

Plantation

Overweight (Maintained)

Price Of Palm Oil Carving a Bottom

Macro	◆◆
Risks	◆◆
Growth	◆◆
Value	◆◆

We believe palm oil should start trading higher, especially after its price has recovered above the MYR2,400 level. The current hot and dry spell in Malaysia, due to the southwest monsoon that is expected to persist until September, will hurt palm oil production – much like in Jan-Feb this year. Also, tensions in Iraq are boosting crude oil prices and biodiesel margins, which will increase demand. Maintain OVERWEIGHT.

- ◆ **No *El Nino* just yet.** The current dry spell and soaring temperatures caused by the southwest monsoon is expected to last until September. Although not caused by the widely-anticipated *El Nino*, signs may be emerging to indicate that the *El Nino* heat wave has started to reach some parts of Indonesia, as rainfall has begun to diminish.
- ◆ **Indonesia's biodiesel progress slower than expected.** According to Indonesia's Energy & Mineral Resources Ministry, its volume of subsidised fuel will hit 1.32m kiloliters (kl), or 90% of its 1.46m kl target due to poor distribution infrastructure. We expect better progress going forward and the weakness in the subsidised portion to be compensated by its non-subsidised portion and export demand.
- ◆ **Increase in inventory.** Malaysia's palm oil inventory rose to 1.84m tonnes last week – a marginal 1% growth y-o-y. Meanwhile, Indonesia's stockpile is said to have increased to an 8-month high, at 2.2m tonnes. We believe the increases will not be sustained at the current pace as inventory at destination markets is likely to be low after months of slow purchases. Palm oil shipments to India, for example, surged 22% m-o-m in May, indicating that restocking activities have begun.
- ◆ **Iraq tensions widen biodiesel margin.** Tensions in Iraq have driven up the price of crude oil, which should trigger a boost in palm oil demand, given its usage of biodiesel. The margin for biodiesel production is now at USD18 per barrel, up from USD14 a week ago based on our estimates.
- ◆ **Maintain OVERWEIGHT.** We maintain our view that the price weakness of the past week represents a correction within an uptrend as catalysts are in place to lift palm oil and plantation stock prices.

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Company Name	Price	Target	P/E (x)	P/B (x)	Yield (%)	Rating
			Dec-14F	Dec-14F	Dec-14F	
Astra Agro Lestari	IDR26,600	IDR34,375	16.3	3.7	3.3	BUY
Bumitama Agri Ltd	SGD1.20	SGD1.36	14.0	2.8	-	BUY
Felda Global Ventures Holdings	MYR4.29	MYR5.07	21.8	2.3	-	BUY
First Resources	SGD2.47	SGD2.86	13.7	2.7	2.5	BUY
Genting Plantations	MYR11.02	MYR13.25	22.6	2.3	1.0	BUY
Golden Agri	SGD0.58	SGD0.66	15.5	0.7	1.4	BUY
UM Plantation	MYR3.85	MYR4.34	18.8	2.1	2.5	BUY
JA Wattie TBK PT	IDR355	IDR585	8.4	0.9	-	BUY
Jaya Tiasa Holdings	MYR2.52	MYR3.06	15.6	1.3	2.0	BUY
Sarawak Oil Palms	MYR6.70	MYR9.08	15.4	1.9	1.1	BUY
Sawit Sumbermas Sarana	IDR1,275	IDR1,525	13.8	3.9	-	BUY
Ta Ann Holdings	MYR4.33	MYR5.40	12.5	1.5	2.4	BUY
TSH Resources	MYR3.56	MYR3.91	19.4	2.5	1.0	BUY

