

## “April Inventories Up as Production Increase and Export Drop”

Table 1: Plantation Sector Operational Metrics Projection

	2014	2015F
CPO Price (RM/MT)	2,408	2,300
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

	Apr'15	Mar'15	Apr'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	2,160	2,240	2,690	-4%	-20%	2,240	2,676	-16%
CPO Production (Million Tonnes)	1.69	1.50	1.56	13%	9%	5.47	5.84	-6%
Palm Oil Export (Million Tonnes)	1.18	1.18	1.27	-0.6%	-7.4%	4.52	5.23	-14%
Ending Stocks (Million Tonnes)	2.19	1.87	1.77	18%	24%	nm	nm	nm

Source: MPOB, M&A Securities

Table 3: Tentative Date of Results Announcement

	Tentative Date
IOI Corporation Berhad (IOIC)	14 May 2015
Kuala Lumpur Kepong Berhad (KLK)	20 May 2015
Genting Plantations Berhad (GENP)	27 May 2015
IJM Plantations Berhad (IJMP)	26 May 2015
TH Plantations Berhad (THP)	27 or 28 May 2015
TSH Resources Berhad (TSH)	20 May 2015
SIME Darby Berhad (SIME)	22 May 2015

Production increased 13.3% m-o-m to 1.69 million tonnes. As predicted, the latest data from MPOB shows that palm oil production for the month of April 2015 had increased at a steady pace of 13.26% m-o-m to 1.69 million tonnes vs. 1.49 million tonnes in March 2015 as the sector moved into growing up cycle production month that normally experience in the month of April till October (April y-o-y: +8.85%). Notwithstanding that, YTD, production was actually contracted by 6.28% y-o-y (4<sup>th</sup> month in the row) reasons being production has been effected by 1) the lag impact from the dry weather in 2014; 2) monsoon flood early of this year that has curbed harvesting and disrupting logistic movement; 3) production had entered into seasonally low cycles; and 4) replanting activities. In January to April period, FFB yield for Malaysia fell to 5.13 tonnes/ha in 2015 against 5.54 tonnes/ha in 2014 with yield in Sabah and Sarawak falling by a bigger margin of 12.4% compared with Peninsular Malaysia of 1.5%.

**Stocks pile accelerated to 2.19 million tonnes.** We were not expecting the stock level to touch the 2 million mark so soon although predicting that production may be higher as it moved into growing up cycle production that begin in the month of March. Palm oil stocks surged 17.59% m-o-m to 2.19 million tonnes at end April 2015 (+24.23%: y-o-y) in tandem with lower exports volume, higher palm oil import m-o-m of 60.2k tonnes from 41.6k tonnes the month before (+39.9%: y-o-y) and higher palm oil production during the month of April. If these 3-pronged negative factors prolong, it could increase the risk of growing stock level; hence increasing the downside risk on palm oil prices.

