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Equity Research
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Asia Palm Oil Sector

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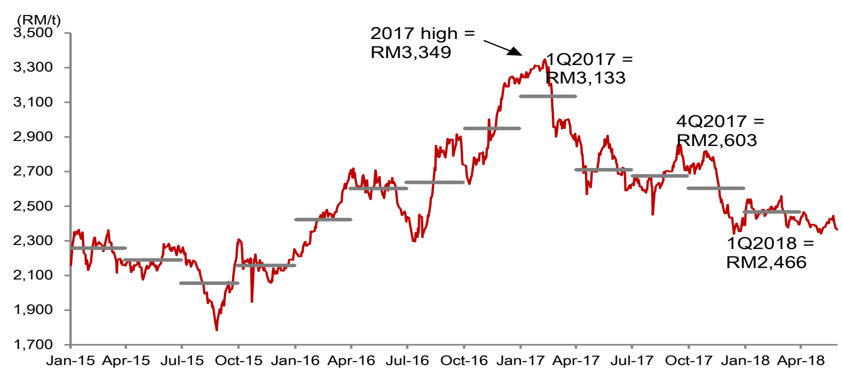
SECTOR REVIEW

1Q18: Off to a weak start

- **A muted 1Q18 performance.** Oil palm planters started the year relatively weak. Despite rising production volumes, lower crude palm oil (CPO) and palm kernel (PK) selling prices dragged down 1Q18 profits. Of the 12 companies under our coverage, 10 disappointed, and only two (Sime Plantation and Bumitama) were in line with our expectations.
- **Palm oil spot price has continued to weaken further to RM2,394/t**. QTD, CPO spot price averaged RM2,400/t. We view RM2,400-2,500/t to be the new norm for 2018, supported by: (1) brent crude price level of ~US$70/bbl, increasing viability of biofuel production, (2) increased domestic biodiesel consumption in Indonesia, and (3) discount gap between CPO and other major vegetable oils. It is worth noting that the discount gap between CPO and soyoil price now stands at US$163/t, 6% above its long-term average.
- **What can we expect in 2Q18.** April 2018 palm oil production increased by 14% YoY to 5.2 mn t**.** with Indonesia production at +20.5% YoY to 3.7 mn T and Malaysia production flat at 1.5 mn t. Assuming CPO prices are to stay at 2,400RM/T for 2Q18, we believe that Indonesian companies should expect an increase in earnings as production is expected to ramp up in 2Q18, while Malaysia production will likely remain flat. Indonesia companies also reported that their production is expected to grow around 5-10% for 2018 despite bad 1Q18 production.
- **We continue to like the upstream players.** Our picks in the sector are Sime Plantation, Genting Plantation, London Sumatra and Bumitama Agri.

Figure 1: 1Q18 palm oil prices -21% YoY & -5% QoQ



Source: MPOB

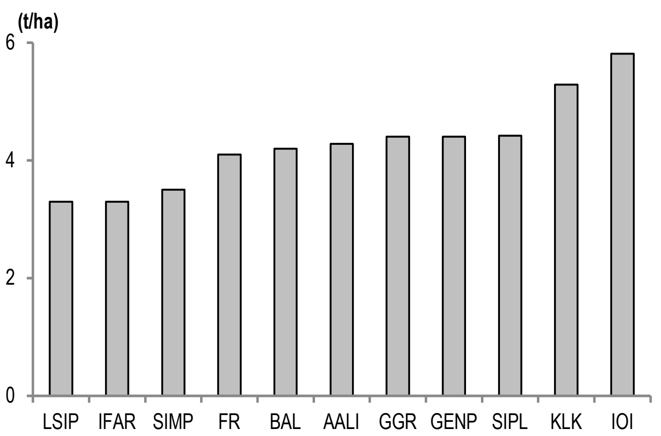
Focus charts and table

Figure 2: 1Q18 operational statistics for the planters

	Malaysia				Singapore					Indonesia		
	SIPL	KLK	IOI	GENP	GGR	FR	IFAR	BAL	WIL	AALI	SIMP	LSIP
FFB output ('000 t)	2,338	958	867	486	1,691	707	695	473	985	1,167	695	308
FFB yields (t/ha)	4.4	5.3	5.8	4.4	4.4	4.1	3.3	4.2	4.9	4.3	3.3	3.5
CPO output ('000 t)	248	210	182	107	491	192	184	219	402	388	184	89
OER (%)	21.0	21.9	20.3	22.0	22.5	22.9	22.3	22.8	20.1	20.6	22.3	23.3
CPO ASP (RM/t)	2,452	2,398	2,465	2,375	2,530	2,183	2,260	2,262	n.a.	2,269	2,260	2,280

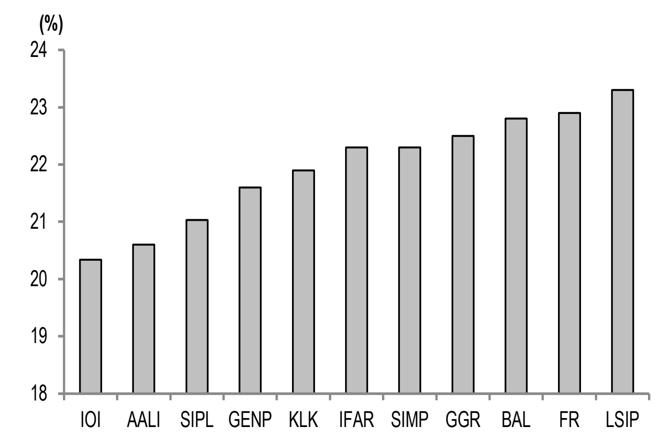
Source: Company data, Credit Suisse estimates

Figure 3: Malaysian planters achieved higher FFB yields during 1Q18…



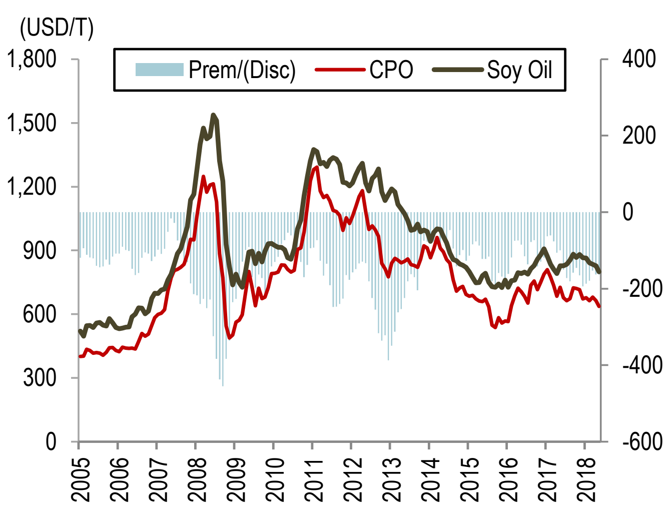
Source: Company data, Credit Suisse estimates

Figure 4: …whereas Indonesian planters achieved higher oil extraction rates



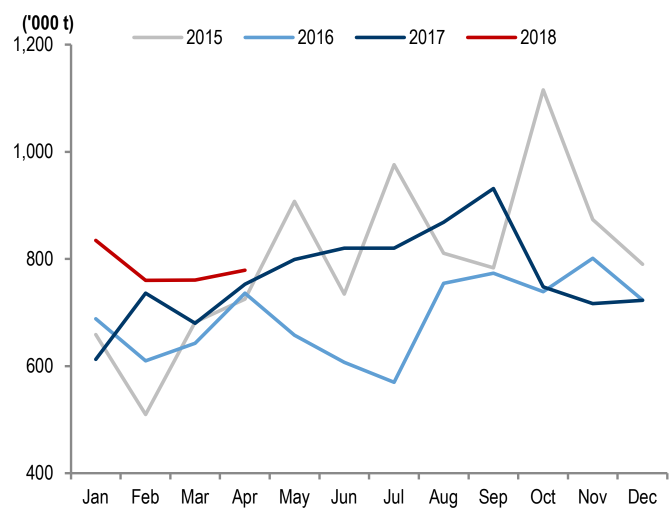
Source: Company data, Credit Suisse estimates

