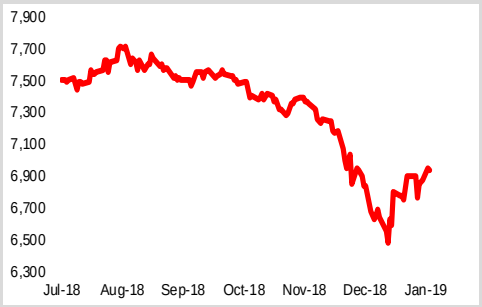
PLANTATIONS — *Neutral*

KL PLANTATION INDEX



SECTOR PERFORMANCE

	1M	3M	6M
Absolute Returns	1.7	-6.2	-4.7

RECOMMENDATION TABLE

	Current (RM)	Target (RM)	Upside (%)	Call
FGV**	0.79	-	-	N
GENP	9.82	10.33	5.2	O
IOI	4.49	4.04	-10.0	N
KLK	23.96	22.86	-4.6	N
SIMEPLT	5.05	4.03	-20.2	U
Ta Ann	2.52	2.83	12.3	O
TSH	1.02	0.98	-3.9	N

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Tough 2018 But A Slow Recovery Is Expected

Malaysian palm oil sector had a difficult ride in 2018 with the CPO price falling more than 18% to end the year at RM1,952/mt. It went down as low as RM1,717/mt, the lowest level post-subprime crisis, which was also below the break-even level for some small and inefficient plantation players. The industry is dealing with an all-time record high inventories, closing at 3.21m mt. Nevertheless, we see a gradual decline in inventories to around 2.7m mt by March. We see a full-year average CPO price of ***RM2,200/mt*** for 2019 with a ***Neutral*** outlook. Our top pick is Ta Ann.

- **Signs of easing on inventory level.** Inventory in Dec saw an increase of 6.9% MoM to 3.21m mt, topping market expectation of 3.14m mt. Stock-to-usage ratio expanded for third straight month, up from 14.8% to 15.7%. On the YoY basis, it was up 17.7%. Nevertheless, we see easing pressure on the high inventory levels beginning this month on the back of i) favourable Indian import duty policy, ii) low production cycle period, ii) aggressive re-stocking activities after the Chinese New Year celebration.
- **Lacklustre demand in 2018.** CPO exports were marginally higher in Dec, supported by improved demand from all major consuming countries except EU (-37.3%). For the full-year, CPO exports fell 0.4% to 16.4m mt, mainly dragged by weaker demand from China (-3%), EU (-4%) and US (-2.5%). India remains the biggest buyer for Malaysian palm oil products last year, making up 15.2%, followed by EU, 11.6%, China, 11.2% and Pakistan, 7%. It is also the fourth straight year for China losing the 2nd export destination spot to EU region.
- **Production seen falling gradually.** CPO production dropped for a second straight month, down 2% MoM to 1.80m mt Production in Peninsular Malaysia was marginally lower while East Malaysia softened 3.9%. For the full-year, CPO production declined 2% to 19.5m mt, led by weaker production in Peninsular Malaysia and East Malaysia regions.
- **Off to a good start.** Malaysian palm oil exports for the 1st 10 days of Jan rose 46.6% YoY to 451,845mt, according to Intertek. CPO futures also hd a good start for the year, up 5% to RM2,114/mt, as markets see signs of easing in the palm oil inventories coupled with a favourable revision in Indian palm oil import duty.

FINANCIAL SUMMMARY

Company	Price (RM) @10 Jan	Mkt Cap (RMm)	EPS (sen) 2018F	EPS (sen) 2019F	EPS Growth (%) 2018F	EPS Growth (%) 2019F	P/E (x) 2018F	P/E (x) 2019F	P/B (x) 2018F	P/B (x) 2019F	ROE (%) 2018F	ROE (%) 2019F	Dividend Yield (%) 2018F	Dividend Yield (%) 2019F
Felda Global Ventures**	0.79	2,863.8	-1.6	2.7	-	-	-49.1	29.1	0.5	0.5	-	2.7	0.0	0.0
Genting Plantations	9.82	7,790.2	25.1	33.8	-38.4	34.6	39.1	29.1	1.8	1.7	4.5	5.8	0.8	1.0
IOI Corp	4.49	28,234.0	13.9	14.1	4.2	1.5	32.3	31.8	4.1	3.7	9.1	8.8	1.6	1.6
KL Kepong	23.96	25,517.4	78.8	81.9	7.1	4.0	30.4	29.3	2.2	2.1	6.9	7.0	2.1	2.1
Sime Darby Plantations	5.05	33,549.2	14.3	14.9	-28.4	4.0	35.3	33.9	2.0	2.0	6.0	6.0	1.5	1.5
Ta Ann	2.52	1,120.4	15.8	19.3	-41.2	22.3	15.9	13.1	0.8	0.8	5.2	6.0	4.0	2.7
TSH Resources	1.02	1,382.8	4.3	4.9	-41.1	13.0	23.7	20.8	0.9	0.9	3.9	4.3	0.9	1.1

