

FROM EQUITY RESEARCH

Plantation: Dec 18 Inventory: Another Record High (OVERWEIGHT)

Malaysia's palm oil inventory jumped to another record high of 3.22mn tons in Dec 18 (+17.7% YoY, +6.9% MoM), exceeding the street's estimate of 3.14mn tons, due to both weaker-than-expected exports and higher-than-expected output. Over the near term, we expect the CPO price to get support from seasonally-lower output and higher exports due to Chinese New Year demand. We remain positive on the FY19 CPO price outlook on slower supply growth and stronger demand boosted by the B20 program and India's recent move to cut import duty on ASEAN palm oil. Maintain OVERWEIGHT.

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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.329	0,9	2,2	636
Thailand	1.588	(0,2)	1,5	1.692
Philippines	7.985	0,8	7,0	182
Malaysia	1.679	0,7	(0,7)	614
Singapore	3.184	0,8	3,7	809
Regional				
China	2.535	(0,4)	1,7	32.359
Hong Kong	26.521	0,2	2,6	12.208
Japan	20.164	(1,3)	0,7	12.796
Korea	2.063	(0,1)	1,1	4.946
Taiwan	9.721	(0,2)	(0,1)	2.850
India	36.107	(0,3)	0,1	421
NASDAQ	6.986	0,4	5,3	109.887
Dow Jones	24.002	0,5	2,9	11.570

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.053	2,5	3,4	2,3
BI7DRRR	%	6,00	-	-	1,8
10y Gov	Indo bond	7,94	(0,2)	(0,2)	(0,1)

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	98	(0,3)	(4,7)	(4,1)
Gold	US\$/toz	1.288	0,1	3,6	0,4
Nickel	US\$/mt.ton	11.184	0,6	3,1	5,5
Tin	US\$/mt.ton	20.095	0,8	5,7	2,9

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.310	(0,9)	6,0	(2,3)
Corn	US\$/mt.ton	133	(1,5)	(3,2)	(0,3)
Oil (WTI)	US\$/barrel	52	(0,5)	1,3	15,2
Oil (Brent)	US\$/barrel	62	0,4	2,9	14,6
Palm oil	MYR/mt.ton	2.036	(0,3)	16,8	4,3
Rubber	US\$/kg	135	(1,7)	9,5	8,0
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	79	(1,0)	(4,2)	(0,0)
Sugar	US\$/MT	344	(1,0)	0,3	3,5
Wheat	US\$/ton	140	(1,2)	(2,2)	2,1
Soy Oil	US\$/lb	28	(1,3)	(2,0)	1,4
Soy Bean	US\$/by	896	(1,8)	(1,6)	1,5

Friday, 11 January 2019

OVERWEIGHT

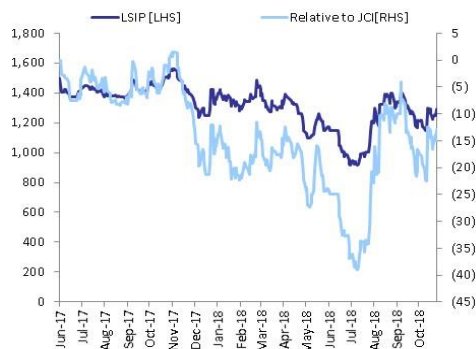
Plantation

Dec 18 Inventory: Another Record High

AAI relative to JCI Index



LSIP relative to JCI Index



Source : Bloomberg

Malaysia's palm oil inventory jumped to another record high of 3.22mn tons in Dec 18 (+17.7% YoY, +6.9% MoM), exceeding the street's estimate of 3.14mn tons, due to both weaker-than-expected exports and higher-than-expected output. Over the near term, we expect the CPO price to get support from seasonally-lower output and higher exports due to Chinese New Year demand. We remain positive on the FY19 CPO price outlook on slower supply growth and stronger demand boosted by the B20 program and India's recent move to cut import duty on ASEAN palm oil. Maintain OVERWEIGHT.

Malaysia's palm oil inventory hit a new record high in Dec 18. According to the latest data released by MPOB, Malaysia's palm oil inventory rose to a new high of 3.22mn tons in Dec 18 (+17.7% YoY, +6.9% MoM). The 3.22mn tons figure is higher than the consensus estimate of 3.14mn tons, mainly due to higher-than-expected output (-1.4% YoY, -2.0% MoM) and weaker-than-expected exports (-3.1% YoY, +0.6% MoM).

