

“March Production Up on Growing Cycle”

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

	Mac'15	Feb'15	Mac'14	m-o-m	y-o-y	YTD'15	YTD'14	Change
Average CPO Price (RM/MT)	2,240	2,265	2,855	-1%	-22%	2,266	2,672	-15%
CPO Production (Million Tonnes)	1.49	1.12	1.50	33%	0%	3.78	4.28	-12%
Palm Oil Export (Million Tonnes)	1.18	0.97	1.25	21.5%	-5.1%	3.35	3.97	-16%
Ending Stocks (Million Tonnes)	1.87	1.74	1.69	7%	11%	nm	nm	nm

Source: MPOB, M&A Securities

Production recovers on growing cycles. The latest data from MPOB shows that palm oil production for the month of March 2015 had increased at a steady pace of 33.3% m-o-m to 1.49 million tonnes vs. 1.12 million tonnes in February 2015 as the sector moved into growing up cycle production month (March y-o-y: -0.15%). Notwithstanding that, YTD, production was actually plunged by 11.8% y-o-y as we believe production was hit by the lag impact from the dry weather in 2014 coupled with monsoon flood early of this year that has curbed harvesting and disrupting logistic movement that run concurrently with seasonally low cycles and replanting activities. In January to March period, FFB yield for Malaysia fell to 3.57 tonnes/ha in 2015 against 4.09 tonnes/ha in 2014 with yield in Sabah and Sarawak falling by a bigger margin of 16.2% compared with Peninsular Malaysia of 8.2%.

Stocks pile eases to 1.87 million tonnes. Amid lower palm oil import m-o-m of 41.6k tonnes from 63.5k tonnes the month before (+174.6%: y-o-y), palm oil stocks surged 7.02% m-o-m to 1.87 million tonnes at end March 2015 (+10.5%: y-o-y) in tandem with higher palm oil production in the month of March. If this development persists, it could increase the downside risk on CPO price as we see lower stocks and production could weigh on CPO price as demand could continue to be poor coupled with weaker soy oil prices that consistently put pressure on CPO price competitiveness.

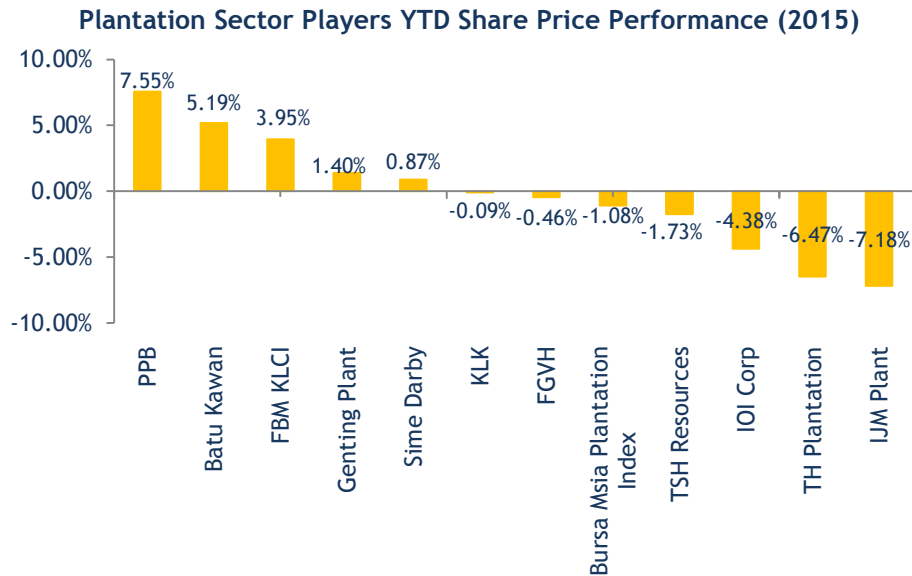
India import of palm oil remains encouraging. Palm oil export volume in March 2015 vaulted 21.5% m-o-m to 1.18 million tonnes compared to the previous month of 0.97 million tonnes. The increase in palm oil export was driven by higher export to India, China, Pakistan, Vietnam and South Korea. During the month under review, export volume to India has picked up with off takes totalling 297.55k tonnes or 25.2% of total palm oil export followed by China 132.7k tonnes (11.2%), Pakistan 60.2k tonnes (5.1%), Vietnam 61.1k tonnes (5.2%) and South Korea 23.04k tonnes (1.9%).

