11 March 2020

Agriculture | Plantation

Plantation

COVID-19 + Crude Oil = Correction

Overweight (Under Review)

Stocks Covered	17
Rating (Buy/Neutral/Sell):	13 / 4 / 0
Last 12m Earnings Revision Trend:	Negative

- **We are putting our OVERWEIGHT call under review for now.** While we believe fundamentals are still relatively intact, in view of the still-tight supply and demand scenario, we do not rule out the possibility of CPO prices remaining low or falling further, due to the negative sentiment surrounding commodities and the general economic environment currently.
- **Inventory dropped 4.2% MoM to 1.68m tonnes in February,** in line with expectations. With this, the annualised stock/usage ratio has fallen further to 7.9% (from 8.2% in Jan 2020), well below the 15-year historical mean of 9.6%. Ending stock levels are 45% lower YoY. We expect production to start improving from March, as the dry weather impact from 1Q19 should reduce over time. Demand from China should also start improving, post-logistics disruption, implying that stock levels could continue declining.
- **We have done a sensitivity analysis for CPO,** based on different demand scenarios. Here, we make some assumptions on demand from major importers like China, the US and Europe. Our scenario analysis is aimed at deciphering if stock levels will rise to untenable levels, should demand drop as a result of the COVID-19 outbreak and reduced biodiesel demand. Our base case is based on Oil World's latest forecasts, which assumes a slight (0.4%) decline in consumption due to the outbreak. Stock-usage ratios are still expected to decline for palm oil and for the 8-vegetable oil complex.
- **We have examined three scenarios**. Scenario 1 is the possibility of a 10% decline in demand from the EU, China and the US. Scenario 2 is the possibility of a 10% drop in demand from these countries, and a 1.4m-tonne shortfall in biodiesel demand production in Indonesia. Scenario 3 (worst case) is the possibility of a 5-10% drop in demand from all consumers.
- **Based on our analysis, we believe Scenario 1 is the most likely**, while Scenario 2 may be plausible and Scenario 3 unlikely. Assuming Scenario 2 occurs, this could indicate a slight increase to stock/usage ratios, albeit to a relatively reasonable level. This indicates that CPO could range MYR2,400.00-MYR2,600.00/tonne, if history is anything to go by.
- **We are reviewing our CPO price assumptions currently**, but prefer to wait until the dust is settled before making changes to our forecasts. Nevertheless, we have done a sensitivity analysis on the earnings and TPs of the stocks under our coverage, based on CPO prices averaging MYR2,000.00-MYR2,500.00/tonne. With this, and assuming lower target P/Es are applied, we can see that most share prices have already retreated and are reflecting the current lower CPO prices of MYR2,200.00-MYR2,400.00/tonne. As such, we believe there are pockets of opportunities for investors to cherry-pick some quality planters at inexpensive valuations.

Company Name	Rating	TP	% Upside	P/E (x) Dec-20F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Astra Agro Lestari	Buy	IDR 17290	113.5	9.9	0.8	11.9
CB Industrial Prdt	Buy	MYR 1.10	35.8	10.9	0.7	4.9
First Resources	Buy	SGD 2.00	38.9	12.1	1.6	1.6
Genting Plant	Buy	MYR 11.80	21.6	30.2	1.7	1.3
Golden Agri	Buy	SGD 0.25	39.2	16.8	0.4	3.2
IJM Plantations	Buy	MYR 2.35	58.8	13.9	1.0	1.4
KL Kepong	Buy	MYR 27.10	33.5	26.8	2.1	2.2
London Sumatra	Buy	IDR 1600	95.1	9.7	0.7	2.3
Sarawak Oil Palms	Buy	MYR 4.45	54.0	11.6	0.8	1.7
Sawit Sumbermas	Buy	IDR 1050	34.6	14.9	1.8	0.3
Ta Ann Holdings	Buy	MYR 3.65	49.0	10.5	0.8	4.5
Wilmar	Buy	SGD 4.77	24.2	19.2	1.5	2.9
Bumitama Agri	Buy	SGD 0.85	70.0	10.5	1.2	2.5
FGV	Neutral	MYR 1.20	18.8	43.6	0.9	2.0
IOI Corp	Neutral	MYR 4.75	20.9	32.7	2.7	2.0
Sime Plantations	Neutral	MYR 4.85	9.0	38.0	2.3	0.2
TSH Resources	Neutral	MYR 1.35	32.4	19.5	1.0	1.0

Source: Company data, RHB

Top Picks

Top Picks	Target Price
Kuala Lumpur Kepong (KLK MK) – BUY	MYR27.10
First Resources (FR SP) – BUY	SGD2.00
Astra Agro Lestari (AALI IJ) – BUY	IDR17,290

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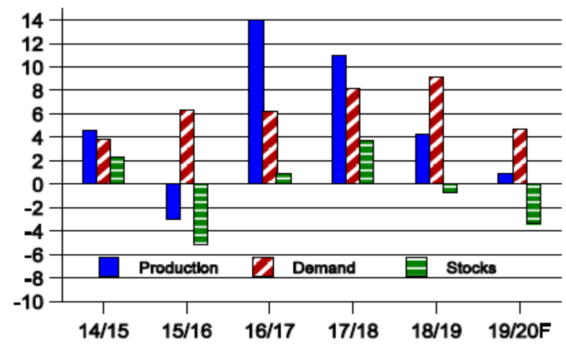
Eight vegetable oils : YoY change in output, demand and stocks



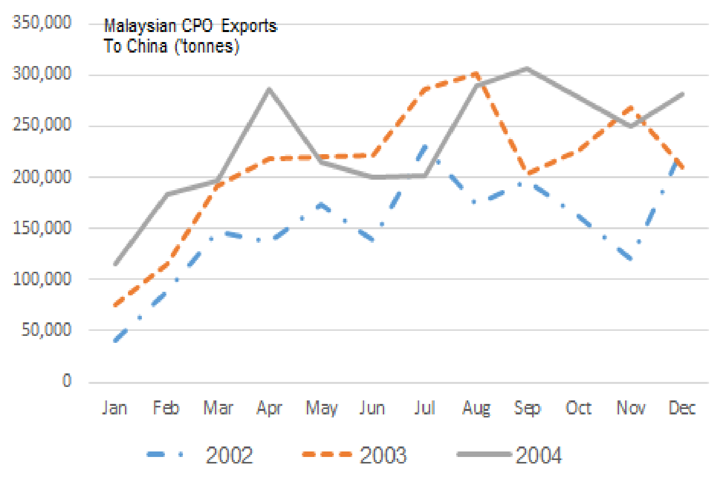
Source: Company data, RHB

Black swan impact

CPO sell-down justified? In this report, we try to make sense of the recent sell-down in CPO stocks, and draw a conclusion about where the CPO price should be headed in the medium term. CPO prices have fallen from a high of MYR3,114.00/tonne in early January to touch a low of MYR2,250.00/tonne two days ago. We believe the recent decline in CPO prices was very much sentiment-driven and not fundamentals-driven. In previous reports, we did not expect to see a significant decline in demand stemming from the COVID-19 outbreak, as palm oil is a staple food product. However, with the recent change in crude oil price fundamentals, the risk of an extended commodity sell-down cannot be ignored.

