

# Regional Plantations

# NEUTRAL (Unchanged)

## Strengthening fundamentals

- Malaysia's Dec 2014 stockpile at 2.01m MT (-12% MoM, +1% YoY) sets a positive tone for near term CPO price uptrend.
- We maintain our view that 1Q15 is a good opportunity for a trade as CPO price makes a seasonal recovery.
- Top BUYs in the region: BAL, FR, GENP, SOP, and SIME. SELL IOI Corp for its steep valuation.

## What's New

The Malaysian Palm Oil Board's (MPOB) Dec 2014 inventory dipped 12% MoM to 2.01m MT (+1% YoY), below market estimates of 2.05m MT. The lower MoM stockpile was due to (i) a seasonal decline in production (1.36m MT; -22% MoM, -18% YoY), exacerbated by the flood which hit parts of Peninsular Malaysia; (ii) flattish exports (1.52m MT); and (iii) lower imports (0.09m MT; -9% MoM, +268% YoY) which more than offset a decline in domestic consumption (0.198m MT; -12% MoM, +20% YoY).

CPO and crude oil (Brent) prices have decoupled of late due to the recent flood in Peninsular Malaysia, and not so favourable weather in parts of South America over the past month which may affect soybean development there. It is also important to note that global vegetable oil prices have traditionally traded at a premium to crude oil prices.

## What's Our View

Coupled with tight palm oil supply expectation in 1H15 after a relatively good harvest in 2Q-3Q14 (and potentially aggravated by two distinct periods of dryness in 2014 which affected Sumatra, Peninsular Malaysia and Central Kalimantan with a lagged impact on production), we expect CPO price to make its seasonally recovery in 1Q15. While the sector call remains Neutral, we maintain our view that there is still a short term trading opportunity in 1Q15. This, however, assumes that crude oil (Brent) price bottoms out at -USD55/bbl.

Our top BUYs in the region are Bumitama Agri, First Resources, Genting Plantations, Sarawak Oil Palms and Sime Darby. We advocate SELL on IOI Corporation for its steep valuation.

Key swing factors in 2015 are weather (like a return of El Nino), crude oil price, further Ringgit and Rupiah weakness, changes in government policies, and lackluster enforcement of biodiesel mandates in Indonesia and Malaysia.

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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 (12 Jan)	-	2,361
YTD (12 Jan) CPO ASP	-	2,310

Source: Maybank KE, Bloomberg

### Regional Plantation coverage

Company	Rec	Price	TP	Upside
M'sia listed		LCY	LCY	%
Sime Darby	Buy	9.15	10.70	16.9
IOI Corp	Sell	4.72	3.93	(16.7)
KL Kepong	Hold	22.30	21.40	(4.0)
FGVH	Hold	2.17	3.00	38.2
Gent Plant	Buy	9.99	11.55	15.6
SwkOil Palms	Buy	5.80	7.44	28.3
TSH Res	Buy	2.25	2.45	8.9
Ta Ann	Buy	3.73	5.90	58.2
TH Plant	Hold	1.62	1.60	(1.2)
BPlant	Buy	1.46	1.93	32.2
<b>S'pore listed</b>				
Wilmar	Buy	3.24	4.08	25.9
First Res	Buy	1.96	2.27	16.1
Bumitama	Buy	1.05	1.38	32.1
<b>Indo listed</b>				
Astra Agro	Buy	25800	28000	8.5