Figure 5: Discount gap between CPO & soyoil currently 6% below its long-term average



Source: Oil World

Figure 6: India's palm oil imports remain strong



Source: SEA of India

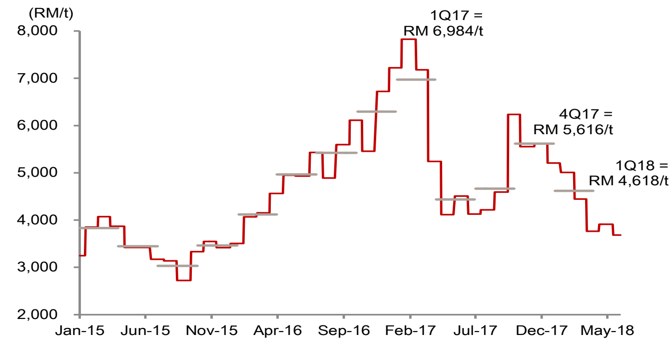
A muted 1Q18 performance

Out of the 12 oil palm planters under our coverage, 10 disappointed, and only two (Sime Plantation and Bumitama Agri) were in line with our expectations. Despite rising production volumes, lower CPO & PK selling prices dragged down 1Q18 profits for palm oil planters.

Figure 7: 1Q18 CPO prices -21% YoY & -5% QoQ

Source: MPOB

Figure 8: 1Q18 PK prices -34% YoY & -18% QoQ



Source: the BLOOMBERG PROFESSIONAL™ service

Figure 9: 1Q CY18 sector key statistics

		1Q18	1Q17	YoY	4Q17	QoQ
Avg selling price (ASP)	**(RM/t)**					
CPO		2,466	3,133	-21%	2,603	-5%
PK		4,618	6,984	-34%	5,616	-18%
Production	**('000 t)**					
Malaysia		4,503	3,999	13%	5,786	-22%
Indonesia*		10,413	8,408	24%	12,127	-14%
Dom. Consumption	**('000 t)**					
Malaysia		660	361	83%	815	-19%
Indonesia*		3,281	3,029	8%	3,162	4%
Exports	**('000 t)**					
Malaysia		4,393	3,655	20%	4,317	2%
Indonesia*		7,504	7,728	-3%	7,862	-5%
Ending stock	**('000 t)**					
Malaysia		2,323	1,554	50%	2,732	-15%
Indonesia*		3,650	1,398	161%	4,022	-9%

Source: Bloomberg, Indonesia Palm Oil Association (IPOA), MPOB.

**Indonesia data includes palm kernel oil*

Malaysian palm oil exports were up 20% YoY and 2% QoQ, as a result of the 4-month export duty exemption introduced by the government early this year (since 8-January 2018).

Indonesia, on the other hand, saw its palm oil exports decline (-3% YoY and -5% QoQ), having lost its competitiveness.

Though stockpiles have gone down since Dec-2017, the figures were still relatively high at 2.32 mn t (+50% YoY) and 3.65 mn t (+161% YoY) for Malaysia and Indonesia respectively.

Figure 10: 1Q18 operational statistics for the planters

	Malaysia				Singapore					Indonesia		
	SIPL	KLK	IOI	GENP	GGR	FR	IFAR	BAL	WIL	AALI	SIMP	LSIP
FFB output ('000 t)	2,338	958	867	486	1,691	707	695	473	985	1,167	695	308
FFB yields (t/ha)	4.4	5.3	5.8	4.4	4.4	4.1	3.3	4.2	4.9	4.3	3.3	3.5
CPO output ('000 t)	248	210	182	107	491	192	184	219	402	388	184	89
OER (%)	21.0	21.9	20.3	22.0	22.5	22.9	22.3	22.8	20.1	20.6	22.3	23.3
CPO ASP (RM/t)	2,452	2,398	2,465	2,375	2,530	2,183	2,260	2,262	n.a.	2,269	2,260	2,280

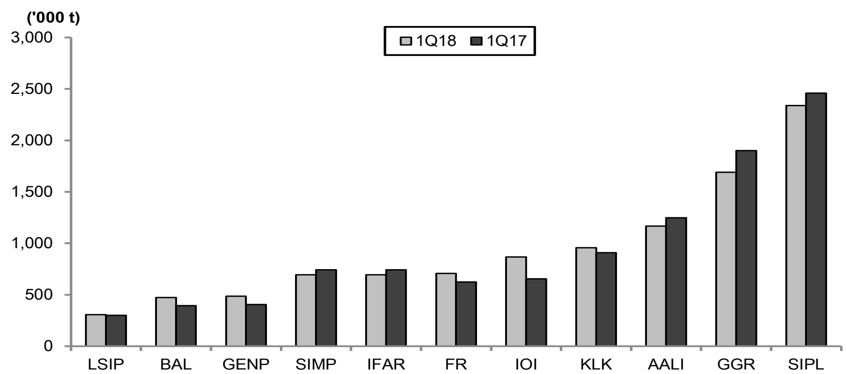
Source: Company data, Credit Suisse estimates

During 1Q18, planters with significant exposure to Indonesian estates experienced a YoY drop in fresh fruit bunches (FFB) output:

- Indonesia was affected by El Nino at a later stage compared to Malaysia. Hence, its FFB output recovery lags that of Malaysia.
- Some areas in Indonesia experienced extremely wet weather, affecting harvesting activities (fruit spoilage and lower oil extraction rate (OER).

As a result, Indonesian planters' FFB output recovery lagged that of its Malaysian peers.

Figure 11: Indonesian planters FFB output recovery lagged its Malaysian peers

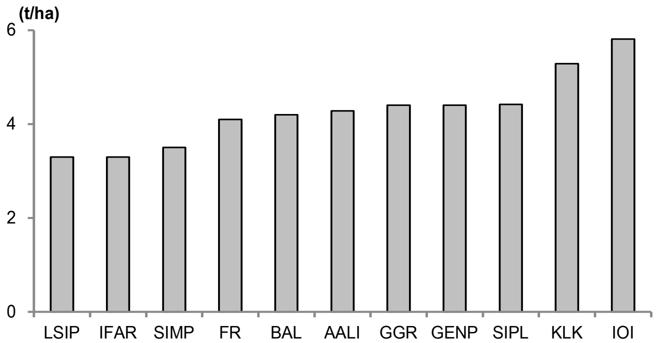


Source: Company data, Credit Suisse estimates

Operationally, Malaysian planters achieved higher FFB yields.

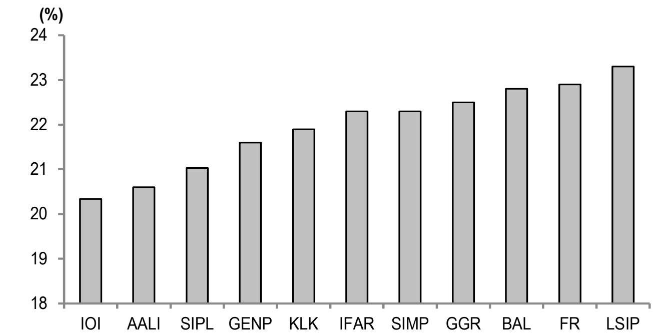
On the other hand, Indonesian planters clocked in higher oil extraction rates – mostly attributed to its younger age profile.