Source: Company data, RHB estimates

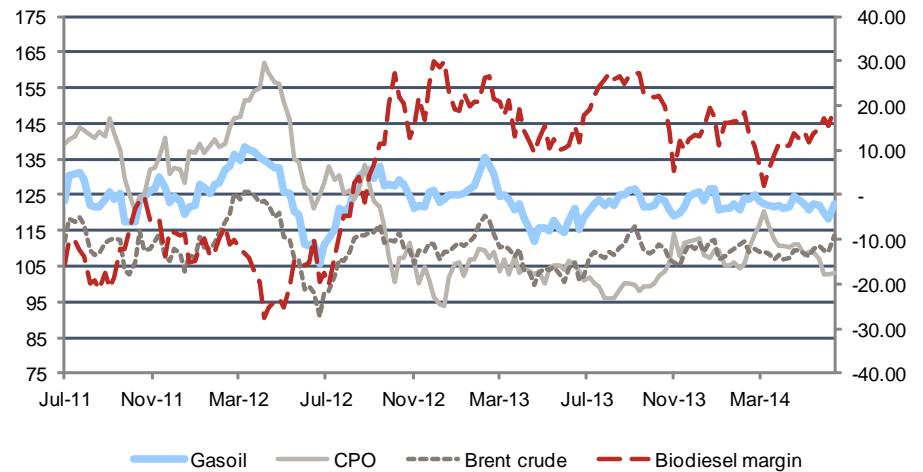
- ◆ Indonesia's biodiesel progress is slower than expected but full-year progress should be commendable

Indonesia's biodiesel progress. According to Indonesia's Energy & Mineral Resources Ministry, the volume of subsidised fuel is expected to hit 1.32m kl, or 90% of its 1.46m kl target due to poor distribution infrastructure. Nevertheless, given the wider discount to diesel currently, there will likely be an increase in conversion to biodiesel, either for the non-subsidised fuel amounting to 1.57m kl or for export markets. We also expect usage to increase (as the fuel is used for power generation), whereby the Indonesian government is targeting a volume of 0.9m kl. Although the usage of biodiesel for power generation has been minor up to May, at 68k kl, this is likely to increase substantially soon as power company Perusahaan Listrik Negara has opened a tender for 0.5m tonnes only a fortnight ago. We expect the full-year progress to be commendable and Indonesia to use at least 3m tonnes of palm oil for the energy sector, which is very significant relative to its expected production of 30.5m tonnes this year.

- ◆ Restocking activities to help limit inventory gain

Malaysia reported an increase in palm oil inventory to 1.84m tonnes last week, which was a marginal growth of 1% y-o-y. Meanwhile, Indonesia's stockpile is said to have increased to an 8-month high of 2.2m tonnes. If what happened in 2013 recurs, Malaysia's inventory will increase by 170.7k tonnes to 2.01m tonnes from May to December this year – which is not a burdensome number. We believe the increase in inventory will not be sustained at the current pace as inventory in its destination markets is likely to be low after months of slow purchases. Palm oil shipments to India, for example, surged 22% m-o-m in May – indicating that restocking activities have begun.

Figure 1: Rising crude oil and falling CPO prices have boosted biodiesel margins



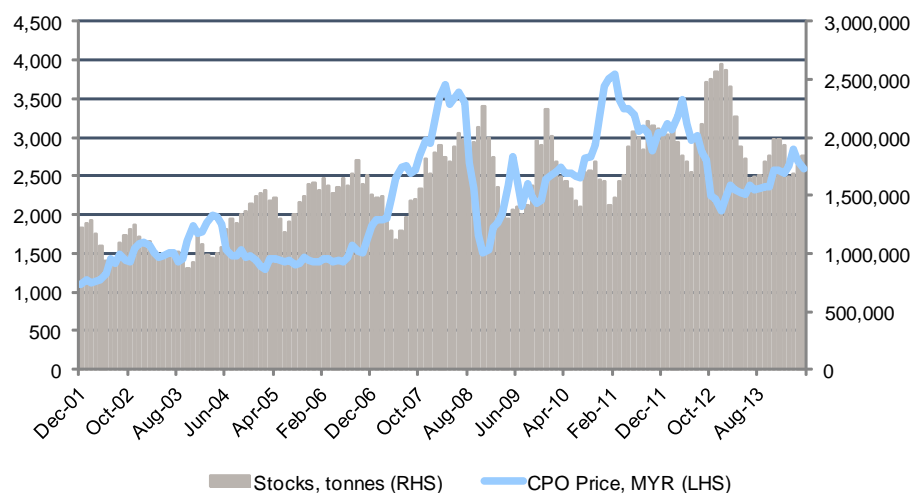
Source: Bloomberg, RHB estimates

Figure 2: Progress of Indonesia's biodiesel program

	Mandatory, %	Targeted volume (m kl)	Realization as of May (m kl)
Biodiesel used in subsidised fuel	10	1.464	0.447
Biodiesel used in electricity sector	23	0.926	0.068
Biodiesel used in non-subsidised fuel	10	1.567	na

