

Regional Plantations

NEUTRAL

[Unchanged]

Off to a good start

Easing Dec 2015 stockpile

The Malaysian Palm Oil Board's (MPOB) Dec 2015 stockpile provided some relief with seasonally low CPO output and resilient exports. We anticipate further decline in stockpile in the coming months on seasonally low production. While maintaining our 12M NEUTRAL view, we advocate a trading strategy in 1H16, as El Nino provides for a situational play. BUYs in the region are AALI, TAH, SOP, and BPlant. SELL FGV.

Seasonally lower CPO output, resilient exports

The MPOB's Dec 2015 inventory finally eased to 2.63m MT (-10% MoM, +31% YoY) from its record level of 2.91m MT in Nov 2015 mainly on seasonally lower CPO production (-15% MoM, +3% YoY) while exports were surprisingly strong at 1.48m MT (-1% MoM, -2% YoY). Meanwhile, domestic consumption jumped 36% MoM to 0.28m MT (+38% YoY). Still, by historical measures, the 2.63m MT stockpile is considered relatively high. For spot CPO price to have a strong and sustained upside, the stockpile needs to drop closer to the psychological 2.0m MT benchmark level.

Initial export estimates in Jan remain healthy

CPO production is on a seasonal decline and will post its lowest output in Feb 2016. Despite the production decline, the preliminary export estimates for the first 10 days of Jan by Intertek (an independent cargo surveyor) suggest a healthy 15% MoM increase to 0.32m MT. Although still early days, sustained positive export growth in Jan will surely help drawdown inventories further, boosting spot prices.

El Nino's situational optimism in 1H16

The Northeast monsoon has brought back the much needed rainfall in latter 2015, 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. A further drawdown in inventories will help narrow the price gap between the spot and 3M futures CPO price.

Go for a trade in 1H16

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. But we would turn cautious towards Aug 2016, anticipating sharp CPO price correction in view of seasonally peak CPO output period. Our fundamental view for the sector remains NEUTRAL. But, there is opportunity for an El Nino trade in 1H16. Among the large caps, IOI (HOLD) is a good trade in 1H16 given its liquidity and proxy play to CPO price. Our fundamental BUYs in the region are AALI, TAH, SOP, and BPlant. SELL FGV for its steep valuation and high cost base. Key risk to our view is sustained low crude oil price could derail Indonesia and Malaysia's targeted biodiesel usage.

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Regional CPO price forecast

	2015A	2016F
	MYR/t	MYR/t
Full year average (FOB)	2,168	2,300
MDEX:		
3M CPO price (11 Jan)	-	2,400
YTD (11 Jan) CPO ASP	-	2,217

Source: Maybank KE, Bloomberg

Regional Plantation coverage

Company	Rec	Shr px	Target	Upside
			px	
M'sia listed		LCY	LCY	%
Sime Darby	Hold	7.42	7.98	7.5
IOI Corp	Hold	4.33	3.97	(8.3)
KL Kepong	Hold	22.80	22.24	(2.5)
FGVH	Sell	1.61	1.30	(19.3)
Gent Plant	Hold	10.30	10.00	(2.9)
SwkOil Palms	Buy	4.36	5.23	20.0
TSH Res	Hold	2.05	1.80	(12.2)
Ta Ann	Buy	5.49	6.90	25.7
TH Plant	Hold	1.24	1.30	4.8
BPlant	Buy	1.53	1.56	2.0
S'pore listed				
Wilmar	Buy	2.77	4.14	49.5
First Res	Hold	1.81	1.73	(4.4)
Bumitama	Hold	0.69	0.85	23.2
Indo listed				
Astra Agro	Buy	16000	24000	50.0