Figure 12: Malaysian planters achieved higher FFB yields during 1Q CY18…



Source: Company data, Credit Suisse estimates

Figure 13: …whereas Indonesia & Singapore-listed planters achieved higher oil extraction rates.



Source: Company data, Credit Suisse estimates

Malaysia palm oil

Figure 14: Major planters' 1Q18 results

		Rep. PAT	Core Profits as	
Company	**Rep. period**	**(RM mn)**	**% of CS FY18 est**	**% of Mkt FY18 est**
IOI Corp	9MFY18	353	66%	66%
KL Kepong	1HFY18	189	42%	39%
Genting Plant	1QFY18	101	19%	20%
Sime Plant	9MFY18	249	72%	70%
Felda*	1QFY18	1	na	5%
IJM Plant*	12MFY18	10	na	61%
Hap Seng Plant*	1QFY18	15	na	14%

Source: Company data, Credit Suisse estimates. **Stocks not under our coverage*

Although Malaysian oil palms recovered strongly post El Nino, the improvement in production was not enough to offset the drop in CPO and PK prices. Upstream plantation profits across the board fell YoY. The QoQ drop, however, was not surprising as 1Q is typically a weak production quarter. Contrarily, downstream operations continued to improve YoY, helping to partially cushion the decline in profits.

Figure 15: Covered Malaysian stocks – 1Q CY18 results summary

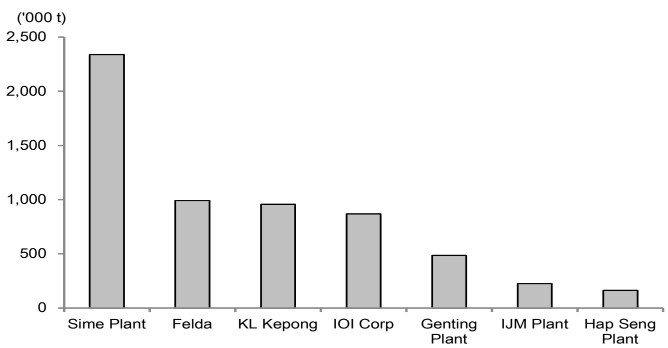
	IOI					SIPL					KLK					GENP				
Calendarised qtr	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***
FFB output ('000 t)	**867**	655	*32%*	1,016	*-15%*	**2,338**	2,459	*-5%*	2,774	*-16%*	**958**	908	*5%*	1,025	*-7%*	**486**	406	*20%*	535	*-9%*
FFB yield (t/ha)	**5.8**	4.5	*29%*	6.9	*-16%*	**4.4**	4.9	*-9%*	5.4	*-19%*	**5.3**	5.0	*5%*	5.7	*-7%*	**4.4**	3.7	*20%*	4.8	*-9%*
OER (%)	**20.3**	20.4	*-0.1%*	20.8	*-0.5%*	**21.0**	21.4	*-0.4%*	21.0	*0.0%*	**21.9**	22.0	*-0.1%*	21.9	*0.0%*	**21.6**	21.3	*0.3%*	21.5	*0.1%*
CPO output ('000 t)	**182**	138	*32%*	217	*-16%*	**248**	341	*-27%*	702	*-65%*	**210**	199	*5%*	225	*-7%*	**105**	86	*21%*	115	*-7%*
CPO ASP (RM/t)	**2,465**	2,805	*-12%*	2,654	*-7%*	**2,452**	3,049	*-20%*	2,654	*-8%*	**2,398**	2,999	*-20%*	2,581	*-7%*	**2,375**	3,053	*-22%*	2,576	*-8%*
CPO EBIT (RM/t)	**1,152**	1,549	*-26%*	1,505	*-23%*	**1,343**	1,962	*-32%*	822	*63%*	**859**	1,823	*-53%*	1,186	*-28%*	**1,006**	1,405	*-28%*	909	*11%*
CPO *COP (RM/t)	**1,313**	1,256	*5%*	1,150	*14%*	**1,109**	1,087	*2%*	1,832	*-39%*	**1,539**	1,176	*31%*	1,395	*10%*	**1,369**	1,648	*-17%*	1,667	*-18%*
Group revenue (RM mn)	**2,311**	2,337	*-1%*	2,400	*-4%*	**3,659**	4,349	*-16%*	4,085	*-10%*	**4,685**	5,471	*-14%*	5,193	*-10%*	**529**	400	*32%*	528	*0%*
Group EBIT (RM mn)	**271**	264	*3%*	429	*-37%*	**401**	715	*-44%*	691	*-42%*	**307**	429	*-28%*	457	*-33%*	**147**	117	*26%*	155	*-5%*
- Plantations	**210**	214	*-2%*	326	*-36%*	**333**	669	*-50%*	577	*-42%*	**180**	364	*-50%*	266	*-32%*	**106**	121	*-13%*	105	*1%*
- Downstream	**70**	(24)	*n.m.*	58	*20%*	**65**	43	*51%*	64	*2%*	**111**	67	*65%*	142	*-22%*	**(2)**	(2)	*n.m.*	4	*n.m.*
Group PBT (RM mn)	**431**	394	*9%*	623	*-31%*	**352**	610	*-42%*	637	*-45%*	**289**	396	*-27%*	442	*-35%*	**131**	107	*22%*	142	*-8%*
Group PAT (RM mn)	**353**	321	*10%*	513	*-31%*	**249**	409	*-39%*	429	*-42%*	**189**	290	*-35%*	321	*-41%*	**101**	73	*39%*	118	*-14%*

Source: Company data, Credit Suisse estimates. *(*COP = implied cost of production)*

Out of the four oil palm planters that we cover in Malaysia, only Sime Plant was in line with our expectations:

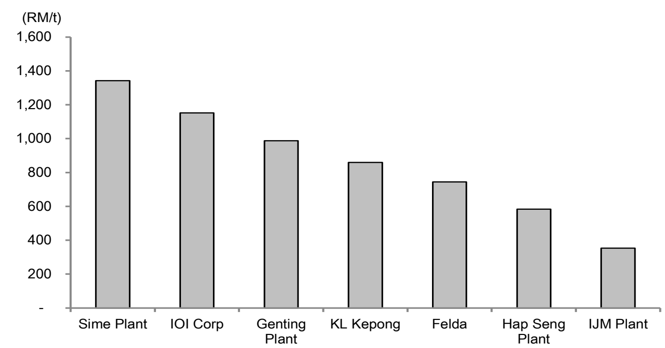
- **IOI Corp** – Despite strong FFB output recovery (+32% YoY), IOI's plantation EBIT fell 2% YoY. Main culprits were lower CPO & PK selling prices, exacerbated by reduction in OER. 1Q18 PAT was 10% higher YoY mainly due to net forex gains.
- **Sime Plant** – Sime Plant's upstream segment was badly affected by poor weather in Indonesia (Kalimantan). As a result, FFB output was 5% weaker YoY. Downstream EBIT +51% YoY as the company continues to focus on higher-value specialized products.
- **KLK** – Group FFB output was a mere 5% higher YoY as Indonesian estates' recovery remained muted. According to management, Indonesia operations have only just started to improve. Meanwhile, KLK's downstream EBIT +65% YoY was supported by higher sales volume and favourable margins.
- **Genting Plant** – Stripping off the inter-segment CPO inventory drawdown (estimated RM25 mn EBIT gain), GENP's 1Q18 plantation EBIT would have stood at RM81 mn (-33% YoY). Downstream operations were unexciting (unchanged YoY) as well, achieving a modest refinery utilization rate of 40%.