Dec 18 output is higher than anticipated. Palm oil output was reported at 1.81mn tons in Dec 18 (-1.4% YoY, -2.0% MoM), higher than the street's expectation of 1.75mn tons, although the MoM decline in production follows the seasonal trend. Peninsula Malaysia and Sabah/Sarawak posted output growth/declines of -4.4% YoY/-0.2% MoM and +2.1% YoY/-3.9% MoM, respectively. Overall, FY18 palm oil output reached 19.52mn tons (-2.0% YoY).

Dec 18 exports were lower than expected. Palm oil exports reached 1.38mn tons (-3.1% YoY, +0.6% MoM), missing consensus expectations of 1.47mn tons. Strong exports to China (+53.4% YoY, +55.6% MoM) and India (+157.0% YoY, +17.3% MoM) were negated by weak exports to Europe (-55.3% YoY, -37.3% MoM). Overall, palm oil exports reached 16.49mn tons in FY18 (-0.4% YoY). In the near-term we can expect exports to be supported by Chinese New Year demand. The recent reduction in Indian palm oil duties on ASEAN palm oil, with Malaysia getting a slight advantage thanks to the preferential rate on its refined palm oil exports, should boost Indian palm oil imports going forward.

The soyoil-CPO price spread narrowed to USD122/ton at the end of Dec 18 from USD166/ton at the end of Nov 18 (close to the average of USD130/ton). The narrowing in the spread mainly reflects the slight rebound in CPO prices on expectations of seasonally-lower output.

Maintain OVERWEIGHT. We maintain our OVERWEIGHT call on the plantation sector with LSIP as our top pick. Over the near-term, we think CPO prices will get support from an expected decline in stockpiles driven by seasonally low output and Chinese New Year demand. For FY19, we also remain upbeat on the CPO price outlook given a slower supply growth outlook and stronger expected demand from the B20 program, higher Indian imports thanks to the reduction in import duties and higher Chinese imports resulting from the US-China trade war. We maintain our FY19 CPO price assumption of MYR2,550/ton.



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Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2018F	2019F	2018F	2019F	2019F
Astra Agro Lestari	AALI IJ	BUY	16,500	25,983.3	17.3	13.9	1.4	1.3	9.5
London Sumatra	LSIP IJ	BUY	2,000	9,513.8	13.9	11.8	1.1	1.1	9.2
Sampoerna Agro	SGRO IJ	BUY	3,000	4,164.6	16.3	10.5	1.0	0.9	9.4

See important disclosures at the back of this report.

MARKET NEWS

MACROECONOMY

Government: expects non-oil and gas exports to grow by 7.5%yoy in 2019

The Ministry of Trade expects non-oil and gas exports to grow by 7.5%yoy in 2019, lower than in the previous year (11%). The Ministry of Trade also stated that the exports growth target may not be reached. This lower target reflects concerns on the global economy which according to the IMF may only grow 2.7%yoy in 2019. To support exports growth, the government also plans to complete 12 trade treaties in 2019 and to obtain better access to markets in the Middle East, South Korea and Europe. (Bisnis Indonesia)

Government to ease foreign ownership regulation in the property sector

This policy will be contained in the Land Law Draft which is being discussed in the House of Representatives. According to the Minister of Agrarian and Public Space, Sofyan Djalil, foreigners can obtain a right to use (hak pakai) which can follow the period of right to build (HGB). However, only property within certain price limits (that will be regulated later by a Minister Regulation) can be owned by foreigners. (Kontan)

Comment: Despite the decision to match the ownership period of right to use with that of right to build, it is unclear if the apartment will be allowed to have both the right to use and right to build at the same time. Since we believe the perception of right to use is below that of right to build, we expect a minimal impact from this policy on property sales.

SECTOR

Consumer: Packaging companies target 5-6% yoy growth in 2019

Packaging companies are targeting 5-6% yoy growth in 2019. While the F&B business is expected to show stronger growth, there are some challenges including the possibility that excise tax is imposed on plastic products and changes in people's lifestyle habits. The Indonesian Federation of Packaging Industry stated that the turnover in the packaging industry may reach IDR90tn this year, higher than 2017's figure of IDR87tn. Around 40-60% of the total raw materials required for the plastic industry are imported. (Bisnis Indonesia)