Source: Maybank KE

Fig 1: Sector Summary Table

Company	Rating	Mkt Cap	Shr px	TP	EPS Growth (%)		PE (x)		Div Yield (%)		EV/EBITDA (x)		P/B (x)	ROE (%)
		12 Jan (USD m)	12 Jan (LCY)	(LCY)	15F	16F	15F	16F	15F	16F	15F	16F	15F	15F
Sime Darby	Buy	15,933	9.15	10.70	7.8	20.4	17.9	14.8	3.1	3.7	11.5	10.2	1.8	10.4
IOI Corp	Sell	8,418	4.72	3.93	(12.9)	13.5	27.2	24.0	1.8	2.1	18.4	16.5	4.7	17.0
KL Kepong	Hold	6,658	22.30	21.40	(5.1)	12.8	26.1	23.2	2.3	2.6	15.8	14.1	3.0	11.3
FGVH	Hold	2,219	2.17	3.00	33.0	29.7	15.0	11.5	3.3	4.3	7.4	6.2	1.1	7.7
Gent Plant'ns	Buy	2,157	9.99	11.55	7.3	23.4	19.5	15.8	1.1	1.3	15.0	12.3	1.9	9.7
SOP	Buy	715	5.80	7.44	33.3	30.5	15.3	11.7	0.9	0.9	9.0	7.3	1.7	11.8
TSH Resources	Buy	855	2.25	2.45	4.4	14.6	20.2	17.6	1.5	1.7	17.0	14.8	2.4	12.4
Ta Ann	Buy	387	3.73	5.90	(4.3)	42.4	13.6	9.5	3.3	4.7	6.8	5.1	1.3	9.4
TH Plant	Hold	401	1.62	1.60	28.6	44.1	21.9	15.2	2.3	3.3	11.7	9.4	1.1	5.3
Boustead Plant	Buy	655	1.46	1.93	23.1	25.4	23.2	18.5	2.6	3.3	14.3	11.9	1.0	4.3
<b>Malaysia Average</b>							<b>21.4</b>	<b>18.2</b>						
Wilmar	Buy	15,506	3.24	4.08	14.1	11.5	11.1	10.0	1.7	1.9	12.0	11.0	1.0	9.0
Golden Agri *	N.R	4,419	0.460	N.R.	38.1	13.8	11.9	10.4	2.9	3.5	9.2	8.1	0.5	4.1
First Resources	Buy	2,317	1.96	2.27	6.9	20.9	13.4	11.1	2.2	2.7	9.2	7.7	1.9	14.1
Bumitama Agri	Buy	1,374	1.05	1.38	20.3	19.4	11.8	9.9	1.6	1.9	8.3	7.0	2.2	20.4
Indofood Agri *	N.R	785	0.74	N.R.	9.9	23.3	10.1	8.2	1.1	1.3	6.9	6.0	0.6	6.5
<b>Singapore Average</b>							<b>11.5</b>	<b>10.1</b>						
Astra Agro	Buy	3,225	25,800	28,000	(3.2)	18.7	17.6	14.8	1.9	2.3	10.5	9.0	3.2	19.3
Salim Ivomas Pratama*	N.R	898	715	N.R.	6.8	18.9	11.0	9.3	2.2	2.1	5.8	5.3	0.7	7.0
London Sumatera	N.R	1,086	2,005	N.R.	12.1	15.1	12.3	10.7	2.9	3.3	7.3	6.4	1.7	14.8
Sampoerna Agro *	N.R	302	2,015	N.R.	17.2	17.3	8.9	7.6	2.9	3.3	5.4	4.8	1.2	13.5
BW Plant'n *	N.R	981	392	N.R.	30.3	25.4	6.6	5.3	1.9	3.1	13.6	9.8	0.8	12.9
<b>Indonesia Average</b>							<b>13.7</b>	<b>11.6</b>						

Source: Maybank-KE, \*bloomberg estimates

Fig 2: Malaysia's Monthly Palm Oil Statistics for Oct - Dec 2014

	Oct 14 (tonne)	Nov 14 (tonne)	Dec 14 (tonne)	MoM chg (%)	YoY chg (%)	2014 (tonne)	YoY chg (%)
Production	1,892,961	1,750,567	1,364,797	(22)	(18)	19,666,953	2
Import	82,971	98,940	90,353	(9)	268	485,567	(13)
Disappearance	287,949	226,752	198,452	(12)	20	2,848,150	25
Exports	1,611,459	1,513,103	1,519,549	0	(0)	17,278,466	(5)
Closing stock	2,166,525	2,276,177	2,013,326	(12)	1	2,013,326	1

Sources: MPOB, Maybank-KE

Fig 3: Malaysia's Monthly Exports for Oct - Dec 2014

	Oct 14 (tonne)	Nov 14 (tonne)	Dec 14 (tonne)	MoM chg (%)	YoY chg (%)	2014 (tonne)	YoY chg (%)
China	234,151	340,623	257,378	(24)	(29)	2,839,260	(23)
India	278,123	285,170	363,575	27	76	3,229,966	39
EU	257,296	207,136	241,720	17	0	2,412,326	3
USA	71,724	42,819	76,439	79	(4)	783,105	(23)
Pakistan	86,222	50,014	64,366	29	(3)	812,191	(43)
Others	683,943	587,341	516,071	(12)	(9)	7,201,308	(2)
<b>Total</b>	<b>1,611,459</b>	<b>1,513,103</b>	<b>1,519,549</b>	<b>0</b>	<b>(0)</b>	<b>17,278,156</b>	<b>(5)</b>