Figure 16: 1Q18 FFB output comparison



Source: Company data, Credit Suisse estimates

Figure 17: 1Q18 Plantation EBIT/t comparison



Source: Company data, Credit Suisse estimates

Indonesia palm oil

Figure 18: Indonesia-listed planters 1Q CY18 results summary

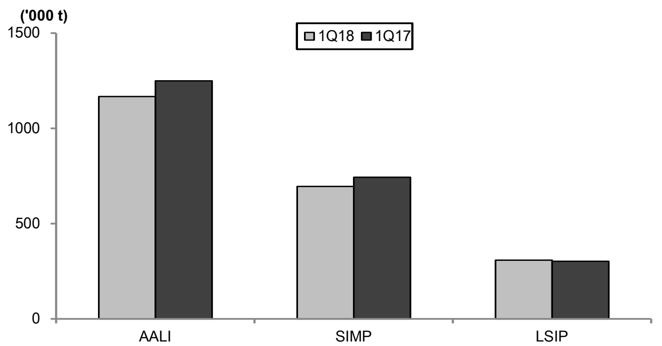
	AALI					SIMP					LSIP				
Calendarised qtr	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***
FFB output ('000 t)	**1,167**	1,249	*-7%*	1,324	*-12%*	**695**	743	*-6%*	792	*-12%*	**308**	302	*2%*	332	*-7%*
FFB yield (t/ha)	**4.3**	4.6	*-7%*	4.9	*-12%*	**3.3**	3.6	*-8%*	3.8	*-13%*	**3.5**	3.6	*-3%*	3.9	*-10%*
OER (%)	**20.6**	20.5	*0.1%*	20.6	*0.0%*	**22.3**	22.9	*-0.6%*	21.9	*0.4%*	**23.3**	22.7	*0.6%*	23.1	*0.2%*
CPO output ('000 t)	**388**	387	*0%*	431	*-10%*	**184.0**	208.0	*-12%*	216.0	*-15%*	**88.8**	95.1	*-7%*	101.2	*-12%*
CPO ASP (Rp '000/t)	**7,857**	8,959	*-12%*	8,223	*-4%*	**7,823**	8,816	*-11%*	8,719	*-10%*	**7,895**	8,885	*-11%*	8,175	*-3%*
CPO EBITDA (Rp '000/t)	**n.a.**	n.a.	*n.a.*	n.a.	*n.a.*	**2,609**	4,856	*-46%*	n.a.	*n.a.*	**2,517**	5,204	*-52%*	n.a.	*n.a.*
CPO COP (Rp '000/t)	**n.a.**	n.a.	*n.a.*	n.a.	*n.a.*	**5,214**	3,960	*32%*	n.a.	*n.a.*	**5,379**	3,681	*46%*	n.a.	*n.a.*
Group revenue (Rp bn)	**4,446**	4,491	*-1%*	4,813	*-8%*	**3,227**	4,401	*-27%*	3,593	*-10%*	**868**	1,464	*-41%*	1,163	*-25%*
Group EBITDA (Rp bn)	**830**	1,387	*-40%*	n.a.	*n.a.*	**627**	1,051	*-40%*	n.a.	*n.a.*	**224**	495	*-55%*	n.a.	*n.a.*
Group PBT (Rp bn)	**507**	1,109	*-54%*	918	*-45%*	**534**	182	*194%*	229	*133%*	**142**	411	*-66%*	178	*-20%*
Group PAT (Rp bn)	**356**	791	*-55%*	604	*-41%*	**284**	111	*156%*	106	*168%*	**116**	328	*-65%*	124	*-6%*

Source: Company data, Credit Suisse estimates.

All of the three CPO companies that we cover in Indonesia reported lower-than-expected earnings due to a decline in ASP and a decline in production from poor weather conditions in Sumatra and Kalimantan.

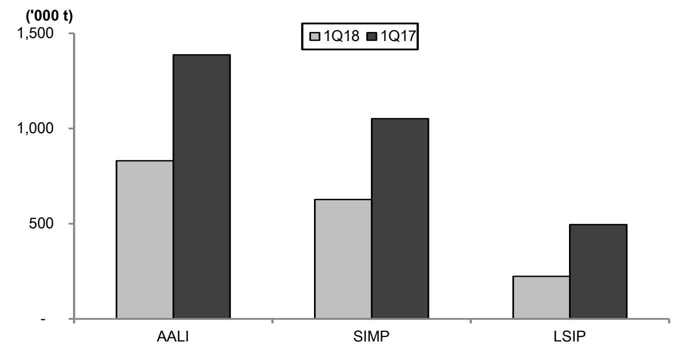
- **AALI** – Astra Agro reported FFB production down by 7% YoY (-12% QoQ) due to weather conditions causing delay in harvest. CPO output remained flat YoY (-10% QoQ) due to increase in third party purchases.
- **SIMP** – FFB production declined by 6% YoY (-12% QoQ), while CPO production declined by 12% YoY (-15% QoQ). This is largely impacted by decline in external FFB production by 30% YoY (-19% QoQ) due to rising number of third party mills in South Sumatra and Kalimantan.
- **LSIP** – Lonsum's nucleus FFB production was 2% higher YoY (-7.3% QoQ), however, its external production declined 35% YoY (-27% QoQ). This resulted in CPO output declining by 7% YoY (-12% QoQ).

Figure 19: 1Q18 vs 1Q17 FFB output comparison



Source: Company data, Credit Suisse estimates

Figure 20: 1Q18 vs 1Q17 Plantation EBITDA comparison



Source: Company data, Credit Suisse estimates

Singapore-listed palm oil

Figure 21: Singapore-listed planters 1Q CY18 results summary

	IFAR					FRLD					GGR					BAL				
Calendarised qtr	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***	**1Q18**	**1Q17**	***YoY***	**4Q17**	***QoQ***
FFB output ('000 t)	**695**	743	*-6%*	792	*-12%*	**707**	625	*13%*	777	*-9%*	**1,691**	1,900	*-11%*	1,724	*-2%*	**473**	394	*20%*	426	*11%*
FFB yield (t/ha)	**3.3**	3.6	*-8%*	3.8	*-13%*	**4.1**	4.0	*2%*	5.1	*-20%*	**4.4**	5.1	*-14%*	4.9	*-10%*	**4.2**	3.5	*20%*	4.0	*5%*
OER (%)	**22.3**	22.9	*-0.6%*	21.9	*0.4%*	**22.9**	22.4	*0.5%*	22.1	*0.8%*	**22.5**	22.6	*-0.1%*	21.9	*0.6%*	**22.8**	23.1	*-0.3%*	22.6	*0.2%*
CPO output ('000 t)	**184**	208	*-12%*	216	*-15%*	**192**	161	*19%*	203	*-6%*	**491**	559	*-12%*	517	*-5%*	**219**	187	*17%*	206	*7%*
CPO ASP (Rp '000/t)	**7,823**	8,816	*-11%*	8,179	*-4%*	**7,559**	8,678	*-13%*	7,974	*-5%*	**8,758**	9,797	*-11%*	8,961	*-2%*	**7,832**	8,480	*-8%*	8,140	*-4%*
CPO EBITDA (Rp '000/t)	**2,674**	4,654	*-43%*	2,940	*-9%*	**4,839**	5,672	*-15%*	4,663	*4%*	**2,627**	3,367	*-22%*	3,174	*-17%*	**2,370**	2,879	-18%	3,553	-33%
CPO COP (Rp '000/t)	**5,149**	4,162	*24%*	5,239	*-2%*	**2,720**	3,006	*-10%*	3,311	*-18%*	**6,131**	6,431	*-5%*	5,787	*6%*	**5,462**	5,601	-2%	4,587	19%
Group revenue (Rp bn)	**3,190**	4,375	*-27%*	3,593	*-11%*	**1,841**	2,591	*-29%*	2,447	*-25%*	**24,658**	27,310	*-10%*	26,030	*-5%*	**1,908**	2,100	-9%	2,066	-8%
Group EBITDA (Rp bn)	**617**	959	*-36%*	634	*-3%*	**815**	1,169	*-30%*	1,059	*-23%*	**1,643**	2,443	*-33%*	2,112	*-22%*	**520**	540	-4%	731	-29%
- Plantations	**492**	968	*-49%*	635	*-23%*	**930**	914	*2%*	966	*-4%*	**1,290**	1,882	*-31%*	1,638	*-21%*	**520**	540	-4%	731	-29%
- Downstream	**52**	81	*-36%*	78	*-33%*	**(10)**	97	*n.m.*	64	*n.m.*	**339**	521	*-35%*	487	*-30%*	**-**	-	n.a.	-	n.a.
Group PBT (Rp bn)	**131**	483	*-73%*	243	*-46%*	**553**	912	*-39%*	739	*-25%*	**237**	718	*-67%*	(439)	*n.m.*	**26**	32	*-17%*	44	*-40%*
Group PAT (Rp bn)	**50**	171	*-71%*	77	*-35%*	**376**	647	*-42%*	463	*-19%*	**163**	507	*-68%*	(393)	*n.m.*	**232**	278	*-17%*	364	*-36%*