**Is currently under temporary coverage suspension, Source: Public Invest Research estimates

Palm oil exports rose 0.6% MoM but was down 2.8% YoY

Figure 1: Exports By Destinations

Countries ('000 mt)	DEC'17	NOV'18	DEC'18	MoM (%)	YoY (%)	YTD 18	YTD 17	YoY (%)
China	175.4	172.8	268.9	55.6	53.3	1,859.7	1,917.3	-3.0
EU	208.5	148.8	93.3	-37.3	-55.3	1,911.8	1,991.5	-4.0
India	107.1	242.2	284.1	17.3	165.3	2,514.0	2,028.3	23.9
Pakistan	84.4	84.6	104.3	23.3	23.6	1,161.2	1,016.9	14.2
US	65.9	35.6	58.3	63.8	-11.5	540.5	554.6	-2.5
Others	781.6	691.4	574.4	-16.9	-26.5	8,499.5	9,051.3	-6.1
Total	**1,422.9**	**1,375.4**	**1,383.3**	**0.6**	**-2.8**	**16,486.7**	**16,559.9**	**-0.4**

Source: MPOB, PublicInvest Research

Inventories rose 6.9% MoM and 17.7% YoY

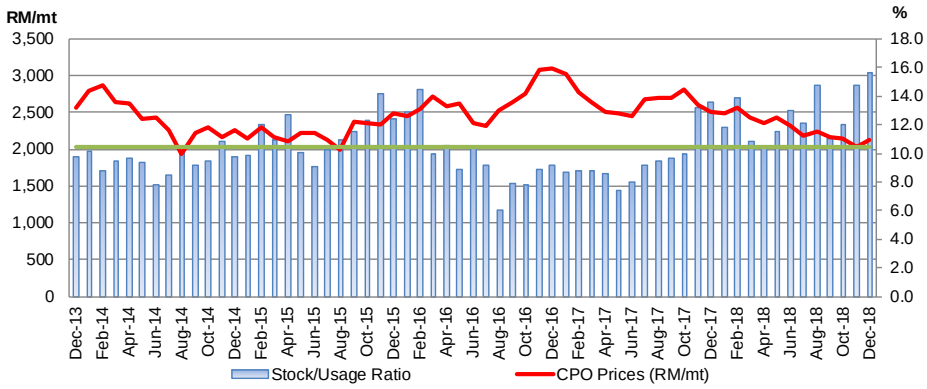
Figure 2: MPOB Monthly Figures

('000 mt)	DEC'17	NOV'18	DEC'18	MoM (%)	YoY (%)	YTD 18	YTD 17	YoY (%)
Production	1,834.1	1,845.2	1,808.0	-2.0	-1.4	19,516.1	19,919.3	-2.0
Imports	15.0	134.3	108.6	-19.1	624.0	841.4	556.1	51.3
Exports	1,422.9	1,375.4	1,383.3	0.6	-2.8	16,486.7	16,559.9	-0.4
Domestic consumption	247.9	319.7	325.3	1.8	31.2	3,390.5	2,861.3	18.5
Closing stock	**2,732.0**	**3,007.0**	**3,215.0**	**6.9**	**17.7**	**3,215.0**	**3,007.0**	**6.9**

Source: MPOB, PublicInvest Research

Stock-to-Usage ratio expanded from 14.8% to 15.7%

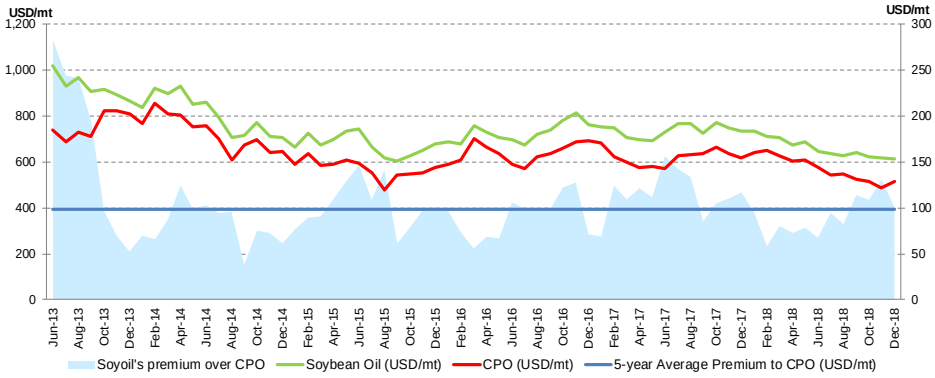
Figure 3 : CPO Prices vs Stock-to-Usage Ratio