Sources: MPOB, Maybank-KE

## Good close to end-2014 with inventory of 2.01m MT

The Malaysian Palm Oil Board's (MPOB) December 2014 inventory was below market expectations at 2.01m MT (-12% MoM, +1% YoY). The lower MoM stockpile was due to (i) a seasonal decline in production (1.36m MT; -22% MoM, -18% YoY), exacerbated by the flood which hit parts of Peninsular Malaysia; (ii) flattish exports (1.52m MT); and (iii) lower imports (0.09m MT; -9% MoM, +268% YoY) which more than offset a decline in domestic consumption (0.198m MT; -12% MoM, +20% YoY).

In terms of production, Peninsular Malaysia registered the biggest MoM drop (-30% MoM, -27% YoY) in December 2014 due to the flood while East Malaysia's production fell 14% MoM (-9% YoY). This led to an overall Malaysia production decline of -22% MoM (-18% YoY).

As for exports breakdown, December 2014 exports were boosted by demand from India (363k MT, +27% MoM, +76% YoY), EU (242k MT, +17% MoM, flat YoY), USA (76k MT, +79% MoM, -4% YoY), and Pakistan (64k MT, +29% MoM, -3% YoY). This was offset by the decline in exports to China (257k MT, -24% MoM, -29% YoY), and Others (516k MT, -12% MoM, -9% YoY). Overall, December 2014 exports were better-than-expected.

## Recent hike in India's import duty may temporary slow exports to India, but not a major concern

Exports to India was exceptionally strong, possibly due to market anticipation of an impending import duty rate hike. Indeed, the Indian government raised its import taxes by 5-ppts on crude edible oils and refined oils in the final week of December 2014 to protect local farmers. This effectively raises India's import duty on CPO to 7.5% (from 2.5%) and refined palm oil to 15% (from 10%).

India imports around 11.6m MT of vegetable oils in the Nov 2013 - Oct 2014 period (Nov 2012 - Oct 2013: 10.4m MT), of which 67% comprises CPO and RBD palm olein. Hence, we do expect some slowdown in imports from India in the short term. However, we are not overly concerned about this rate hike as India is a net importer of vegetable oils (as it is not self-sufficient). Back in 2007, India's import duty was as high as 50% for CPO and 75% for refined palm oil, and palm oil accounted for 85% of India's total imports of 5.6m MT for the Nov 2007 - Oct 2008 period.

## Exports for first 10 days slowed but still early days

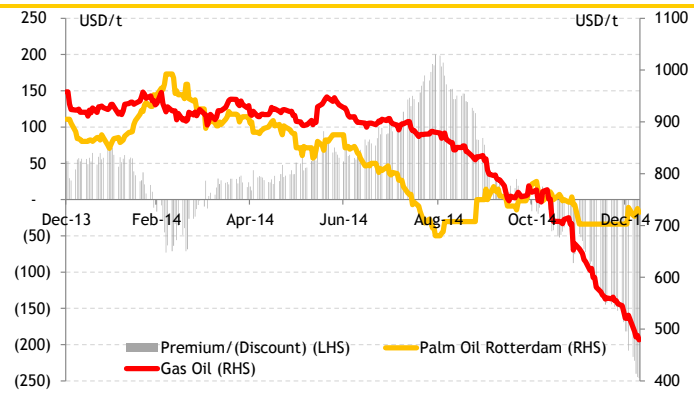
Exports for the first 10 days of Jan 2015 has been under a bit of pressure with initial export estimates by independent cargo surveyors, Intertek showing a -12.7% MoM decline to 0.36m MT. However, this is still preliminary estimates and we suspect this could be due to initial knee-jerk reaction to India's recent hike in import duties of vegetable oils.

CPO price recovery dragged by low crude oil price

Over the last month, crude oil (Brent) price has fallen by -USD17/bbl to -USD50/bbl, and by -USD60/bbl since 30 June 2014. The 55% slump in crude oil (Brent) price since mid-2014 has been a major drag in CPO price recovery given the biofuel link. Biofuel demand accounts for 26m MT or ~13% of the 17 global oils and fats offtake in 2013; ~10% for chemicals, and ~77% for edible purposes. Within the biofuel segment, there are two sub-segments: i) mandatory, and ii) discretionary biofuel demand. The mandatory demand is estimated to be 80-90% of total biofuel demand, backed by government policies and subsidies. However, the discretionary demand could be largely lost at the current Brent price of ~USD50/bbl as it is no longer economically attractive (Fig 4 & 5).