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 (%)
		11 Jan (USD m)	11 Jan (LCY)	(LCY)	15F	16F	15F	16F	15F	16F	15F	16F	15F	15F
SIME- Sime Darby	Hold	10,706	7.42	7.98	(22.4)	10.5	21.7	19.6	3.1	3.3	14.2	13.7	1.5	7.1
IOI- IOI Corp	Hold	6,222	4.33	3.97	(25.7)	11.9	31.3	27.9	1.9	1.8	26.5	19.1	5.8	10.3
KLK- KL Kepong	Hold	5,537	22.80	22.24	(12.0)	9.0	29.3	26.9	2.0	2.2	18.0	16.2	2.6	9.2
FGV- Felda Global	Sell	1,339	1.61	1.30	46.2	113.2	42.4	19.9	1.6	2.5	12.1	9.1	0.9	2.2
GENP -Gent Plant	Hold	1,838	10.30	10.00	(40.4)	42.2	35.0	24.6	0.6	0.8	23.4	18.5	1.9	5.7
SOP- Swk Oil Palms	Buy	439	4.36	5.23	(40.1)	126.6	28.3	12.5	0.5	0.9	11.3	7.3	1.4	5.0
TSH- TSH Resources	Hold	634	2.05	1.80	(37.1)	47.2	32.0	21.8	0.9	1.4	21.0	17.8	2.2	7.1
TAH- Ta Ann	Buy	464	5.49	6.90	49.3	2.5	12.3	12.0	3.6	3.7	6.7	6.4	1.8	15.0
THP- TH Plant	Hold	250	1.24	1.30	(30.8)	81.5	45.9	25.3	1.1	2.0	18.1	12.6	0.9	2.0
BPlant- Bous Plant	Buy	558	1.53	1.56	(35.9)	72.0	61.2	35.6	6.5	2.2	26.5	18.6	1.0	8.7
Malaysia Average							28.4	23.4						
WIL- Wilmar	Buy	12,202	2.77	4.14	8.4	11.7	9.4	8.4	1.9	2.1	11.7	10.8	0.7	8.0
GGR- Golden Agri *	N.R	3,151	0.355	N.R.	(17.6)	21.4	17.7	14.6	1.6	2.4	11.3	9.3	0.4	2.1
FR- First Resources	Hold	2,000	1.81	1.73	(26.6)	17.5	15.8	13.4	1.9	2.2	10.3	8.3	2.2	12.8
BAL- Bumitama	Hold	844	0.69	0.85	(24.6)	21.8	12.5	10.3	1.6	1.9	10.2	7.9	2.0	14.6
IFAR-Indofood Agri*	N.R	452	0.47	N.R.	(46.8)	64.9	15.8	9.6	0.6	1.0	9.4	7.6	0.4	2.3
Singapore Average							11.8	10.1						
AALI- Astra Agro	Buy	1,818	16,000	24,000	(74.3)	156.5	39.1	15.3	0.9	2.2	12.3	9.2	2.0	5.6
SIMP- Salim Ivomas*	N.R	367	322	N.R.	(51.5)	37.4	12.3	8.9	3.4	2.5	5.9	5.1	0.4	2.9
LSIP- London Sum	N.R	608	1,235	N.R.	(31.6)	13.5	13.5	11.9	3.8	3.0	6.9	6.1	1.1	8.8
SGRO- Sampoerna *	N.R	228	1,670	N.R.	(32.9)	17.6	13.8	11.8	2.4	1.9	8.7	7.5	1.0	8.1
BWPT - BW Plant *	N.R	307	135	N.R.	(87.2)	150.5	65.0	25.9	1.3	0.4	9.0	6.7	0.6	1.0
Indonesia Average							32.1	14.7						

Source: Maybank-KE, *bloomberg estimates

Fig 2: Malaysia's Monthly Palm Oil Statistics for Oct - Dec 2015

	Oct 15 (tonne)	Nov 15 (tonne)	Dec 15 (tonne)	MoM chg (%)	YoY chg (%)
Production	2,037,466	1,653,946	1,399,383	(15)	3
Import	73,434	121,819	82,493	(32)	(9)
Consumption	205,266	202,608	276,000	36	38
Exports	1,711,891	1,499,517	1,483,214	(1)	(2)
Closing stock	2,835,310	2,908,950	2,631,612	(10)	31

Sources: MPOB, Maybank-KE

Fig 3: Malaysia's Monthly Exports for Oct - Dec 2015

	Oct 15 (tonne)	Nov 15 (tonne)	Dec 15 (tonne)	MoM chg (%)	YoY chg (%)
China	167,470	160,364	94,539	(41)	(63)
India	441,035	390,074	333,066	(15)	(8)
EU	221,599	214,899	265,584	24	10
USA	74,522	42,111	72,382	72	(5)
Pakistan	57,949	56,744	47,984	(15)	(25)
Others	749,316	635,325	669,659	5	30
Total	1,711,891	1,499,517	1,483,214	(1)	(2)

