

FROM EQUITY RESEARCH

Plantation: Nov 18 Inventory: Reaching a Record High (OVERWEIGHT)

Malaysia's palm oil inventory jumped to a record high of 3.01mn tons in Nov 18 (+17.7% YoY, +10.5% MoM), higher than the street's estimate of 2.99mn tons, as weak exports prevailed over the decline in output. Going forward, we think CPO prices will get near-term support from the low crop season and roll-out of B10, while Indonesia's decision to waive the CPO export levy may put Malaysia's exports at a disadvantage. However, we remain upbeat on the FY19 CPO price outlook on slower output growth and the expected demand boost from the B20 program. Maintain OVERWEIGHT.

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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.111	(0,2)	(3,8)	317
Thailand	1.650	(0,2)	(5,9)	1.064
Philippines	7.348	(1,5)	(14,1)	96
Malaysia	1.663	(1,0)	(7,4)	361
Singapore	3.072	(1,2)	(9,7)	527
Regional				
China	2.585	(0,8)	(21,8)	20.784
Hong Kong	25.752	(1,2)	(13,9)	9.037
Japan	21.218	(0,0)	(6,8)	1.284
Korea	2.054	0,0	(16,7)	4.159
Taiwan	9.648	(1,2)	(9,4)	3.185
India	34.960	(2,0)	2,7	314
NASDAQ	7.021	0,7	1,7	126.771
Dow Jones	24.423	0,1	(1,2)	13.260

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14.553	(2,2)	1,8	(7,4)
SBI rate	%	6,00	0,3	0,3	1,8
10y Gov	Indo bond	8,11	0,3	(0,0)	1,8

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	103	0,1	(3,1)	1,8
Gold	US\$/toz	1.244	(0,0)	2,8	(4,5)
Nickel	US\$/mt.ton	10.730	(1,1)	(5,9)	(15,6)
Tin	US\$/mt.ton	18.973	(0,2)	(1,1)	(5,6)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.179	4,0	(6,8)	14,7
Corn	US\$/mt.ton	137	(0,6)	3,0	9,4
Oil (WTI)	US\$/barrel	51	0,0	(15,3)	(15,6)
Oil (Brent)	US\$/barrel	60	(2,8)	(14,5)	(10,3)
Palm oil	MYR/mt.ton	1.743	0,4	(10,5)	(27,1)
Rubber	US\$/kg	123	-	(0,7)	(16,2)
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	78	(1,0)	(5,6)	(11,6)
Sugar	US\$/MT	343	(0,8)	(0,3)	(13,1)
Wheat	US\$/ton	143	(1,1)	2,5	6,5
Soy Oil	US\$/lb	29	0,1	3,3	(13,8)
Soy Bean	US\$/by	910	(0,8)	3,9	(4,4)

Monday, 10 December 2018

OVERWEIGHT

Plantation

Nov 18 Inventory: Reaching a Record High

AALI relative to JCI Index



LSIP relative to JCI Index



Source : Bloomberg

Malaysia's palm oil inventory jumped to a record high of 3.01mn tons in Nov 18 (+17.7% YoY, +10.5% MoM), higher than the street's estimate of 2.99mn tons, as weak exports prevailed over the decline in output. Going forward, we think CPO prices will get near-term support from the low crop season and roll-out of B10, while Indonesia's decision to waive the CPO export levy may put Malaysia's exports at a disadvantage. However, we remain upbeat on the FY19 CPO price outlook on slower output growth and the expected demand boost from the B20 program. Maintain OVERWEIGHT.

Malaysia's palm oil inventory rose to a record high in Nov 18. According to the latest data released by MPOB, Malaysia's palm oil inventory rose to a record high of 3.01mn tons in Nov 18 (+17.7% YoY, +10.5% MoM). The 3.01mn tons figure is higher than the consensus estimate of 2.99mn tons, mainly due to November's weaker-than-expected exports performance (+1.4% YoY, -12.9% MoM), despite the decline in production (-5.0% YoY, -6.1% MoM).

Nov 18 output was lower than consensus estimates. Palm oil output was reported at 1.85mn tons in Nov 18 (-5.0% YoY, -6.1% MoM), below the consensus estimate of 1.94mn tons, although we think it is in-line with the seasonality trend. Both Peninsula Malaysia and Sabah/Sarawak posted output declines of -8.7% YoY/-5.6% MoM and -0.8% YoY/-6.6% MoM, respectively. As of 11M18, palm oil output stood at 17.71mn tons (-2.1% YoY). We believe output will remain in a declining trend in conjunction with the low crop cycle until Feb, which should provide support to the CPO price.