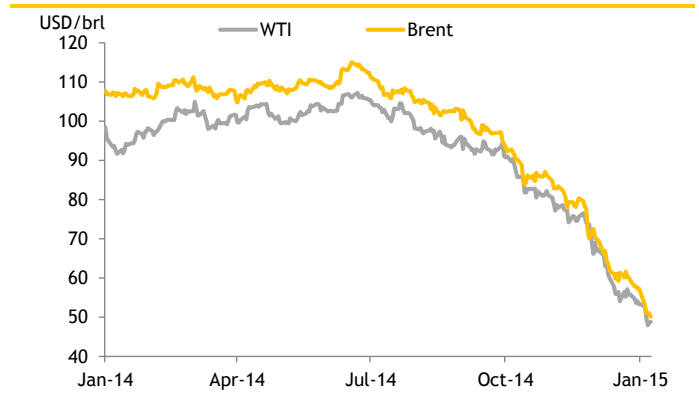
CPO and crude oil prices have a positive correlation of 0.76 in Jan 2006 to Dec 2009, but this has weakened to 0.18 in Jan 2010 to Nov 2014. We have highlighted previously that crude oil price defines the floor price of CPO but it does not define the average price of CPO. And traditionally, vegetable oil prices have traded at a premium to crude oil prices (Fig 6).

