30 September 2019

Agriculture | Plantation

Regional Plantation

Overweight (From Neutral)

Trade War ≠ Trade Woes

Stocks Covered	16
Ratings (Buy/Neutral/Sell):	7 / 7 / 2
Last 12m Earnings	Negative

- **Upgrade to OVERWEIGHT, Top Picks: KLK, AALI and First Resources.** Our contrarian view is premised on the expectation that CPO prices are likely to rerate upwards in 4Q19 and continue rising in 1H20. As such, we believe plantation stocks will also likely rerate on this price movement. Historically, CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first**, before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the stocks under our coverage by 2-5x to trade at 1SD above their historical averages. We expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We maintain our CPO price assumptions** of MYR2,200/tonne for 2019 and MYR2,400 for 2020.
- **The main premises for our upgrade** are:

i. Trade war is still on, with import duties being levied on US soybeans;
ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
v. Crude oil prices remain at high levels, causing positive CPO-gasoil price gap;
vi. Weather conditions remain normal.

- **The trade war continues to have far-reaching effects**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Now OVERWEIGHT.** Investors should position for the run-up in CPO prices we expect to see within the next few months, as share prices should also react positively in tandem. We also believe the market will need to look for stock ideas with positive earnings growth momentum during these uncertain global economic conditions. Moreover, with the plantation sector in Malaysia having *shariah* status, there should also be a scarcity premium accorded to the sector. We upgrade our recommendations on eight stocks, with top regional picks being KL Kepong, Astra Agro, and First Resources.

Company Name	Rating	TP	% Upside	P/E (x) Dec-20F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Astra Agro Lestari	Buy	IDR16,160	50.3	13.3	1.0	3.1
First Resources	Buy	SGD1.90	18.8	15.2	1.8	1.0
Genting Plant	Buy	MYR11.35	16.3	37.8	2.1	1.2
KL Kepong	Buy	MYR28.35	22.4	27.9	2.1	1.9
London Sumatra	Buy	IDR1,450	21.3	15.7	1.0	1.1
Sarawak Oil Palms	Buy	MYR2.35	11.9	16.2	0.6	2.4
Wilmar	Buy	SGD4.75	27.0	18.8	1.6	2.8
Bumitama Agri	Neutral	SGD0.60	3.4	15.0	1.3	1.7
CB Industrial Prdt	Neutral	MYR0.85	3.6	12.4	0.7	2.5
FGV	Neutral	MYR1.00	9.3	n.m.	0.8	1.1
Golden Agri	Neutral	SGD0.25	6.4	87.5	0.7	0.0
IJM Plantations	Neutral	MYR1.45	(4.6)	29.1	1.0	1.3
IOI Corp	Neutral	MYR4.60	4.1	37.0	3.1	1.8
Sawit Sumbermas	Neutral	IDR1,000	5.8	18.8	2.1	0.3
Sime Plantations	Sell	MYR4.25	(14.6)	n.m.	2.4	0.2
TSH Resources	Sell	MYR0.75	(14.8)	29.4	0.9	0.6

Source: Company data, RHB

Top Picks	Target Price
KL Kepong (KLK MK) – BUY	MYR28.35
First Resources (FR SP) – BUY	SGD1.90
Astra Agro Lestari (AALI IJ) - BUY	IDR16,160

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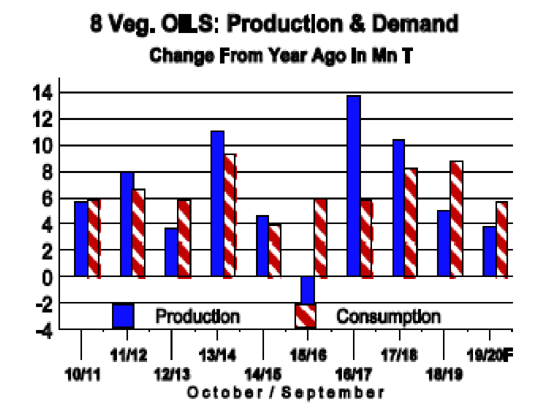
8 veg oils supply and demand



