

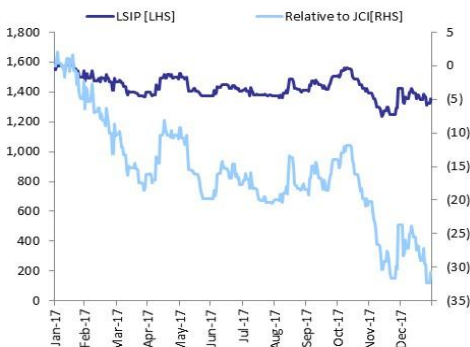
Tuesday, 13 February 2018

NEUTRAL

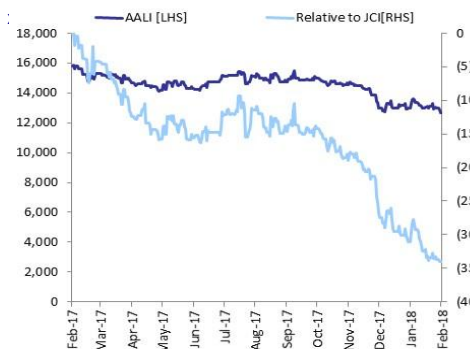
Plantation

Jan 18 Stockpile Down From a 2-Year High

LSIP relative to JCI Index



AALI relative to JCI Index



Source : Bloomberg

Malaysia's palm oil inventory declined unexpectedly to 2.55mn tons in Jan-18 (+65.3% YoY, -6.7% MoM), way below the consensus figure of 2.73mn tons, due to stronger-than-expected exports. We may see short-term strength in CPO prices on: 1) seasonality factors and 2) the temporary suspension of CPO export duty in Malaysia. Maintain neutral.

Malaysia's palm oil inventory falls more than expected in Jan-18. Based on the latest MPOB data, Malaysia's palm oil inventory fell to 2.55mn tons in Jan-18 (+65.3% YoY, -6.7% MoM). This figure is way below the consensus expectation of 2.73mn tons, primarily because of stronger-than-expected exports in Jan-18 (+17.5% YoY, +6.3% MoM). Inventory may continue to trend downwards until Feb/Mar, thus providing a short-term positive catalyst for the CPO price, supported by the current low crop season and temporary suspension of Malaysia's CPO export duty.

Jan-18 palm oil output is slightly above the consensus. Palm oil output reached 1.59mn tons in Jan-18 (+24.3% YoY, -13.5% MoM), or slightly above consensus estimates of 1.57mn tons. Nevertheless, the declining MoM trend in output is in-line with the seasonality. Growth in Peninsula Malaysia and Sabah/Sarawak reached +30.3% YoY/-17.1% MoM and +18.4% YoY/-9.2% MoM respectively. We expect the seasonal decline in palm oil production to last up to Feb/Mar.

Jan-18 palm oil exports surpass consensus estimates. Palm oil exports unexpectedly reached 1.51mn tons in Jan-18 (+17.5% YoY, +6.3% MoM), beating consensus estimates of 1.32mn tons. Higher exports were boosted by palm oil sales to India (+44.6% YoY, +88.1% MoM), Pakistan (+112.9% YoY, +19.9% MoM) and Turkey (+37.8% YoY, +25.8% MoM). We believe the strong January exports were supported by Malaysia's decision to temporarily suspend the CPO export duty, effective for 3 months starting in January. We may see strong exports in the next couple of months as Malaysian exporters are likely to take advantage of the duty-free ruling and that it would temporarily make Malaysian CPO more competitively priced compared to Indonesian CPO. According to the latest Intertek survey, Malaysia's palm oil shipments rose by 14.7% MoM to 412.2k tons in the first 10 days of Feb.

The soyoil-CPO price spread narrowed further to USD80/ton at the end of Jan-18 (from USD125/ton in Dec-17). During the period, CPO and soyoil prices remained flat at MYR2,479/ton and US cents 33.07/lb, respectively. However, the 2.7% appreciation in the MYR/USD exchange rate in January was the main factor behind the narrowing discount between soyoil and CPO prices.

Maintain neutral. We maintain our neutral call on the plantation sector with LSIP as our top pick. We may see a short-term boost in CPO prices in 1Q18 due to: 1) seasonality and 2) the temporary suspension of CPO export duty. However, this may potentially be negated by: 1) the MYR/USD strengthening trend and 2) the narrowing gap between soyoil and CPO prices. Beyond 1Q18, we believe that CPO prices might come under pressure as output will start to pick up and because Malaysia's progressive CPO export duty will be imposed again. We estimate an average CPO price of MYR2,700/ton in FY18.



