

Plantation Sector

(Neutral)

“June’s Palm Oil Stocks Contracted 4.3% m-o-m”

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

	June'15	May'15	June'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	2,265	2,162	2,435	4.7%	-7.0%	2,231	2,622	-14.9%
CPO Production (Million Tonnes)	1.76	1.81	1.57	-2.6%	12.4%	9.05	9.06	-0.2%
Palm Oil Export (Million Tonnes)	1.70	1.61	1.48	5.2%	14.4%	7.83	8.13	-3.7%
Ending Stocks (Million Tonnes)	2.15	2.25	1.66	-4.3%	29.8%	nm	nm	nm

Source: MPOB, M&A Securities

Production contracted 2.6% m-o-m to 1.76 million tonnes. The latest data from MPOB showed that production for the month of June 2015 contracted 2.6% m-o-m, but remained high y-o-y, increasing by 12.4% to 1.76 million tonnes vs. 1.57 million tonnes in June 2014 (May 15: 1.81 million tonnes). YTD, CPO production was flat or decreased slightly by 0.21% y-o-y (6th month in the row) reasons being production still effected by the delayed impact of adverse weather condition that happened last year in Malaysia and Indonesia. We are of the view that the m-o-m contraction may not prolong and production could pick-up again in the coming months as production enters higher production season. Historically, CPO production will increase by about 8% to 9% in average for the month of July.

Stocks pile slowdown to 2.15 million tonnes. Stocks pile slowed down in the month of June as palm oil export volume increased while production dipped. Stocks slipped 4.3% m-o-m to 2.15 million tonnes (+29.9%: y-o-y) amidst palm oil import m-o-m increasing by 2.36% (y-o-y: +841.5%)

to 103.5k tonnes from 101.1k tonnes the month before (YTD: +222.8%). We are of the view that stockpile could remain elevated as demands continue to be poor coupled with weaker soy-oil prices that consistently put pressure on CPO price competitiveness.

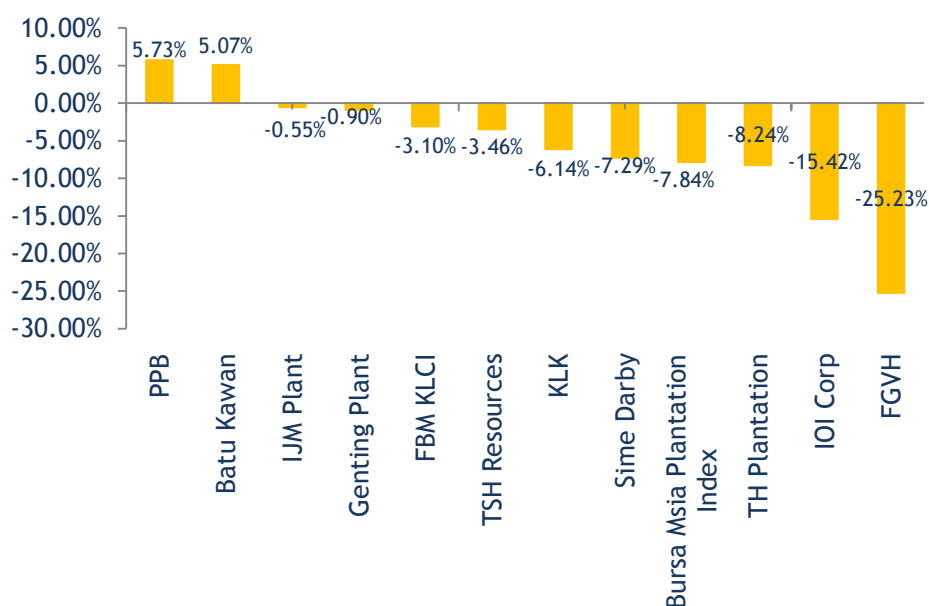
Export volume surge 5.2% m-o-m to 1.697 million tonnes. Palm oil export volume in June 2015 surged 5.2% m-o-m to 1.697 million tonnes compared to the previous month of 1.613 million tonnes (14.4% y-o-y) as India continued its momentum of replenishing their palm oil stocks to meet higher demand for Ramadan festivities with Pakistan returning to restock its palm oil stocks as the emergence of El-Nino hurting their crops and hence, counted on imported edible oils i.e. palm oil. The higher in palm oil export was also supported by the increase in demand from countries like South Korea, South Africa and UAE that mitigated the shortfall from Netherlands, USA, Singapore, Vietnam, Iran, Philippines, Japan, Benin and European Union (see table 4). YTD, palm oil export volume slid 3.71% to 7.83 million tonnes against 8.13 million tonnes in the same period in 2014. India maintained its strong demand with off-takes totalling 1.546 million tonnes (YTD growth: 33.7%) cushioning the lower demand from China and EU - see table 5.

