside of CPO price over next 2 months (unless the MYR weakens sharply against the USD). We maintain our view that CPO price could trend higher in early 2016 and peak sometime in Mar-May 2016 with the possibility of hitting MYR2,700/t. Our fundamental view for the sector remains a NEUTRAL. But, there is opportunity for an El Nino trade in 1H16. Our BUYs are SOP, TAH, BPlant and AALI. SELL FGV.

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Regional CPO price forecast

	2015F	2016F
	MYR/t	MYR/t
Full year average (FOB)	2,100	2,300
MDEX:		
3M CPO price (10 Dec)	2,374	-
YTD (10 Dec) CPO ASP	2,168	-

Source: Maybank KE, Bloomberg

Regional Plantation coverage

Company	Rec	Shr px	Target px	Upside
M'sia listed		LCY	LCY	%
Sime Darby	Hold	7.44	7.98	7.3
IOI Corp	Hold	4.21	3.97	(5.7)
KL Kepong	Hold	21.96	22.24	1.3
FGVH	Sell	1.58	1.30	(17.7)
Gent Plant	Hold	9.95	10.00	0.5
SwkOil Palms	Buy	4.33	5.23	20.8
TSH Res	Hold	1.97	1.80	(8.6)
Ta Ann	Buy	4.66	6.90	48.1
TH Plant	Hold	1.13	1.30	15.0
BPlant	Buy	1.40	1.56	11.4
S'pore listed				
Wilmar	Buy	2.89	4.14	43.3
First Res	Hold	1.92	1.73	(9.9)
Bumitama	Hold	0.73	0.85	17.2
Indo listed				
Astra Agro	Buy	16575	24000	44.8

Source: Maybank KE

PP16832/01/2013 (031128)

Fig 1: Sector Summary Table

Company	Rating	Mkt Cap 10 Dec (USD m)	Shr px 10 Dec (LCY)	TP (LCY)	EPS Growth (%) 15F	EPS Growth (%) 16F	PE (x) 15F	PE (x) 16F	Div Yield (%) 15F	Div Yield (%) 16F	EV/EBITDA (x) 15F	EV/EBITDA (x) 16F	P/B (x) 15F	ROE (%) 15F
SIME- Sime Darby	Hold	10,840	7.44	7.98	(22.4)	10.5	21.8	19.7	3.0	3.3	14.0	13.6	1.5	7.1
IOI- IOI Corp	Hold	6,222	4.21	3.97	(25.7)	11.9	30.4	27.2	1.9	1.8	25.9	18.7	5.6	10.3
KLK- KL Kepong	Hold	5,486	21.96	22.24	(12.0)	9.0	28.2	25.9	2.1	2.3	17.4	15.6	2.5	9.2
FGV- Felda Global	Sell	1,352	1.58	1.30	46.2	113.2	41.6	19.5	1.6	2.6	12.0	9.0	0.9	2.2
GENP -Gent Plant	Hold	1,820	9.95	10.00	(40.4)	42.2	33.8	23.8	0.6	0.8	22.5	17.8	1.9	5.7
SOP- Swk Oil Palms	Buy	447	4.33	5.23	(40.1)	126.6	28.1	12.4	0.5	0.9	11.3	7.2	1.4	5.0
TSH- TSH Resources	Hold	626	1.97	1.80	(37.1)	47.2	30.8	20.9	1.0	1.4	20.4	17.3	2.1	7.1
TAH- Ta Ann	Buy	405	4.66	6.90	49.3	2.5	10.5	10.2	4.3	4.4	5.8	5.5	1.5	15.0
THP- TH Plant	Hold	234	1.13	1.30	(30.8)	81.5	41.9	23.1	1.2	2.2	17.4	12.1	0.8	2.0
BPlant- Bous Plant	Buy	525	1.40	1.56	(35.9)	72.0	56.0	32.6	7.1	2.4	24.6	17.3	0.9	8.7
Malaysia Average							**27.6**	**22.9**						
WIL- Wilmar	Buy	13,002	2.89	4.14	8.4	11.7	10.0	8.9	1.8	2.0	12.0	11.1	0.8	8.0
GGR- Golden Agri *	N.R	2,992	0.330	N.R.	(17.6)	28.6	16.8	13.1	2.1	3.0	11.0	9.1	0.3	2.1
FR- First Resources	Hold	2,167	1.92	1.73	(26.6)	17.5	17.1	14.5	1.8	2.1	11.1	9.0	2.4	12.8
BAL- Bumitama	Hold	906	0.73	0.85	(24.6)	21.8	13.5	11.1	1.5	1.8	10.7	8.3	2.2	14.6
IFAR-Indofood Agri*	N.R	472	0.48	N.R.	(45.7)	61.4	16.2	10.1	0.6	1.0	9.7	7.7	0.5	2.3
Singapore Average							**12.1**	**10.3**						
AALI- Astra Agro	Buy	1,871	16,575	24,000	(74.3)	156.5	40.5	15.8	0.8	2.2	12.6	9.5	2.1	5.6
SIMP- Salim Ivomas*	N.R	415	366	N.R.	(51.5)	38.8	14.0	10.1	3.0	2.2	6.1	5.3	0.4	2.9
LSIP- London Sum	N.R	638	1,305	N.R.	(31.6)	13.9	14.2	12.5	3.6	2.8	7.4	6.5	1.2	8.8
SGRO- Sampoerna *	N.R	196	1,450	N.R.	(32.9)	17.6	12.0	10.2	2.8	2.2	8.1	6.9	0.9	8.1
BWPT - BW Plant *	N.R	251	111	N.R.	(87.2)	150.5	53.4	21.3	1.6	0.5	8.4	6.3	0.5	1.1
Indonesia Average							**31.6**	**14.6**						