YTD, palm oil export volume slid 15.6% to 3.345 million tonnes against 3.965 million tonnes in the same period in 2014. The decline is however offset to some extent many thanks to India's resilient demand that clocked in commendable 36.5% YTD growth (y-o-y: 126.9%; m-o-m: 33.9%) as we believe that they have reaccelerated their restocking activities. Export value of palm oil products decreased by 24.5% to RM8.14 billion compared to RM10.79 billion in the same period last year (y-o-y: -16.6%; m-o-m: 22.1%) in tandem with lower palm oil prices.

Bursa Malaysia Plantation Index Analysis. The plantation sector bellwether index traded sideways YTD tempered by lack of catalyst which was also weighed by tepid demand and rising production concern. It dropped slightly by 1.08% YTD against FBMKLCI that inched up by 3.95%. It ended March 2015 at 7,801.98, 12.9% lower y-o-y. YTD, PPB share price has led its peers, surging by 7.6% followed by Batu Kawan at 5.2% and Genting Plant at 1.4%. The worst performer YTD was IJM Plant after its share price dipped by 7.2% followed by TH Plantation at 6.5%, IOIC at 4.4% and TSH Resources 1.7%.

Table 3: YTD Share Price Performance (Plantation Sector)

Stock (RM)	Share Price (Mar 2015)	Share Price (Dec 2014)	YTD Gain (%)
SIME Darby	9.27	9.19	0.87%
FGVH	2.17	2.18	-0.46%
IOI Corp	4.59	4.80	-4.38%
Genting Plant	10.14	10.00	1.40%
IJM Plant	3.36	3.62	-7.18%
KLK	22.78	22.80	-0.09%
PPB	15.38	14.30	7.55%
Batu Kawan	18.24	17.34	5.19%
TSH Resources	2.27	2.31	-1.73%
TH Plantation	1.59	1.70	-6.47%
Bursa M'sia Plantation Index	7,802	7,887	-1.08%
FBM KLCI	1,831	1,761	3.95%



CPO price movement. The 3-month CPO futures price in March 2015 has been trending downwards from an intra-day high of RM2,400/MT made on the 4th March to the lowest level of of RM2,128/MT in 18th March, before ending the month at RM2,165/MT. Aligned with the derivatives market, MPOB's CPO price for March 2015 shrunk by 1.1% m-o-m to an average of RM2,240/MT (-21.5% y-o-y), while MPOB average CPO price YTD was RM2,266.17/MT, slipping by RM405.7/MT or 15.2% lower against RM2,671.83/MT recorded in the same period last year.

To recap, MPOB and Malaysian Royal Customs has resumed the 4.5% CPO export tax in *April* where a monthly CPO average of above RM2,250/MT is set to be the threshold for tax imposition. On the other hand, Indonesia in April also has imposed a USD50/MT export levy for CPO and USD30/MT for processed products, apart from the regular CPO export tax payment (ranging between 7.5% and 22.5% depending on the CPO price) to fund biodiesel subsidies, replanting, research and development. According to the Indonesian government, this new CPO export levies will be taken from the regular CPO export tax payment when CPO price hit the government's threshold of USD750/tonne, implying that these new levies are not an additional burden when the CPO export tax comes back to life. We view this positively for company who involves in downstream activities as they would be able to enjoy a broader processing margin due to the export tax differential between processed palm products and crude palm oil as well as bargaining power on CPO price purchases but negatively for company who are purely upstream players.