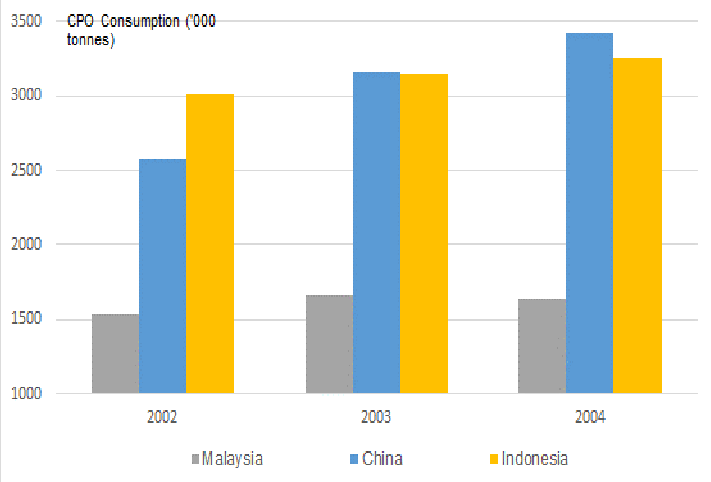
SARS tells us demand for CPO should not be affected in the medium term. Based on our analysis of Malaysia's CPO exports to China during the severe acute respiratory syndrome (SARS) outbreak, we note that demand actually rose by 38% YoY in 2003 and by a further 11% YoY in 2004. China's total palm oil consumption during that period also grew by 10.6% YoY in 2003 and a by further 5% YoY in 2004. Based on our analysis of other countries affected by SARS during that period, which includes China, Malaysia and Indonesia, we note that palm oil consumption during that period in those countries also continued to rise.

Figure 1: Malaysia CPO exports to China during the SARS outbreak



Source: Malaysian Palm Oil Board (MPOB)

Figure 2: CPO consumption during the SARS outbreak



Source: Oil World

… although short-term demand is affected by logistics disruptions. Moving into 2020, while we have seen a marked decline in Malaysian exports to China in YTD-February (-17% YoY), we highlight that this was due to the Lunar New Year holiday, which started in mid-January. We expect demand from China to start normalising from March onwards.

Management of plantation companies cite no significant fall in demand. Based on our conversations with management teams of the companies we cover (those with downstream operations), they have not seen a significant decline in demand from China or elsewhere in the last two months. This is particularly given the current low production period, where the supply of palm oil remains at very tight levels. While there were some logistics disruptions due to the delay of workers coming back post festive season, this issue should be resolved soon.

We note that palm oil stock levels in China are at extremely low levels currently (Figure 3), and restocking activities will therefore need to happen sooner, rather than later.

Figure 3: China palm oil stock levels

Source: Malaysian Palm Oil Council (MPOC)

We have performed a sensitivity analysis on demand and supply, making some assumptions on demand coming from major importers like China, the US and Europe. Our scenario analysis is aimed at deciphering if stock levels will rise to untenable levels, should demand drop as a result of the COVID-19 outbreak and reduced biodiesel demand.

Our base case scenario is based on Oil World's latest forecasts, which has already assumed a slight (0.4%) decline in vegetable oil consumption as a result of the COVID-19 outbreak. However, stock-usage ratios are still expected to be on a declining trend – both for palm oil and for the 8-vegetable oil complex.

We have examined three scenarios in our sensitivity analysis. Scenario 1 is the possibility of a 10% decline in demand from the EU, China and the US. Scenario 2 is the possibility of a 10% decline in demand from these countries, as well as a 1.4m tonne shortfall in biodiesel demand production in Indonesia. Scenario 3, being the worst-case scenario, is the possibility of a 5-10% decline in demand from all consuming countries. We have laid out the impact on stocks and stock/usage ratios for palm oil as well as the 8-vegetable oil complex in the table below.

Figure 4: Scenario analysis on the impact of the COVID-19 outbreak on CPO demand

Palm Oil		BASE CASE			SCENARIO 1			SCENARIO 2			SCENARIO 3		
		2018	2019	2020F	2018	2019	2020F	2018	2019	2020F	2018	2019	2020F
Production	Total Annual Production	73.44	77.21	76.23	73.44	77.21	76.23	73.44	77.21	76.23	78.42	79.82	81.21
Consumption	EU	8.09	8.49	8.22	8.09	8.49	7.40	8.09	8.49	7.40	8.09	8.49	7.40
	China	5.36	6.49	7.33	5.36	6.49	6.60	5.36	6.49	6.60	5.36	6.49	6.60
	India	9.18	10.18	9.98	9.18	10.18	9.98	9.18	10.18	9.98	9.18	10.18	9.48
	Indonesia	11.14	14.46	15.90	11.14	14.46	15.90	11.14	14.46	14.50	11.14	14.46	14.50
	Malaysia	3.25	3.58	3.39	3.25	3.58	3.39	3.25	3.58	3.39	3.25	3.58	3.22
	US	1.50	1.43	1.41	1.50	1.43	1.27	1.50	1.43	1.27	1.50	1.43	1.27
	Others	31.14	32.98	33.04	31.14	32.98	33.04	31.14	32.98	33.04	31.14	32.98	29.74
	TOTAL Consumption	**69.64**	**77.61**	**79.27**	**69.64**	**77.61**	**77.58**	**69.64**	**77.61**	**76.18**	**69.64**	**77.61**	**72.21**
Stock	Remaining Stock	14.62	14.41	11.41	14.62	14.41	**13.10**	14.62	14.41	**14.50**	14.62	14.41	**16.78**
	Stock/Usage (%)	21.0%	18.6%	14.4%	21.0%	18.6%	**16.9%**	21.0%	18.6%	**19.0%**	21.0%	18.6%	**23.2%**
	Historical average	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Eight Veg Oil Complex	Production	194.1	198.37	199.27	194.1	198.37	199.27	194.1	198.37	199.27	194.1	198.37	199.27
	Consumption	189.5	198.58	203.27	189.5	198.58	201.57	189.5	198.58	200.17	189.5	198.58	197.90
	Stock	28.71	27.99	24.63	28.71	27.99	26.33	28.71	27.99	27.73	28.71	27.99	30.00
	Stock/Usage (%)	15.2%	14.1%	12.1%	15.2%	14.1%	13.1%	15.2%	14.1%	13.9%	15.2%	14.1%	15.2%
	Historical average	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%