*Source: Maybank-KE, *bloomberg estimates*

Fig 2: Malaysia's Monthly Palm Oil Statistics for Sep – Nov 2015

	Sept 15 (tonne)	Oct 15 (tonne)	Nov 15 (tonne)	MoM chg (%)	YoY chg (%)
Production	1,959,064	2,037,466	1,653,068	*(19)*	*(6)*
Import	75,962	73,434	121,819	*66*	*23*
Consumption	205,160	205,010	202,869	*(1)*	*(9)*
Exports	1,680,505	1,711,869	1,499,112	*(12)*	*(1)*
Closing stock	2,641,567	2,835,588	2,908,494	*3*	*28*

Sources: MPOB, Maybank-KE

Fig 3: Malaysia's Monthly Exports for Sep - Nov 2015

	Sept 15 (tonne)	Oct 15 (tonne)	Nov 15 (tonne)	MoM chg (%)	YoY chg (%)
China	192,537	167,470	160,364	*(4)*	*(53)*
India	357,166	441,035	390,074	*(12)*	*37*
EU	227,963	221,599	214,899	*(3)*	*4*
USA	50,319	74,522	42,111	*(43)*	*(2)*
Pakistan	57,766	57,949	56,744	*(2)*	*13*
Others	794,754	749,294	634,920	*(15)*	*8*
Total	**1,680,505**	**1,711,869**	**1,499,112**	*(12)*	*(1)*

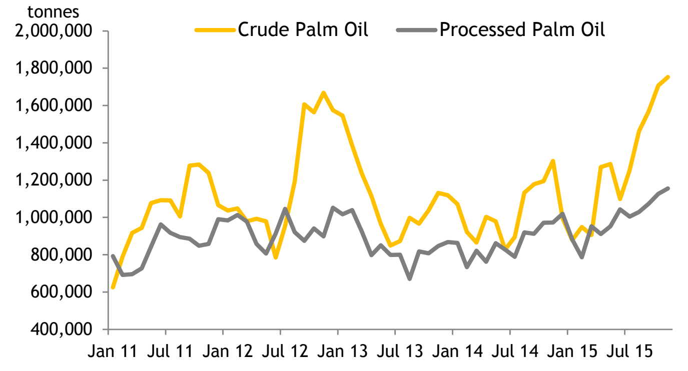
Sources: MPOB, Maybank-KE

Third consecutive month of record stockpile in Nov 2015

The Malaysian Palm Oil Board's (MPOB) November 2015 inventory inched higher to post another record stockpile of 2.91m MT (+3% MoM, +28% YoY). This was despite a seasonal decline in CPO production whereby November production was down 19% MoM to 1.65m MT (-6% YoY). The decline in production was offset by higher imports (0.12m MT, +66% MoM, +23% YoY). Together with lower exports at 1.50m (-12% MoM, -1% YoY), this resulted in the higher stockpile. Meanwhile domestic consumption was flattish MoM at 0.20m MT (-9% YoY).