Bursa Malaysia Plantation Index Analysis. The plantation sector bellwether index in YTD June 2015 continued to register bearish performance. It slipped by 7.84% YTD, against FBMKLCI that only dropped by 3.1%. It ended June 2015 at 7,268.53, 21% lower y-o-y. YTD, PPB share price has again led its peers, surging by 5.73% followed by Batu Kawan at 5.07%. The worst performer YTD was FGVH after its share price dipped by 25.2% followed by IOIC at 15.4%, TH Plant at 8.2% and SIME at 7.3%.

Table 3: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (June 2015)	Share Price (Dec 2014)	YTD Gain (%)
Sime Darby	8.52	9.19	-7.29%
FGVH	1.63	2.18	-25.23%
IOI Corp	4.06	4.80	-15.42%
Genting Plant	9.91	10.00	-0.90%
IJM Plant	3.60	3.62	-0.55%
KLK	21.40	22.80	-6.14%
PPB	15.12	14.30	5.73%
Batu Kawan	18.22	17.34	5.07%
TSH Resources	2.23	2.31	-3.46%
TH Plantation	1.56	1.70	-8.24%
Bursa Msia Plantation Index	7,269	7,887	-7.84%
FBM KLCI	1,707	1,761	-3.10%

Plantation Sector Players YTD Share Price Performance (2015)



CPO price movement. The 3-month CPO futures price in June 2015 has been traded range bound, mirroring its closest competing soybean oil prices amid cautious trading over Ringgit movement. The 3-month CPO futures price oscillated from an intra-day high of RM2,362/MT made on the 8th June to the lowest level of RM2,218/MT in 22nd June, before ending the month at RM2,229/MT. Aligned with the derivatives market, MPOB's CPO price for June 2015 increased 4.7% m-o-m to an average of RM2,264.50/MT (-6.98% y-o-y). Meanwhile, MPOB average CPO price YTD was RM2,230.83/MT, slipping by RM391.25/MT or 14.9% lower against RM2,622.08/MT recorded in the same period last year.

Our view. We stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015. However, we are cautiously optimistic that CPO price may trade in a range of RM2,200/MT to RM2,500/MT in 2H15 as we believe weaker Ringgit against USD may instigate more buying of CPO coupled with the wider price gap between CPO and soybean oil, which in turn will help lift demand for CPO. Currently, soybean oil's premium over palm oil stands at USD128.95/MT vs. 12-month average of USD83/MT. Added with weather abnormalities, should the El-Nino occur across Southeast Asia, supply disruption could spark and affect palm oil production in 2016 and hence, lifting the palm oil prices. Somehow we are worried over the brewing debt debacle in Greece that may result in domino effect to other union's countries' economy as further weakening of Euro may also weigh on other neighboring country's economy. Of note, Eurozone is a biggest trading partner of China and the slowdown in EU's economy will definitely hurt China exports and hence, may slow down its economy (China's 2015 economic growth target: 7%). We are of the view that if the crisis prolong, the contagion effect could hit commodities market sooner or later as China is one of the biggest importer of commodities in the world i.e. palm oil products.

Hence, maintain **NEUTRAL** on the sector and call a **HOLD** 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). We continue to favor TSH (Hold: RM2.38) and Genting Plant (Hold: RM10.77) 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 4: Export by Selected Destinations

	June'14	May'15	June'15	Changes (%)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	1,483.19	1,613.57	1,697.26	14.43%	5.19%
China	271.68	359.66	243.93	-10.21%	-32.18%
India	229.07	342.86	435.83	90.27%	27.12%
Pakistan	60.17	58.39	71.56	18.92%	22.56%
Netherlands	140.65	191.06	103.37	-26.51%	-45.90%
USA	82.71	45.41	44.33	-46.40%	-2.38%
Singapore	40.64	33.87	22.30	-45.14%	-34.16%
Vietnam	47.79	53.67	49.90	4.43%	-7.03%
Iran	78.44	36.94	1.77	-97.75%	-95.22%
South Korea	21.57	26.05	43.45	101.48%	66.79%
South Africa	11.74	0.51	15.76	34.20%	2984.15%
Philippines	44.64	48.90	41.11	-7.92%	-15.94%
Japan	43.41	60.61	49.60	14.25%	-18.16%
UAE	2.67	3.35	10.05	276.84%	199.94%
EU	226.27	267.25	216.68	-4.24%	-18.92%
Benin	20.95	44.51	39.19	87.05%	-11.95%

