

Plantation Sector

(Neutral)

“August’s Palm Oil Stocks Accelerate 10% m-o-m (21.5% 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

	Aug'15	July'15	Aug'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	1,970	2,190	2,174	-10.0%	-9.4%	2,193	2,538	-13.6%
CPO Production (Million Tonnes)	2.05	1.82	2.03	13.0%	1.0%	12.91	12.76	1.2%
Palm Oil Export (Million Tonnes)	1.61	1.61	1.44	-0.3%	11.8%	11.06	11.02	0.4%
Ending Stocks (Million Tonnes)	2.49	2.27	2.05	10.0%	21.5%	nm	nm	nm

Source: MPOB, M&A Securities

Production surged 12.96% m-o-m to 2.051 million tonnes. The latest data from MPOB showed CPO production had breached the 2 million mark again in the month of August or a steady gain of 12.96% m-o-m to 2.051 million tonnes vs. 1.815 million tonnes in July 2015 (y-o-y: +0.95%), indicating steady production trend in the previous months that started in March 2015. CPO's contribution from Peninsular Malaysia rose +10.5% m-o-m (+3.0% y-o-y) while Sabah and Sarawak increased +16.0% m-o-m (-0.30% y-o-y) to 1.118 million tonnes and 932k tonnes respectively. YTD, CPO production increased marginally by 1.2% y-o-y to 12.91 million tonnes contributed by Peninsular Malaysia that rose by 4.1% y-o-y against Sabah and Sarawak that fell by 2.1% 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. In line with past seasonal pattern, we expect good harvest to continue in the coming months and could last until November or December.

Stocks pile climbed to 2.49 million tonnes. Stocks pile mounted in the month of August as palm oil export volume shrunk while production surged. Stocks climbed 10.04% m-o-m to 2.495 million tonnes (+21.51%: y-o-y) the highest stocks pile recorded in 2015 although palm oil import m-o-m decreased by 53.8% (y-o-y: +275.6%) to 66.01k tonnes from 142.85k tonnes the month before (YTD: +285.25%). We are of the view that stockpile could remain elevated as demands continue to be slow with anticipated higher production in the coming months and hence, increasing the downside risk on palm oil prices.

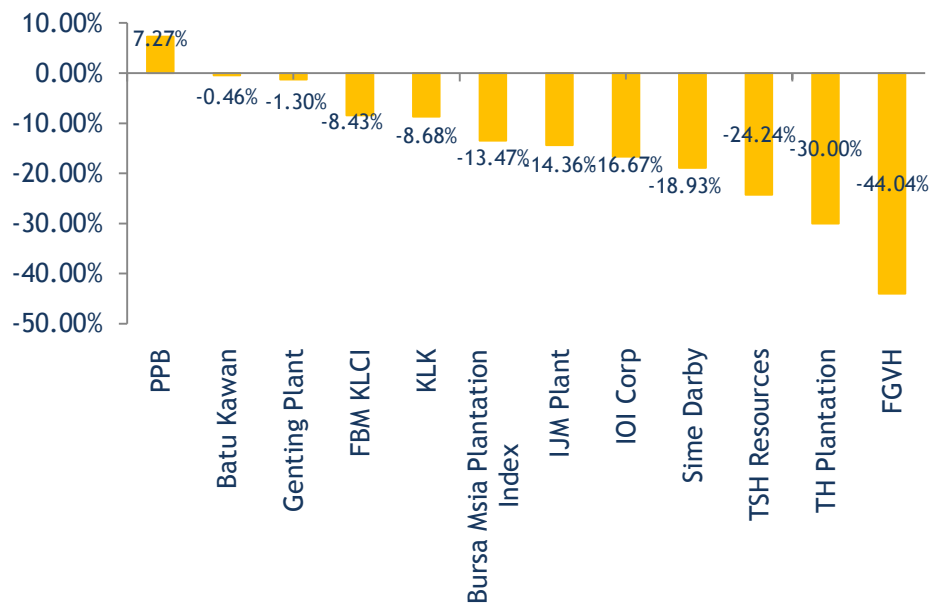
Export volume slid marginally 0.3% m-o-m to 1.608 million tonnes. Palm oil export volume in Aug 2015 dropped slightly 0.3% m-o-m to 1.608 million tonnes compared to the previous month of 1.613 million tonnes (+11.8% y-o-y). The lower palm oil export was due to lower demand from China, India, USA, Netherlands, Singapore, Vietnam, South Africa, UAE and Benin. However, the shortfall has been negated by encouraging demand from Pakistan, Iran, South Korea, Philippines, Japan and EU (see table 4). YTD, palm oil export volume was almost flat or increased marginally by 0.35% to 11.06 million tonnes against 11.02 million tonnes in the same period in 2014. The decline of import from China and EU is however offset by India that maintained its steady demand with off-takes totalling 2.163 million tonnes (YTD growth: 15.7%) - see table 5.