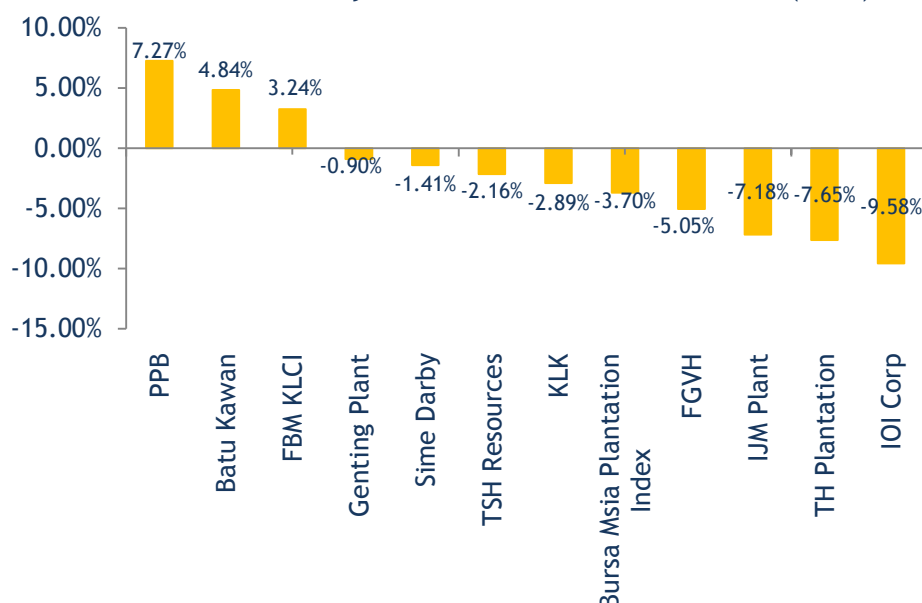
**Export volume slid marginally 0.59% m-o-m to 1.175 million tonnes.** Palm oil export volume in April 2015 dropped slightly 0.59% m-o-m to 1.175 million tonnes compared to the previous month of 1.182 million tonnes. The lower in palm oil export was due to lower demand from major importing countries like India, Netherlands, Singapore and Philippines. However, the shortfall has been negated by encouraging demand from China, Pakistan, USA, EU, Vietnam, Iran, South Korea, UAE and Benin (see table 5). YTD, palm oil export volume slid 13.6% to 4.52 million tonnes against 5.23 million tonnes in the same period in 2014. The decline of import from China and EU is however offset to some extent many thanks to India that maintained its demand with off-takes totalling 7.67 million tonnes (YTD growth: 16.4%) - see table 6.

**Bursa Malaysia Plantation Index Analysis.** The plantation sector bellwether index continued to trade sideways YTD tempered by lack of catalyst which was also weighed by tepid demand and rising concern on global soybean supplies may reached a record, narrowing the premium of soybean oil price against palm oil price that has put pressure on palm oil products price competitiveness. It dropped by 3.7% YTD against FBMKLCI that inched up by 3.24%. It ended April 2015 at 7,595.52, 16.4% lower y-o-y. YTD, PPB share price has again led its peers, surging by 7.3% followed by Batu Kawan at 4.8%. The worst performer YTD was IOIC after its share price dipped by 9.6% followed by TH Plantation at 7.6%, IJMP at 7.2% and FGVH 5.1%.

Table 4: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (Apr 2015)	Share Price (Dec 2014)	YTD Gain (%)
Sime Darby	9.06	9.19	-1.41%
FGVH	2.07	2.18	-5.05%
IOI Corp	4.34	4.80	-9.58%
Genting Plant	9.91	10.00	-0.90%
IJM Plant	3.36	3.62	-7.18%
KLK	22.14	22.80	-2.89%
PPB	15.34	14.30	7.27%
Batu Kawan	18.18	17.34	4.84%
TSH Resources	2.26	2.31	-2.16%
TH Plantation	1.57	1.70	-7.65%
Bursa Msia Plantation Index	7,596	7,887	-3.70%
FBM KLCI	1,818	1,761	3.24%

Plantation Sector Players YTD Share Price Performance (2015)



**CPO price movement.** The 3-month CPO futures price in March 2015 has been volatile and trending downwards from an intra-day high of RM2,250/MT made on the 6<sup>th</sup> April to the lowest level of RM2,070/MT in 29<sup>th</sup> April, before ending the month at RM2,102/MT; weighed by poor demand from major importing countries as well as rising production concern. Aligned with the derivatives market, MPOB's CPO price for April 2015 slid by 3.6% m-o-m to an average of RM2,160/MT (-19.7% y-o-y), while MPOB average CPO price YTD was RM2,239.63/MT, slipping by RM436.6/MT or 16.3% lower against RM2,676.25/MT recorded in the same period last year.