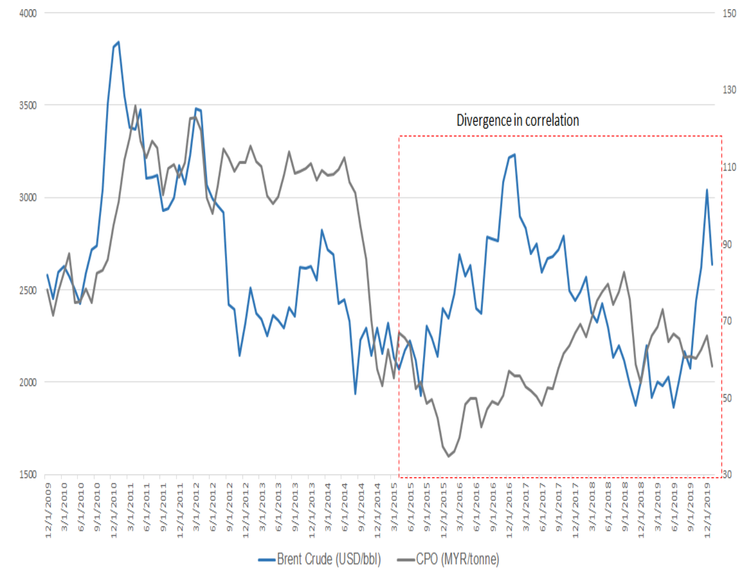
Source: Oil World, RHB

Scenario 1 – some reduction in demand from large consuming countries. For Scenario 1, we note that despite a 10% potential decline in demand from these three large consuming geographical areas, stock/usage ratios remain on a downward trend in 2020F, falling to 16.9% (from 18.6% in 2019), which is still below the historical average of 17.5%. Taking a leaf out of history, the last time stock/usage ratios were around these levels, CPO prices were around MYR2,600.00-2,700.00/tonne in the years 2009-2010 and 2016-2017.

Scenario 2 – some reduction in demand from large consuming countries and a shortfall of biodiesel production in Indonesia. For Scenario 2, we have highlighted the risk of Indonesia's biodiesel mandate not being met, given the recent reduction in crude oil prices. However, we believe this will be very much determined by Indonesia's government policies and impetus to continue the implementation of biodiesel policies.

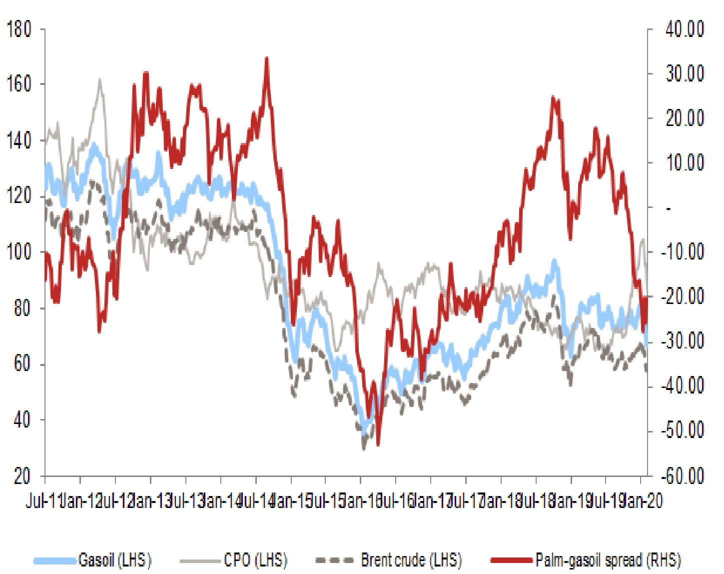
Based on our analysis of the correlation between the prices of CPO and crude oil, we note that the correlation has turned negative in the last five years (2015-2019) – which indicates that the CPO price movement is no longer related to that of crude oil price. We believe this is due to the fact that the Indonesian and Malaysian governments generally implement biodiesel policies regardless of crude oil price movements, as it is a way to support CPO prices as well as reduce their import bills.

Figure 5: CPO vs Brent crude oil prices – correlation turned negative from 2015 onwards



Source: Bloomberg, RHB

Figure 6: CPO-gasoil spread is at -USD32/bbl (vs -USD19/bbl last month)



Source: Bloomberg

For Indonesia, given the current CPO-gasoil gap of USD32.00/barrel, and based on the estimated biodiesel funds in Indonesia of approximately USD2.2bn at end-February, we believe the funds should be enough to subsidise 6.8m tonnes of biodiesel. This would be about 1.4m tonnes (or 17%) short of the 8.2m (9.6m kilolitres) target it has for B30 blending in Indonesia. As such, in Scenario 2, we have assumed a reduction in consumption in Indonesia of 1.4m tonnes.

For Malaysia, if we assume that there is no increase to the current B10 mandate, this would mean there would be no change to the circa 500,000 tonnes of biodiesel consumed for the local market in 2020. The increase to B20 would have increased local biodiesel demand to 1m tonnes, if implemented.

Based on this scenario, stock/usage ratios should rise to 18% in 2020F (from 18.6% in 2019), which is slightly above the historical average of 17.5%. This assumes a 3.1m tonne decline in CPO demand. Based on historical data, CPO prices ranged between MYR2,400.00 and MYR2,600.00 per tonne, when stock/usage ratios were at these levels.

