

Plantation Sector

(Neutral)

“May’s Inventories, Production, Import and Export Rise”

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

	May'15	Apr'15	May'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	2,162	2,160	2,593	0.1%	-16.6%	2,224	2,660	-16.4%
CPO Production (Million Tonnes)	1.81	1.69	1.66	6.9%	9.3%	7.28	7.49	-2.8%
Palm Oil Export (Million Tonnes)	1.61	1.18	1.42	37.3%	13.9%	6.12	6.65	-8.0%
Ending Stocks (Million Tonnes)	2.24	2.19	1.84	2.5%	21.9%	nm	nm	nm

Source: MPOB, M&A Securities

Production increase 6.9% m-o-m to 1.81 million tonnes. As mentioned in our previous report, we did predict that FFB production may start picking-up in the month of April as the sector moves into up cycle production month that normally experience in the month of April till October. The latest data from MPOB showed that CPO production for the month of May 2015 had increased at a steady pace of 6.92% m-o-m to 1.81 million tonnes vs. 1.69 million tonnes in April 2015 (May y-o-y: +9.28%), indicating the steady production trend in the previous months that started in March 2015. CPO's contribution from Peninsular Malaysia rose +4.2% m-o-m (+13.2% y-o-y) while Sabah and Sarawak increased +10.2% m-o-m (+5.0% y-o-y) to 973k tonnes and 838k tonnes respectively. Notwithstanding that, YTD, CPO production actually contracted by 2.84% y-o-y (5th month in the row) reasons being production has been effected by the delayed impact of adverse weather condition that happened last year in Malaysia and Indonesia. In January to May period, FFB yield for Malaysia fell to 6.78 tonnes/ha in 2015 against 7.07 tonnes/ha in 2014 with yield in Sabah and Sarawak falling by 9.1% compared with Peninsular Malaysia that increased by 1.9%.

Stocks pile accelerated to 2.24 million tonnes. Despite an increase in palm oil export volume in May 2015, stocks surged by 2.5% m-o-m to 2.24 million tonnes (+21.9%: y-o-y) in tandem with higher palm oil import m-o-m of 101.1k tonnes from 65.0k tonnes the month before (+99.4%: y-o-y) as prolong supply-demand miss-match emerged as production started to build-up since March 2015 while demand from major trading partner turned slower. We foresee that the risk of growing stock level could increase if these 3-pronged negative factors continue and hence, increasing the downside risk on palm oil prices.

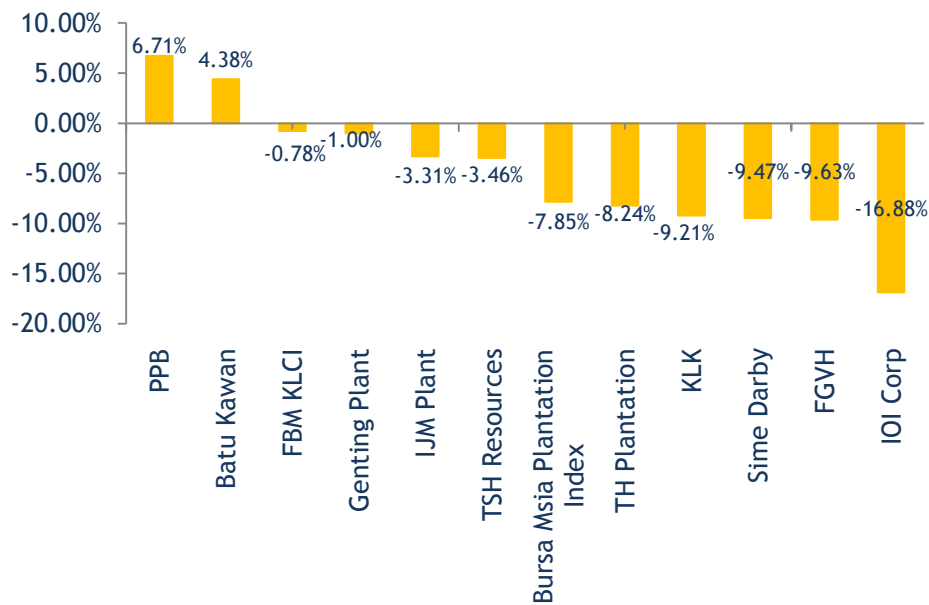
Export volume surge 37.3% m-o-m to 1.614 million tonnes. Palm oil export volume in May 2015 surged 37.3% m-o-m to 1.614 million tonnes compared to the previous month of 1.175 million tonnes (13.9% y-o-y) as China continued its momentum of replenishing their palm oil stocks with India returned to restock its palm oil stocks. The higher in palm oil export was due to increase in demand from major importing countries like China, India, Benin, EU, Japan and Singapore that mitigated the shortfall from Pakistan, USA, Vietnam, Iran, South Korea, UAE and Philippines (see table 4). YTD, palm oil export volume slid 8.03% to 6.12 million tonnes against 6.65 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 1.11 million tonnes (YTD growth: 19.7%) - see table 5.