Fig 4: Gas Oil (ie diesel) Europe now trades at a premium to CPO Rotterdam



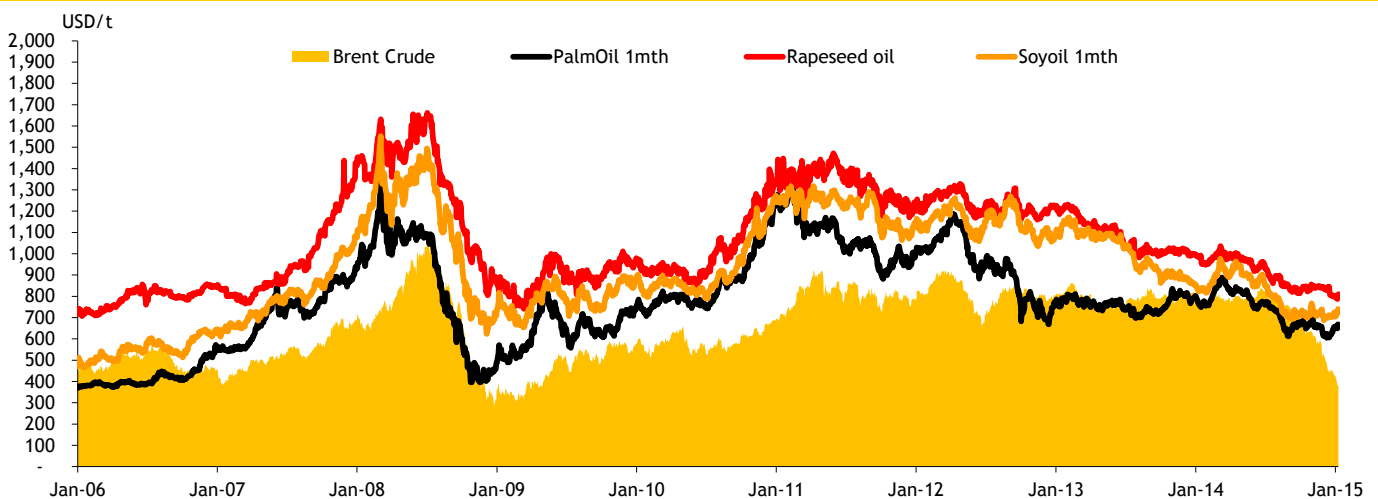
Sources: Bloomberg, Maybank-KE

Fig 5: Brent vs Crude oil price dropped sharply in recent months



Sources: Bloomberg, Maybank-KE

Fig 6: Vegetable oil prices have traditionally traded at a premium to crude oil

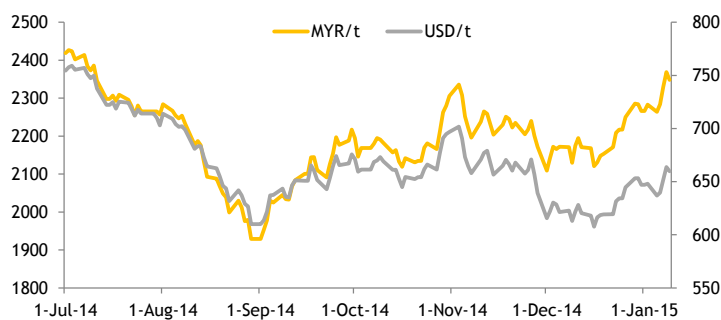


Sources: Bloomberg, Maybank-KE

### Weaker Ringgit has buffered the fall of CPO price (in US Dollar terms)

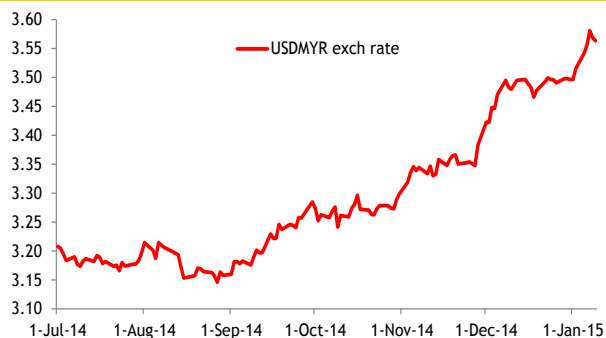
The lower crude oil (Brent) has dragged down CPO price in US Dollar term. However, the impact of lower crude oil (Brent) price has been cushioned by a weaker USD/MYR rate at 3.55 presently which resulted in CPO price in Ringgit terms relatively stable at ~MYR2,300/t.

Fig 7: 3M CPO price in Ringgit and US Dollar



Sources: Bloomberg, Maybank-KE

Fig 8: Ringgit weakened to MYR3.50



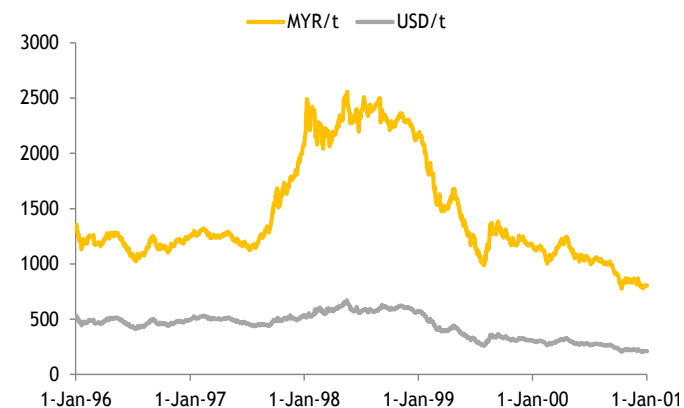
Sources: Bloomberg, Maybank-KE

### US Dollar strength is generally positive for planters

All else constant, a stronger US Dollar vis-à-vis Malaysian Ringgit (MYR) and Indonesia Rupiah (IDR) will result in higher translated revenue and profits for Malaysian and Indonesian planters who report earnings in MYR and IDR respectively as CPO exports are quoted in US Dollar globally.

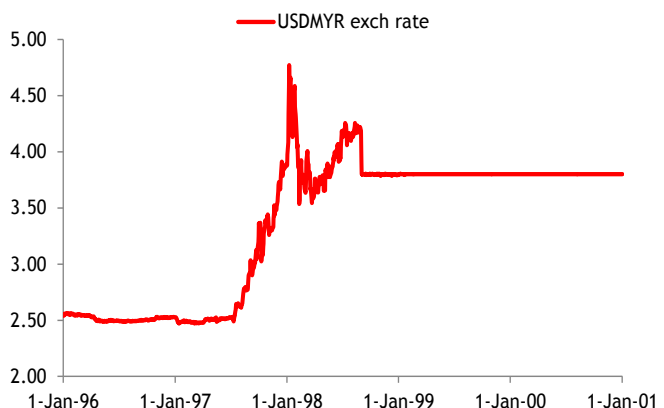
History has shown that the Malaysian planters are beneficiaries of the weak Ringgit. This was most evident during the Asian financial crisis when Ringgit slumped from USD/MYR 2.50 during mid-1997 (pre-crisis) to as high as 4.77 in early-1998 (during-crisis) before the government pegged it at 3.80 in Sept 1998. During the same period, CPO price rose from ~MYR1,200/t (~USD470/t) during mid-1997 to ~MYR2,400/t (~USD520/t) in early-1998 and thereafter averaged MYR2,400/t (~USD600/t) in Sept 2008 - see Fig 9 & 10.

