

PLANTATION SECTOR

(Neutral)

“Another Tough Quarter”

Table 1: Results Review - Percentage Change (%)

Companies	FYE	Revenue		PBIT		PBT		FFB Production	
		q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
IOI Corp	June	-3.6	-4.3	79.8	-37.8	->100	->100	-32	-13
KLK	Sept	-1.6	4.5	4.6	-25.3	0.7	-30.1	-14	-2
Genting Plant	Dec	-44	-3	-63	-54	-62	-54	-25	-6
IJM Plant	Mac	-28	-29	-92	-93	-138	-119	-30	-14
TH Plantation	Dec	-17	-34	-35	-52	-95	-97	-29	-20
TSH Res.	Dec	-16	-28	-4	-39	-59	-88	-9	-9
SIME Darby	June	-6.9	-1.0	3.4	-34.1	0.4	-38	-8	-4

Source: Companies, M&A Securities

Table 2: Plantation Sector Statistics

	1QCY15	4QCY14	1QCY14	m-o-m	y-o-y
Average CPO Price (RM/MT)	2,266	2,178	2,672	4%	-15%
CPO Production (Million Tonnes)	3.78	5.01	4.28	-25%	-12%
Palm Oil Export (Million Tonnes)	3.35	4.65	3.97	-28.0%	-15.6%
Ending Stocks (Million Tonnes)	1.87	2.02	1.69	-7%	11%

Source: MPOB, M&A Securities

1QCY15 Company's result summary. As expected, 1QCY15 results for companies under our coverage turned out to be sour. Almost all registered lower top-line and bottom-line growth (q-o-q) affected by margin erosion, injured by lower CPO average selling prices and production growth coupled with lower margins from downstream business as well as unrealised fair value loss in foreign currency forward exchange contracts arising from stronger US Dollar during the quarter. The lower FFB production during the period followed last quarter trend, resulting from low FFB yield due to a change in crop pattern as a result of delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with the dry weather during early 2015 in East Malaysia that ran concurrently with seasonally low cycle during the period.

Key factor of the unimpressive 1QCY15 earnings results:

- 1) Low FFB and CPO production;
- 2) Low palm products sales volume;
- 3) Low average CPO selling price realise;

- 4) Poor downstream margins; and
- 5) Higher unrealised FOREX losses.

Table 3: Earnings Summary for the first quarter 2015 (Stock under Coverage)

Company	Earnings	Remarks
IOI Corporation (IOIC)	Below	Disappointing earnings result was resultant from the 1) lower contribution from resource-based manufacturing segment - lower volume and margins generated from the refinery sub-segment; 2) lower FFB production; 3) higher net foreign currency translation loss on foreign currency denominated borrowings; and 4) net repayment of USD526 million of US Dollar denominated borrowing. During the 1Q15, FFB and CPO production slipped by 32% and 31% q-o-q respectively.
Kuala Lumpur Kepong (KLK)	Below	Below-than-expected earnings result was caused by weaker-than-expected EBIT contribution from both the plantation and manufacturing division, impacted by 1) weaker CPO, PK and rubber selling prices; 2) lower FFB and rubber production; 3) higher production cost of CPO; and 4) unrealised loss of RM1.1 million (4Q14: unrealised gain RM26.3 million) from the fair value changes on outstanding derivative contracts. During the 1Q15, FFB and CPO production shrunk by 14% and 13% q-o-q respectively.
Genting Plantations (GENP)	Below	Lower top-line and bottom-line numbers were mainly relating to a decline in contribution from Malaysia plantation segments and higher unrealised exchange losses in USD denominated borrowings of RM17.6 million as opposed to RM20.7 million gains in 1Q14 that offset the increases in all other segments contributed by: 1) higher FFB production in Indonesia plantation segments; 2) increase in property sales due to land sales in relation to the divestment of Genting Permaipura, Kedah operations; and 3) higher biodiesel sales. In 1Q15, FFB production declined 25% q-o-q.
IJM Plantations (IJMP)	Below	1Q15 results came in below our expectation. Top-line and bottom-line numbers were lower mainly due to 1) lower FFB production and CPO sales; 2) decrease in sales volumes from the Malaysian operations; and 3) higher net unrealised exchange loss from the exchange rate movement of Rupiah against the US Dollar resulting to a loss position in Indonesia operations. During 1Q15, total FFB and CPO production declined by 30% and 38% q-o-q respectively.
TH Plantations (THP)	Within	The lower top-line and bottom-line numbers emanating

		from a declined in FFB and CPO production due to, inter alia 1) biological tree stress due to drought phenomena which affected the region in 1Q14; 2) floods in December and early January 2015 that enveloped the eastern region that disrupted harvesting activities; and 3) younger estates. Margins got squeezed with production cost increased (young estates and younger age profile). During the 1Q15, FFB and CPO production slipped by 29% and 22% q-o-q respectively.
TSH Resources (TSH)	Within	The lower earnings result were due to 1) lower average CPO price realised and lower sales volume from other products segments; 2) lower FFB and CPO production; 3) operational loss in wood product manufacturing; and 4) higher foreign exchange losses. In 1Q15, FFB and CPO production dropped 9% and 24% q-o-q respectively.
SIME Darby (SIME)	Below	Disappointing earnings result was caused by weaker-than-expected PBIT contribution from all divisions except for property division (+95% y-o-y YTD), impacted by 1) weak CPO and PK prices; 2) lower FFB production and CPO sales volume; 3) declining profit from midstream and downstream business due to lower off-take of biodiesel and lower sales volume and margin; and 4) lower equipment deliveries and margin realisation in the product support segment in Australasia as well as lower equipment and engine sales to the construction, mining and shipyard sectors. In 1Q15, FFB and CPO production shed by 8% and 7% q-o-q respectively.