Nov 18 exports lagged behind. Palm oil exports were recorded at 1.38mn tons (+1.4% YoY, -12.9% MoM), missing the street's estimate of 1.46mn tons. The sluggish exports were affected by weak demand from China (-15.1% YoY, -20.9% MoM) and the EU (-3.9% YoY, -11.4% MoM), which may reflect seasonally soft demand due to the approach of winter. Meanwhile, exports to India surged (+141.9% YoY, +143.9% MoM). As of 11M18, palm oil exports reached 15.10mn tons (-0.2% YoY). In the near-term, Malaysia's exports may be temporarily undermined by Indonesia's recent decision to waive the CPO export levy which benefits Indonesian planters at the expense of their Malaysian counterparts.

The soyoil-CPO price spread widened further to USD166/ton at the end of Nov 18 from USD131/ton at the end of Oct 18 (vs. the average of USD130/ton). The widening spread owes mostly to the continued decline in the CPO price as a result of persisting oversupply concerns.

Maintain OVERWEIGHT. We maintain our OVERWEIGHT call on the plantation sector with LSIP as our top pick. In the near-term, we think the CPO price will get support from the low crop season and Malaysia's B10 implementation. However, near-term risk could arise from Indonesia's decision to waive the CPO export levy, which may cause buyers to temporarily switch from Malaysia's palm oil to Indonesia's. Nevertheless, we continue to be upbeat on the CPO price outlook in FY19 given the prospect for slower supply growth combined with stronger demand, particularly boosted by the roll-out of the B20 mandate. We maintain our CPO price estimates of MYR2,300/ton and MYR2,550/ton in FY18 and FY19, respectively. The YTD CPO price averages MYR2,261/ton.



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Company	Ticker	Rec	Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	(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

MARKET NEWS

SECTOR

TOWR upbeat on 2019 tenancy growth guidance

TOWR expects 2,000-3,000 new tenancies in 2019. The company also reiterated its target to roll out fiber optic cable to meet its 2020 target of 16,000km in total (7.2km has already been laid). For this, TOWR has budgeted capex of around Rp2.3 tn for 2019. (Bisnis)

Comment: We will confirm the numbers with the management, but TOWR's new 2019 tenancies guidance exceeds our estimate. We also believe that external funding is likely to be required. Based on the 3Q18 results, the company's net debt / EBITDA stands at 1.8x with IDR10.6 tn of gross debts. Accordingly, we will review our estimates. Our TP of Rp750 implies EV/EBITDA-19 of 8.4x.

CORPORATE

Adhi Karya: Received a IDR2.5tn payment for development of the Jakarta LRT

Adhi Karya (ADHI) has received IDR2.5tn as the second tranche payment for the development of the Jakarta LRT from Kereta Api Indonesia (KAI). The payment is based on the construction works carried out in the period of Oct 17 to Jun 18. The development progress of the LRT project stood at 51.1% as of Nov 18: 1) the Cawang – Cibubur section is 71.7% completed, 2) the Cawang – Kuningan – Dukuh Atas section is 38.7% completed, and 3) the Cawang – Bekasi Timur section is 45.3% completed. Construction is targeted to finish in 2019. ADHI has allocated IDR4tn – 5tn as capex in 2019, most of it for toll road projects and property construction. (Investor Daily)

Comment: the first payment for the LRT project was received in Mar18 (IDR3.4tn). We expect ADHI to book positive operating cash flow by the end of 2018 thanks to the LRT payment. As of Sep 18, receivables booked from the Ministry of Transportation reached IDR6.9tn, which we believe are from the LRT project. (Maria Renata)

BTN targets 15% loans growth in 2019

PT Bank Tabungan Negara (Persero) Tbk (BBTN IJ, BUY, TP IDR3,600) is targeting 15% loans growth in 2019. BBTN continues to rely on mortgages as its growth driver given the government's program of one million houses. In the period 2014-2018 mortgages growth reached 22.6% CAGR supported by the government's program and Bank Indonesia's LTV relaxation policy. (Investor Daily)

Vivendi plans to acquire 10% of MNCN's shares

Vivendi's broadcasting arm Canal+ plans to acquire 10% of Media Nusantara Citra (MNCN). The company is holding talks to invest over USD 400mn in MNC group units. Canal+ will reportedly spend more than USD 400mn to buy stakes in two units of Global Mediacom. (Bloomberg)