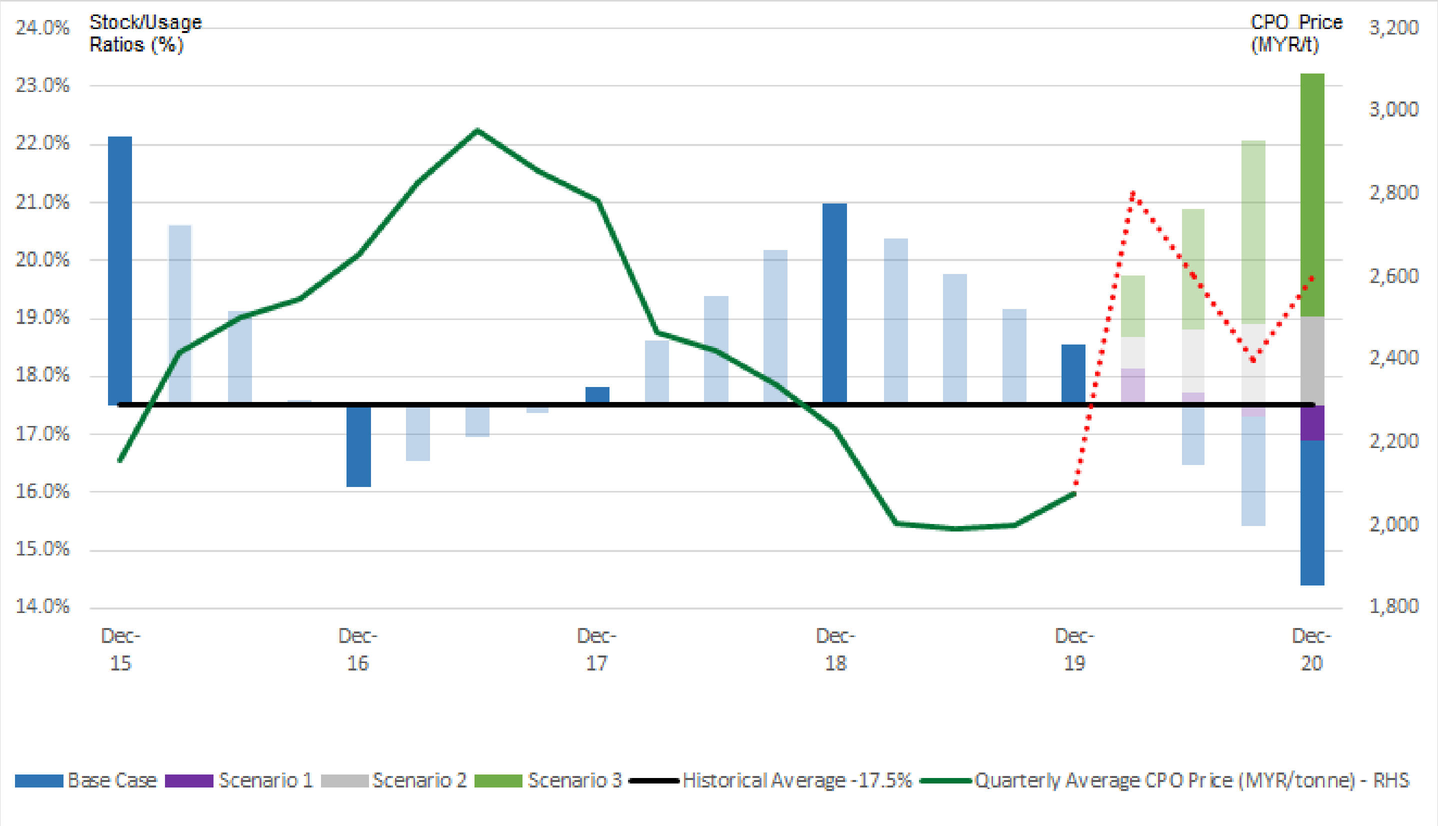
Scenario 3 – reduction in demand from all consuming countries. For Scenario 2, where we have imputed a drastic 5-10% fall in demand from all countries as well as a 1.4m tonne decline in biodiesel output in Indonesia, we note that stock/usage ratios will rise instead in 2020F to 23.2% (from 18.6% in 2019), well above the historical average of 17.5%. This scenario assumes a 5.4m tonne decline in CPO demand. Again, looking back at history, the last time stock/usage ratios were around this level was in 2015, when CPO prices were at MYR2,100.00-2,200.00/tonne.

COVID-19 outbreak may be more widespread and longer-lasting. While our historical analysis of CPO demand during the SARS period of 2003-2004 suggests that demand was not affected at all, we believe there is always a possibility of this COVID-19 outbreak being more widespread and longer-lasting than SARS. Assuming this does happen, there is a likely possibility of Scenario 1 occurring. Scenario 1 assumes a 1.7m tonne decline in CPO demand, which is reasonable in our view, as it would mean less people frequent restaurants, less events are held and less social interactions take place. This would imply that CPO prices of MYR2,600.00-2,700.00/tonne for 2020 is a reasonable assumption.

The possibility of Scenario 2 occurring depends very much on Indonesia. Although there is currently a shortfall in funds to subsidise the entire B30 mandate for 2020, we believe that Indonesia is in the midst of re-examining its levy contributions in order to ensure the success of the B30 mandate. One of the ways we understand that is being bandied around is the usage of the additional export tax (levied on top of the USD50.00/tonne) to add to the biodiesel fund. In February, the additional tax was USD18.00/tonne, although this has since reduced to USD3.00/tonne in March, given the reduction in CPO prices. At the current juncture, the Indonesian Government seems to be very much intent on pushing this mandate through

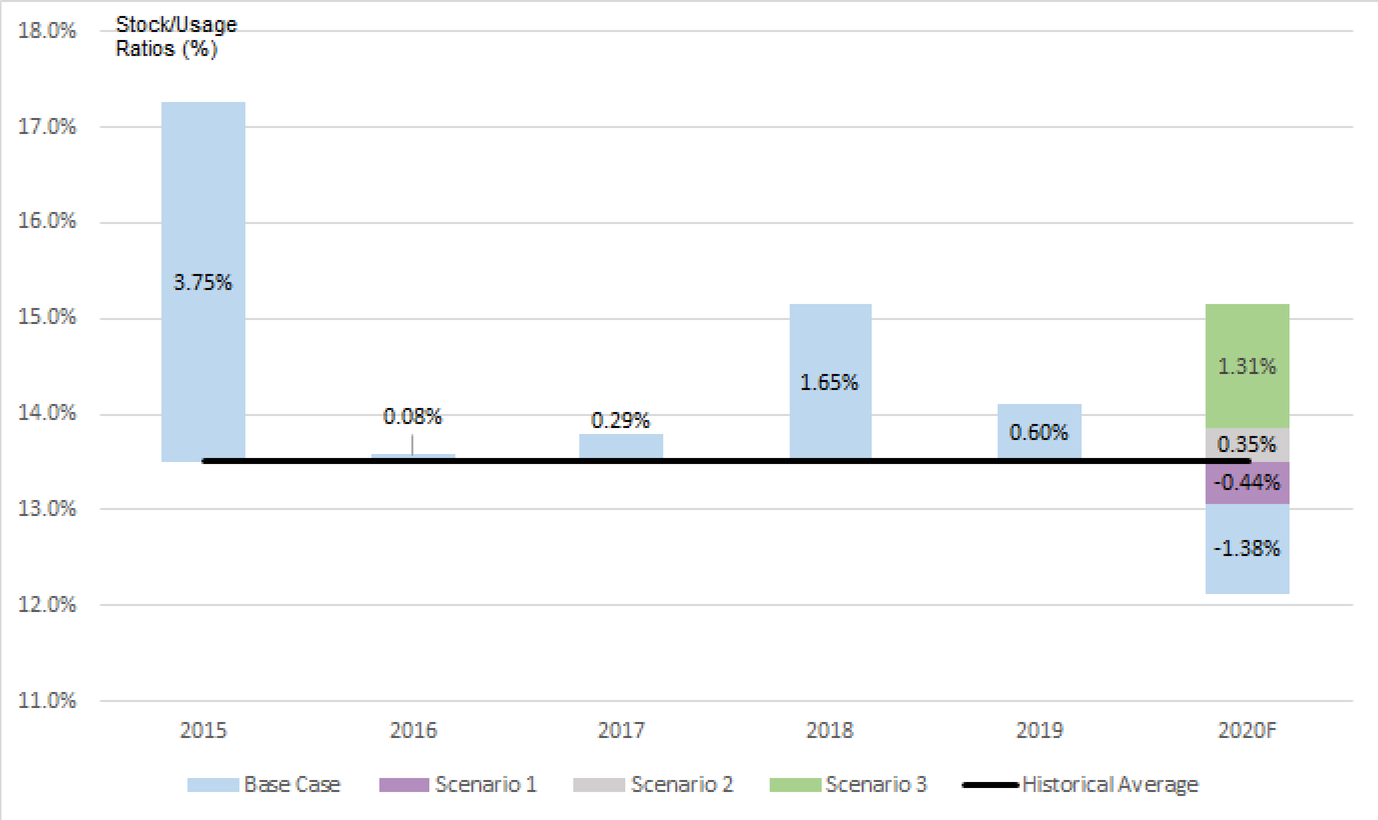
We do not think Scenario 3 is a plausible occurrence. This is due to the fact that CPO is still very much a staple food product, and not a luxury by any means. As such, there is only so much demand rationing that can occur. In other words, we do not expect CPO prices to fall back down to 2015's levels of MYR2,100.00-2,200.00/tonne.