Bursa Malaysia Plantation Index Analysis. Continued decline in CPO prices with anticipation of its slow recovery and poor earnings result from plantation companies that has pushed the plantation sector bellwether index YTD until August 2015 to slip by 13.5%, against FBMKLCI that only dropped by 8.4%. It ended August 2015 at 6,825.07, 20% lower y-o-y. YTD, PPB share price has again led its peers after surging by 7.27% while others stocks shown negative performance. The worst performer YTD was FGVH after its share price dipped by 44% followed by TH Plant at 30%, TSH Resources at 24% and SIME at 19%.

Table 3: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (August 2015)	Share Price (Dec 2014)	YTD Gain (%)
Sime Darby	7.45	9.19	-18.93%
FGVH	1.22	2.18	-44.04%
IOI Corp	4.00	4.80	-16.67%
Genting Plant	9.87	10.00	-1.30%
IJM Plant	3.10	3.62	-14.36%
KLK	20.82	22.80	-8.68%
PPB	15.34	14.30	7.27%
Batu Kawan	17.26	17.34	-0.46%
TSH Resources	1.75	2.31	-24.24%
TH Plantation	1.19	1.70	-30.00%
Bursa Msia Plantation Index	6,825	7,887	-13.47%
FBM KLCI	1,613	1,761	-8.43%

Plantation Sector Players YTD Share Price Performance (2015)



CPO price movement. The 3-month CPO futures price in August 2015 continued its downtrend as concern over demand outlook has triggered price to hover around RM1,863/MT - RM2,131/MT. The 3-month CPO futures price oscillated from an intra-day high of RM2,131/MT on the 31st July to the lowest level of RM1,863/MT in 25th August, before ending the month at RM1,991/MT. Aligned with the derivatives market, MPOB's CPO price for Aug 2015 dropped 10% m-o-m to an average of RM1,970/MT (-9.4% y-o-y). Meanwhile, MPOB average CPO price YTD reached RM2,193.06/MT, slipping by RM345.19/MT or 13.6% lower against RM2,538.25/MT recorded in the same period last year.

Our view. In our previous report, we did mention that CPO price may go bottom to RM1,805/MT (based on 1-SD below its 10-yrs average MPOB's CPO price) if demand continued to be slow dampen further by burgeoning global soybean supplies and slumping global crude oil prices. On the 27th August 2015, MPOB's CPO price has tanked to its lowest level of RM1,802/MT in 2015 (3-month CPO futures: RM1,863/MT on 25 Aug 2015) suggesting that the price may hover around RM1,800/MT - RM2,200/MT for the rest of the year. Looking at the trend and the absence of catalyst at the home-front coupled with macro issue weighed by uncertainty of the world economy, we have reduced our average CPO price assumption for 2015 and 2016 to RM2,150/MT and RM2,300/MT respectively (previously RM2,300/MT for 2015 and RM2,400 for 2016).

On the same breath, we maintain our **Neutral** call on the sector as most plantation companies under our coverage are fairly valued at their current market price, despite of the possibility that most companies may incur further drop in earnings on margins compression due to lower palm products price realise as well as derailment in production target. However, we are still positive on the long-term outlook of the sector given that palm oil and palm kernel oil are the world largest

consumed edible oil. Hence, maintain **HOLD** on SIME Darby (TP: RM7.43), KLK (TP: RM21.21), TSH Resources (TP: RM1.95), TH Plant (TP: RM1.21), IJM Plant (TP: RM2.93), Genting Plant (TP: RM9.66) and IOI Corp (TP: RM3.60).

Table 4: Export by Selected Destinations

	Aug'14	July'15	Aug'15	Changes (%)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	1,446.06	1,697.28	1,602.11	10.79%	-5.61%
China	156.20	290.21	194.88	24.76%	-32.85%
India	362.07	351.52	263.89	-27.12%	-24.93%
Pakistan	95.75	40.31	101.95	6.48%	152.91%
Netherlands	126.92	154.16	143.37	12.97%	-7.00%
USA	66.41	73.59	57.33	-13.67%	-22.10%
Singapore	20.56	49.32	43.57	111.92%	-11.66%
Vietnam	41.82	62.90	40.44	-3.30%	-35.71%
Iran	37.94	23.07	39.26	3.50%	70.19%
South Korea	39.72	37.15	54.56	37.34%	46.86%
South Africa	3.31	20.53	16.12	387.10%	-21.45%
Philippines	46.59	46.02	47.79	2.58%	3.85%
Japan	38.82	30.09	45.22	16.47%	50.29%
UAE	11.61	16.29	8.50	-26.83%	-47.85%
EU	176.45	211.58	254.62	44.30%	20.34%
Benin	36.45	41.09	32.57	-10.63%	-20.72%