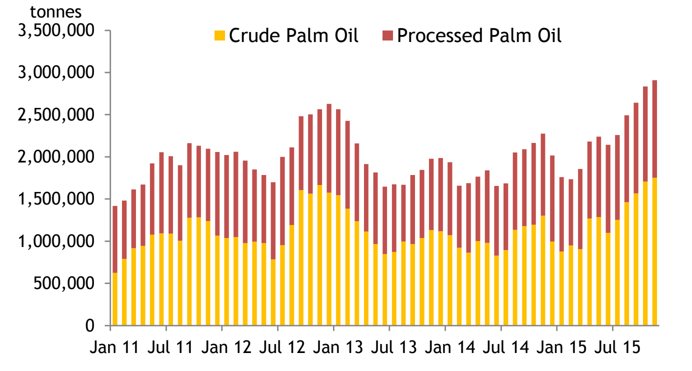
As for the exports, there was an overall decline to all major destination markets. The key decline was registered for India (390k MT, -12% MoM, +37% YoY) post-Diwali demand but mitigated by El Nino worries, and USA (42k MT, -43% MoM, -2% YoY). Lower demand was also registered from EU (215k MT, -3% MoM, +4% YoY), China (160k MT, -4% MoM, -53% YoY), Pakistan (57k MT, -2% MoM, +13% YoY), and Others (635k MT, -15% MoM, +8% YoY).

Fig 4: Monthly Stockpile (by type)



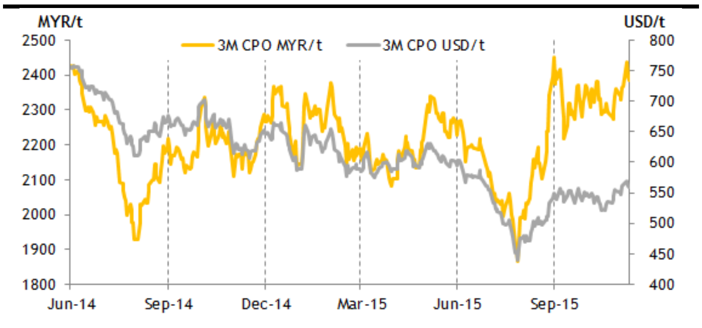
Source: MPOB, Maybank-KE

Fig 5: Monthly Stockpile (by type)



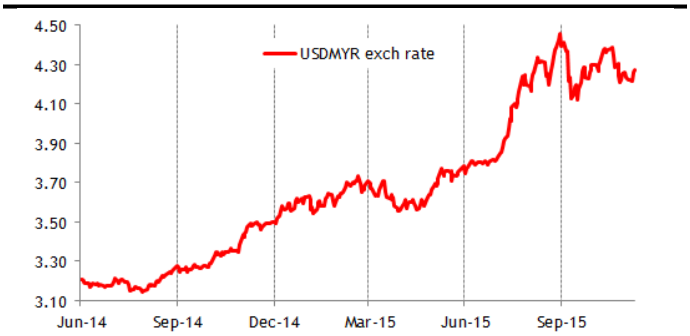
Source: MPOB, Maybank-KE

Fig 6: CPO price (in USD and MYR)