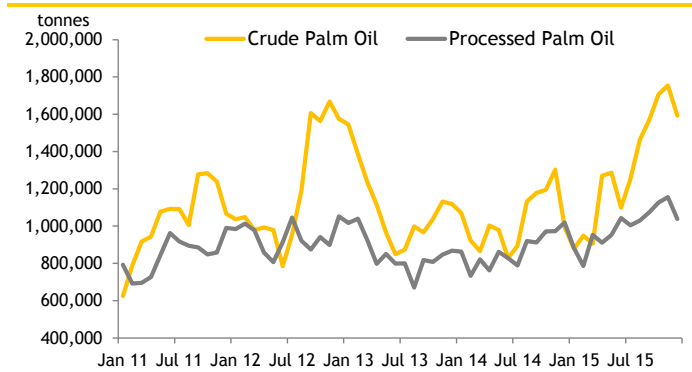
Sources: MPOB, Maybank-KE

Easing stockpile in Dec 2015

The Malaysian Palm Oil Board's (MPOB) Dec 2015 inventory finally eased to 2.63m MT (-10% MoM, +31% YoY) after climbing for over five consecutive months to a record high of 2.91m MT in Nov 2015. The sharp decline in inventory was due to a seasonal decline in December CPO production (1.4m MT; -15% MoM, +3% YoY) while exports remained relatively strong at 1.48m MT (-1% MoM, -2% YoY). Meanwhile domestic consumption was stronger MoM at 0.28m MT (+36% MoM, +38% YoY).

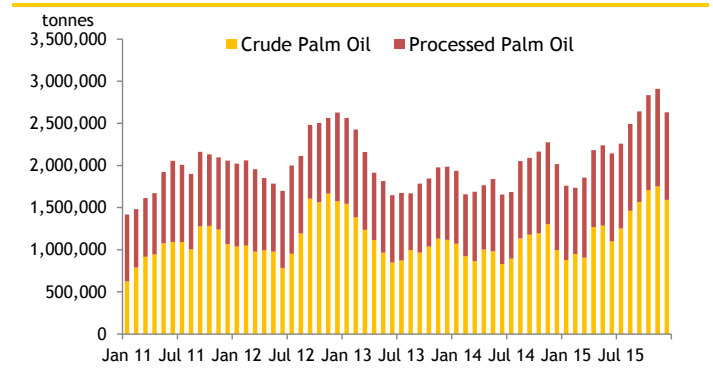
As for the exports, there was a notable MoM decline to India (333k MT, -15% MoM, -8% YoY), China (95k MT, -41% MoM, -63% YoY), and Pakistan (48k MT, -15% MoM, -25% YoY). But this was offset by increasing exports to EU (265k MT, +24% MoM, +10% YoY), the USA (72k MT, +72% MoM, -5% YoY) and Others (670k MT, +5% MoM, +30% YoY).

Fig 4: Monthly Stockpile (by type)



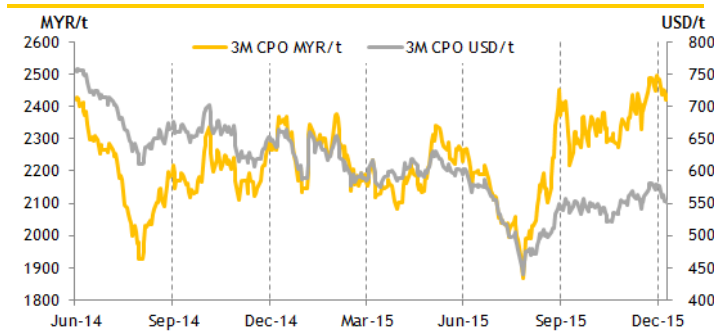
Source: MPOB, Maybank-KE

Fig 5: Monthly Stockpile (by type)



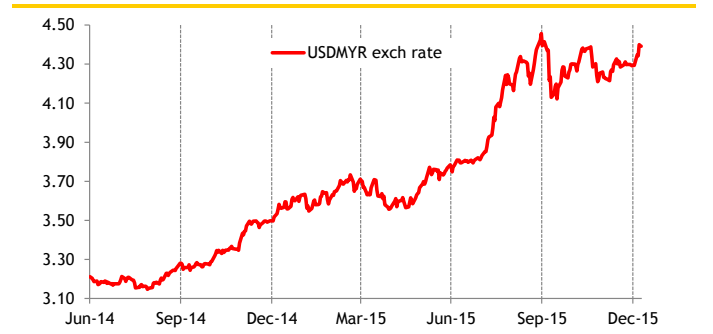
Source: MPOB, Maybank-KE

Fig 6: CPO price (in USD and MYR)