Our view. 2015 is deemed to be a challenging year for plantation companies. Most of companies under our coverage booked 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. Lower FFB and CPO production will suppress further plantation earnings and hence, fail to act as moderating agent to cushioning plantation earnings due to the impact of softer palm oil product prices. However, we anticipate FFB production may start to pick-up in the coming month as the sector moves into up cycle production month that normally experience in the month of April till October. The hiccups in 2015 is believe to be due to delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with tree stress effect, and as such, expect FFB production growth and yield may be temporary suppressed this year before picking up again in FY16 (note: assuming no weather abnormalities happen this year).

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 SIME Darby (TP: RM9.00), Genting Plant (TP: RM10.77), KLK (TP: RM21.50), TSH Resources (TP: RM2.38), TH Plant (TP: RM1.47), IJM Plant (TP: RM3.46) and IOI Corp (TP: RM4.04).

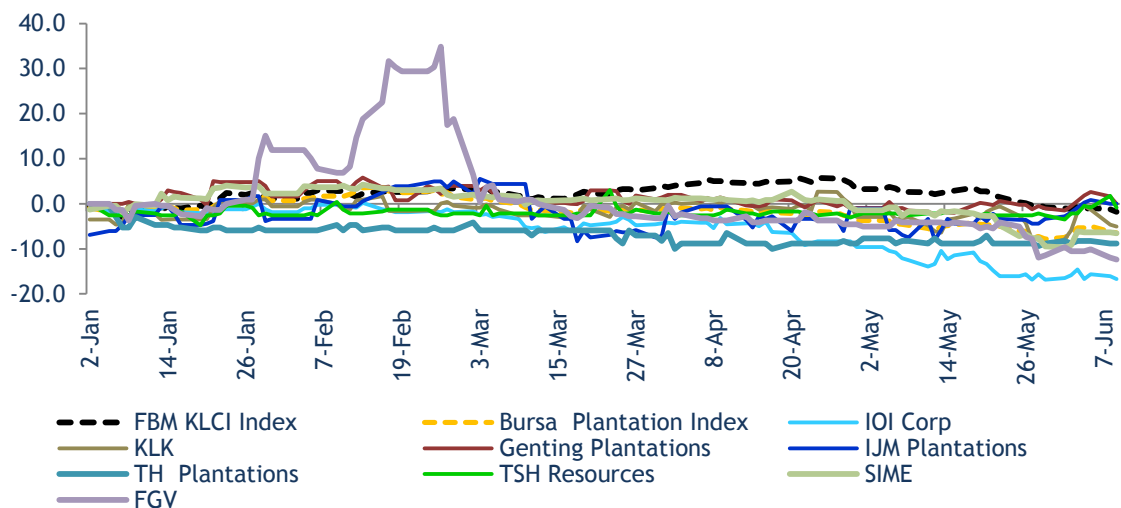
Table 4: Peers Comparison - Stocks under Coverage

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	25,400.5	4.01	15.6	22.9	25.7	17.5	3.0	2.9	7.8	2.5	4.04	HOLD
KLK	23,024.6	21.62	99.5	110.9	21.7	19.5	2.7	2.5	10.0	2.8	21.50	HOLD
GENPLANTS	7,738.6	10.00	47.7	53.1	21.0	18.8	1.8	1.7	8.7	1.0	10.77	HOLD
IJM PLANTS	3,187.7	3.62	16.0	19.6	22.6	18.5	2.0	1.9	6.0	2.2	3.46	HOLD
TH PLANTS	1,370.0	1.55	2.9	7.4	7.4	20.9	1.1	1.1	4.0	0.6	1.47	HOLD
TSH RESOURCES	3,158.9	2.33	10.1	11.9	23.1	19.6	2.4	2.2	6.8	1.1	2.38	HOLD
SIME Darby	53,353.8	8.59	33.9	43.2	25.3	19.9	1.8	1.8	8.9	3.3	9.00	HOLD
Average					21.0	19.2	2.1	2.0	7.5	1.9		

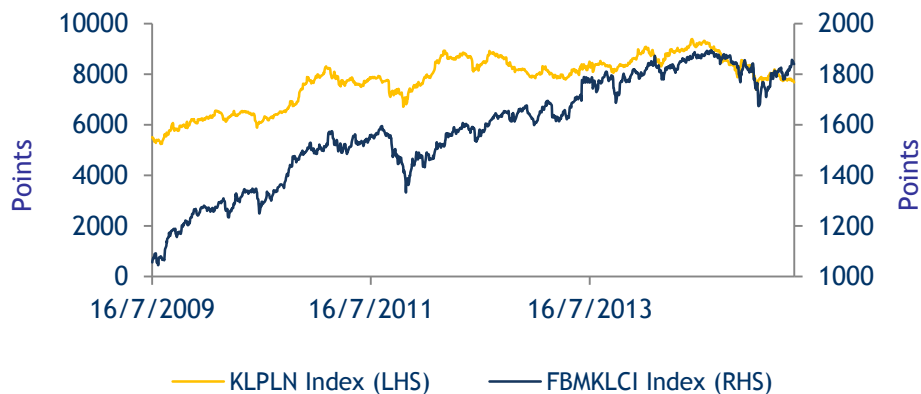
Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

YTD Performance - Plantation Players vs. Bursa Plantation Index and FBMKLCI



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



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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