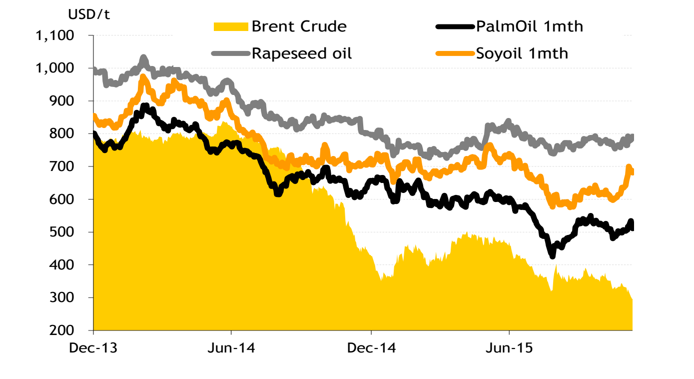
Source: Bloomberg, Maybank-KE

Fig 7: USDMYR exchange rate



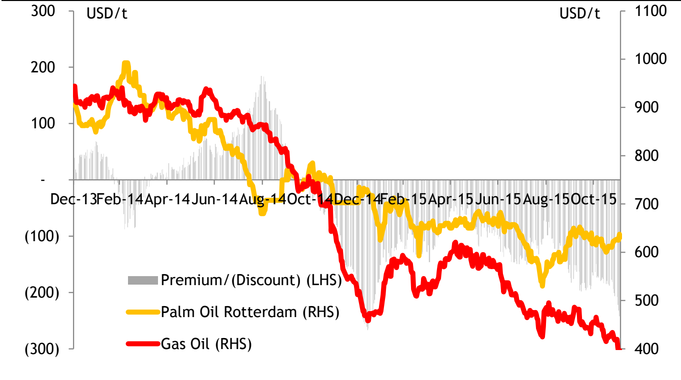
Source: Bloomberg, Maybank-KE

Fig 8: Major vegetable oils vs crude oil price



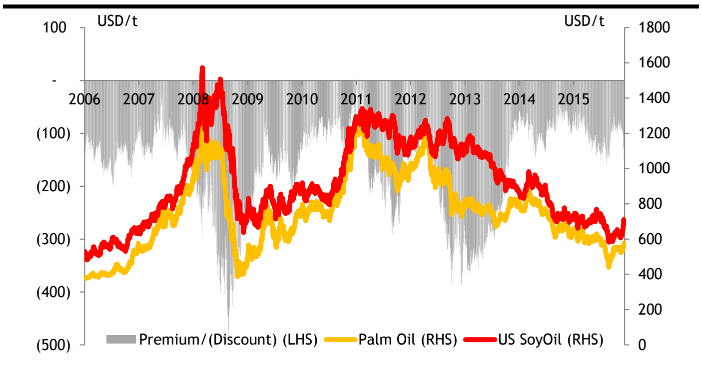
Source: Bloomberg, Maybank-KE

Fig 9: Palm oil-gas oil (POGO) spread at ~USD267/t (9 Dec 2015)



Source: Bloomberg, Maybank-KE

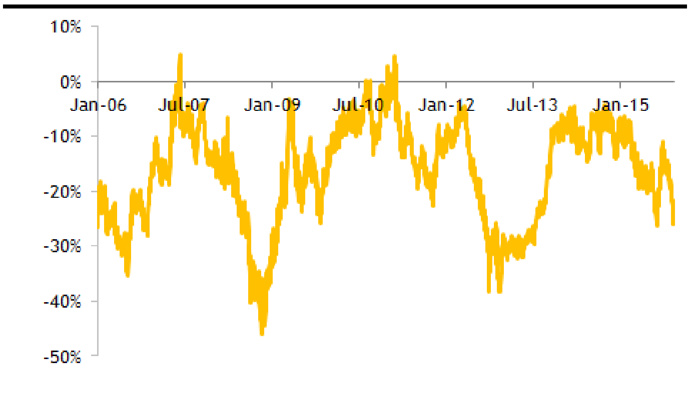
Fig 10: 3M palm oil price discount to US soybean oil at USD133/t (9 Dec 15)