Comment: as there are no further details about the portion used to acquire the stake, we estimate the allocation of the investment as follows (Ignatius):

Exhibit 1. Assumption of additional investment in MNCN

Exchange rate (Assumption)	USD/IDR	14,600
Transaction value	USD mn	400
Transaction value	IDR Bn	5,840
EV	IDR Bn	14,692
EV 10%	IDR Bn	1,469
Market cap	IDR Bn	10,635
Market cap 10%	IDR Bn	1,064

A. Based on EV		Scce. A1	Scce. A2	Sec. A3	Scce. A4
Assumption funds allocated for purchase MNCN		20.0%	30.0%	40.0%	50.0%
Value transaction for 10% stake	IDR Bn	1,168	1,752	2,336	2,920
Premium or (Disc.)	%	-20.5%	19.2%	59.0%	98.7%

B. Based on Market Cap		Scce. B1	Scce. B2	Scce. B3	Scce. B4
Assumption funds allocated for purchase MNCN		20.0%	30.0%	40.0%	50.0%
Value transaction for 10% stake	IDR Bn	1,168	1,752	2,336	2,920
Premium or (Disc.)	%	9.8%	64.7%	119.7%	174.6%
Harga per share	IDR/sh	818	1,227	1,636	2,045

Bloomberg, Danareksa Sekuritas

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		10-Dec-18	07-Dec-18					
Matahari Department Store	LPPF	5.175	4.920	5,2	(5,5)	(1,9)	(48,3)	BUY
Malindo Feedmill	MAIN	1.355	1.315	3,0	11,5	8,8	83,1	HOLD
PP London Sumatra	LSIP	1.220	1.190	2,5	0,4	3,8	(14,1)	BUY
Semen Baturaja	SMBR	1.955	1.920	1,8	2,6	2,6	(48,6)	SELL
Astra Agro Lestari	AALI	11.650	11.450	1,7	0,2	3,8	(11,4)	BUY
Puradelta Lestari	DMAS	149	147	1,4	(3,9)	15,5	(12,9)	BUY
United Tractors	UNTR	29.750	29.375	1,3	4,0	(14,8)	(16,0)	BUY
Adaro Energy	ADRO	1.310	1.300	0,8	0,4	(17,1)	(29,6)	BUY
Bukit Asam	PTBA	4.020	3.990	0,8	1,5	(7,2)	63,4	BUY
Semen Indonesia	SMGR	11.950	11.875	0,6	3,0	22,9	20,7	SELL

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		10-Dec-18	07-Dec-18					
Ace Hardware	ACES	1.480	1.555	(4,8)	(8,4)	3,9	28,1	BUY
Surya Semesta	SSIA	450	470	(4,3)	(5,1)	(4,7)	(12,6)	HOLD
Erajaya Swasembada	ERAA	2.110	2.200	(4,1)	(9,1)	23,4	187,1	BUY
Mitra Adi Perkasa	MAPI	800	830	(3,6)	(7,5)	(3,6)	29,0	BUY
Kalbe Farma	KLBF	1.580	1.635	(3,4)	1,6	11,3	(6,5)	BUY
Ciputra Development	CTRA	1.050	1.085	(3,2)	(4,5)	15,4	(11,4)	BUY
Indo Tambangraya Megah	ITMG	19.800	20.425	(3,1)	(5,7)	(14,2)	(4,3)	BUY
Summarecon Agung	SMRA	835	860	(2,9)	(5,1)	31,5	(11,6)	BUY
Indofood	INDF	6.525	6.700	(2,6)	(1,9)	13,0	(14,4)	BUY
Bumi Serpong Damai	BSDE	1.310	1.345	(2,6)	(4,0)	9,2	(22,9)	BUY

Sources: Bloomberg

PREVIOUS REPORTS

- Pembangunan Perumahan: Imminent change in status [SnapShot20181210](#)
- Gudang Garam: More growth to come, Property: BCA Standpoint - Assessment of Property Demand [SnapShot20181207](#)
- Bank Central Asia: Fully valued [SnapShot20181206](#)
- Media: Remaining resilient [SnapShot20181205](#)
- NFC: The digital trailblazer [SnapShot20181204](#)
- Aneka Tambang: Strong sales volume boosted profit, Mayora Indah: Buoyant revenues but higher opex too [SnapShot20181203](#)

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