**Our view.** We are maintaining our **NEUTRAL** call on the sector due to the absence of new fresh catalyst with prolong supply-demand miss-match coming on stream as production may build-up amid seasonal production growth cycle. In addition, demand is expected to be moderate in 2015 as import from major trading partner is likely to be slower. We are of the view that most of companies under our coverage may record unimpressive result given the same dilemma of lower CPO average selling price realise, slower production, poor downstream margins and/or higher unrealised forex translation loss.

We maintain our CPO price assumption in the range of RM2,100/MT - RM2,500/MT throughout the year and averaging at RM2,300/MT in 2015 for now. We call a **HOLD** call on Genting Plant (TP: RM10.63), KLK (TP: RM21.50), TSH Resources (TP: RM2.38), TH Plant (TP: RM1.45), IJM Plant (TP: RM3.20) and IOI Corp (TP: RM4.04). We are banking on TSH (Hold: RM2.38) and Genting Plant (Hold: RM10.63) given their bright outlook underpinned by 1) better FFB yield moving forwards as more young trees will reach its prime age; 2) high percentage of immature to young matured land over planted area which provides visible revenue and earnings growth catalyst; and 3) operational efficiencies and promising long-term earnings growth potential.

Table 5: Export by Selected Destinations

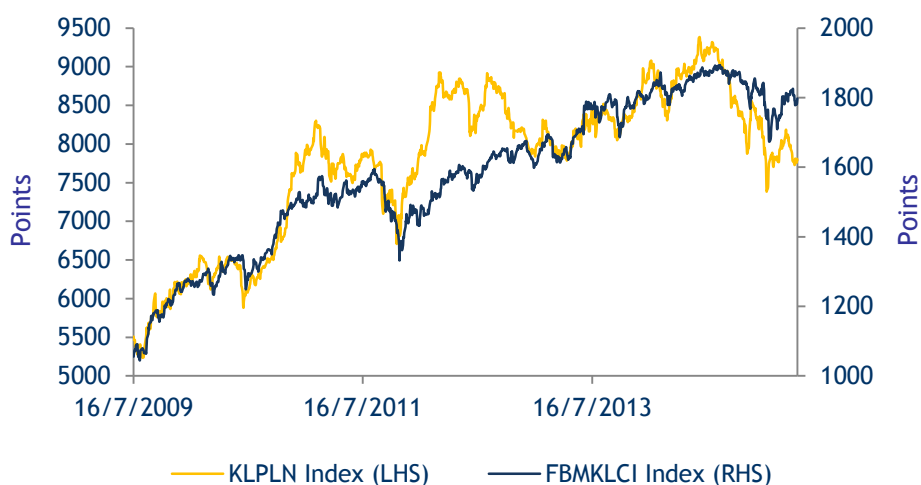
	Apr'14 ( <sup>'000 tonnes</sup> )	Mac'15 ( <sup>'000 tonnes</sup> )	Apr'15 ( <sup>'000 tonnes</sup> )	Changes (%)	
				YoY	MoM
<b>Total</b>	<b>1,268.65</b>	<b>1,182.17</b>	<b>1,175.23</b>	<b>-7.36%</b>	<b>-0.59%</b>
China	252.54	132.72	262.71	4.03%	97.94%
India	161.00	297.55	87.39	-45.72%	-70.63%
Pakistan	66.28	60.39	64.56	-2.58%	6.91%
Netherlands	68.22	63.88	61.43	-9.95%	-3.83%
USA	55.58	49.21	77.32	39.11%	57.12%
Singapore	57.87	29.64	28.59	-50.60%	-3.54%
Vietnam	50.95	61.13	65.31	28.17%	6.83%
Iran	2.27	1.70	41.09	>100%	>100%
South Korea	31.53	23.05	38.99	23.63%	69.10%
South Africa	6.48	10.30	11.12	71.54%	7.89%
Philippines	46.98	54.94	51.36	9.31%	-6.52%
Japan	51.83	31.30	41.80	-19.35%	33.57%
UAE	11.32	4.48	7.62	-32.71%	69.85%
EU	134.22	112.94	130.52	-2.76%	15.57%
Benin	29.81	14.41	25.16	-15.59%	74.65%