Bursa Malaysia Plantation Index Analysis. The plantation sector bellwether index in YTD May 2015 registered negative performance. It slipped by 7.85% YTD, against FBMKLCI that only dropped by a mere 0.78%. It ended May 2015 at 7,268.23, 19.9% lower y-o-y. YTD, PPB share price has again led its peers, surging by 6.71% followed by Batu Kawan at 4.38%. The worst performer YTD was IOIC after its share price dipped by 16.9% followed by FGVH at 9.6%, SIME Darby at 9.5% and KLK at 9.2%.

Table 3: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (May 2015)	Share Price (Dec 2014)	YTD Gain (%)
Sime Darby	8.32	9.19	-9.47%
FGVH	1.97	2.18	-9.63%
IOI Corp	3.99	4.80	-16.88%
Genting Plant	9.90	10.00	-1.00%
IJM Plant	3.50	3.62	-3.31%
KLK	20.70	22.80	-9.21%
PPB	15.26	14.30	6.71%
Batu Kawan	18.10	17.34	4.38%
TSH Resources	2.23	2.31	-3.46%
TH Plantation	1.56	1.70	-8.24%
Bursa Msia Plantation Index	7,268	7,887	-7.85%
FBM KLCI	1,748	1,761	-0.78%

Plantation Sector Players YTD Share Price Performance (2015)



CPO price movement. The 3-month CPO futures price in May 2015 has been volatile and trending upwards in tandem with the rally in soybean oil prices, its closes competing edible oil as well as news on dry-weather (El-Nino) could already emerged and hurting Malaysia's output. The 3-month CPO futures price had traded from an intra-day low of RM2,092/MT made on the 30th April to the highest level of RM2,233/MT in 13th May, before ending the month at RM2,216/MT. Aligned with the derivatives market, MPOB's CPO price for May 2015 increased marginally by 0.1% m-o-m to an average of RM2,162/MT (-16.6% y-o-y), while MPOB average CPO price YTD was RM2,224.10/MT, slipping by RM435.5/MT or 16.4% lower against RM2,659.60/MT recorded in the same period last year.

Our view. We are cautiously optimistic that CPO price environment may progress in the coming months and most probably in 2H2015 to help improve margins of plantation company and hence, enhance its earnings due to our anticipated 1) marginal growth of FFB and CPO production; 2) higher biodiesel demand due to new biodiesel mandate by Indonesia and Malaysia; 3) weakening Ringgit against USD may instigate more buying of CPO which in turn will play a supportive role for its price advancements; 4) wider price gap between CPO and soybean oil, which in turn will help to lift demand for CPO (soybean oil's premium over palm oil now stands at USD101.02/MT vs. 12-month average of USD83/MT); and 5) weather abnormalities - if El-Nino does occur across Southeast Asia, supply disruption could spark and could affect palm oil production in 2015 and 2016 and hence, lifting the palm oil prices. The downside risk is the lower than expected prices of other edible/vegetables oils and lower crude oil prices that will make biodiesel program impracticable, to be added with weak demand as export in 2015 is expected to be moderate as import from major trading partner are likely to be slower.