Figure 7: Stock/usage ratios vs CPO price – scenario analysis



Source: Oil World, Bloomberg, RHB

Figure 8: Sensitivity analysis - 8-vegetable oil complex's stock/usage ratios



Source: Malaysia Palm Oil Board (MPOB), RHB

Monthly Malaysian Palm Oil Board statistics

Figure 9: Monthly CPO statistics

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
('000 tonnes)													
Opening stocks	3,005	3,059	2,923	2,730	2,447	2,411	2,378	2,241	2,449	2,352	2,255	2,011	1,755
Imports	94	131	62	62	101	40	51	71	85	75	123	85	67
Production	1,545	1,672	1,649	1,671	1,511	1,741	1,822	1,842	1,796	1,538	1,334	1,172	1,289
Total supply	4,644	4,863	4,634	4,463	4,059	4,192	4,251	4,154	4,329	3,965	3,712	3,267	3,111
Exports	1,322	1,619	1,654	1,715	1,383	1,489	1,736	1,410	1,642	1,406	1,398	1,214	1,082
Domestic use	263	321	251	301	265	324	275	296	336	304	303	298	347
Total offtake	1,585	1,940	1,905	2,016	1,649	1,813	2,010	1,706	1,977	1,710	1,701	1,512	1,429
End-mth stocks	3,059	2,923	2,730	2,447	2,411	2,378	2,241	2,449	2,352	2,255	2,011	1,755	1,682
Production YTD	**3,282**	**4,954**	**6,603**	**8,275**	**9,786**	**11,526**	**13,348**	**15,190**	**16,986**	**18,524**	**19,858**	**1,172**	**2,460**
MoM (%)	(11.1)	8.3	(1.4)	1.3	(9.6)	15.2	4.6	1.1	(2.5)	(14.4)	(13.3)	(12.2)	10.0
YoY (%)	15.0	6.2	5.8	9.6	13.4	15.8	12.4	(0.6)	(8.6)	(16.6)	(26.2)	(32.6)	(16.6)
YTD (%)	12.0	10.0	8.9	9.1	9.7	10.6	10.8	9.3	7.1	4.6	1.8	(32.6)	(25.0)
Exports YTD	**3,003**	**4,621**	**6,275**	**7,990**	**9,373**	**10,862**	**12,598**	**14,008**	**15,650**	**17,055**	**18,453**	**1,214**	**2,296**
MoM (%)	(21.3)	22.4	2.2	3.7	(19.3)	7.7	16.6	(18.8)	16.4	(14.4)	(0.5)	(13.2)	(10.8)
YoY (%)	0.7	3.4	8.1	32.8	22.5	24.4	57.8	(12.9)	4.5	2.2	1.1	(27.8)	(18.1)
YTD (%)	6.2	5.2	5.9	10.7	12.3	13.8	18.4	14.3	13.1	12.2	11.2	(27.8)	(23.5)
Stocks													
MoM (%)	1.8	(4.5)	(6.6)	(10.3)	(1.5)	(1.4)	(5.8)	9.3	(3.9)	(4.1)	(10.8)	(12.7)	(4.2)
YoY (%)	23.5	25.8	25.1	12.7	10.2	6.6	-10.6	-3.2	-13.6	-25.0	-37.5	-41.6	-45.0

Source: MPOB, RHB

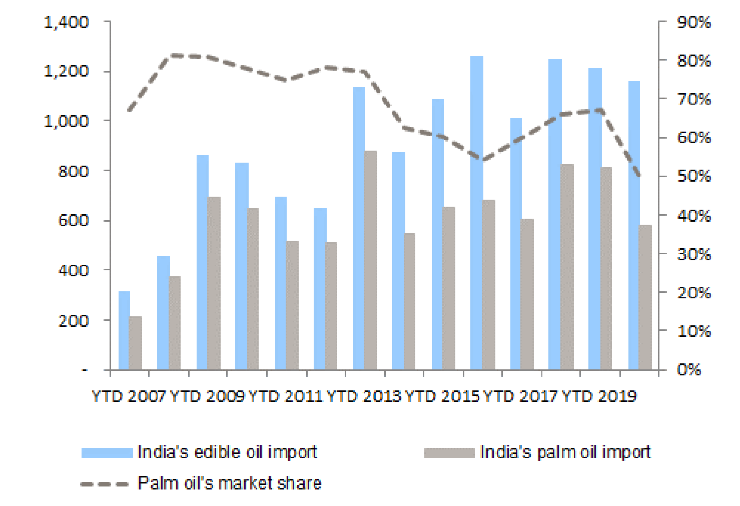
Production rose 10% MoM in February, marking a respite after four consecutive months of decline. We expect production to pick up further from March, as the dry weather impact from 1Q19 should reduce over time.

Exports fell 10.8% MoM in February, reflecting the post Lunar New Year peak decline, as well as the decline in exports to India post changes in tax structure and the logistics issues faced in China. Exports to India plunged by 55% MoM in February while China's exports fell 11% MoM. This was offset by increases to Italy (+221%), Turkey (+56%), the US (+11%) and the Philippines (+9.5%), among others.

Inventory declined by 4.2% MoM to 1.68m tonnes in February, in line with expectations. With this, the annualised stock/usage ratio has fallen further to 7.9% (from 8.2% in Jan 2020), well below the 15-year historical mean of 9.6%. Ending stock levels are 45% lower YoY.