Our view. Given that catalyst is almost negligible with prolong supply-demand miss-match coming on stream as production may build-up amid seasonal production growth cycle while demand is expected to be moderate in 2015 as import from major trading partner are likely to be slower, we maintain our CPO assumption in the range of RM2,100/MT - RM2,500/MT throughout the year and averaging at RM2,300/MT in 2015. We call a **HOLD** call on Genting Plant (TP: RM10.63), KLK (TP: RM21.50), TSH Resources (TP: RM2.08), and TH Plant (TP: RM1.45) but a **SELL** call on IJM Plant (TP: RM3.20) and IOI Corp (TP: RM4.04). TSH (Hold: RM2.08) and Genting Plant (Hold: RM10.63) emerge as our top pick benefiting from 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

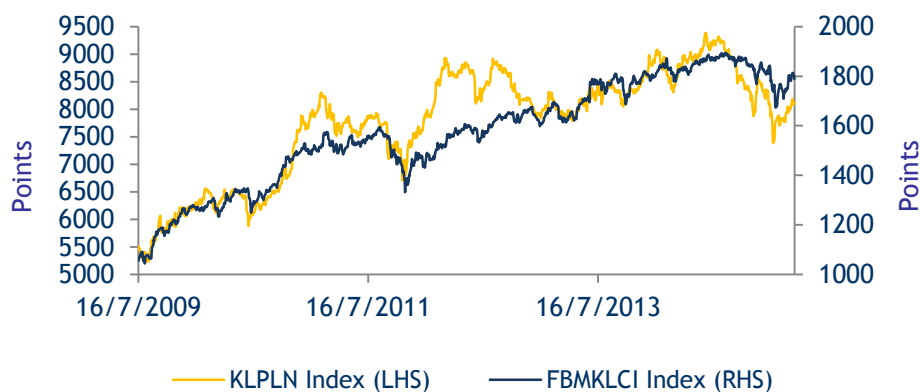
	Mar'14	Feb'15	Mar'15	Changes (%)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	YoY	MoM
Total	1,245.77	971.64	1,181.93	-5.12%	21.64%
China	185.45	64.77	132.72	-28.43%	104.93%
India	131.12	222.16	297.55	126.93%	33.93%
Pakistan	44.04	33.31	60.17	36.61%	80.65%
Netherlands	155.27	96.60	63.88	-58.86%	-33.87%
USA	74.10	51.28	49.21	-33.59%	-4.02%
Singapore	57.90	31.09	29.64	-48.81%	-4.66%
Vietnam	63.24	41.23	61.13	-3.34%	48.25%
Iran	7.05	21.14	1.70	-75.86%	-91.95%
South Korea	23.33	21.53	23.04	-1.22%	7.00%
South Africa	7.69	14.16	10.30	33.94%	-27.23%
Philippines	35.15	64.62	54.94	56.32%	-14.98%
Japan	37.44	43.70	31.30	-16.40%	-28.38%
UAE	7.00	6.66	4.48	-35.98%	-32.63%
EU	206.93	136.51	112.94	-45.42%	-17.27%
Benin	38.33	23.13	14.41	-62.41%	-37.70%