Fig 9: CPO price in Ringgit and US dollar during the Asian Financial Crisis



Sources: Bloomberg, Maybank-KE

Fig 10: Ringgit slumped during Asian Financial Crisis before it was pegged at 3.80 in Sept 1998



Sources: Bloomberg, Maybank-KE

CPO price then appreciated by 28% (from USD470/t in mid-1997 to USD600/t in Sept 2008) in US Dollar terms but jumped 100% in Ringgit terms. While the 28% price gain could be attributed to the strong 1997/98 El Nino, the Ringgit weakness had benefited the Malaysian planters immensely during that period.

### **Growing concern over palm oil supply growth in 2015**

We remain concern about supply growth in 1H15 as certain planters in South Sumatra and Central Kalimantan have experienced rainfall deficit in September/October 2014. This was the second time in 2014 that planters experienced severe weather dryness; the first occasion was in February/March 2014 whereby Peninsular Malaysia and Sumatra planters were affected. The severe dryness typically has a 6-18 months lag impact on production.

In December 2014, parts of Peninsular Malaysia (namely Kelantan, Trengganu, Pahang and Perak States) were affected by flood, said to be the worst in decades (since 1972). While the extent of the damage is unclear at this junction, there is risk that the quality of FFB suffered due to delays in harvesting, transportation and processing (as there are reports of mills shutting down due to the flood). As it has been pretty wet during the late December period, pollination could be affected with a potential lagged impact (4-6 months) on production. Hence, we believe 2015 (in particular 1H15) CPO supply growth will be muted compared to 2014 as planters have a relatively good harvest in 2014.

### **Expect CPO price to strengthen from here till end-1Q15**

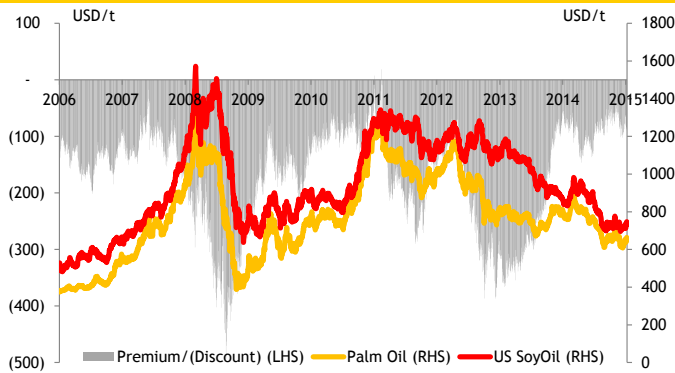
Assuming crude oil (Brent) price stabilizes at current level, we believe CPO price will trend higher seasonally in 1Q15, finding its way back to the MYR2,500-2,600/t level by the end of 1Q15. We maintain our MYR2,400/t-2,500/t CPO ASP for 2015-16.

### **Trading opportunity till end-1Q15**

While the sector call remains Neutral, we maintain our view that there is still a short term trading opportunity in 1Q15 as CPO price is likely to make its near term seasonal recovery. This, however, assumes that crude oil (Brent) price has bottomed out at the current level.

Our top BUYs in the region are Bumitama Agri, First Resources, Genting Plantations, Sime Darby, and Sarawak Oil Palms. We advocate SELL on IOI Corporation for its steep valuation. IOI Corp may drop off the Securities Commission's Shariah-compliant list this May 2015 review as it failed the Islamic financial ratio requirement.

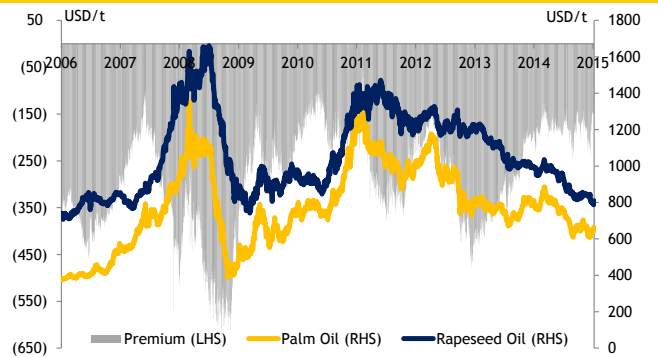
**Fig 11: 3M Palm Oil price discount to US Soybean Oil still narrow at USD87/t (9 Jan15)**