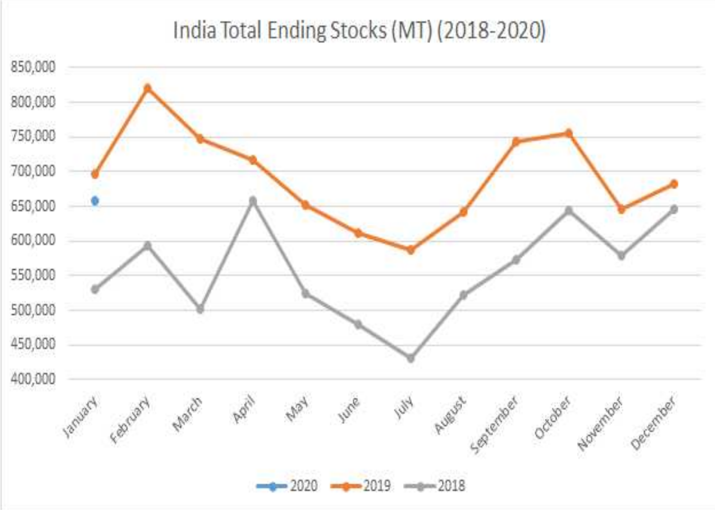
India's CPO demand growth in Jan 2020 has fallen 28% YoY. While we expect India's preference for Indonesian CPO to impact demand for Malaysian CPO in the short term, we believe demand will even out in the medium to long term, as Malaysia will be able to channel its sales to the markets Indonesia was selling to previously, to fill the gap left by India. We note that also that India's vegetable oil stock levels are low currently (-6% YoY) in Jan 2020, which means restocking needs to happen soon.

Figure 10: India's edible oil imports were down by 4.4% in Jan 2020 while CPO imports fell 28.8% YoY



Source: Bloomberg

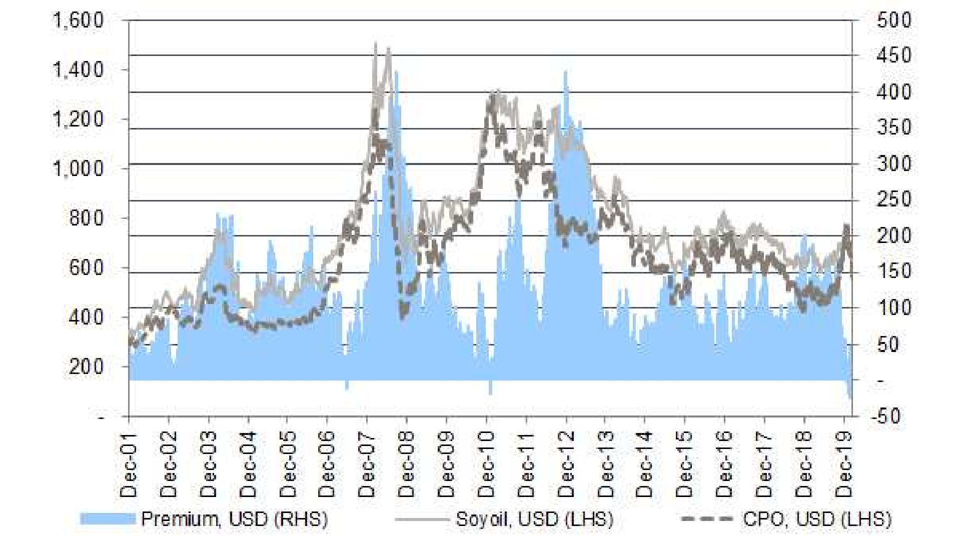
Figure 11: India's palm oil stock levels



Source: Bloomberg

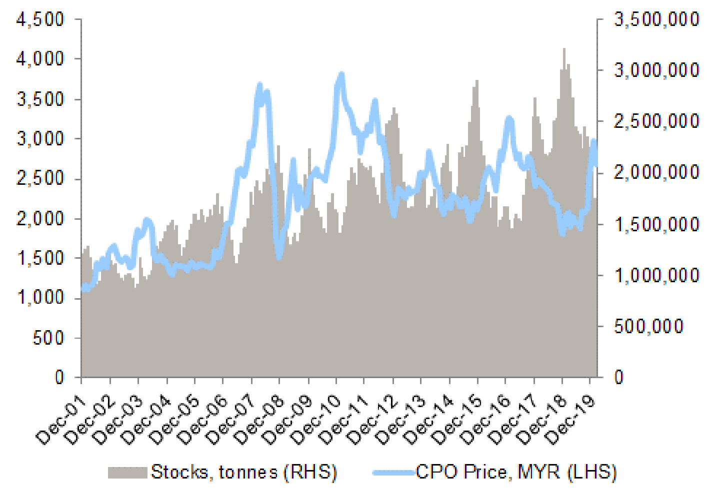
With the decline in CPO prices recently, the price gap between CPO and soyoil widened back to USD65.00/tonne (from USD19.00/tonne last month), as CPO prices continued to moderate. While this is still at a discount to historical averages of USD100.00/tonne, we believe a smaller discount is justifiable at this juncture, given the tightness of palm oil supply in the market.

Figure 12: Palm oil is trading at a discount of USD65.00/tonne to soybean oil (from USD19.00/tonne last month)



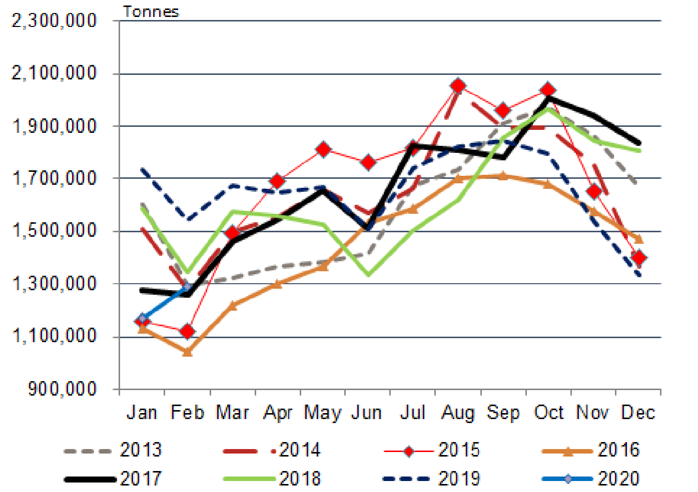
Source: Bloomberg

Figure 13: CPO inventory levels at 1.68m tonnes



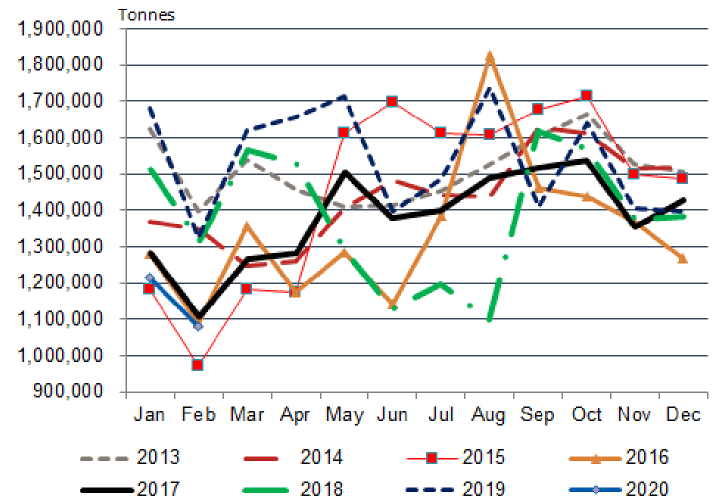
Source: MPOB, Bloomberg

Figure 14: Malaysia's CPO production (YTD-Feb 2020: -25% YoY)