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. 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

	May'14	Apr'15	May'15	Changes (%)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	1,416.96	1,175.25	1,613.57	13.88%	37.30%
China	220.27	262.71	359.66	63.28%	36.90%
India	268.15	87.39	342.86	27.86%	292.33%
Pakistan	75.47	64.56	58.39	-22.63%	-9.57%
Netherlands	143.66	61.43	191.06	33.00%	211.03%
USA	64.48	77.32	45.41	-29.58%	-41.27%
Singapore	48.21	28.59	33.87	-29.75%	18.46%
Vietnam	40.22	65.31	53.67	33.44%	-17.82%
Iran	62.84	41.09	36.94	-41.21%	-10.10%
South Korea	35.00	38.99	26.05	-25.57%	-33.17%
South Africa	3.64	11.12	0.51	-85.95%	-95.40%
Philippines	33.26	51.36	48.90	47.04%	-4.78%
Japan	31.78	41.80	60.61	90.72%	44.99%
UAE	6.05	7.62	3.35	-44.56%	-55.99%
EU	220.26	130.52	267.25	21.33%	104.75%
Benin	34.51	25.16	44.51	28.98%	76.89%

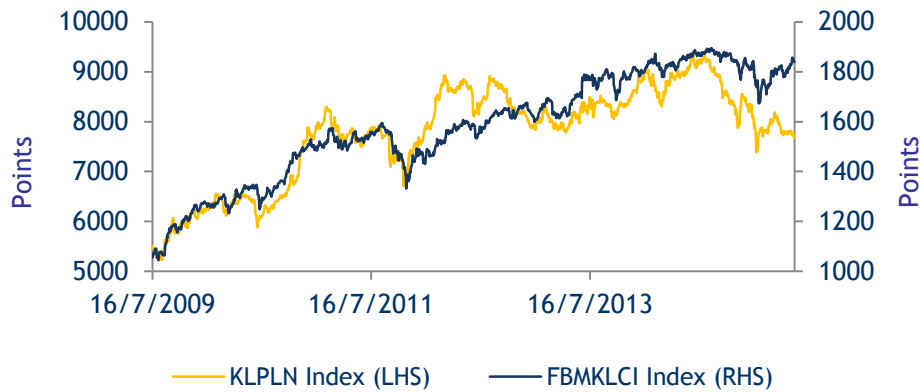
Source: MPOB, M&A Securities

Table 5: YTD Major Export Destinations (Major Customers)

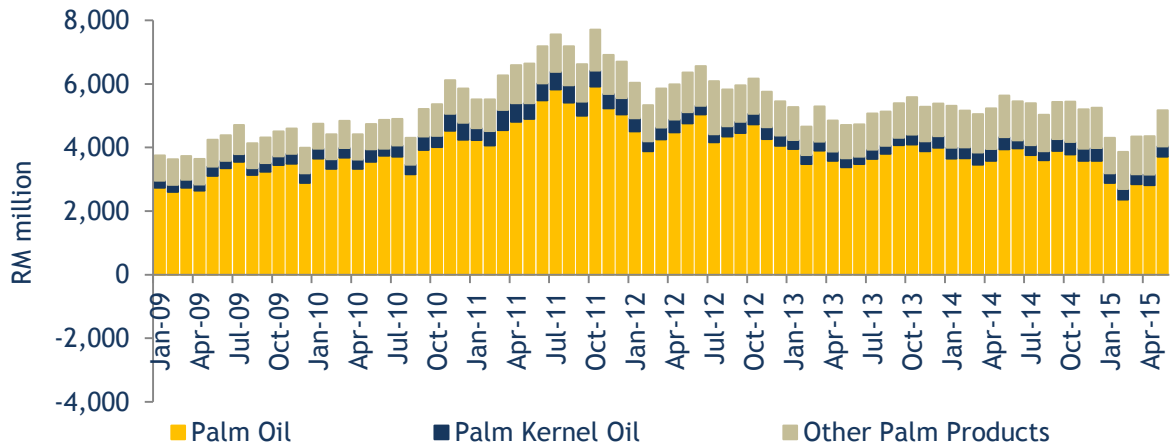
	YTD'14	YTD'15	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	%
Total	6,650.77	6,116.60	-534.2	-8.03%
China	1,221.57	1,036.11	-185.46	-15.18%
India	927.24	1,110.13	182.89	19.72%
EU	914.80	801.18	-113.62	-12.42%