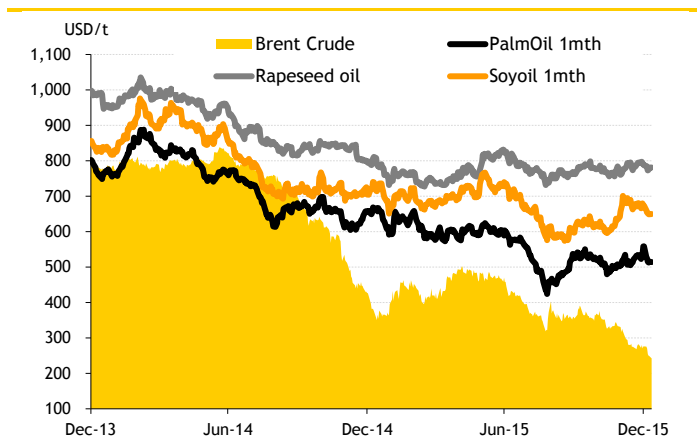
Source: Bloomberg, Maybank-KE

Fig 7: USDMYR exchange rate



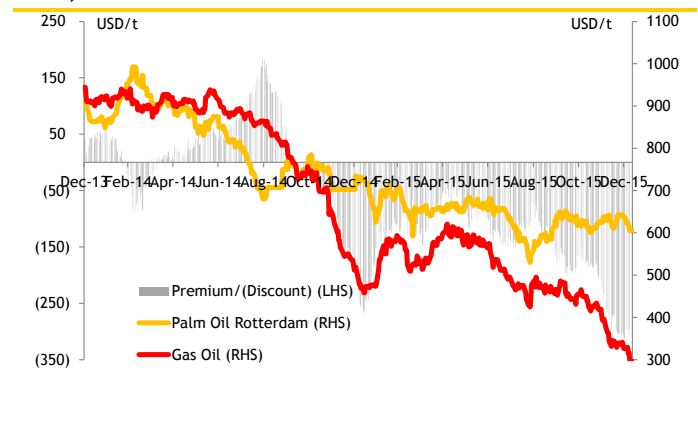
Source: Bloomberg, Maybank-KE

Fig 8: Major vegetable oils vs crude oil price



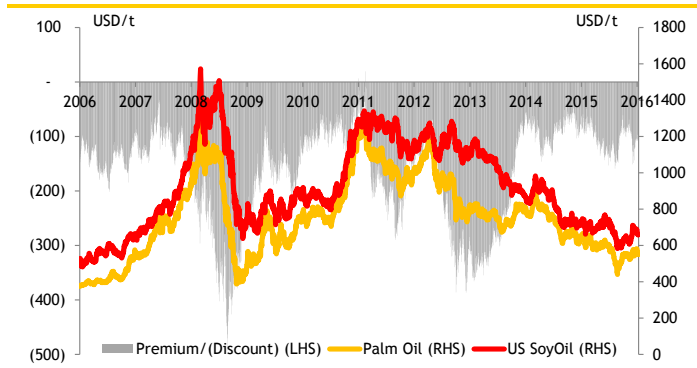
Source: Bloomberg, Maybank-KE

Fig 9: Palm oil-gas oil (POGO) spread at ~USD308/t (8 Jan 2016)



Source: Bloomberg, Maybank-KE

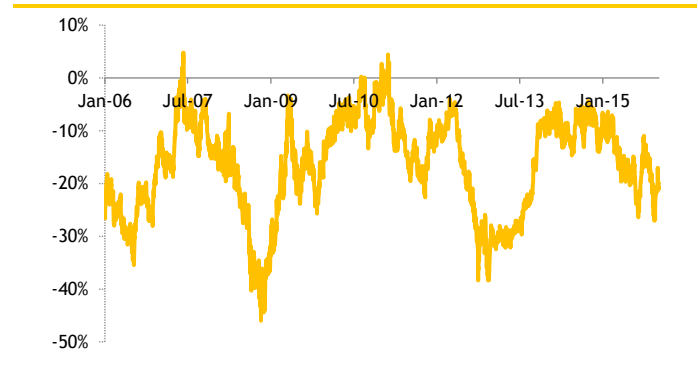
Fig 10: 3M palm oil price discount to US soybean oil at USD104/t (8 Jan 16)