Average discount since 2006: USD168/t

Source: Bloomberg, Maybank-KE

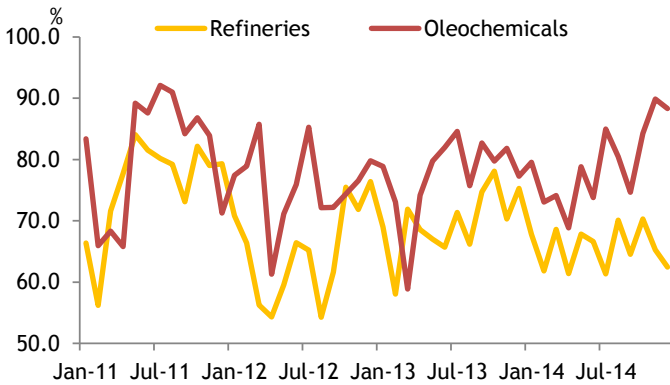
**Fig 12: 3M Palm Oil price discount to Rapeseed Oil still narrow at USD150/t (9 Jan 15)**



Average discount since 2006: USD283/t

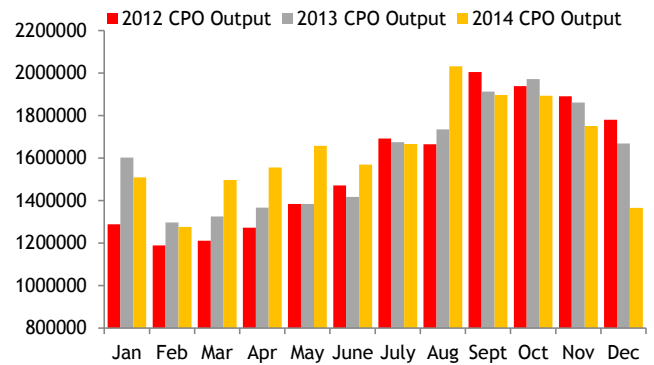
Source: Bloomberg, Maybank-KE

**Fig 13: M'sia's Refinery & Oleochem's Utilisation Rates**



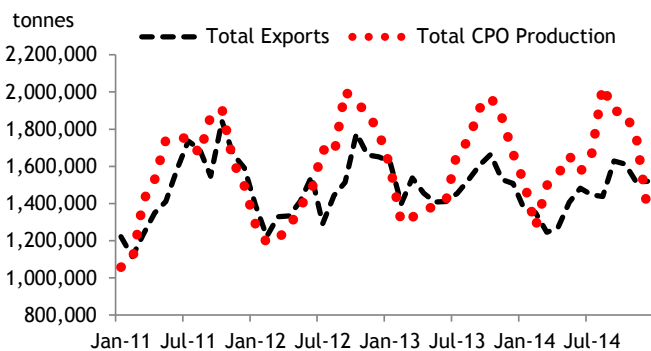
Source: MPOB, Maybank-KE

**Fig 14: Malaysia's CPO production output**



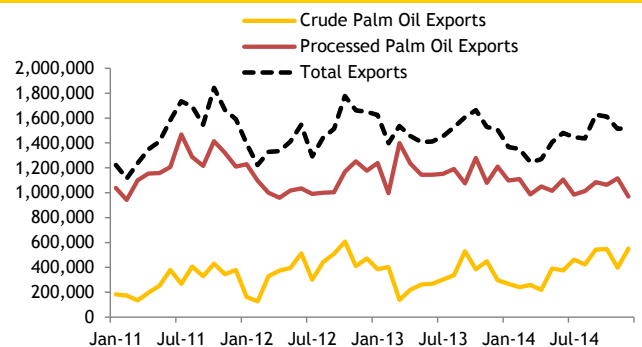
Source: MPOB, Maybank-KE

**Fig 15: Malaysia's Monthly Exports vs Production (by tonnes)**



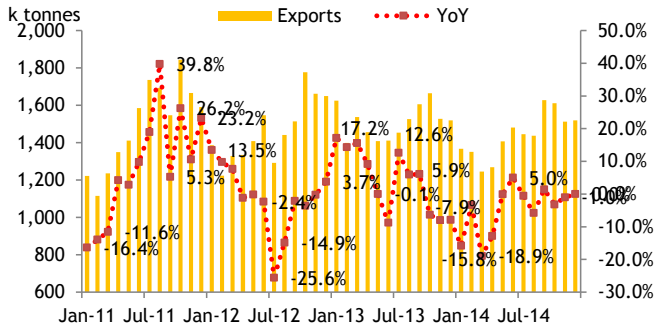
Source: MPOB, Maybank-KE