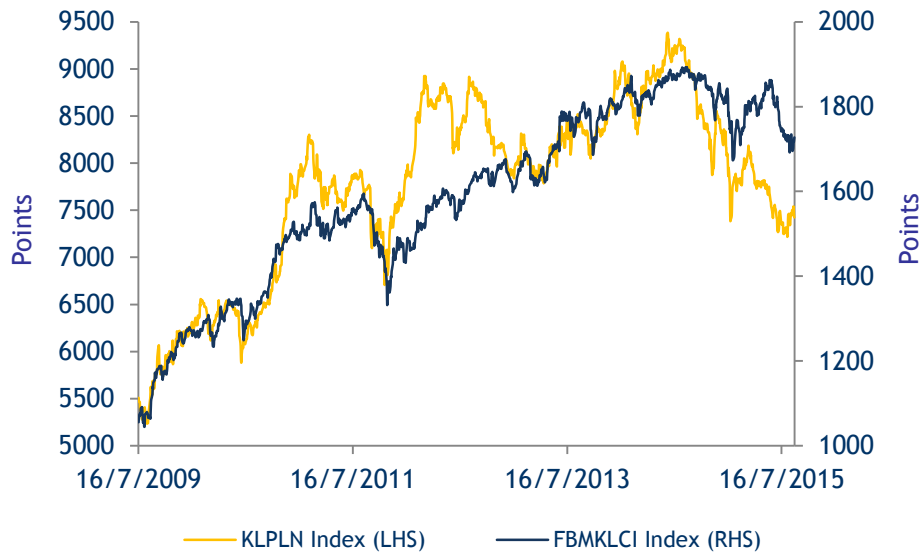
Source: MPOB, M&A Securities

Table 5: YTD Major Export Destinations (Major Customers)

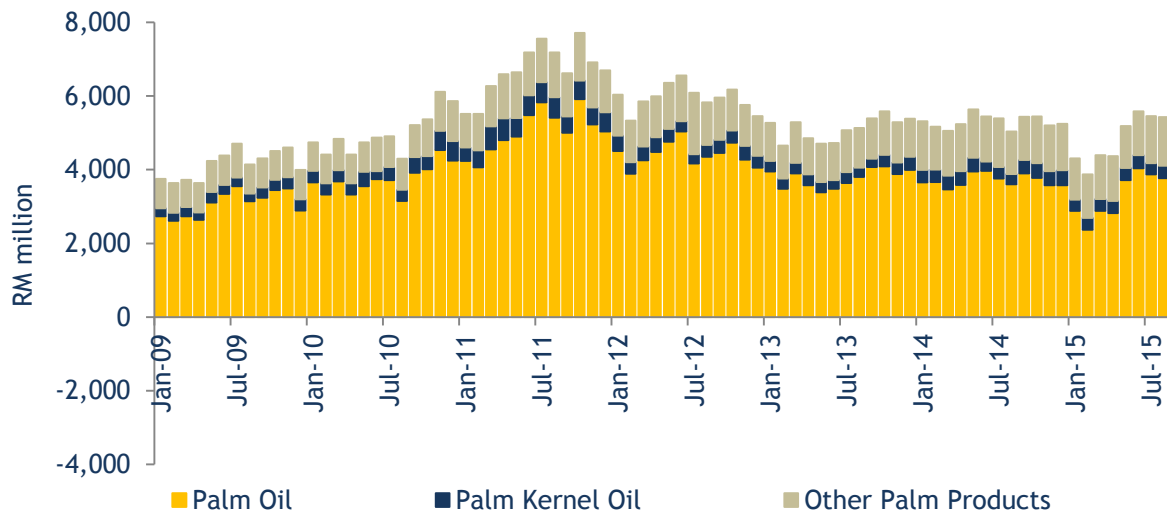
	YTD'14	YTD'15	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	%
Total	11,017.82	11,056.91	39.1	0.35%
China	1,843.00	1,765.13	-77.87	-4.23%
India	1,869.43	2,163.02	293.59	15.70%
EU	1,520.94	1,502.36	-18.58	-1.22%