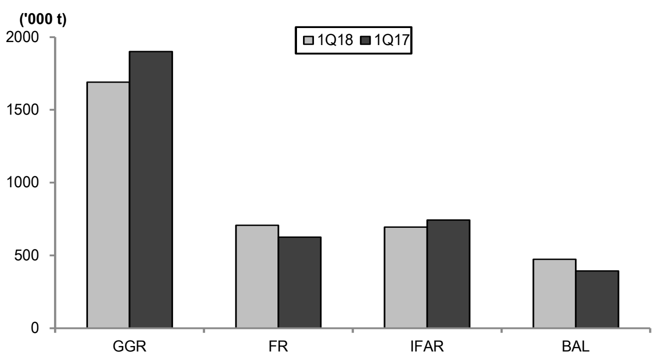
Source: Company data, Credit Suisse estimates.

Out of the five CPO plantations that are listed in Singapore, only Bumitama reported good production numbers for both FFB and CPO production. Overall earnings were below our estimates mainly due to a decline in ASP.

- **IFAR** – IFAR's FFB nucleus production declined by 6% YoY (12% QoQ), while external production declined by 30% YoY (-19% QoQ)—due to a rising number of third-party mills, particularly in South Sumatra and Kalimantan. Management expects FFB production to be at 5-10% for 2018.

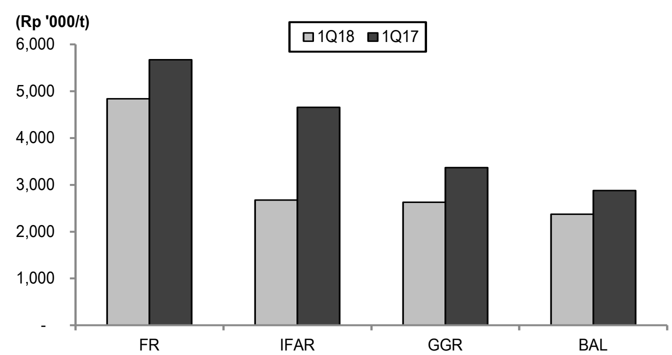
- **FRLD** – FFB output declined by 13% YoY (-9% QoQ), while CPO output increased by 19% YoY (-6% QoQ). The company reported decline in earnings due to delay in transportation causing inventory build-up of 37k tons FFB as well as lower ASP. FRLD still expects 2018 FFB nucleus production to grow around 10-15%.
- **GGR** – The company reported lower FFB production declining by 11% YoY (-2% QoQ) due to poor weather in Indonesia, mainly in East and South Kalimantan and Sumatra. GGR still expects production growth to be around 5-10% for the full year, as they expect weather to improve and the bulk of the production to be in the second half.
- **BAL** – Bumitama reported good overall production. FFB production surged 20% YoY (+11% QoQ) and CPO production increased by 17% YoY (+7% QoQ). The decline in earnings is mainly on lower CPO prices. Management still expects production growth to be at 15-20% for 2018.
- **WIL** – Wilmar's FFB production grew 5% YoY to 984,998MT in 1Q18 (+7% QoQ), as production yield improved to 4.9MT/ha in 1Q18 (4.6MT/ha in 1Q17 and 4.7MT/ha in 4Q17) due to favourable weather conditions. CPO production grew 2% YoY to 402,047MT in 1Q18 (-11% QoQ), with extraction rate flat at 20.1%. Management expects improvement in production yield to continue as weather conditions remain favourable. Wilmar's Sugar business was impacted in 1Q18 by a delay in sales from the new Sugar marketing program by its Australian milling business, while Oilseeds and Grains PBT was down in 1Q18 likely due to lower crush margins. Listing of Wilmar's China operations remain on track, with management targeting a listing by 3Q19.

Figure 22: 1Q18 vs 1Q17 FFB output comparison



Source: Company data, Credit Suisse estimates

Figure 23: 1Q18 Plantation EBITDA/t comparison



Source: Company data, Credit Suisse estimates

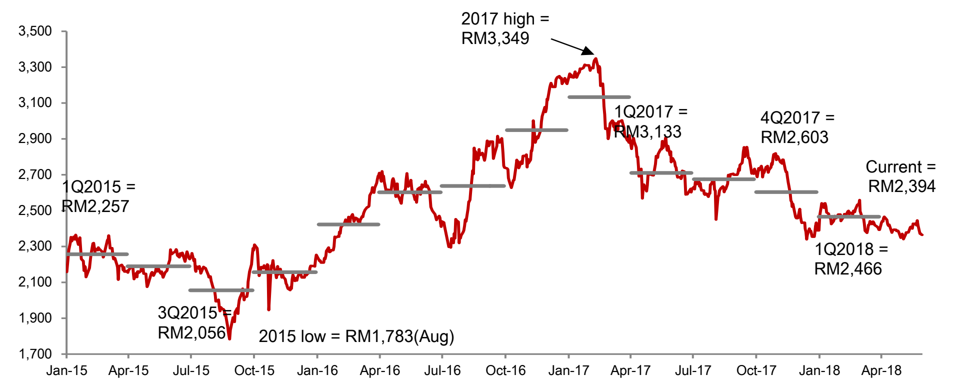
What we can expect for 2Q18

According to Indonesia Palm oil association and Malaysia Palm oil Board, production and ending stock for April 2018 is as follows:

- April 2018 palm oil production increased by 14% YoY to 5.2 mn t with Indonesia production +20.5% YoY to 3.7 mn t and Malaysia production flat at 1.5 mn t.
- April 2018 palm oil ending stocks increased by 150% YoY to 6.15 mn t with Indonesia ending stocks +350% to 3.97 mn t and Malaysia ending stocks +35% to 2.15 mn t.

As for CPO prices, QTD CPO spot price currently averages 2,400RM/T down 14.4% YoY compared to 2Q17 CPO spot price average at 2,747RM/T.