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Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2017F	2018F	2017F	2018F	2018
London Sumatra	LSIP IJ	BUY	1,770	9,104.7	11.1	10.9	1.1	1.0	9.8
Astra Agro Lestari	AALI IJ	HOLD	14,300	24,347.3	12.8	13.2	1.3	1.2	9.7
Sampoerna Agro	SGRO IJ	SELL	2,240	4,637.5	16.4	15.4	1.3	1.2	8.0

Exhibit 1. Malaysia Palm Oil Statistics Summary

(in '000 tons)	Jan17	Feb17	Mar17	Apr17	May17	Jun17	Jul17	Aug17	Sep17	Oct17	Nov17	Dec17	Jan18
Production	1,277	1,259	1,464	1,548	1,654	1,514	1,827	1,811	1,780	2,009	1,943	1,834	1,587
Imports	72	40	102	54	47	46	53	42	41	13	30	15	35
Domestic Consumption	186	273	206	271	239	210	223	207	228	297	266	248	292
Exports	1,288	1,108	1,266	1,284	1,506	1,380	1,399	1,488	1,519	1,538	1,356	1,423	1,513
Ending Inventory Balance	1,541	1,459	1,553	1,600	1,557	1,527	1,785	1,942	2,016	2,203	2,554	2,732	2,548
% YoY Change													
Production	13.0	20.7	20.1	19.0	21.2	-1.2	15.2	6.4	3.8	19.7	23.4	24.5	24.3
Imports	108.1	-40.3	36.9	30.3	137.0	133.4	313.0	433.6	2197.6	-49.8	-52.4	-66.5	-51.4
Domestic Consumption	-11.4	70.7	-15.0	8.0	-7.1	-26.3	2.4	8.1	31.5	23.2	48.9	0.3	56.9
Exports	0.7	1.7	-5.2	9.5	17.4	20.8	1.0	-18.4	4.0	7.1	-1.0	12.2	17.5
Ending Inventory Balance	-33.3	-32.8	-17.6	-11.3	-5.6	-13.9	0.8	32.6	30.3	39.9	53.5	63.9	65.3
% MoM Change													
Production	-13.4	-1.4	16.3	5.7	6.9	-8.5	20.6	-0.9	-1.7	12.9	-3.3	-5.6	-13.5
Imports	60.0	-43.7	152.8	-46.6	-12.9	-3.4	15.6	-21.3	-1.2	-67.3	124.0	-50.3	132.3
Domestic Consumption	-24.8	46.5	-24.4	31.6	-12.1	-11.8	5.9	-7.1	9.9	30.4	-10.3	-6.7	17.7
Exports	1.6	-14.0	14.3	1.4	17.3	-8.4	1.4	6.4	2.1	1.2	-11.8	4.9	6.3
Ending Inventory Balance	-7.5	-5.3	6.4	3.0	-2.7	-1.9	16.9	8.8	3.8	9.3	15.9	7.0	-6.7

Source: MPOB

Exhibit 2. Malaysia Inventory Balance vs. CPO Price

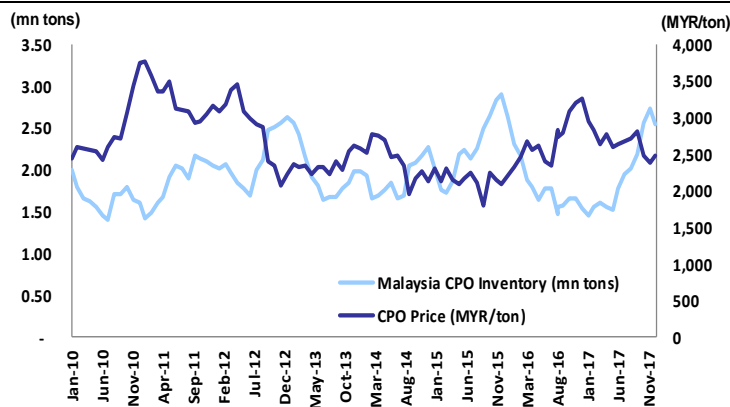
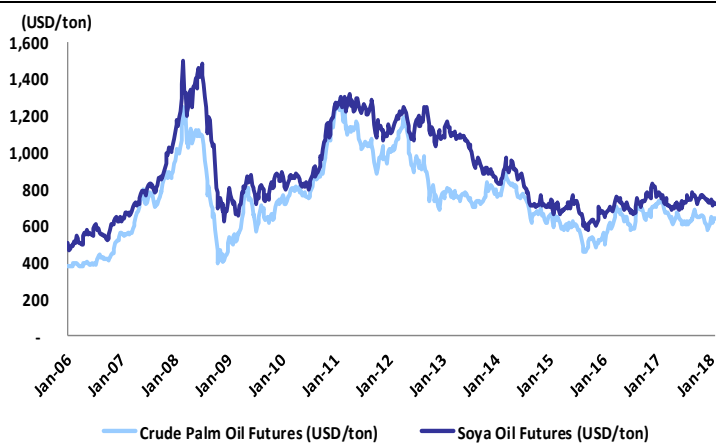


Exhibit 3. Soyoil – CPO price spread



Source: Bloomberg, MPOB

Source: Danareksa Sekuritas, Bloomberg

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