Source: MPOB, M&A Securities

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

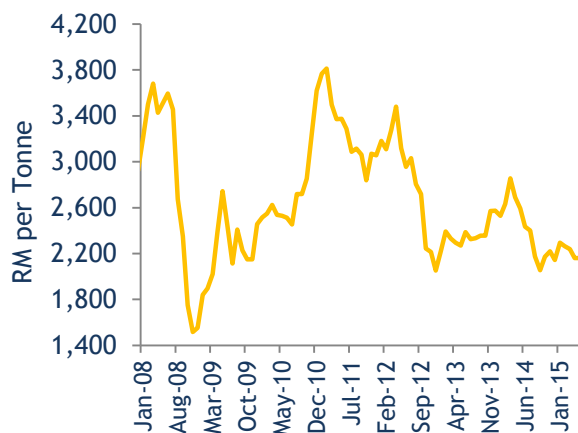


Palm Oil Export Since 2009
(January 2009- May 2015)



Source: MPOB, M&A Securities

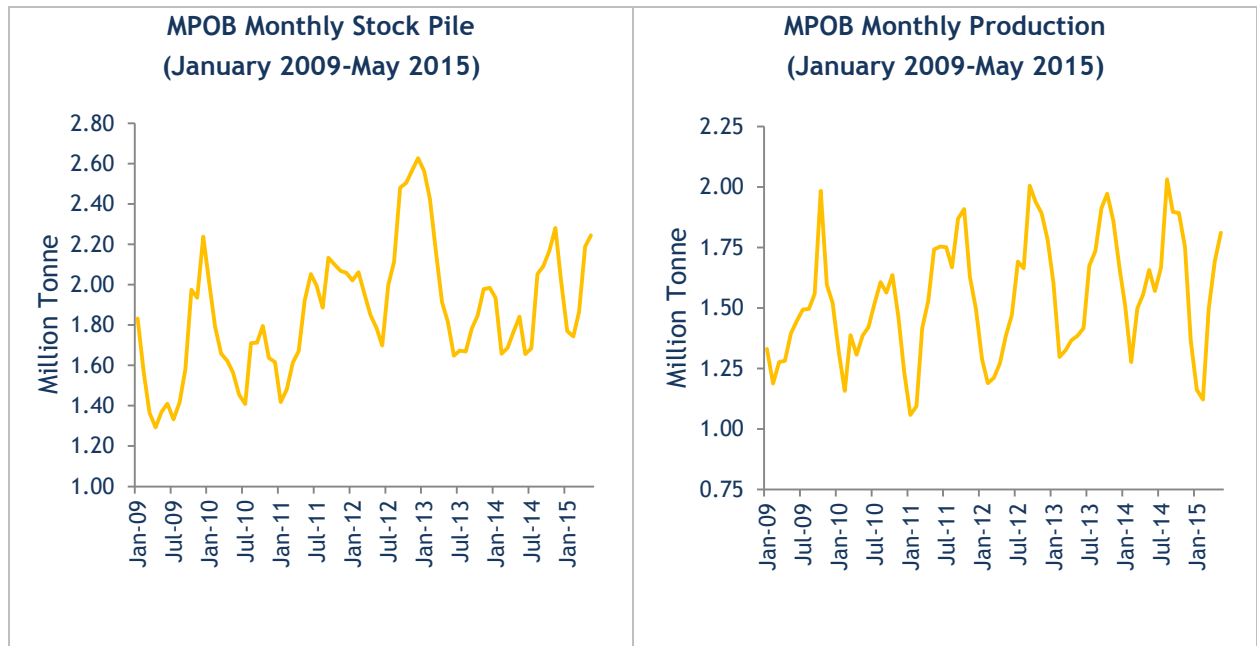
MPOB Monthly Average CPO Price
(January 2008- May 2015)



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



Source: MPOB, Bloomberg



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	25,590.6	4.04	15.6	22.9	25.9	17.6	3.1	2.9	7.8	2.5	4.04	HOLD
KLK	22,939.4	21.54	99.5	110.9	21.6	19.4	2.7	2.5	10.0	2.8	21.50	HOLD
GENPLANTS	7,816.0	10.10	47.7	53.1	21.2	19.0	1.9	1.7	8.7	0.9	10.77	HOLD
IJM PLANTS	3,178.9	3.61	16.0	19.6	22.6	18.4	2.0	1.9	6.0	2.2	3.46	HOLD
TH PLANTS	1,370.0	1.55	2.9	7.4	53.4	20.9	1.1	1.1	4.0	0.6	1.47	HOLD
TSH RESOURCES	3,118.2	2.30	10.1	11.9	22.8	19.3	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					27.5	19.2	2.1	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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