CORPORATE

Adhi Karya: Targets 20%yoy growth of new contracts in 2019

Adhi Karya (ADHI) has set a target of 20%yoy growth in new contracts in 2019 to IDR28.4tn from 2018's realization of IDR23.7tn. Infrastructure projects such as toll roads, water treatment, dams, and property will remain the company's focus this year. ADHI is waiting for the third tranche of payment for the Jakarta LRT project of IDR4.0tn based on the works carried out from Jul-Dec 2018. ADHI received the first two tranches of payment for the Jakarta LRT project stage 1 in 2018. The first payment in Mar18 amounted to IDR3.4tn, while the second payment in Dec18 was IDR2.5tn. As such, ADHI is optimistic it can book positive operating cash flow for FY18. Furthermore, ADHI seeks to conduct IPOs for two of its subsidiaries in 2019: Adhi Persada Gedung and Adhi Commuter Properti. (Investor Daily)

Two banks shortlisted to advise Indosat on tower sales

Two banks are said to be frontrunners to advise Indosat Ooredoo on a potential divestment of its cellular towers. An official mandate has not been given yet, but Indosat has reportedly shortlisted JP Morgan and UBS, with one of them selected to undertake the sale process. Based on previous reports, Indosat was expected to sell 2,000-3,000 towers, with a total value of US\$280-400m, (Rp3.9-5.6 tn) based on past tower deals. (TMT Finance)

Comment: Based on TMT Finance's valuation range, the implied average value is Rp1.9 - 2.0 bn / tower. Based on previous calculations we think the valuation is ~Rp1.4 bn / tower. Indosat has ~8,500 towers with a tenancy ratio above 1.3x.

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		10-Jan-19	09-Jan-19					
Summarecon Agung	SMRA	950	880	8,0	13,1	15,9	18,0	BUY
Matahari Department Store	LPPF	6.150	5.750	7,0	6,5	11,8	9,8	BUY
Semen Indonesia	SMGR	11.925	11.200	6,5	3,5	2,8	3,7	SELL
Ramayana	RALS	1.595	1.505	6,0	12,7	13,9	12,3	HOLD
Surya Citra Media	SCMA	1.950	1.845	5,7	3,2	1,3	4,3	BUY
Puradelta Lestari	DMAS	179	170	5,3	9,8	21,8	12,6	BUY
Vale Indonesia	INCO	3.440	3.270	5,2	12,1	12,1	5,5	BUY
Unilever	UNVR	48.325	46.000	5,1	1,7	10,6	6,4	SELL
Kalbe Farma	KLBF	1.600	1.540	3,9	3,9	6,3	5,3	HOLD
Bekasi Fajar	BEST	228	220	3,6	9,6	19,4	9,6	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		10-Jan-19	09-Jan-19					
Indo Tambangraya Megah	ITMG	22.000	22.450	(2,0)	10,6	9,5	8,6	BUY
Malindo Feedmill	MAIN	1.415	1.440	(1,7)	(3,1)	6,8	1,4	HOLD
Harum Energy	HRUM	1.705	1.730	(1,4)	20,9	15,2	21,8	HOLD
Adhi Karya	ADHI	1.745	1.770	(1,4)	2,9	11,5	10,1	BUY
BPD Jatim	BJTM	710	720	(1,4)	2,2	1,4	2,9	BUY
Japfa Comfeed	JPFA	2.200	2.230	(1,3)	(0,5)	(1,8)	2,3	BUY
Waskita Karya	WSKT	1.985	2.010	(1,2)	5,3	10,6	18,2	BUY
Semen Baturaja	SMBR	1.700	1.720	(1,2)	1,5	(13,5)	(2,9)	SELL
BTPS	BTPS	1.935	1.955	(1,0)	0,5	12,8	7,8	BUY
Indofood CBP	ICBP	10.150	10.250	(1,0)	(4,0)	4,6	(2,9)	HOLD

Sources: Bloomberg

PREVIOUS REPORTS

- Indocement Tunggal Prakarsa: Sales volume in December [SnapShot20190110](#)
- Strategy: 2019 Market Outlook: A Defining Year [SnapShot20190109](#)
- Property: 4Q18 Mortgage Rate Survey: More SOE Promos [SnapShot20190108](#)
- Banking: Another good year in prospect [SnapShot20190107](#)
- Telco: Seeking to restore growth in 2019, Towers:2019 business volume boost from 4G [SnapShot20190104](#)
- Cigarette: Brighter prospects, Consumer: To receive an elections boost, Plantation: India Trimmed ASEAN Palm Import Duties [SnapShot20190103](#)
- Coal Mining: Higher production to offset price consolidation [SnapShot20190102](#)
- Bank Rakyat Indonesia: Still micro-driven [SnapShot20181226](#)
- Construction: Construction continues apace [SnapShot20181221](#)

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