Source: MPOB, M&amp;A Securities

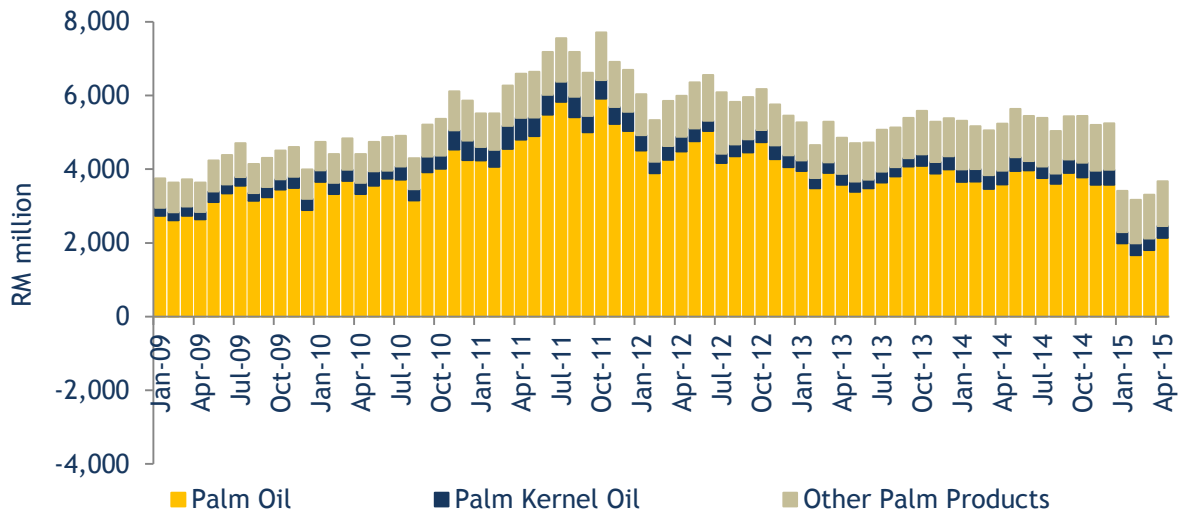
Table 6: YTD Major Export Destinations (Major Customers)

	YTD'14 ( <sup>'000 tonnes</sup> )	YTD'15 ( <sup>'000 tonnes</sup> )	Changes	
			( <sup>'000 tonnes</sup> )	%
<b>Total</b>	<b>5,233.82</b>	<b>4,521.32</b>	<b>-712.5</b>	<b>-13.61%</b>
China	1,001.31	676.45	-324.85	-32.44%
India	659.10	767.27	108.18	16.41%
EU	694.54	552.24	-142.31	-20.49%

Source: MPOB, M&amp;A Securities

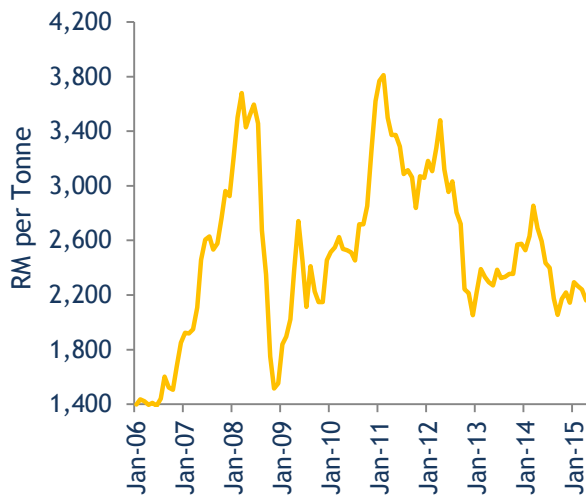
FBM KLCI vs. Bursa Malaysia Plantation Index  
(June 2009- April 2015)