**Fig 16: Monthly Export of Palm Oil Products (by tonnes)**



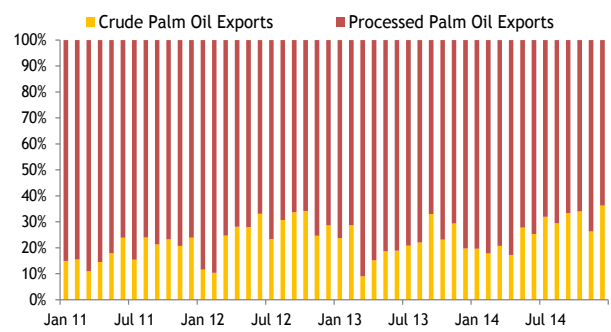
Source: MPOB, Maybank-KE

Fig 17: Monthly Exports Trends of Palm Oil (by tonnes)



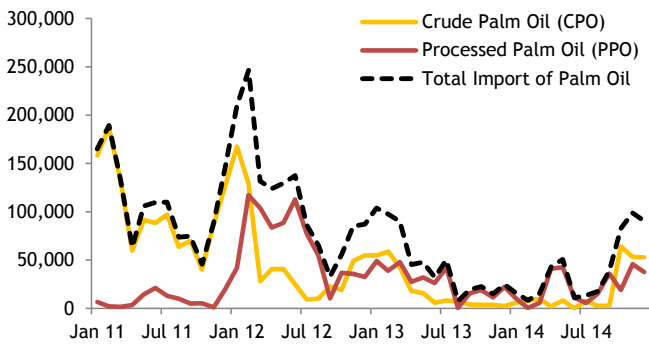
Source: MPOB, Maybank-KE

Fig 18: Monthly Export of Palm Oil Products (by %)



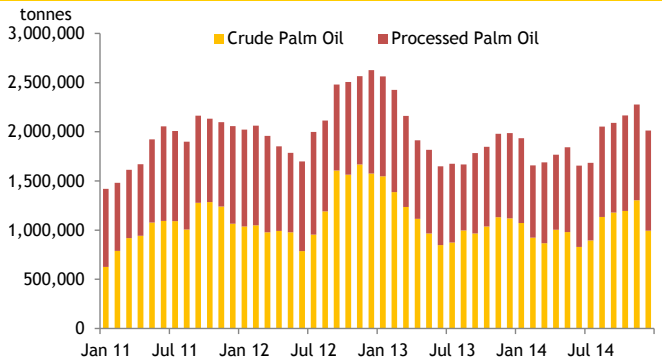
Source: MPOB, Maybank-KE

Fig 19: Falling Imports of Palm Oil Products (by tonnes)



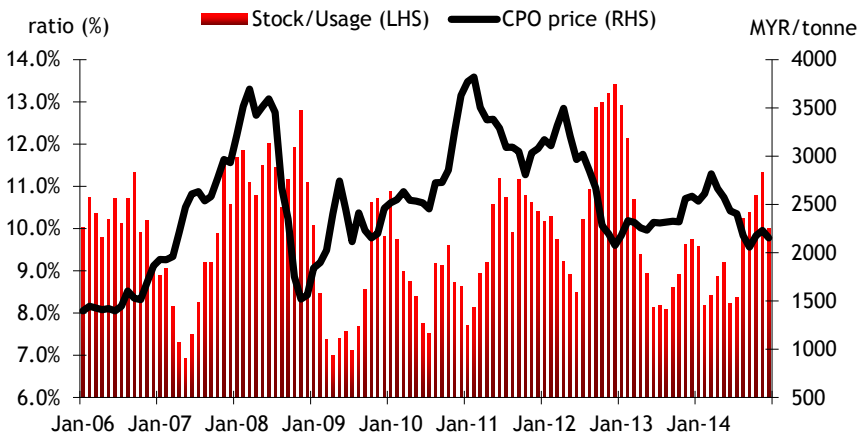
Source: MPOB, Maybank-KE

Fig 20: Monthly Stockpile (by type)



Source: MPOB, Maybank-KE

Fig 21: Monthly Stock-to-Usage Ratio vs. CPO prices



Sources: MPOB, Maybank KE



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