Source: Oil World

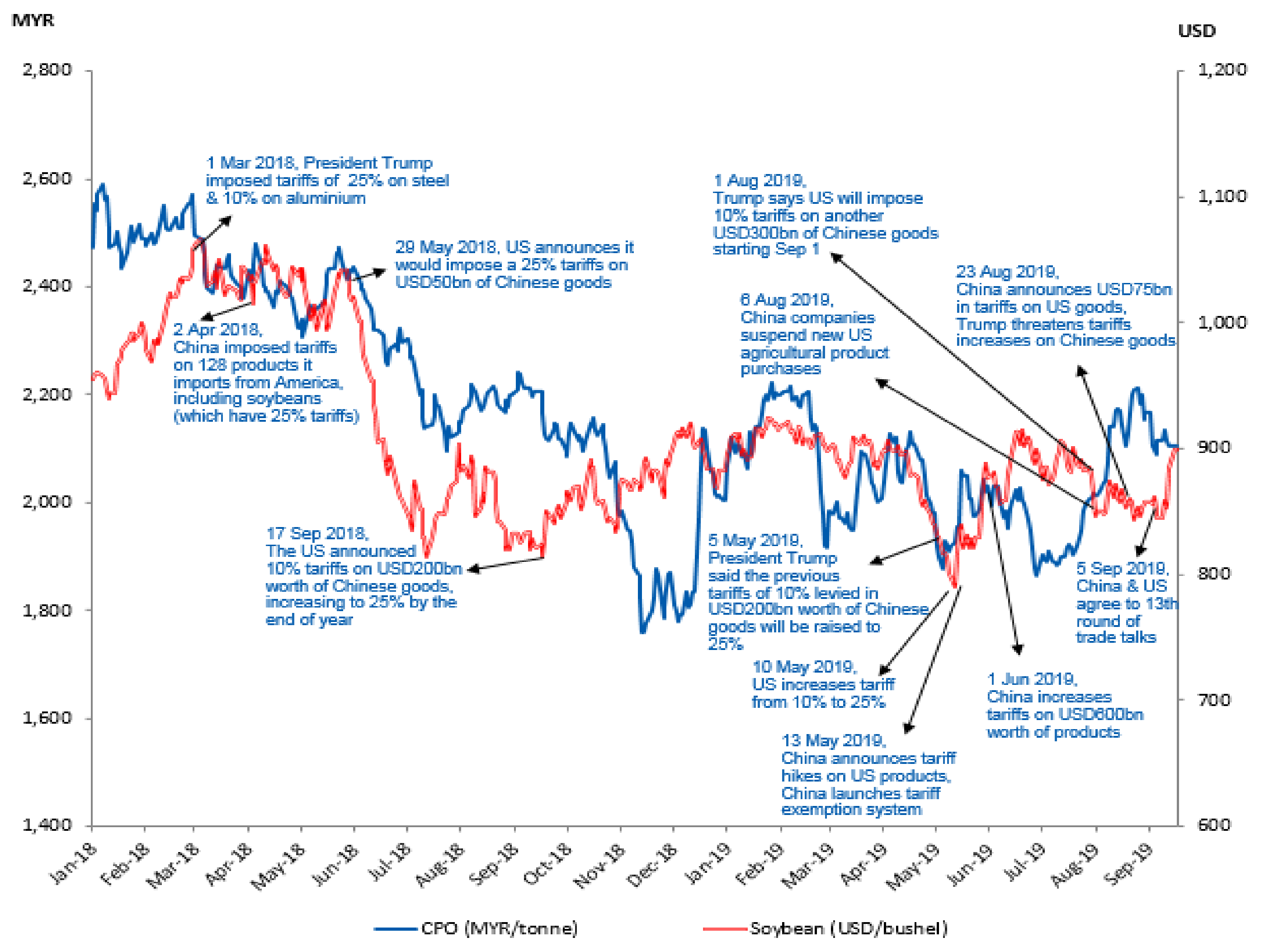
Trade war may not always equal trade woes

Far-reaching effects of trade war. The ongoing trade war has far-reaching effects, not only on the direct goods that have taxes imposed, but on the general economic environment, exchange rates, crude oil prices and the like. For investors, the threat posed by the trade war to global economic health -- and in turn, consumption of commodities -- is trumping everything else.

Although uncertainties remain elevated, our base-case scenario is that the US-China trade war will remain for now. While there could be a de-escalation of tensions in the months ahead, we believe a rapid resolution is unlikely. This suggests trade tensions will remain a key driver and a factor of volatility for the commodities sector in the coming quarters.

In the agriculture commodity space, soybean prices in the US have suffered as a result **of the trade war, while CPO and soybean prices in Brazil have risen**. Palm oil demand has also benefitted from the trade war, although prices only started moving upwards in recent weeks, due to a combination of other factors.