Average discount since 2006: USD162/t

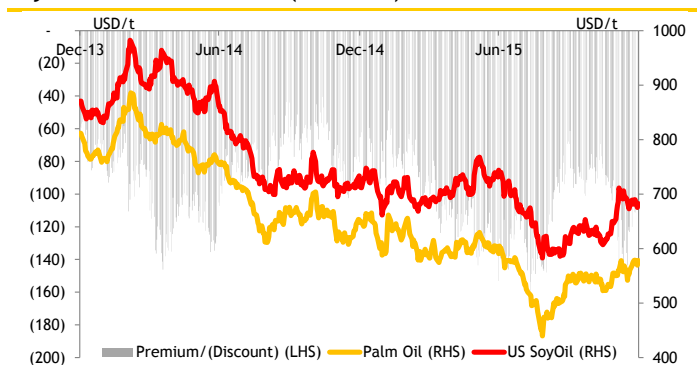
Source: Bloomberg, Maybank-KE

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



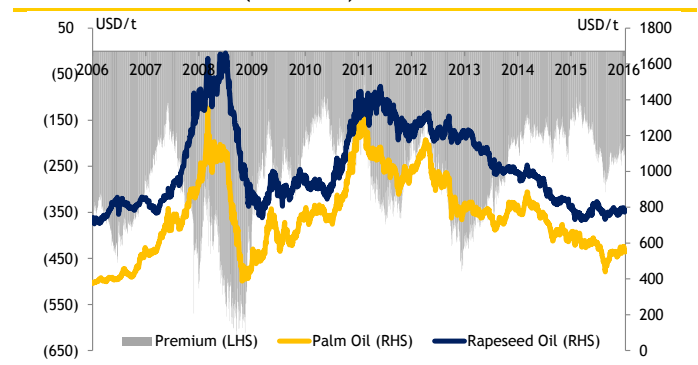
Source: Bloomberg, Maybank-KE

Fig 12: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD125/t (8 Jan 16)



Source: Bloomberg, Maybank-KE

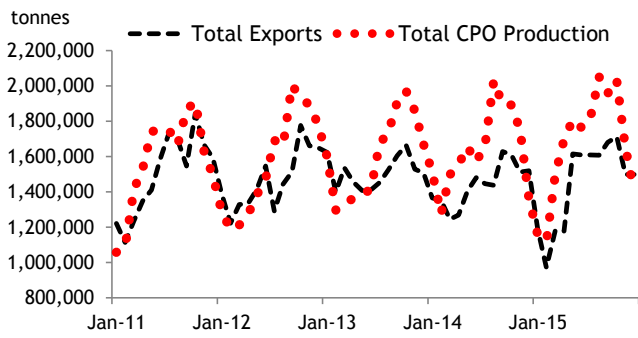
Fig 13: 3M Palm Oil price discount to Rapeseed Oil is narrow at USD227/t (8 Jan 16)