Average discount since 2006: USD162/t

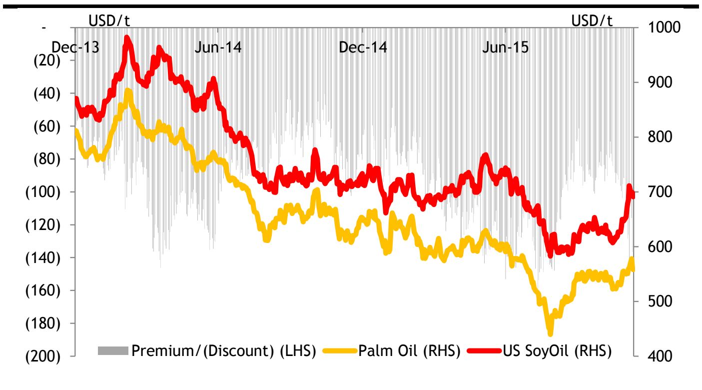
Source: Bloomberg, Maybank-KE

Fig 11: 3M palm oil price discount to US soybean oil



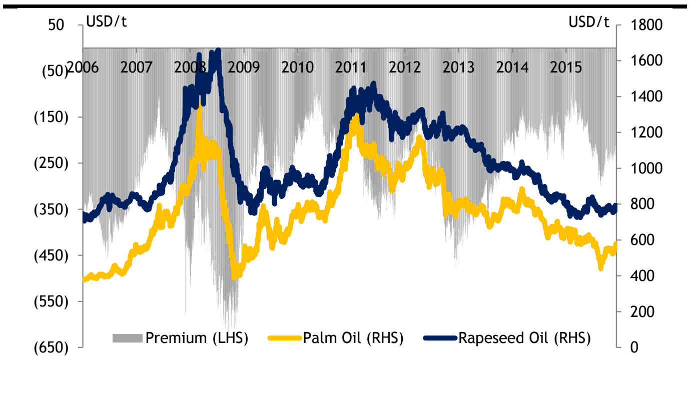
Source: Bloomberg, Maybank-KE

Fig 12: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD143/t (9 Dec 15)



Source: Bloomberg, Maybank-KE

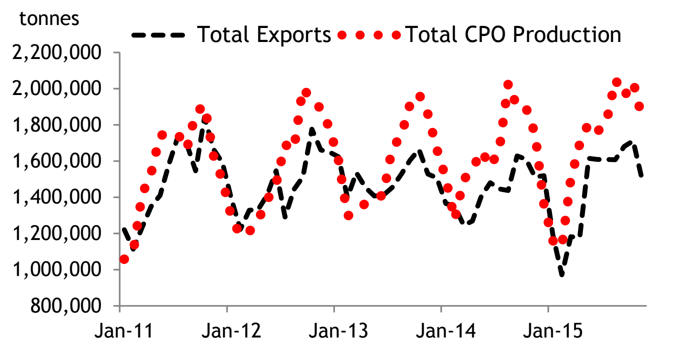
Fig 13: 3M Palm Oil price discount to Rapeseed Oil is narrow at USD234/t (9 Dec 15)



Average discount since 2006: USD276/t

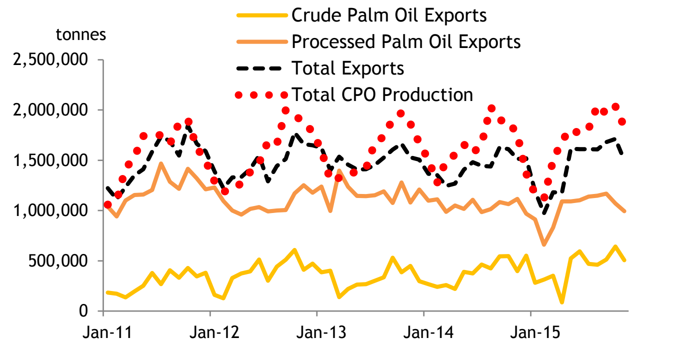
Source: Bloomberg, Maybank-KE

Fig14: Malaysia's Monthly Exports vs Production (by tonnes)



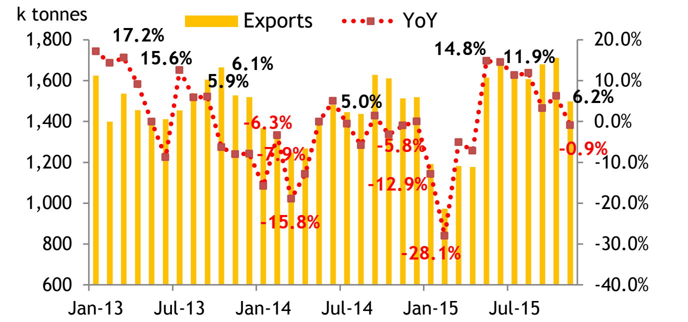
Source: MPOB, Maybank-KE

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



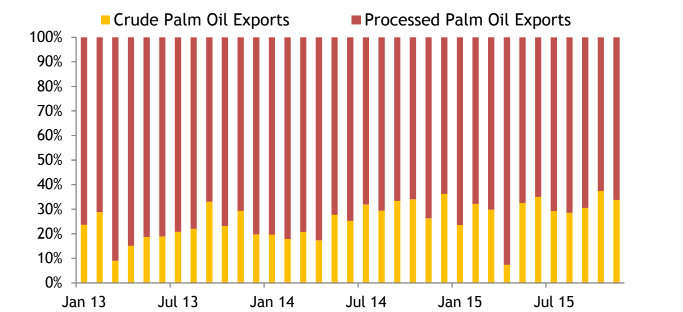
Source: MPOB, Maybank-KE

Fig 16: Monthly Exports Trends of Palm Oil (by tonnes)