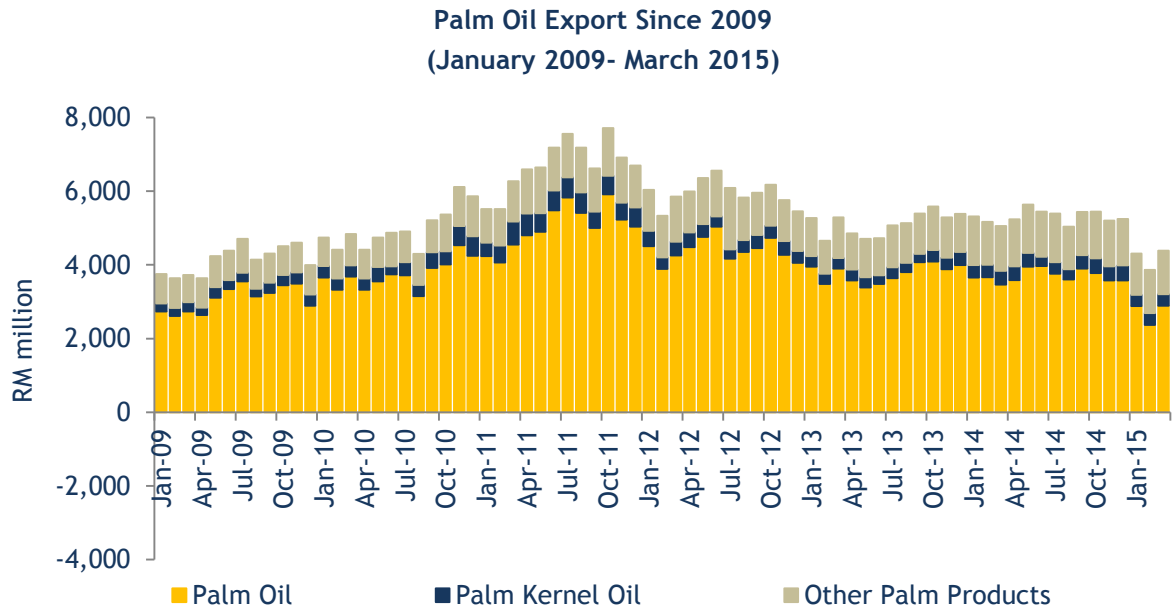
Source: MPOB, M&A Securities

Table 5: YTD Major Export Destinations (Major Customers)

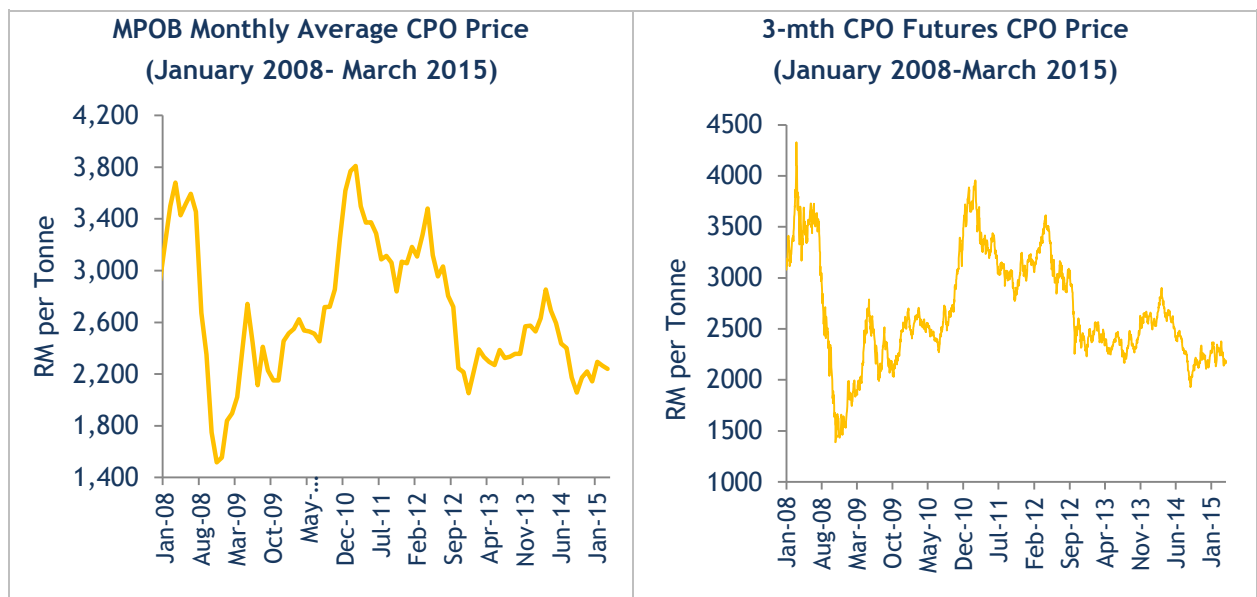
	YTD'14	YTD'15	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	%
Total	3,965.17	3,345.85	-619.3	-15.62%
China	748.77	413.74	-335.03	-44.74%
India	498.10	679.88	181.79	36.50%
EU	560.32	421.72	-138.60	-24.74%