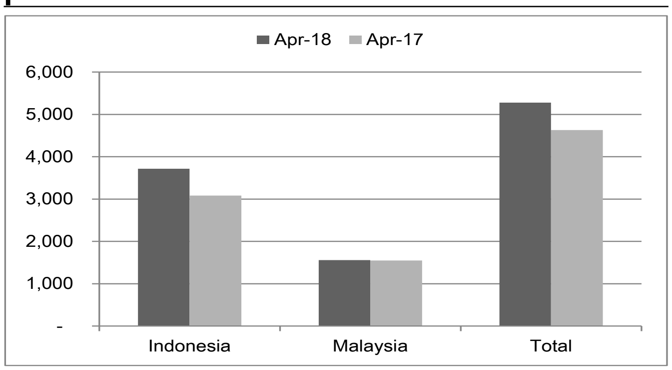
Figure 24: CPO spot price is not at around RM2,400/t



Source: MPOB

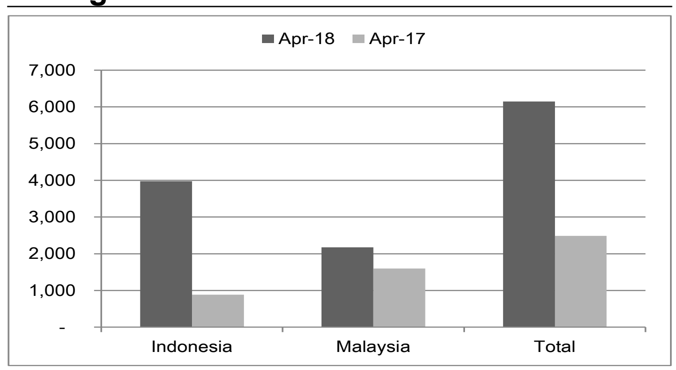
Assuming CPO prices stay at 2,400RM/T for 2Q18, we believe that Indonesian companies should expect an increase in earnings as production is expected to ramp up in 2Q18, while Malaysia production seems to remain flat. Indonesia companies also reported that their production is expected to grow around 5-10% for 2018 despite bad 1Q18 production.

Figure 25: Indonesia vs Malaysia palm oil production



Source: the BLOOMBERG PROFESSIONAL™ service, Malaysia Palm Oil Board

Figure 26: Indonesia vs Malaysia palm oil ending stock



Source: the BLOOMBERG PROFESSIONAL™ service, Malaysia Palm Oil Board

Key factors in 2018

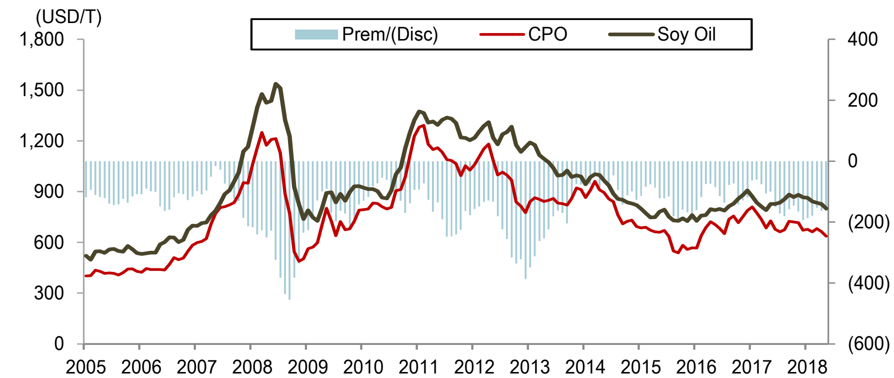
1. Palm oil prices

We expect CPO prices to hover within the range of RM2,300 –2,500/t, supported by:

- Brent crude price level of ~US$70/bbl, increasing viability of biofuel production.
- Increased domestic biodiesel consumption in Indonesia.

- Discount gap between CPO and other major vegetable oils. It is worth noting that the current discount gap between CPO & soyoil price has widened beyond its long-term average (6% above).

Figure 27: Discount gap between CPO & soyoil prices is currently US$163/t



Source: Oil World

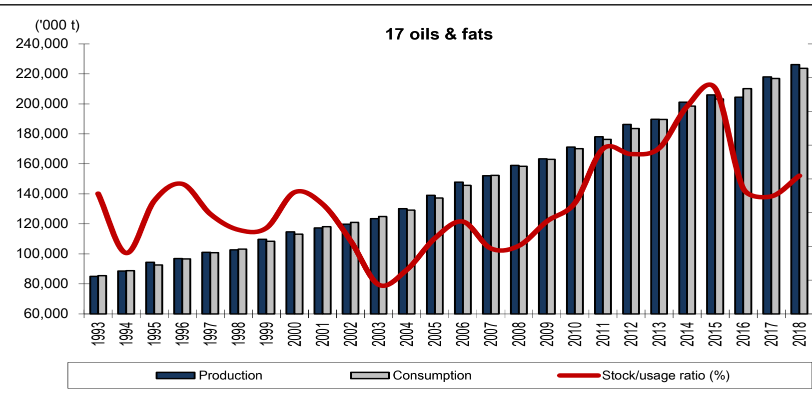
At a price level of RM2,400/t, planters are still able to achieve relatively healthy profits (~30-40% EBIT margins), barring any unforeseen circumstances.

2. Global edible oils and fats balance

World supplies of major vegetable oils have recovered post El-Nino. Oil World estimates the following for 2018:

- 2018E production +3.8% YoY to 226.2 mn t
- 2018E consumption +3.1% YoY to 223.7 mn t

Figure 28: 2018E global edible oils & fats stock/usage ratio increases to 13.1%



Source: Company data, Credit Suisse estimates. *

3. India's demand for edible oil imports

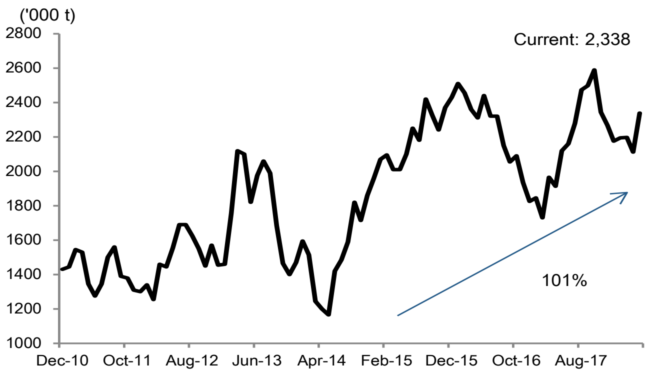
Despite the government's efforts to reduce dependence on edible oil imports, demand remains relatively strong thus far.

India's edible oil inventory stood at 2.3 mn t as of end April, having more than doubled from its low in May 2014.

Palm oil imports too, have remained resilient. Even after the government's import duty hike on 1-Mar (fourth in the last one year), April's palm oil import figure stood at 0.8 mn t (+2.4% MoM & +3.5% YoY).

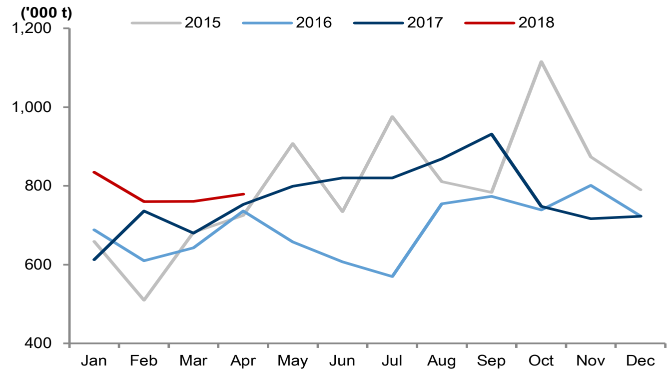
YTD, India has imported 3.1 mn t worth of palm oil (+12.7% YoY).