Figure 1: CPO vs US soybean prices – trade war timeline

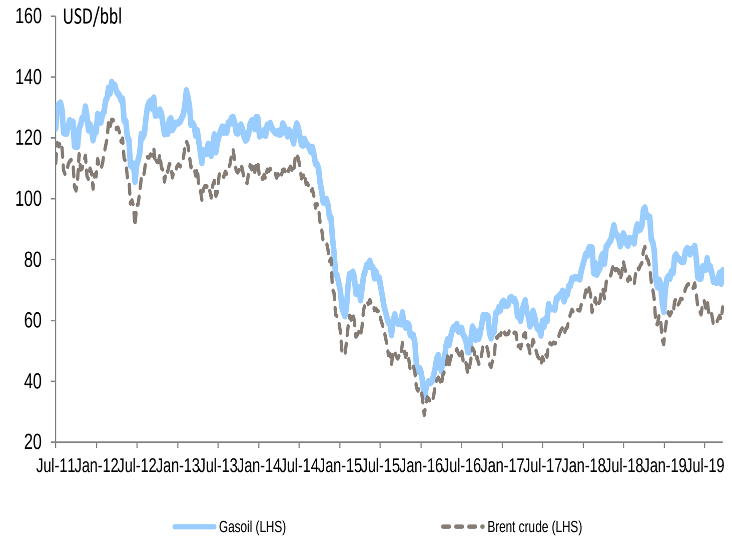


Source: RHB, Bloomberg

Trade war impacts crude oil prices and, therefore, CPO prices

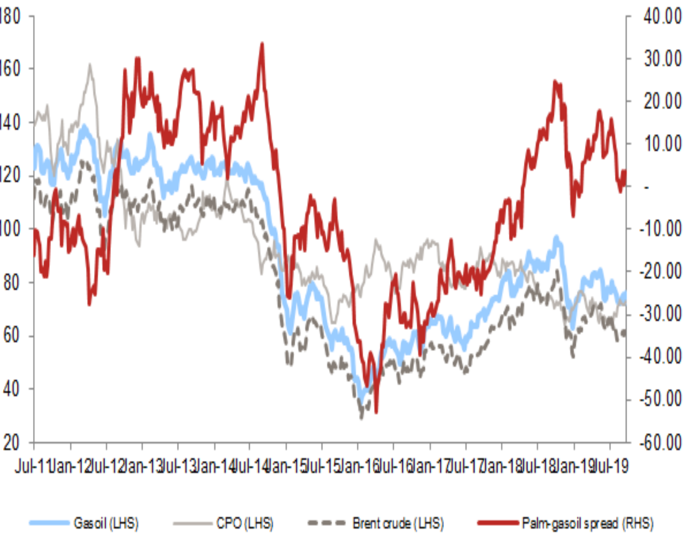
Besides commodity prices, the trade war has also resulted in more volatile crude oil prices. Fears of a decelerating economy have impacted the oil industry, in the form of higher prices of imported steel for capital equipment, as well as a decline in US oil exports to China. This has depressed prices and spreads. Although other geopolitical circumstances like the attack on Saudi Arabia's critical facilities have recently resulted in a spike in crude oil prices, the trade war will continue to play a part in crude oil price movements going forward. Currently, our crude oil price assumptions remain at USD63/bbl, USD70/bbl, and USD66/bbl for 3Q19, 4Q19, and 2019, and USD60/bbl for the longer term.

Figure 2: Crude oil prices vs gasoil prices



Source: Bloomberg

Figure 3: CPO-gasoil spread is at +USD3.5/bbl (down from USD4.2/bbl last month)



Source: Bloomberg

Our regional oil and gas analyst, in her report dated 2 Sep (*REG Oil & Gas: The Fear Of a Recession)* laid out the scenarios of a prolonged trade war and its impact on crude oil prices. Assuming the trade war is prolonged, crude oil prices could trade higher – which is a positive for palm oil prices, given the implied impact on biodiesel feasibility, and therefore, demand.