Source: MPOB, M&A Securities

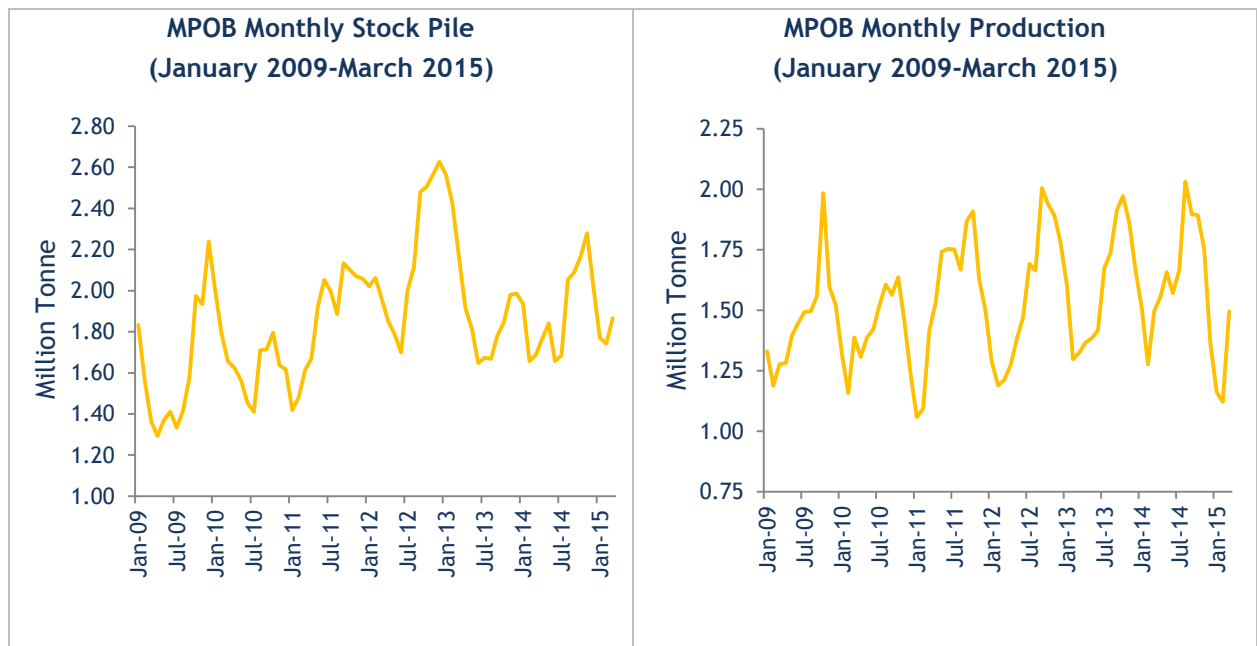
FBM KLCI vs. Bursa Malaysia Plantation Index
(June 2009- March 2015)




Source: MPOB, M&A Securities



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	29,138.0	4.58	15.6	22.9	29.4	20.0	3.5	3.3	24.7	0.6	4.04	SELL
KLK	24,472.9	22.98	99.5	110.9	23.1	20.7	2.8	2.7	13.5	2.6	21.50	HOLD
GENPLANTS	7,787.0	10.10	52.3	58.9	19.3	17.1	1.9	1.8	9.7	1.4	10.63	HOLD
IJM PLANTS	3,170.1	3.60	12.5	17.1	28.8	21.1	2.1	2.0	6.4	1.4	3.20	SELL
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	10.4	11.6	21.7	19.5	2.9	2.6	7.0	1.2	2.08	HOLD
Average					23.9	19.1	2.4	2.2	11.2	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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