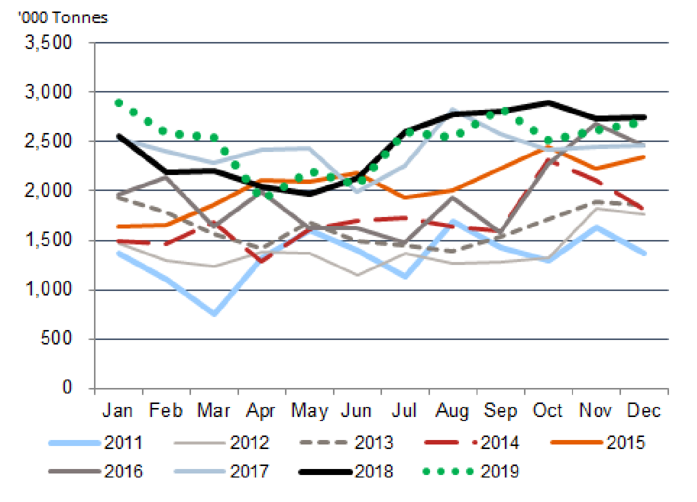
Source: MPOB, RHB

Figure 15: Malaysia's monthly palm oil exports (-23.5% YoY in YTD-Feb 2020)



Source: MPOB, RHB

Figure 16: Indonesia's monthly palm oil exports (+1.2% in 2019)



Source: Bloomberg

Forecasts and recommendation

We are reviewing our CPO price assumptions but make no changes to our forecasts at this juncture. While we believe the CPO price decline is overdone, given that supply and demand fundamentals remain relatively intact, we believe the negative sentiment relating to the COVID-19 impact and the low crude oil price environment will have a knock-on negative impact on sentiment surrounding CPO prices and plantation stocks.

Our CPO price assumption of MYR2,600.00/tonne is admittedly at risk based on current prices, although we note that YTD price remains relatively high at MYR2,788.00/tonne. However, we prefer to wait for the dust to settle before making changes to our price assumptions. We believe some stability could come around April, once CPO import numbers from March have been released, as this would give a better sense of real demand post-festive period and logistics disruptions in China.

Nevertheless, we have done a sensitivity analysis on the earnings and TPs of the stocks under our coverage, based on CPO prices averaging between MYR2,000.00/tonne and MYR2,500.00/tonne. For the TP calculations, we have done two sensitivity analyses – one with a lower P/E target of 2-3x and one without any changes in valuation targets. In Figure 17, the potential changes to TPs can be seen, while in Figure 20, the potential changes to earnings can be seen.

Based on this analysis and assuming lower target P/E's are applied, we can see that most share prices have already retreated and are reflecting the current lower CPO prices of MYR2,200.00-2,400.00/tonne. There are some share prices that have retreated too much and are already reflecting CPO prices of MYR2,100.00-2,200.00/tonne and below – and these would include Kuala Lumpur Kepong and Astra Agro Lestari and Wilmar. On the other end of the scale, there are also some counters that continue to reflect higher CPO prices of MYR2,400.00-2,600.00/tonne like Sime Darby Plantations, IOI, TSH Resources and Genting Plantations. As such, we believe there are pockets of opportunities for investors to cherry-pick some quality planters at inexpensive valuations.

We have also highlighted in Figure 19, the different positions taken by the different companies with regards to forward sales in 4Q19, positions which will be recognised in 1Q20. Given some of these forward sales positions, the current decline in CPO prices may not affect some companies as badly as others. We note, however, that most companies have stopped doing forward sales since the beginning of the year due to low liquidity in the market.

OVERWEIGHT recommendation under review. We are putting our sector rating under review, as we contemplate our CPO price forecasts. We currently have 12 BUYs and five NEUTRAL recommendations regionally. Our Top Picks in Malaysia include KL Kepong and Ta Ann. In Singapore, we like First Resources, and in Indonesia, Astra Agro Lestari.

Figure 17: Sensitivity analysis of TPs at different price points

	Closing Price	Current TP	TP based on lowered P/E Targets							TP based on unchanged P/E targets					
Company	(9 Mar)	MYR 2,600	MYR 2,600	MYR 2,500	MYR 2,400	MYR 2,300	MYR 2,200	MYR 2,100	MYR 2,000	MYR 2,500	MYR 2,400	MYR 2,300	MYR 2,200	MYR 2,100	MYR 2,000
KLK (MYR)	20.94	27.10	25.85	24.80	23.75	22.75	21.70	20.65	19.65	26.00	24.90	23.80	22.70	21.65	20.55
IOI Corporation (MYR)	3.94	4.75	4.15	3.90	3.65	3.40	3.20	2.95	2.70	4.60	4.50	4.35	4.20	4.05	3.90
FGV (MYR)	0.96	1.20	1.15	1.05	0.95	0.85	0.75	0.65	0.55	1.10	1.00	0.90	0.80	0.70	0.60
Sime Darby Plantation (MYR)	4.40	4.85	4.40	4.00	3.40	2.90	2.50	2.10	1.90	4.20	3.60	3.10	2.70	2.30	2.00
Genting Plantation (MYR)	9.50	11.80	10.90	10.00	9.05	8.00	6.70	5.45	4.30	10.60	9.40	8.15	6.95	5.75	4.55
SOP (MYR)	2.75	4.45	4.00	3.60	2.90	2.25	1.55	0.95	0.30	3.80	3.10	2.45	1.75	1.05	0.40
IJM Plantations (MYR)	1.43	2.35	2.15	1.90	1.60	1.35	1.15	0.90	0.65	2.00	1.70	1.45	1.25	1.00	0.75
Ta Ann (MYR)	2.29	3.65	3.65	3.10	2.65	2.25	1.90	1.60	1.38	3.10	2.65	2.25	1.90	1.60	1.38
TSH (MYR)	0.99	1.35	1.25	1.10	0.90	0.80	0.60	0.45	0.25	1.20	1.00	0.85	0.65	0.50	0.30
CBIP (MYR)	0.82	1.10	1.08	1.00	0.93	0.85	0.80	0.72	0.65	1.05	1.00	0.95	0.90	0.85	0.80
First Resources (SGD)	1.40	2.00	1.80	1.65	1.50	1.45	1.30	1.15	1.00	1.85	1.70	1.55	1.40	1.25	1.10
Bumitama (SGD)	0.49	0.85	0.71	0.65	0.58	0.51	0.43	0.36	0.30	0.73	0.61	0.53	0.45	0.38	0.32
Golden Agri-Resources (SGD)	0.18	0.25	0.23	0.21	0.19	0.17	0.15	0.13	0.10	0.22	0.20	0.18	0.17	0.14	0.11
Wilmar (SGD)	3.73	4.77	4.70	4.65	4.61	4.56	4.52	4.47	4.42	4.72	4.67	4.62	4.56	4.51	4.46
Astra Agro Lestari (IDR)	8200	17,290	14,700	12800	11800	10700	9400	8900	8500	14,200	13,070	11,900	10,420	9,920	9,400
London Sumatra (IDR)	825	1,600	1,400	1200	1100	1020	900	800	780	1,350	1,255	1,140	1,000	910	870
Sawit Sumbermas (IDR)	765	1050	1000	900	800	770	700	600	580	960	920	860	783	712	648