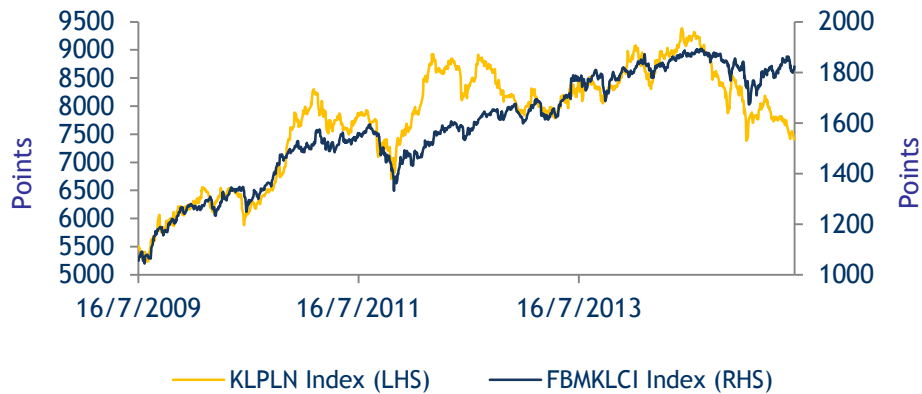
Source: MPOB, M&A Securities

Table 5: YTD Major Export Destinations (Major Customers)

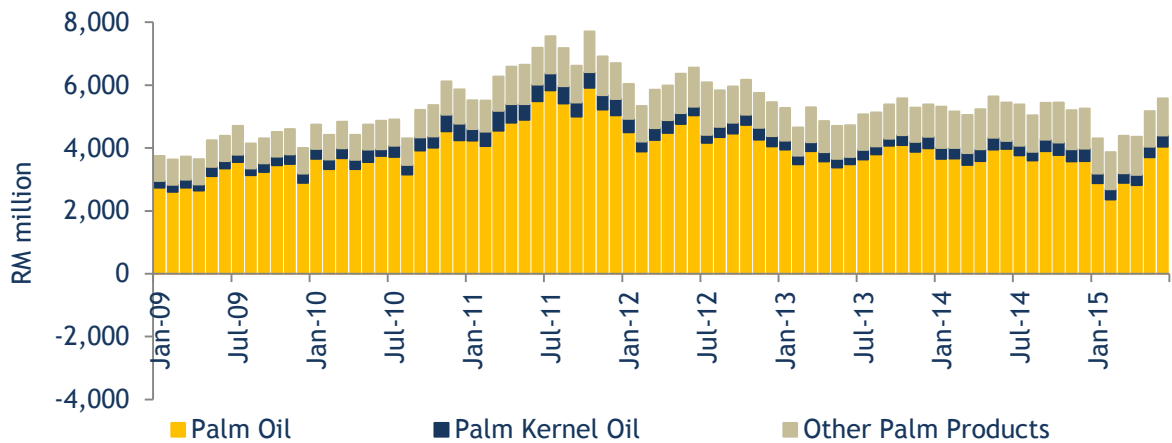
	YTD'14	YTD'15	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	%
Total	8,133.97	7,832.16	-301.8	-3.71%
China	1,493.25	1,280.04	-213.21	-14.28%
India	1,156.31	1,545.96	389.66	33.70%
EU	1,141.07	1,036.16	-104.91	-9.19%

