

Plantation Sector

(Neutral)

“September’s Palm Oil Stocks Accelerate 5.5% m-o-m (25.7% y-o-y)”

Table 1: Plantation Sector Operational Metrics Projection

	2014	2015F
CPO Price (RM/MT)	2,408	2,150
CPO Production (Million Tonnes)	19.7	20.5
Palm Oil Export (Million Tonnes)	17.3	18.5
Ending Stocks (Million Tonnes)	2.0	2.05

Source: M&A Securities

Table 2: Plantation Sector Statistics

	Sept'15	Aug'15	Sept'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	1,986	1,970	2,056	0.8%	-3.4%	2,170	2,485	-12.7%
CPO Production (Million Tonnes)	1.96	2.05	1.90	-4.5%	3.3%	14.87	14.66	1.4%
Palm Oil Export (Million Tonnes)	1.68	1.61	1.64	4.4%	2.1%	12.73	12.66	0.6%
Ending Stocks (Million Tonnes)	2.63	2.49	2.09	5.5%	25.7%	nm	nm	nm

Source: MPOB, M&A Securities

Production declined 4.5% m-o-m to 1.959 million tonnes. The latest data from MPOB showed CPO production had finally declined in the month of September or slipping by 4.5% m-o-m to 1.959 million tonnes vs. 2.051 million tonnes in August 2015 (y-o-y: +3.3%), indicating the seasonal production down-trend has begun. Of note, production normally will follow a seasonal pattern which normally repeats every year except in the year 2010, 2011 and 2013 where peak production happened in the month of October. From the data that we have, production will usually decline in January to February to form the lowest production level of the year and will uptrend until September to form the peak month and will then decline until December. YTD, CPO production increased marginally by 1.45% y-o-y to 14.87 million tonnes contributed by Peninsular Malaysia that rose by 1.2% y-o-y against Sabah and Sarawak that fell by 7.1% y-o-y (Sabah: -7.9% y-o-y; Sarawak: -3.5% y-o-y), reasons being production has been affected by the delayed impact of adverse weather condition that happened early this year in East Malaysia. As such, we assume that palm oil production in Sabah will continue to be effected in the next 6 to 12 months due to

the spill-over effect of bad weather from the drought that took place in the 2nd half of February and 1st half of April 2015.

Stocks pile climbed to 2.63 million tonnes. As expected, stocks pile mounted in the month of September despite the surge in palm oil export amid the drop in production. Stocks climbed 5.46% m-o-m to 2.628 million tonnes (+25.73%: y-o-y) the highest stocks pile ever recorded as palm oil import m-o-m increased by 15.1% (y-o-y: +97.35%) to 75.96k tonnes from 66.01k tonnes the month before (YTD: +251.34%). We are of the view that stockpile could remain above 2.0 million mark until the end of this year though may decline from the current level as production is going to be in the seasonally downward trend. To be added with a growing concern about the impact of recent dry weather and haze from the burning forest in Indonesia as well as the weakening of Ringgit may somehow instigate buying momentum and hence, potentially lower stockpiles.

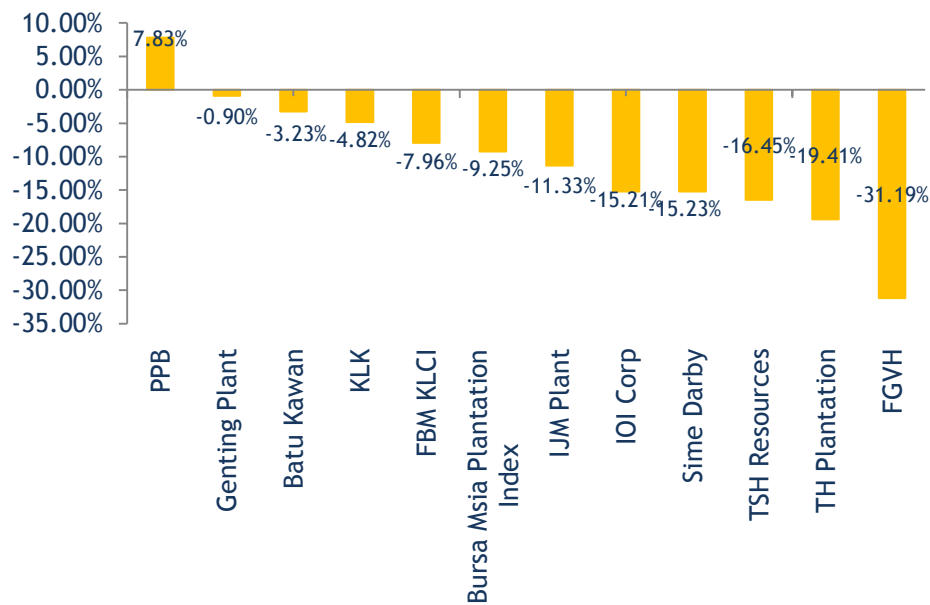
Export volume surged 4.4% m-o-m to 1.678 million tonnes. Palm oil export volume in September 2015 climbed 4.4% m-o-m to 1.678 million tonnes compared to the previous month of 1.608 million tonnes (+2.1% y-o-y). The increase in palm oil export was due to better demand from India, Vietnam, Iran, Philippines, Japan and Benin. Many thanks to India that maintained its demand as we believe they were replenishing their palm oil stocks ahead of Deepavali festival as well as before the increase in palm oil import tax that begin from 20 September 2015 onwards. YTD, palm oil export volume was almost flat or increased marginally by 0.57% to 12.73 million tonnes against 12.66 million tonnes in the same period in 2014. The decline of import from China is however offset by India and EU with off-takes totalling 2.52 million tonnes and 1.73 million tonnes respectively - see table 5.