**Palm Oil Export Since 2009**  
(January 2009- April 2015)



Source: MPOB, M&A Securities

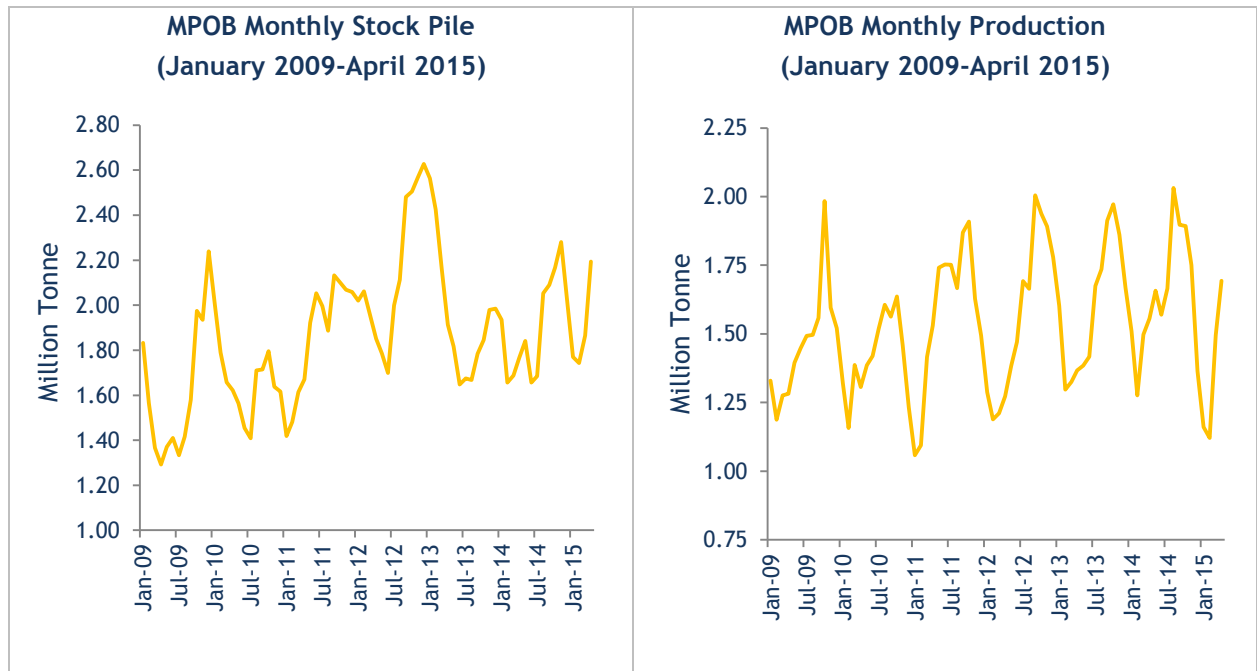
**MPOB Monthly Average CPO Price**  
(January 2008- April 2015)



**3-mth CPO Futures CPO Price**  
(January 2008-April 2015)



Source: MPOB, Bloomberg



Source: MPOB, Bloomberg

Table 7: 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	26,412.9	4.16	15.6	22.9	26.7	18.2	3.2	3.0	24.7	0.6	4.04	HOLD
KLK	23,365.3	21.94	99.5	110.9	22.1	19.8	2.7	2.6	13.5	2.7	21.50	HOLD
GENPLANTS	7,621.0	9.85	52.3	58.9	18.8	16.7	1.9	1.7	9.7	1.4	10.63	HOLD
IJM PLANTS	2,949.9	3.35	12.5	17.1	26.8	19.6	2.0	1.9	6.4	1.5	3.20	HOLD
TH PLANTS	1,370.0	1.55	7.3	9.5	21.2	16.3	1.1	1.1	5.6	1.7	1.45	HOLD
TSH RESOURCES	3,064.0	2.26	10.1	11.9	22.4	19.0	2.4	2.2	11.1	1.1	2.38	HOLD
Average					23.0	18.3	2.2	2.1	11.8	1.5		

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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