Source: MPOB, M&A Securities

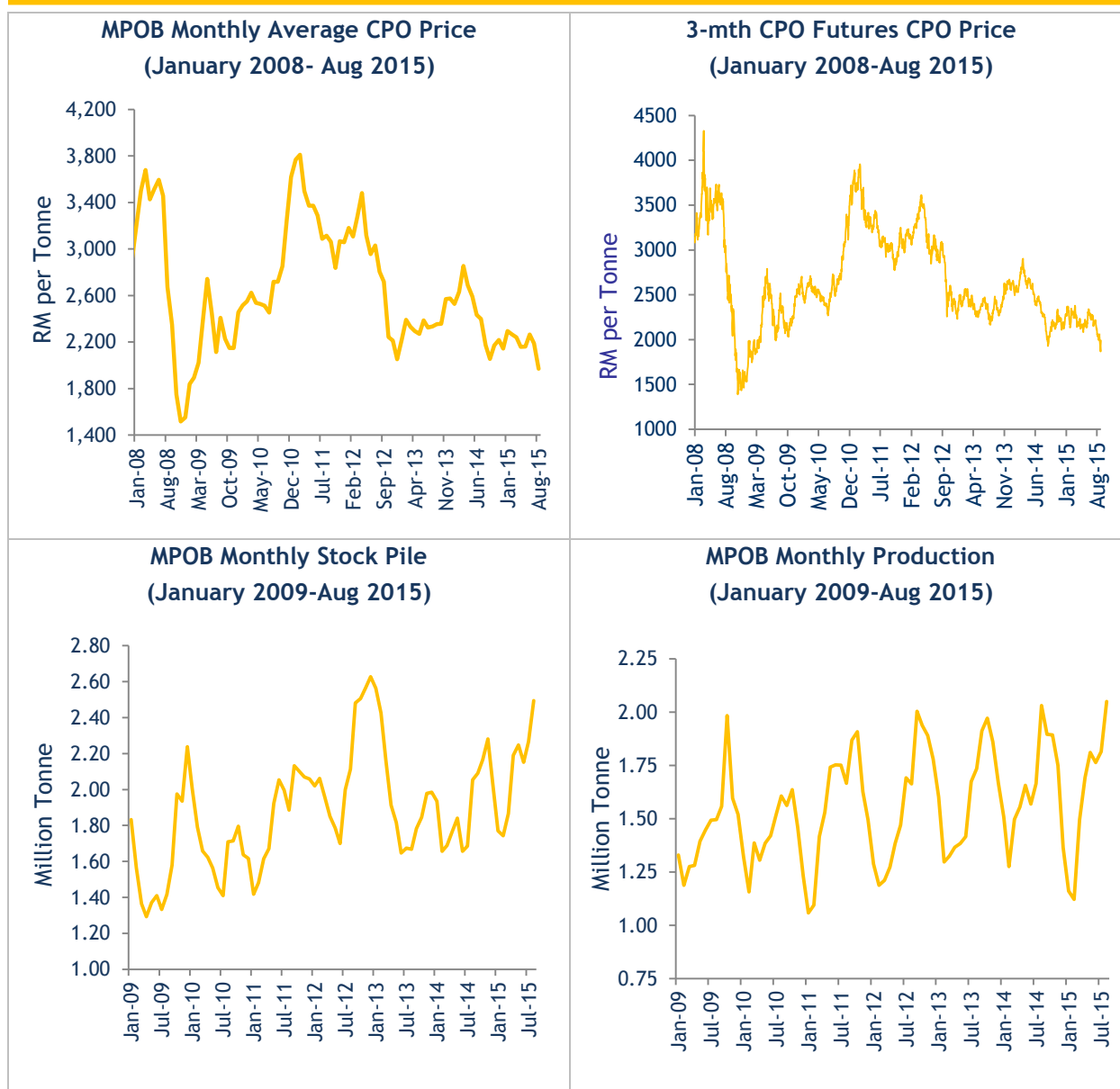
FBM KLCI vs. Bursa Malaysia Plantation Index
(June 2009- August 2015)



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



Source: MPOB, M&A Securities



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	25,020.0	3.97	15.3	19.0	25.9	20.9	3.0	2.8	3.0	2.4	3.60	HOLD
KLK	22,449.5	21.08	93.5	101.3	22.5	20.8	2.6	2.5	10.3	2.7	21.21	HOLD
GENPLANTS	7,742.5	9.98	36.1	47.6	27.6	21.0	1.9	1.8	7.9	0.7	9.66	HOLD
IJM PLANTS	2,729.8	3.10	11.8	14.5	26.3	21.4	1.7	1.6	9.2	1.9	2.93	HOLD
TH PLANTS	1,069.5	1.21	2.7	6.0	44.8	20.2	0.9	0.8	4.1	0.6	1.21	HOLD
TSH RESOURCES	2,562.4	1.89	4.9	9.8	38.6	19.3	2.1	1.9	6.8	0.6	1.95	HOLD
SIME Darby	44,720.3	7.20	44.2	52.6	16.3	13.7	1.5	1.4	7.8	3.5	7.43	HOLD
Average					28.9	19.6	1.9	1.8	7.0	1.8		

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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