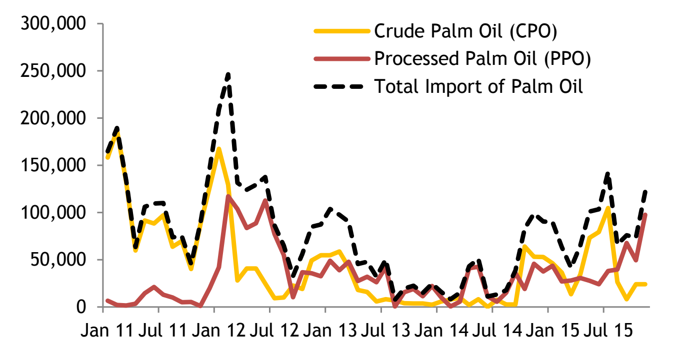
Source: MPOB, Maybank-KE

Fig 17: Monthly Export of Palm Oil Products (by %)



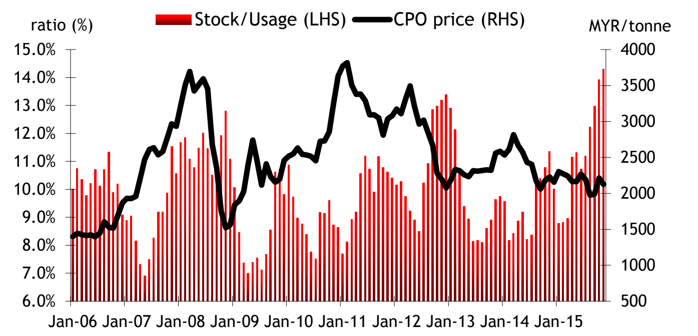
Source: MPOB, Maybank-KE

Fig 18: Import trend of Palm Oil Products (by tonnes)



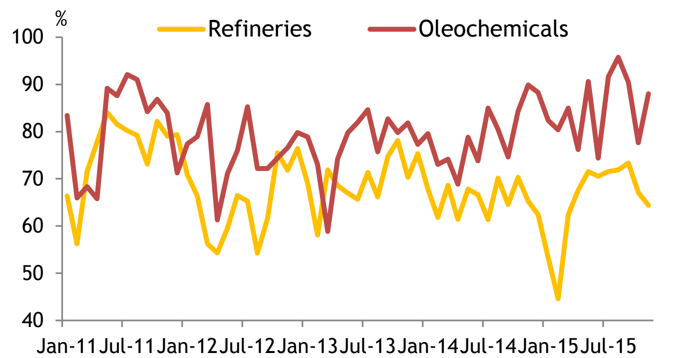
Source: MPOB, Maybank-KE

Fig 19: Monthly Stock-to-Usage Ratio vs. CPO prices



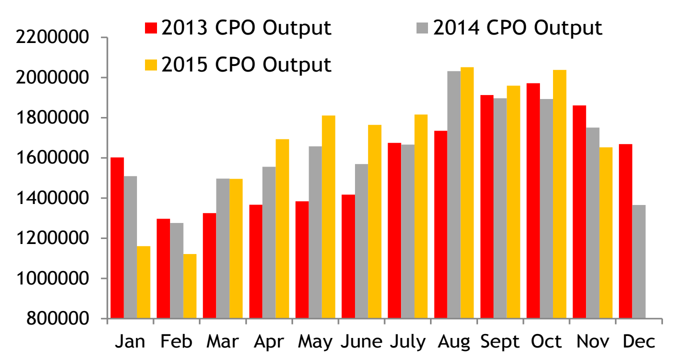
Source: MPOB, Maybank-KE

Fig 20: M'sia's Refinery & Oleochem'ls Utilisation Rates



Source: MPOB, Maybank-KE

Fig 21: Malaysia's CPO production output



Source: MPOB, Maybank-KE

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