Source: MPOB, M&A Securities

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



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



Source: MPOB, M&A Securities

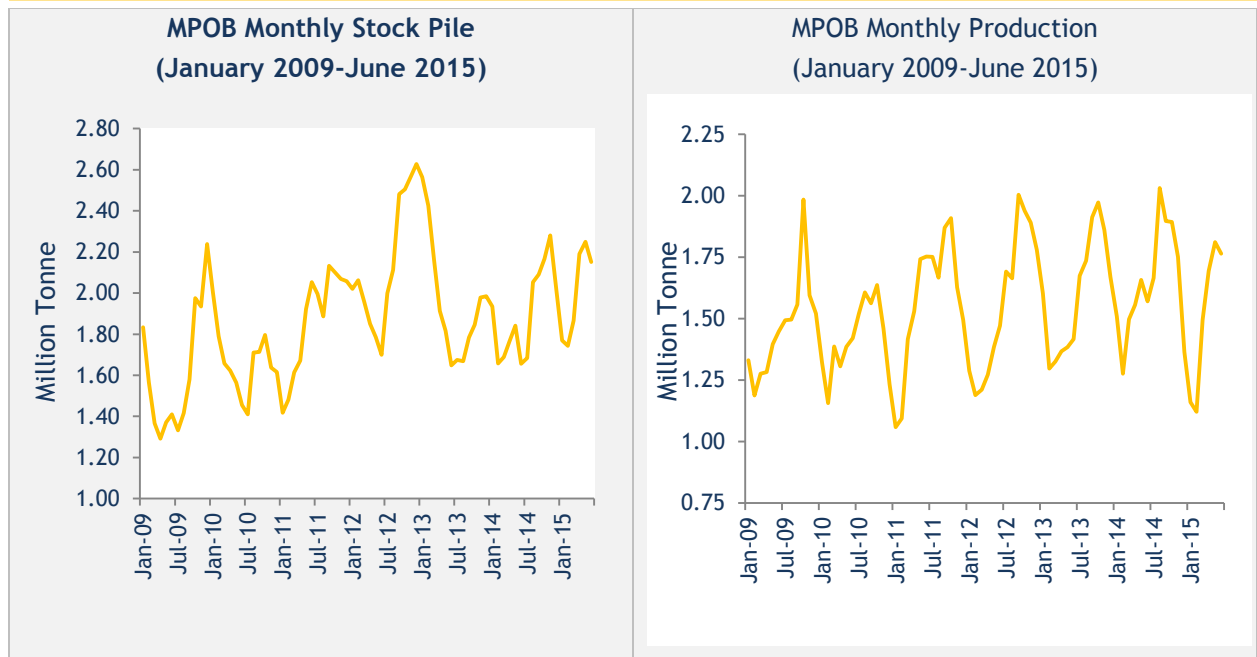
MPOB Monthly Average CPO Price
(January 2008- June 2015)

This line chart shows the monthly average price of Crude Palm Oil (CPO) in RM per Tonne from January 2008 to June 2015. The Y-axis ranges from 1,400 to 4,200. The X-axis shows dates: Jan-08, Jul-08, Jan-09, Jul-09, Jan-10, Jul-10, Jan-11, Jul-11, Jan-12, Jul-12, Jan-13, Jul-13, Jan-14, Jul-14, Jan-15. The price shows high volatility, with a major peak in early 2008 (around 3,800 RM/Tonne), a sharp drop in early 2009, and subsequent fluctuations between 2,000 and 3,800 RM/Tonne.

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

This line chart displays the 3-month futures price for Crude Palm Oil (CPO) in RM per Tonne from January 2008 to June 2015. The Y-axis ranges from 1000 to 4500. The X-axis shows dates: Jan-08, Aug-08, Mar-09, Oct-09, May-10, Dec-10, Jul-11, Feb-12, Sep-12, Apr-13, Nov-13, Jun-14, Jan-15. The price trend is similar to the MPOB monthly average, with a peak in early 2008 followed by a decline and then a recovery to around 3,500 RM/Tonne by late 2010, with continued volatility thereafter.

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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	26,857.4	4.24	15.6	22.9	27.2	18.5	3.2	3.1	7.8	2.4	4.04	HOLD
KLK	24,132.1	22.66	99.5	110.9	22.8	20.4	2.8	2.6	10.0	2.6	21.50	HOLD
GENPLANTS	7,897.5	10.20	47.7	53.1	21.4	19.2	1.9	1.7	8.7	0.9	10.77	HOLD
IJM PLANTS	3,090.8	3.51	16.0	19.6	21.9	17.9	2.0	1.9	6.0	2.3	3.46	HOLD
TH PLANTS	1,370.0	1.55	2.9	7.4	53.4	20.9	1.1	1.1	4.1	0.6	1.47	HOLD
TSH RESOURCES	3,036.9	2.24	10.1	11.9	22.2	18.8	2.3	2.1	6.8	1.1	2.38	HOLD
SIME Darby	53,043.3	8.54	33.9	43.2	25.2	19.8	1.8	1.8	8.9	3.3	9.00	HOLD
Average					27.7	19.4	2.2	2.0	7.5	1.9		

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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