Note: Prices are as at 9 Mar 2020

Note: Highlighted areas are indicate what CPO prices current share prices are reflecting

Source: RHB, Bloomberg, Company data

Figure 18: Regional peer comparison

	Bloomberg ticker	Rating	Price (local ccy)	Target price (local ccy)	Core P/E FY19F	Core P/E FY20F	P/BV FY19F	Net gearing FY19F	Div yield FY19	ROE FY19F	EV/ha USD
CB Industrial Prdt	CBP MK	Buy	0.81	1.10	9.3	10.9	0.7	Cash	4.9%	7.3%	N/A
FGV	FGV MK	Neutral	1.01	1.20	n.m.	43.6	0.9	56.3%	2.0%	-3.7%	32,563
Genting Plant	GENP MK	Buy	9.70	11.80	57.9	30.2	1.7	-33.5%	1.3%	2.9%	22,028
IJM Plantations	IJMP MK	Buy	1.48	2.35	27.7	13.9	1.0	44.6%	1.4%	3.5%	8,917
IOI Corp	IOI MK	Neutral	3.93	4.75	34.8	32.7	2.7	22.8%	2.0%	8.1%	39,939
KL Kepong	KLK MK	Buy	20.30	27.10	33.4	26.8	2.1	43.2%	2.2%	6.3%	32,563
Sarawak Oil Palms	SOP MK	Buy	2.89	4.45	15.5	11.6	0.8	18.4%	1.7%	4.8%	6,700
Sime Plantations	SDPL MK	Neutral	4.45	4.85	227.0	38.0	2.3	55.2%	0.2%	1.0%	19,725
TSH Resources	TSH MK	Neutral	1.02	1.35	48.8	19.5	1.0	90.8%	1.0%	2.0%	14,680
Ta Ann Holdings	TAH MK	Buy	2.45	3.65	24.2	10.5	0.8	30.9%	4.5%	3.1%	6,851
Bumitama Agri	BAL SP	Buy	0.50	0.85	18.4	10.5	1.2	76.9%	2.5%	6.3%	10,922
First Resources	FR SP	Buy	1.44	2.00	19.0	12.1	1.6	33.7%	1.6%	8.5%	13,741
Golden Agri	GGR SP	Buy	0.18	0.25	-25.8	16.8	0.4	67.2%	3.2%	-1.5%	11,703
Wilmar	WIL SP	Buy	3.84	4.77	21.3	19.2	1.51	124.5%	2.9%	8.1%	N/A
Astra Agro Lestari	AALI IJ	Buy	8,100	17,290	73.8	9.9	0.8	0.1%	11.9%	1.0%	7,814
London Sumatra	LSIP IJ	Buy	820	1,600	22.0	9.7	0.7	Cash	2.3%	3.0%	4,623
Sawit Sumbermas	SSMS IJ	Buy	780	1,050	122.2	14.9	1.8	0.1%	0.3%	1.5%	14,188
Regional Average					**32.1**	**18.7**	**1.4**				**18,128**

Note: Prices are as at 10 Mar 2020

Source: RHB, Bloomberg, Company data

Figure 19: Forward sales for 1Q20 – Malaysian plantation companies

Company	Forward Sales for 1Q20
Sime Plant	50-80% of output locked in during 4Q19 at MYR2,300-2,400/tonne
IOIC	20-30% of output locked in during 4Q19
KLK	20-30% of output locked in during 4Q20
TSH	10-12% of output locked in 4Q19, two months ahead
IJMP	Up to 50% of output locked in during 4Q19 at MYR2,300-2,400/tonne
GenP	Less than 10% of output locked in 4Q19 at MYR2,600-2,700/tonne
FGV	30% of output locked in during 4Q19, with some 30k tonnes sold at high prices of MYR2,800-3,100/tonne
SOP	10% of output locked in 4Q19 at MYR2,700/tonne and above
Ta Ann	10-15% of output locked in 4Q19 at MYR2,600/tonne

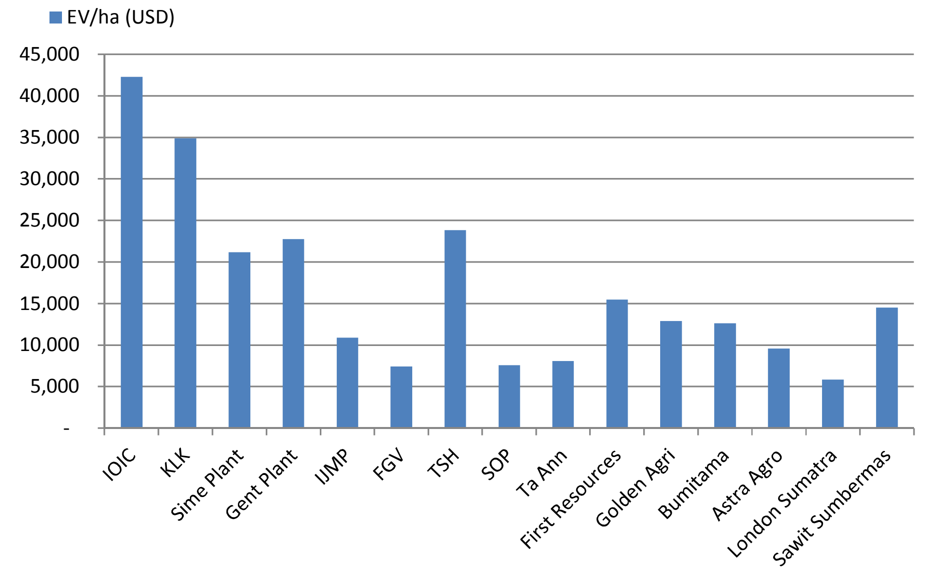
Source: RHB

Figure 20: Earnings sensitivity of companies to changes in CPO prices

	Net Profit Change For Every MYR100/tonne Change
Genting Plantations	7-9%
KLK	5-7%
IJMP	8-10%
IOI Corp	4-6%
Sime Plantation	7-9%
FGV	7-9%
SOP	8-10%
TSH	7-9%
Ta Ann	15-18%
Golden Agri, SGD	8-10%
First Resources, SGD	6-8%
Bumitama Agri, SGD	7-9%
AALI, IDR	9-11%
Lonsum, IDR	11-12%
SSS, IDR	12-13%

Source: RHB

Figure 21: Peer comparison based on EV/ha



Source: RHB

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