Average discount since 2006: USD276/t

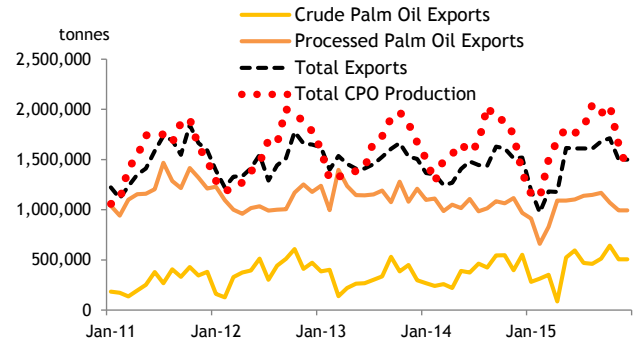
Source: Bloomberg, Maybank-KE

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



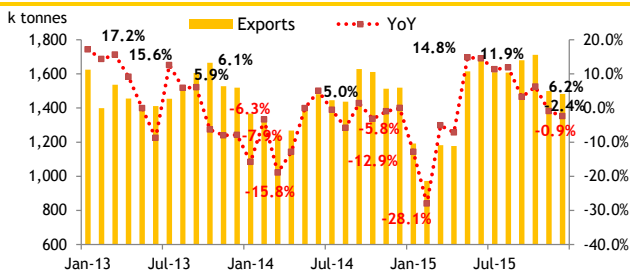
Source: MPOB, Maybank-KE

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



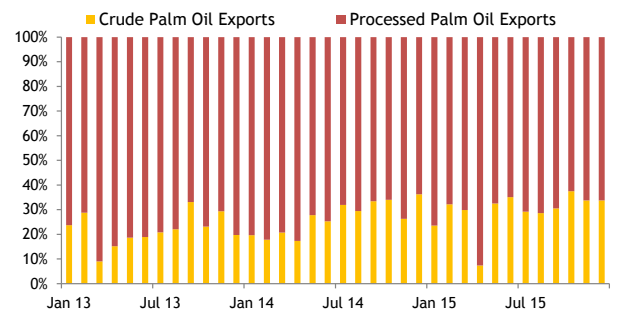
Source: MPOB, Maybank-KE

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



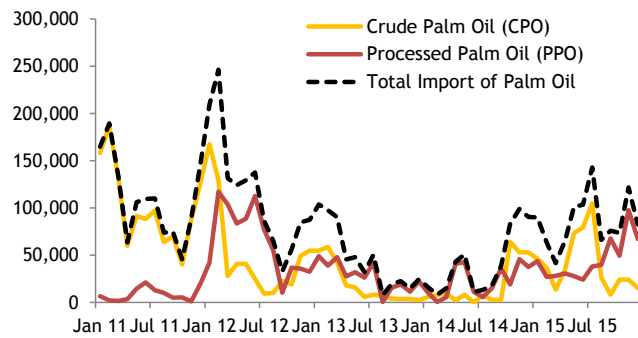
Source: MPOB, Maybank-KE

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



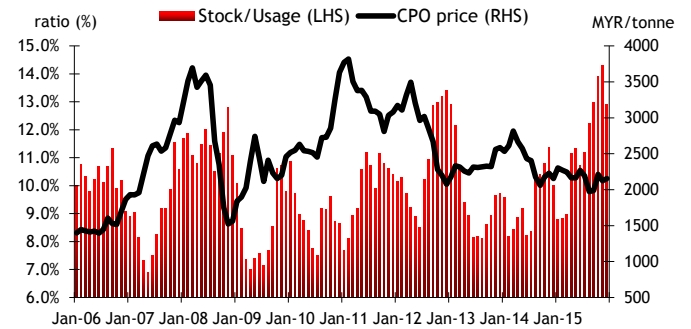
Source: MPOB, Maybank-KE

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



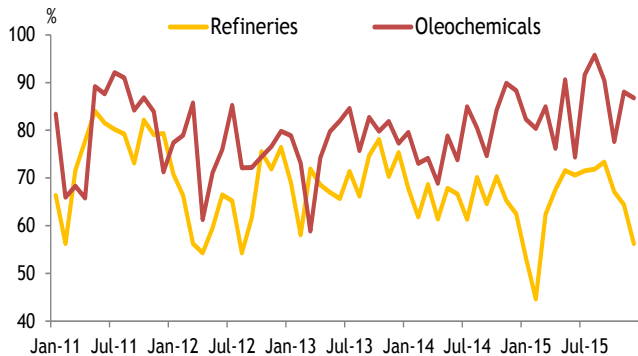
Source: MPOB, Maybank-KE

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



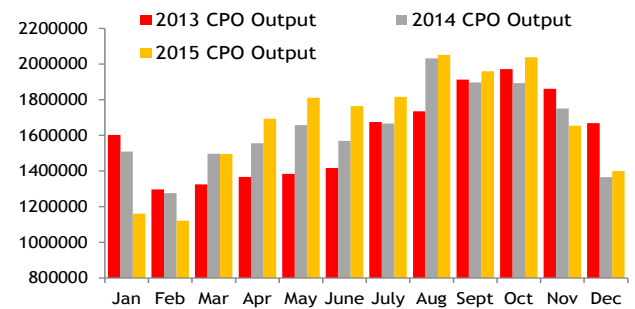
Source: MPOB, Maybank-KE

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



Source: MPOB, Maybank-KE

Fig 21: Malaysia's CPO production output



Source: MPOB, Maybank-KE

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