Bursa Malaysia Plantation Index Analysis. Influenced by weak sentiment, the plantation sector bellwether index in YTD September 2015 slipped by 9.25%, against FBMKLCI that only dropped by 7.96%. It ended September 2015 at 7,157.85, 14% lower y-o-y. YTD, PPB share price has again led its peers after surging by 7.83% while others stocks showed negative performance. The worst performer YTD was FGVH after its share price dipped by 31.2% followed by TH Plant at 19.4%, TSH Resources at 16.5% and SIME at 15.2%.

Table 3: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (September 2015)	Share Price (Dec 2014)	YTD Gain (%)
SIME Darby	7.79	9.19	-15.23%
FGVH	1.50	2.18	-31.19%
IOI Corp	4.07	4.80	-15.21%
Genting Plant	9.91	10.00	-0.90%
IJM Plant	3.21	3.62	-11.33%
KLK	21.70	22.80	-4.82%
PPB	15.42	14.30	7.83%
Batu Kawan	16.78	17.34	-3.23%
TSH Resources	1.93	2.31	-16.45%
TH Plantation	1.37	1.70	-19.41%
Bursa Msia Plantation Index	7,158	7,887	-9.25%
FBM KLCI	1,621	1,761	-7.96%

Plantation Sector Players YTD Share Price Performance (2015)



CPO price movement. The 3-month CPO futures price has rallied in the last week of September with affirmative movement carried over to 6 October 2015, which saw the CPO futures at its highest intra-day level of RM2,460/MT (6-years intra-day low of RM1,863/MT in 25 Aug 2015) in 29 September 2015, before ending the month at RM2,375/MT. Aligned with the derivatives market, MPOB's CPO price for September 2015 has also rallied in the last week of September after increasing marginally 0.8% m-o-m to an average of RM1,986/MT (-3.4% y-o-y). Meanwhile, MPOB average CPO price YTD reached RM2,170.06/MT, slipping by RM314.55/MT or 12.7% lower against RM2,484.61/MT recorded in the same period last year.

Our view. At this stage we maintain our **NEUTRAL** call on plantation sector, but if the landscapes change, we may review our call on the sector. At this junction, our average CPO price target of RM2,150/MT for 2015 and RM2,300/MT for 2016 stays. We remain positive on the long-term outlook of the oil palm plantation sector as we believe the key CPO price drivers are still in place. However, we posit that CPO price rally may not sustain as supply is expected to remain elevated while demand will take time to catch up and hence, leading to high stock levels. We still believe macro issue cause by uncertainty of the world economy such as the slowing growth in China and the US interest rates uncertainties coupled with a drop in oil prices, may have resulted in a lot of volatility in the commodity market and hence, going to dampen demand especially from China, US and EU. At this stage, we maintain **HOLD** call on KLK (TP: RM21.21), Genting Plant (TP: RM9.66) and TSH Resources (TP: RM1.95). However, due to the recent rally in plantation stocks, we have **SELL** call on TH Plant (TP: RM1.21), IJM Plant (TP: RM2.93) and IOI Corp (TP: RM3.60).