Figure 29: India's edible oil inventory



Source: SEA of India

Figure 30: India's palm oil imports



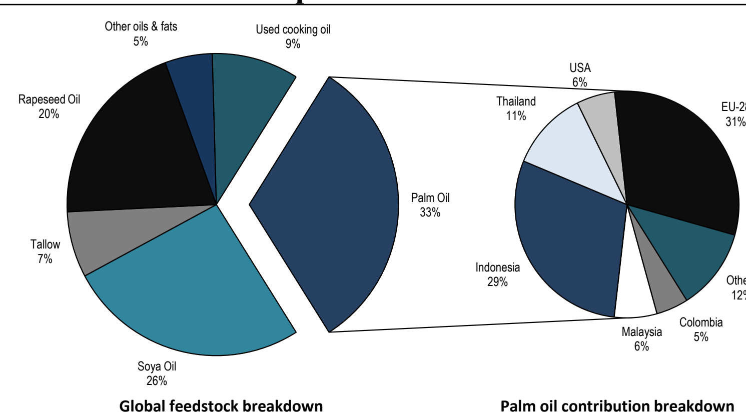
Source: SEA of India

4. Boost from biodiesel

According to Oil World, biodiesel world production is estimated to increase by 2.4 mn t to a record 38.3 Mn t in 2018, with the biggest increase in Indonesia and Brazil. Palm oil use for biodiesel is also likely to increase by 1.7 Mn t to 13 Mn t in 2018, accounting for a third of biodiesel output. As for Indonesia, biodiesel output may increase by 1.1mn t to a new high of 4.0-4.1 mn t in Indonesia in 2018.

Early this year, the Indonesian government increased the amount of CPO used for biodiesel from 2.5 mn kiloliters to 3.5 mn kiloliters. Adding to this, the removal of biodiesel anti-dumping duties by the EU should also push for more demand on Biodiesel from EU, especially for Indonesia. As of now, these policies have not yet taken effect, as companies reported that they have not yet received an increase in orders for biodiesel production companies, such as First resources. Golden Agri reported that increase in biodiesel demand from impact of the policy should start to take effect in the second half of the year.

Figure 31: Feedstocks used to produce biodiesel



Source: Oil World

Maintain MARKETWEIGHT on the sector

Our top picks are:

- Sime Plantation – Sime Plant has been aggressively replanting since 2010, and hence we like the company for its superior growth potential. Currently trading at 2019E P/E of 23x, in line with the sector average.
- Genting Plantation (GENP MK) – We like GENP for its young palms and upstream exposure. Currently the cheapest planter amongst our coverage – 2018E P/E of 20x vs sector avg of 24x.
- Bumitama Agri (BAL SG) – We like Bumitama as it focuses on the upstream business with young trees (average age of 8.9 years) on 182.7k ha planted areas (28% plasma)
- London Sumatra (LSIP) – We like Lonsum as it is a pure upstream player, with an average age of 15.1 years (productive age).

Figure 32: Asia plantation companies comparables

	Ticker	Price	Mkt Cap	Rtg	TP	19E PE (x)	EPS Growth		P/E (x)		EV/EBITDA (x)		DY		PB		ROE		ADTV 3mo
Company		(LC)	(US$mn)		(LC)	at TP	18E	19E	18E	19E	18E	19E	18E	19E	18E	19E	18E	19E	(US$mn)
SINGAPORE																			
Wilmar	WLIL.SI	3.28	15,709	N	3.50	19.2	25%	-3%	13.1	13.4	13.4	12.7	2.9%	3.1%	0.9	0.8	7%	7%	13.5
Golden Agri Resources	GAGR.SI	0.32	3,073	U	0.26	13.8	1%	-4%	12.4	12.8	7.4	7.1	3.2%	3.5%	0.7	0.7	5%	6%	4.1
First Resources	FRLD.SI	1.69	2,002	N	2.25	15.9	4%	13%	13.9	12.1	5.9	4.8	1.6%	2.0%	1.8	1.6	15%	16%	1.1
Bumitama	**BUMI.SI**	**0.68**	**894**	**O**	**1.00**	**14.5**	**26%**	**3%**	**10.9**	**10.4**	**8.3**	**7.2**	**2.3%**	**2.4%**	**1.5**	**1.3**	**14%**	**14%**	**0.2**
Indofood Agri	IFAR.SI	0.25	265	N	0.28	5.0	28%	17%	7.9	4.8	3.0	2.5	2.9%	4.2%	0.3	0.3	6%	6%	0.1
MALAYSIA																			
Sime Darby Plantation	**SIPL.KL**	**5.25**	**8,980**	**O**	**6.80**	**29.2**	**0%**	**23%**	**27.8**	**22.6**	**10.4**	**11.8**	**1.8%**	**2.2%**	**2.7**	**2.6**	**10%**	**11%**	**4.8**
IOI Corp	IOIB.KL	4.60	7,271	U	3.90	23.4	16%	-6%	26.1	27.6	18.7	19.6	3.1%	2.9%	3.8	3.7	15%	14%	4.8
KL Kepong	KLKK.KL	24.88	6,680	N	24.30	23.5	5%	2%	24.6	24.1	14.6	14.2	2.2%	2.3%	2.2	2.1	9%	9%	7.4
Genting Plant	**GENP.KL**	**9.50**	**1,923**	**O**	**14.14**	**27.9**	**35%**	**7%**	**20.1**	**18.7**	**16.9**	**16.2**	**1.0%**	**1.1%**	**1.6**	**1.5**	**8%**	**8%**	**0.9**
INDONESIA																			
Astra Agro Lestari	AALI.JK	12,275	1,701	N	13,550	13.2	12%	-13%	10.5	12.0	6.7	6.2	3.8%	3.7%	1.2	1.1	10%	9%	0.8
London Sumatra	**LSIP.JK**	**1,165**	**572**	**O**	**1,730**	**10.9**	**44%**	**32%**	**10.0**	**6.9**	**4.4**	**3.4**	**3.9%**	**5.8%**	**0.9**	**0.9**	**12%**	**10%**	**1.0**
Salim Ivomas Pratama	SIMP.JK	565	643	N	670	12.7	27%	22%	17.4	11.0	4.7	4.2	1.8%	2.8%	0.7	0.7	6%	7%	0.4
Malaysia			24,854			25.9	9%	8%	25.8	24.2	14.4	15.1	2.2%	2.3%	2.8	2.7	11%	11%	5.2
Indonesia			2,917			12.6	22%	4%	11.9	10.8	5.8	5.2	3.3%	3.9%	1.0	0.9	9%	9%	0.7
Singapore			21,943			17.7	20%	-1%	12.9	13.0	11.6	10.8	2.8%	3.0%	1.0	0.9	8%	8%	10.3
Plantation sector weighted average			**49,714**			**21.5**	**14%**	**4%**	**19.3**	**18.4**	**12.7**	**12.6**	**2.5%**	**2.7%**	**1.9**	**1.8**	**9%**	**10%**	**7.2**

Source: Company data, Credit Suisse estimates

Recent reports

Salim Ivomas Pratama: An expected 1Q18 results
Indofood Agri Resources Ltd: Below our expectation
Perusahaan Perkebunan London Sumatra Indonesia: Lower FFB external production and ASP lead to lower earnings
Golden Agri-Resources: 1Q18 results as expected
First Resources: Lower-than-expected 1Q18 results
Wilmar international Ltd: earnings should improve in coming quarters; China listing on track
Astra Agro Lestaro: Weak production, CPO price and RP exchange rate lead to weak 1Q18 results
Bumitama Agri Ltd: On track
Sime Darby Plantation Bhd: Temporary setback on adverse weather conditions
IOI Corporation Berhad: 9M FY18 core NP came in below expectations
Kuala Lumpur Kepong: lackluster 1H FY18; continues to be weighed down by plantations
Genting berhad: 1Q18: Genting plantations Bhd - 1Q FY18 boosted by one-offs