Source: MPOB, Bloomberg, PublicInvest Research

MPOB CPO price, which saw a drop of 18%, averaged at RM2,235/mt for 2018

Figure 4 : Price Discount Between CPO and Soybean Oil



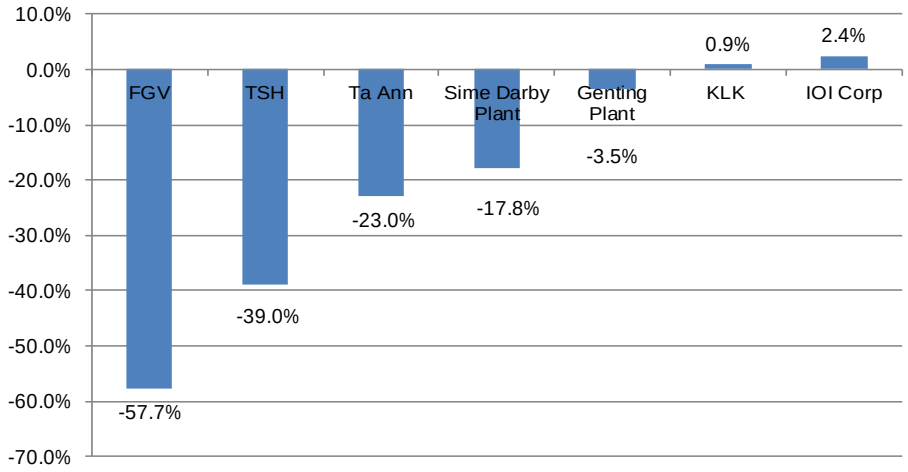
Source: Bloomberg, PublicInvest Research

FGV was the biggest loser, down 57.7% for 2018

Figure 5 : MPOB CPO price performance for 2018

Source: Bloomberg, MPOB, PublicInvest Research

Figure 6: Plantation Stock Performance for 2018



Source: Bloomberg, PublicInvest Research

§ **Majority of plantation stocks performed negatively in 2018.** Five plantation companies under our coverage saw a decline of 3.5%-58% in share price for 2018. Meanwhile, Bursa Malaysia Plantation Index posted a drop of 12.6% for the year. Only KLK and IOI Corp were in positive territory, up 0.9% and 2.4%, respectively. FGV was the biggest loser, sinking more than 57% followed by TSH, 39%.

§ **Sharp decline seen in Indonesian palm oil inventories.** Indonesia's palm oil inventories in Nov fell the most in 18 months as the palm oil production dropped 11.7% MoM to 3.89m mt while domestic consumption increased by 8% MoM to 1.46m mt, thanks to strong demand from biodiesel producers, up 17% MoM to 607k mt.

§ **More pressure from various parties.** Recently, France rolled out plans to curb palm oil imports and exclude it from biodiesel feedstock while Norway had recently approved plans to ban biofuels containing palm oil from 2020, way ahead of the EU schedule. Meanwhile, the World Health Organisation accuses the palm oil industry of deploying tactics similar to those of the alcohol and tobacco industries to influence research into the health effects of its product.

§ **Bright spot for Malaysia in Indian market.** India has recently cut import duties on both crude and refined palm oil to comply with preferential trade pacts with Southeast Asian nations. The import duty on CPO originating from ASEAN has been cut to **40% from 44**% while the duty on import of refined palm oil has been lowered to **45% from 54%,** if it is imported from Malaysia, and to **50%**, if it is imported from other ASEAN countries, which include Indonesia. With the duty cut, import levies on refined palm oil from Malaysia will be on par with those of competing edible oils.

We expect this to raise India's demand for refined palm oil (palm olein) from Malaysia at the expense of other edible oils as well as its local refining industry as the revision narrowed the duty differential between crude and refined palm oil to 5.5% from 11%. In addition, It is expected for Malaysia to steal the lion market shares from Indonesia, which made up 74% of India's palm oil imports for the 1st 11 months in 2018 as Malaysian CPO price should be more price competitive after taking into the 5% duty differential and the USD30/mt CPO price spread between both countries.

Figure 7: Revision in Indian import duties of edible oil

	14-Jun-18			1-Jan-19		
Products	**Import duty**	**Edu cess**	**Effective duty**	**Import duty**	**Edu cess**	**Effective duty**
CPO	44%	10%	48.40%	40%	10%	44%
RBD Palmolein	54%	10%	59.40%	50%	10%	55%
RBD Palm Oil	54%	10%	59.40%	50%	10%	55%
RBD Palm oil-Malaysia origin	54%	10%	59.40%	45%	10%	50%
Crude soybean oil	35%	10%	38.50%	35%	10%	38.50%
Crude sunflower oil	35%	10%	38.50%	35%	10%	38.50%
Crude rapeseed oil	35%	10%	38.50%	35%	10%	38.50%
Refined soybean oil	45%	10%	49.50%	45%	10%	49.50%
Refined sunflower oil	45%	10%	49.50%	45%	10%	49.50%
Refined rapeseed oil	45%	10%	49.50%	45%	10%	49.50%

Source: Solvent Extractors Association, PublicInvest Research

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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