

ASEAN



PLANTATIONS

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

SECTOR FLASH NOTE

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Biodiesel launch in E. Malaysia

We are positive on the commitment shown by the Malaysian government in pursuing its B7 biodiesel mandate with the launch of the biodiesel programme in Sabah, Sarawak and Labuan on Friday, despite the recent sharp drop in crude oil price, which makes it more expensive to use biodiesel than conventional diesel. We estimate that this programme could lift domestic palm oil consumption by 323,000 tonnes in 2015 but this represents only 1.6% of the country's total production. As such, we do not expect the programme to move CPO prices significantly. We maintain our Neutral call, with First Resources, AALI and SIMP as our top picks in the sector.

What Happened >

Plantation Industries and Commodities Minister Datuk Amar Douglas Uggah Embas revealed that 366 petrol kiosks in Sarawak, Sabah and Labuan will start selling B7 palm oil biodiesel at the end of Jan 2015. He added that the fuel, a blend of 7% palm oil biodiesel and 93% petroleum diesel, has been sold on limited basis in Sabah, Sarawak and Labuan since Dec 2014. "The fuel, which meets international standards, will use 138,000 tonnes of palm oil biodiesel a year," he added at the launch of biodiesel B7 in East Malaysia. Uggah also said that the use of biodiesel B7 in Sabah, Sarawak and Labuan would increase the country's total usage of the palm oil biodiesel to 576,000 tonnes per year, as the fuel had been fully implemented in Peninsular Malaysia. The Malaysian Palm Oil Board (MPOB) spent RM340m to build 35 petroleum depots nationwide to blend biodiesel. Five of them are located in Sarawak (owned by Petronas, Shell and Synergy), eight in Sabah (owned by Petronas, Shell and Petron) and two in Labuan (owned by Petronas and Shell). He said that the MPOB was studying biodiesel B10 compatibility by increasing the palm oil biodiesel content to 10% or more through the implementation of the palm oil biodiesel incentive scheme (IBS) in the industrial sector on voluntary basis.

What We Think >

This is not a surprise as the government has indicated its plan to fully implement the B7 biodiesel program by end-Dec. We are positive on this news as it suggests that the government is committed to pursuing the country's B7 biodiesel mandate, although it is currently more expensive to use biodiesel than conventional diesel due to the sharp correction in crude oil price to US\$50 per barrel. The Malaysian government purchases palm biodiesel based on a RBD palm oil price plus RM515 per tonne formula, according to press reports. Based on this, we estimate that the current Malaysian biodiesel price is around RM2.38 per litre compared to current diesel retail price of RM1.93 per litre. This suggests that biodiesel costs RM0.45 per litre more than diesel at petrol pumps in Malaysia. The government pays subsidies to make up the difference between biodiesel and petroleum diesel prices. Assuming that the government achieves its biodiesel consumption target of 576,000 tonnes in 2015, we estimate that this would represent an increase of 323,000 tonnes in the country's biodiesel consumption. However, the impact on CPO prices may not be significant, as this account for only 1.6% of the country's total CPO production for 2014 of 19.7m tonnes.

What You Should Do >

The Malaysian biodiesel programme will benefit plantation companies with biodiesel plant exposure, including Sime Darby, FGV, Genting Plantations, KLK and Wilmar. However, biodiesel earnings contribution to these companies is not significant. We maintain our Neutral rating on the sector.

Figure 1: Malaysia - Biodiesel production, supply and demand table

Calendar year (litres '000)	2007	2008	2009	2010	2011	2012	2013	2014E	2015F
Beginning stocks	-	-	23,540	17,117	4,720	3,544	3,544	3,543	3,543
Production	69,006	197,441	261,294	94,160	60,027	165,937	388,447	423,720	704,831
Imports	95,000	141,310	-	-	-	-	-	-	-
Exports	111,830	214,341	267,717	105,470	58,849	34,113	206,013	129,470	117,700
Consumption	52,176	10,870	-	1,087	2,354	131,824	182,435	294,250	588,500
Ending Stocks	-	23,540	17,117	4,720	3,544	3,544	3,543	3,543	2,174
Production capacity									
Number of Biorefineries	15	23	27	28	20	29	29	29	29
Nameplate capacity	1,121,829	2,019,556	2,610,465	2,746,829	2,746,829	2,746,829	2,746,829	2,746,829	2,746,829
Capacity use (%)	6.2%	9.8%	10.0%	3.4%	2.2%	6.0%	14.1%	15.4%	25.7%
Feedstock use (tonnes)									
Crude Palm Oil	62,000	97,000	236,000	85,000	54,000	150,000	351,000	383,000	637,000
Market penetration (litres- 000)									
Biodiesel - on-road use	33,392	6,957	-	696	1,507	84,367	116,758	188,320	376,640
Diesel on-road use	3,267,550	3,925,350	3,617,900	4,241,900	4,453,995	4,676,695	4,910,529	5,156,056	5,413,859
Blend rate (%)	1%	0%	0%	0%	0%	2%	2%	4%	7%
Diesel (total use)	5,353,000	5,622,000	5,467,000	5,027,000	6,039,000	5,566,000	6,526,000	6,852,300	6,852,300

SOURCES: USDA Foreign Agricultural Service report (1 Aug 2014)

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Description:	Excellent	Very Good	Good	N/A	

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Hold	29.4%	4.3%
Reduce	12.2%	1.0%

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Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

**Prior to December 2013 CIMB recommendation framework for stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange were based on a stock's total return relative to the relevant benchmarks total return. Outperform: expected to exceed by 5% or more over the next 12 months. Neutral: expected to be within +/-5% over the next 12 months. Underperform: expected to be below by 5% or more over the next 12 months. Trading Buy: expected to exceed by 3% or more over the next 3 months. Trading Sell: expected to be below by 3% or more over the next 3 months. For stocks listed on Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Outperform: Expected positive total returns of 10% or more over the next 12 months. Neutral: Expected total returns of between -10% and +10% over the next 12 months. Underperform: Expected negative total returns of 10% or more over the next 12 months. Trading Buy: Expected positive total returns of 10% or more over the next 3 months. Trading Sell: Expected negative total returns of 10% or more over the next 3 months.*