Source: Jakarta Post, Energy & Mineral Resources Ministry

Figure 3: Malaysia's inventory is at levels that are far from worrying



Source: MPOB

Figure 4: RHB's universe of plantation stocks

Listing	Company Name	Ticker	Rec	Stock price	Fair value	Stock price currency	Market cap (USD m)	CY14 P/E	CY15 P/E	CY14 EV/EBITDA	CY15 EV/EBITDA	Latest net gearing	EV/ha (USD)
Indonesia	Astra Agro Lestari	AALI IJ	Buy	26,600	34,375	IDR	3,529	16.3	12.4	9.5	7.4	0.20	16,945
	London Sumatera	LSIP IJ	Neutral	2,275	2,372	IDR	1,308	15.3	13.3	8.9	7.7	(0.21)	11,092
	Sampoerna Agro	SGRO IJ	Buy	2,275	2,775	IDR	362	11.5	9.6	9.1	7.8	0.40	6,743
	JA Wattie	JAWA IJ	Buy	355	585	IDR	113	8.4	5.6	8.7	6.2	0.54	6,045
	Sawit Sumbermas	SSMS IJ	Buy	1,275	1,525	IDR	1,023	13.8	12.5	9.5	8.9	(0.08)	30,285
AVERAGE								15.1	12.1	9.3	7.6		
Singapore	Golden Agri	GGR SP	Buy	0.575	0.66	SGD	5,871	15.5	13.5	11.2	9.9	0.23	21,310
	First Resources	FR SP	Buy	2.470	2.86	SGD	3,112	13.6	11.2	9.6	8.1	0.21	22,689
	Bumitama Agri	BAL SP	Buy	1.195	1.36	SGD	1,670	14.0	11.5	10.1	8.4	0.60	17,525
AVERAGE								14.5	12.2	10.6	9.1		
Malaysia	Sime Darby	SIME MK	Neutral	9.53	10.40	MYR	17,864	18.9	17.1	15.1	13.5	0.20	38,751
	IOI Corp	IOI MK	Neutral	5.15	5.50	MYR	10,116	17.1	16.7	14.1	14.5	0.31	67,932
	KL Kepong	KLK MK	Neutral	24.60	26.00	MYR	8,098	20.4	17.5	13.2	11.4	0.07	44,843
	IJM Plantation	IJMP MK	Buy	3.85	4.34	MYR	969	20.1	14.8	13.3	9.9	0.12	19,886
	Felda Global	FGV MK	Buy	4.29	5.07	MYR	4,838	21.8	19.3	16.2	13.5	(0.10)	21,006
	Genting Plantation	GENP MK	Buy	11.02	13.25	MYR	2,604	22.7	18.1	15.6	12.2	0.01	22,315
	Sarawak Oil Palms	SOP MK	Buy	6.70	9.08	MYR	909	14.8	11.4	8.8	7.4	0.26	16,479
	TSH Resources	TSH MK	Buy	3.56	3.91	MYR	987	20.8	17.4	15.3	13.0	0.67	31,343
	TH Plantation	THP MK	Neutral	2.07	2.18	MYR	565	20.2	15.2	11.7	9.6	0.54	16,038
	Jaya Tiasa	JT MK	Buy	2.52	3.06	MYR	754	15.5	11.4	16.0	9.6	0.38	15,600
	Ta Ann	TAH MK	Buy	4.33	5.40	MYR	496	12.5	11.7	7.2	6.5	0.25	16,546
	TDM	TDM MK	Neutral	0.96	1.05	MYR	437	20.4	15.0	11.5	9.1	0.14	11,204
	AVERAGE								18.8	16.7	13.5	11.7	

Source: RHB estimates

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