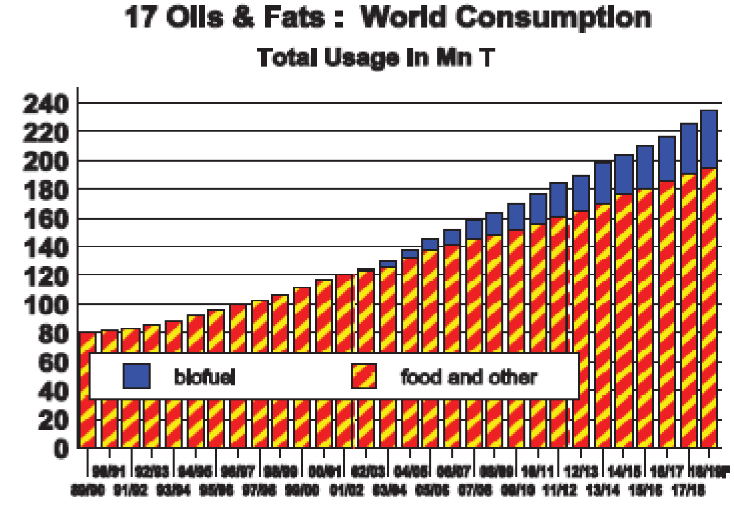
Figure 4: Crude oil price scenarios

Scenarios	1Q19	2Q19	3Q19F	4Q19F	2019F	2020F	2021+	Assumptions
Base case	63.1	68.8	63	70	66	66	60	Escalating US-China trade tensions, with a strong demand boost in 4Q19F
Upside: Escalating Middle East tensions	63.1	68.8	73	80	71.2	76.2	70	Upside Middle East tensions, add USD10/bbl
Both Middle East tensions and trade war	63.1	68.8	68	75	68.7	71.2	65	Middle East tensions and trade war

Source: RHB

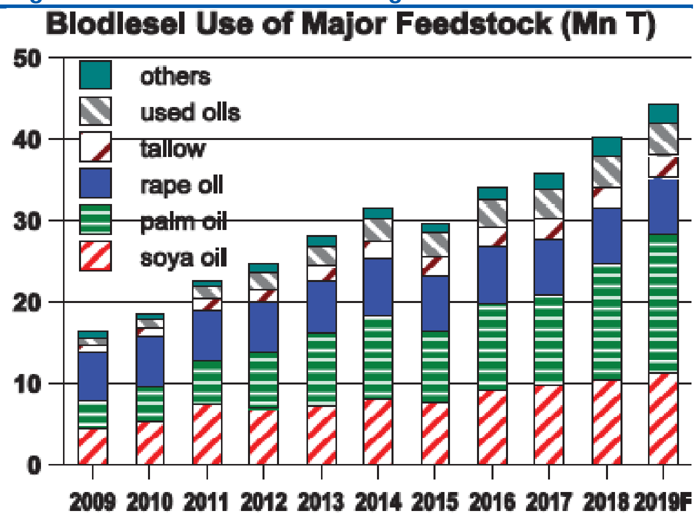
Currently the price gap between CPO and gasoil has risen back to USD3.5/bbl, or USD107/tonne (from USD0.5/bbl a few weeks ago). This means that the feasibility of biodiesel is still very much positive at current gas oil price levels, and export demand for palm-based biodiesel should remain robust. At the current price gap of USD107/tonne, palm biodiesel producers should be able to make profit margins of 3-5% in Malaysia and Indonesia for export sales.

Figure 5: Global biodiesel consumption is growing



Source: Oil World

Figure 6: Biodiesel feedstock ssage



Source: Oil World

Based on our base case assumption for crude oil and gas oil for the rest of 2019 and 2020, we estimate the price gap between CPO and gas oil (POGO spread) should stay in the positive range of between USD5-7/barrel (or USD180-210/tonne), which means biodiesel would still be very much financially feasible to produce.

In terms of global demand for palm-based biodiesel, while demand from the EU is expected to remain flat from 2019 levels in 2020-2023, before gradually declining as a result of the ban on palm-based biodiesel, we expect demand from other countries to pick up. Oil World has projected biodiesel demand to rise by at least 5m tonnes (or 11.5% YoY) in 2020. The bulk of this increase is expected to come from Indonesia, due to its B30 mandate.

We believe there is a wildcard in the form of potential demand from China, particularly as it is facing a shortage of crude oil imports due to the trade war. China has been becoming a more regular customer for certain biodiesel players in Malaysia and Indonesia of late, particularly since palm-based biodiesel is now less expensive than gasoil. As biodiesel does not receive subsidies or government support through a nationwide mandate in China, this demand will remain stable as long as the POGO spread remains positive. In 2013-2014, as benchmark crude oil prices rose above USD100/barrel, biodiesel demand expanded as a lower-cost substitute with consumption reaching a record 1.8m tonnes. Currently, different states have different mandates like Shanghai's municipal biodiesel B5 programme. Palm-based biodiesel demand from China in 2018 was estimated at around 1.28m tonnes. This could potentially rise to 1.5-2m tonnes in 2019-2020, in light of the anticipated positive POGO spread