Table 4: Export by Selected Destinations

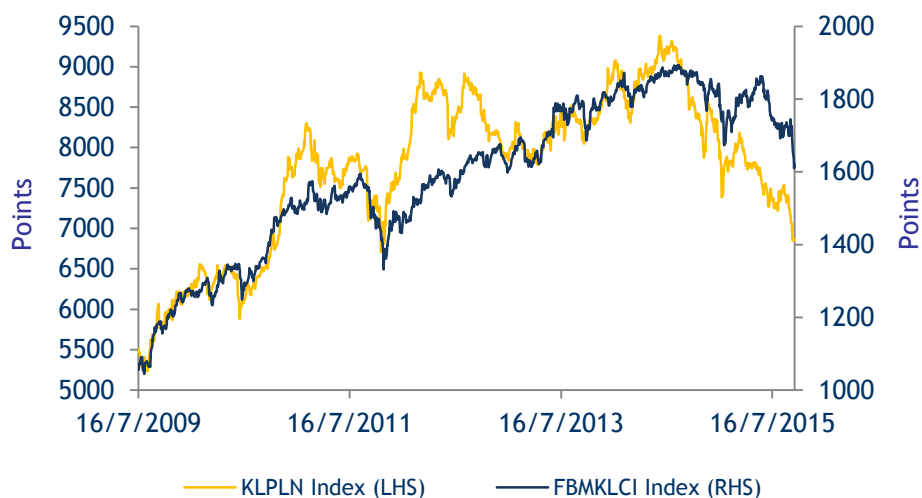
	Sept'14	Aug'15	Sept'15	Changes (%)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	1,446.06	1,607.99	1,678.13	16.05%	4.36%
China	156.20	194.88	192.54	23.26%	-1.20%
India	362.07	263.95	356.66	-1.49%	35.12%
Pakistan	95.75	101.95	57.77	-39.67%	-43.34%
Netherlands	126.92	143.37	109.73	-13.54%	-23.46%
USA	66.41	57.33	50.32	-24.23%	-12.23%
Singapore	20.56	43.57	30.53	48.48%	-29.94%
Vietnam	41.82	40.44	48.47	15.90%	19.85%
Iran	37.94	39.26	71.14	87.53%	81.19%
South Korea	39.72	54.56	20.36	-48.74%	-62.68%
South Africa	3.31	16.12	15.27	361.39%	-5.28%
Philippines	46.59	47.79	66.51	42.76%	39.17%
Japan	38.82	45.22	60.15	54.94%	33.03%
UAE	11.61	8.50	3.17	-72.74%	-62.74%
EU	176.45	254.62	226.84	28.56%	-10.91%
Benin	36.45	32.57	42.61	16.90%	30.81%

Source: MPOB, M&A Securities

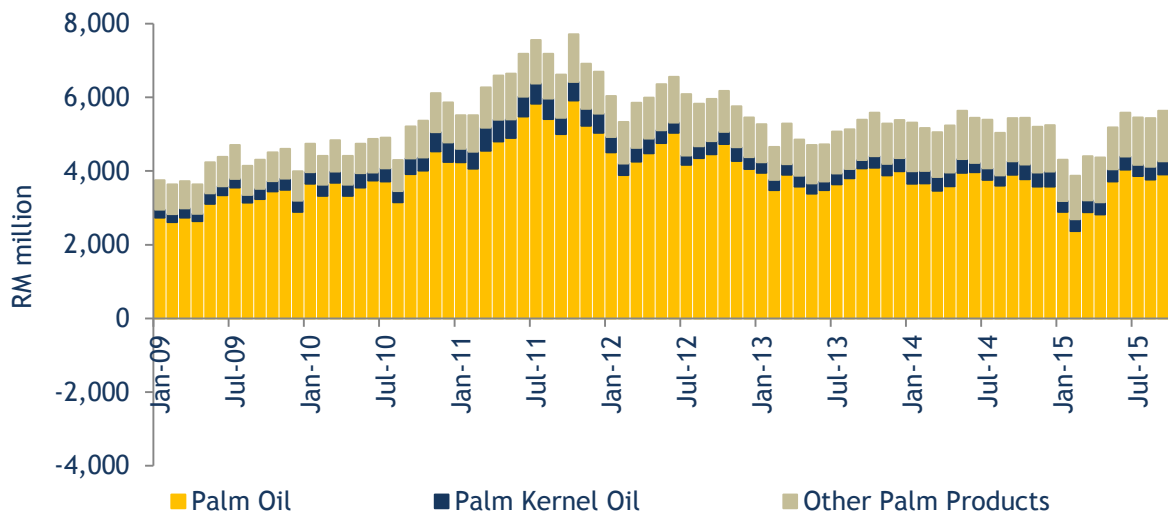
Table 5: YTD Major Export Destinations (Major Customers)

	YTD'14	YTD'15	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	%
Total	12,661.12	12,732.80	71.7	0.57%
China	2,007.13	1,957.67	-49.47	-2.46%
India	2,324.70	2,519.82	195.13	8.39%
EU	1,704.92	1,729.20	24.28	1.42%