Companies Mentioned *(Price as of 05-Jun-2018)*

Astra Agro Lestari Tbk (AALI.JK, Rp12,275)
Bumitama Agri Ltd (BUMI.SI, S$0.68, OUTPERFORM, TP S$1.0)
First Resources Ltd (FRLD.SI, S$1.69)
Genting Plantations Bhd (GENP.KL, RM9.5, OUTPERFORM, TP RM14.14)
Golden Agri-Resources (GAGR.SI, S$0.32)
IOI Corporation Berhad (IOIB.KL, RM4.6)
Indofood Agri Resources Ltd (IFAR.SI, S$0.245)
Kuala Lumpur Kepong (KLKK.KL, RM24.88)
PT Perusahaan Perkebunan London Sumatra Indonesia (LSIP.JK, Rp1,165, OUTPERFORM, TP Rp1,730)
PT Salim Ivomas Pratama Tbk (SIMP.JK, Rp565)
Sime Darby Plantation Bhd (SIPL.KL, RM5.25)
Wilmar International Ltd (WLIL.SI, S$3.28)

Disclosure Appendix

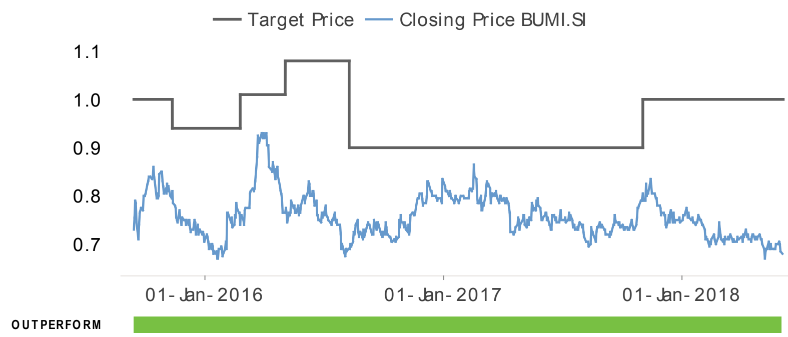
Analyst Certification

I, Ella Nusantoro, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Bumitama Agri Ltd (BUMI.SI)

BUMI.SI	Closing Price	Target Price	
Date	(S$)	(S$)	Rating
14-Sep-15	0.73	1.00	O
12-Nov-15	0.81	0.94	
24-Feb-16	0.74	1.01	
03-May-16	0.76	1.08	
20-Jun-16	0.79		*
09-Aug-16	0.69	0.90	O
17-Jul-17	0.75		*
02-Nov-17	0.80	1.00	O

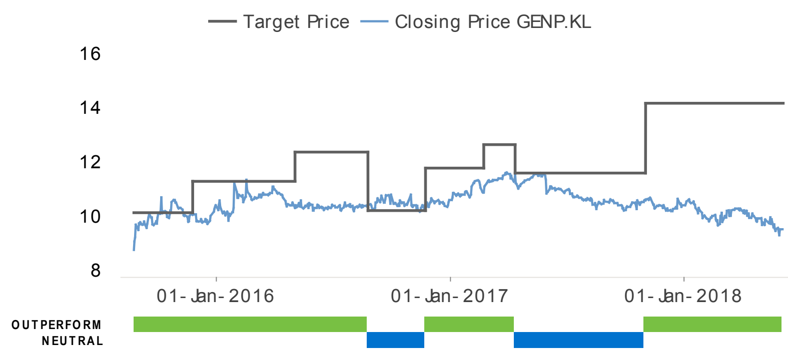
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Genting Plantations Bhd (GENP.KL)

GENP.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
25-Aug-15	8.74	10.11	O
25-Nov-15	10.03	11.27	
03-May-16	10.29	12.34	
25-Aug-16	10.42	10.19	N
23-Nov-16	10.31	11.76	O
22-Feb-17	10.85	12.62	
12-Apr-17	11.53	11.57	N
17-Jul-17	10.70		*
02-Nov-17	10.56	14.14	O

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for PT Perusahaan Perkebunan London Sumatra Indonesia (LSIP.JK)

LSIP.JK	Closing Price	Target Price	
Date	(Rp)	(Rp)	Rating
14-Sep-15	1,210	1,510	O
29-Oct-15	1,555	1,850	
04-Mar-16	1,485	1,860	
20-Jun-16	1,460		*
09-Aug-16	1,475	1,820	O
01-Aug-17	1,410		NC
02-Nov-17	1,510	1,760	O *
04-Apr-18	1,300	1,730	

** Asterisk signifies initiation or assumption of coverage.*

Effective July 3, 2016, NC denotes termination of coverage.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:
Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	37%	(57% banking clients)
Underperform/Sell*	13%	(52% banking clients)
Restricted	2%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Bumitama Agri Ltd (BUMI.SI)

Method: Our target price of S$1.0/share and OUTPERFORM rating for Bumitama Agri (BUMI.SI) is based on 14x 2018E P/E (price/earnings), which is in line with the historical five-year average of the stock's forward P/E. Our OUTPERFORM rating for Bumitama is due to its young plantation profile of ~6 years, pure upstream operations, and strong organic growth exhibited by the company.

Risk: The following risks could impede achievement of our S$1.0/share target price and OUTPERFORM rating for BUMI: (1) the company's realised selling prices for CPO are materially different from our estimates; (2) Bumitama's cash flow could be adversely affected by production costs, particularly if FFB purchase prices, fuel and consumable materials costs increase at a significantly different rate than our forecast because of movements in input commodity prices; (3) major changes in government policy and regulation, including taxation, concession terms etc., which could significantly impact Bumitama's cash flow; (4) any significant fluctuation of the Indonesian rupiah against the US dollar and Malaysian Ringgit against the US dollar could have a material impact on revenues and earnings; and (5) a continued surge in CPO prices may also spark further government intervention creating regulatory uncertainties as the government seeks to curb inflation driven by higher cooking oil prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Genting Plantations Bhd (GENP.KL)

Method: We base our RM14.14/share target price for Genting Plantations Bhd on the Malaysian plantation sector P/E (price-to-earnings) average of 29x, multiplied by our 2018 EPS (earnings per share) forecast. Although we expect CPO prices to be on a downtrend, GENP has the strongest organic growth among the Malaysian big cap plantation companies. Therefore, we rate the stock OUTPERFORM.

Risk: Downside risks to our RM14.14 target price and OUTPERFORM rating for Genting Plantations Bhd include: (1) palm oil price falling sharply; (2) related party transactions; (3) costs increasing significantly; and (4) the downstream unit recording unexpected large losses.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for PT Perusahaan Perkebunan London Sumatra Indonesia (LSIP.JK)

Method: Our target price for London Sumatra (LSIP) of Rp1,730/share based on the five-year average forward P/E of 14.8x. This equates to a 7.4x EV/EBITDA 2018E and EV/ha of US$8,000. Our OUTPERFORM rating reflects LSIP's relatively good exposure to El Niño, its pure upstream business model, and net cash position, as well as attractive dividend yield.

Risk: London Sumatra's business involves a number of risks to our target price of Rp1,730/share and OUTPERFORM rating, including: (1) Risk relating to Indonesia. All of LSIP's businesses are in Indonesia and thus the company's performance is significantly influenced by economic, political and social developments in Indonesia. (2) Regulatory risks. Regulatory uncertainties and the risks of future government intervention remain a major risk threatening the Indonesia palm oil sector. (3) Commodity price risks. (4) Foreign currency exchange risks. (5) Restructuring risks. Our expectation for LSIP's future earnings expansion rests upon our expectation for cost restructuring ahead, and thus failure to materialise its cost restructuring programme as expected may result in lower-than-expected earnings ahead. (6) Change of management risks. (7) Further increase in the CPO price may spark government intervention, leading to higher risk of regulatory uncertainties, as the government seeks to reduce cooking oil prices and their pressure on inflation.

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