Source: MPOB, M&A Securities

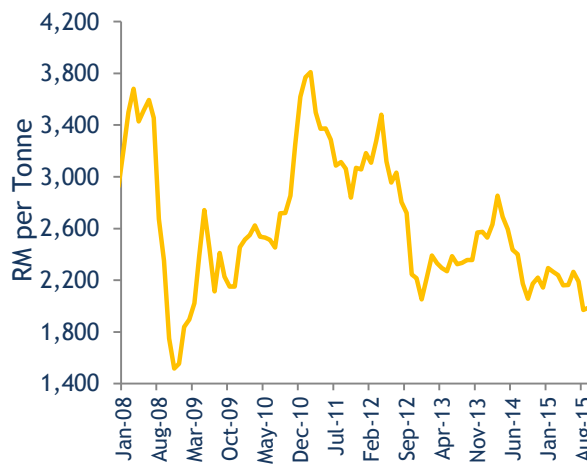
FBM KLCI vs. Bursa Malaysia Plantation Index
(June 2009- September 2015)


Palm Oil Export Since 2009
(January 2009- September 2015)



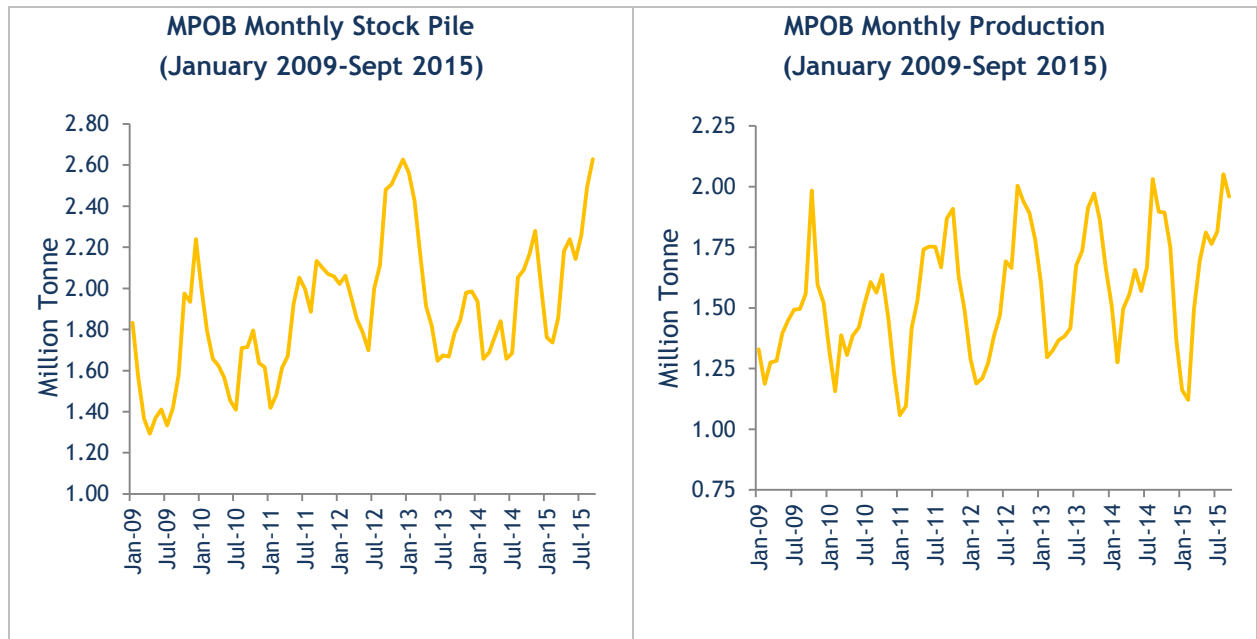
Source: MPOB, M&A Securities

MPOB Monthly Average CPO Price
(January 2008- Sept 2015)



3-mth CPO Futures CPO Price
(January 2008-Sept 2015)





Source: MPOB, Bloomberg

Table 6: Peers Comparison - Stocks under Coverage

Company	Mkt. Cap (RM m)	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE	Div. Yield	TP	Call
			FY1	FY2	FY1	FY2	FY1	FY2				
IOI CORP	27,716.1	4.40	15.3	19.0	28.8	23.2	3.3	3.1	3.0	2.1	3.60	SELL
KLK	24,153.4	22.68	93.5	101.3	24.3	22.4	2.8	2.7	10.3	2.5	21.21	HOLD
GENPLANTS	8,039.9	10.34	36.1	47.6	28.6	21.7	1.9	1.8	7.9	0.7	9.66	HOLD
IJM PLANTS	3,073.2	3.49	11.8	14.5	29.6	24.1	1.9	1.8	6.0	1.7	2.93	SELL
TH PLANTS	1,157.8	1.31	2.7	6.0	48.5	21.8	0.9	0.9	2.9	0.5	1.21	HOLD
TSH RESOURCES	2,833.5	2.09	4.9	9.8	42.7	21.3	2.3	2.1	4.5	0.6	1.95	HOLD
SIME Darby	54,409.7	8.76	44.2	52.6	19.8	16.7	1.8	1.8	7.8	2.8	7.43	SELL
Average					31.7	21.6	2.1	2.0	6.1	1.6		

Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive news flow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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