Figure 7: Global biodiesel demand forecast

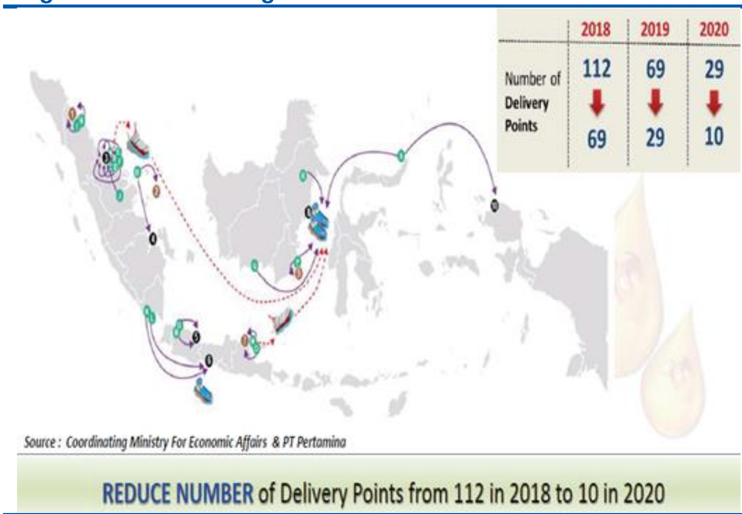
	January/December ('m tonnes)					
Countries	2020F	2019F	2018	2017	2016	2015
EU	13.50	13.50	13.30	13.55	12.68	12.37
USA	7.50	7.43	7.14	6.13	6.21	4.72
Argentina	2.50	2.50	2.50	2.87	2.66	181
Brazil	5.80	5.15	4.66	3.75	3.33	3.46
Columbia	0.60	0.60	0.57	0.54	0.51	0.51
Singapore	120	120	112	105	0.99	0.87
Indonesia	10.95	7.45	5.20	2.92	3.18	122
Malaysia	170	140	114	0.72	0.50	0.67
Thailand	160	153	130	120	112	114
Other Countries	3.80	3.52	3.31	3.07	2.93	2.83
TOTAL	49.15	44.28	40.24	35.80	34.11	29.60

Source: Oil World, RHB

In Malaysia, the B10 mandate for the transport sector and B7 mandate for the industrial sector which was implemented from July should see a full-year impact of an additional 0.3m tonnes in 2020 (from a targeted 1m tonnes in 2019). Although the Government has spoken about wanting to raise the mandate to B20 for the transport sector and B10 for the industrial sector in 2020, we would prefer not to assume any such increase until it has been gazetted. This is due to the fact that Malaysia does not have any pricing mechanism in place for subsidies, should the POGO spread go back to negative territory.

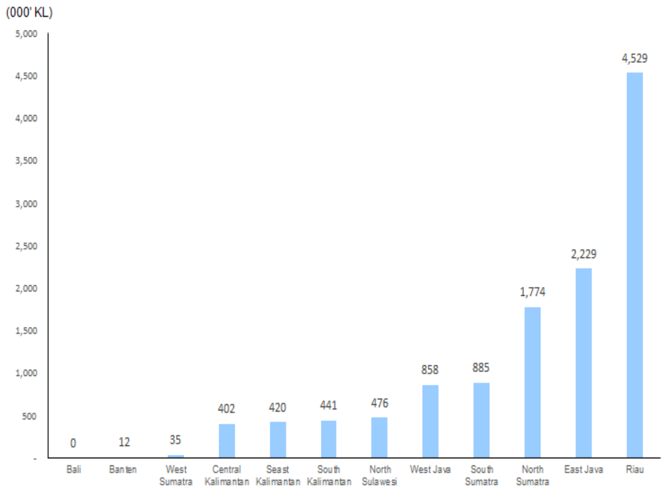
As for Indonesia, as at Jul 2019, 3.2m kilolitres have been blended, from its original 6.2m target for 2019. Recently, the Ministry of Energy and Mineral Resources (ESDM) issued a decree to instruct Pertamina to raise 2019's target to 6.6m kl from 6.2m kl, an increase of 6.5% from the previous target, and 206% higher YoY from 2018's 3.2m kl production. This shows the Government's seriousness in pushing for its B30 target by Jan 2020. Currently, the logistics are all in place to achieve this target, with Pertamina's 111 gasoline terminals and 29 mixing plants. In addition, the penalty of IDR6,000 per litre for non-compliance will be an added incentive. Should CPO prices start to trend up again, Indonesia's export tax structure to subsidise the biodiesel industry will kick in again – where CPO producers will be taxed at USD25/tonne above the CPO price of USD570/tonne, and USD50/tonne above the CPO price of USD619/tonne.

Figure 8: Biodiesel logistics issues resolved



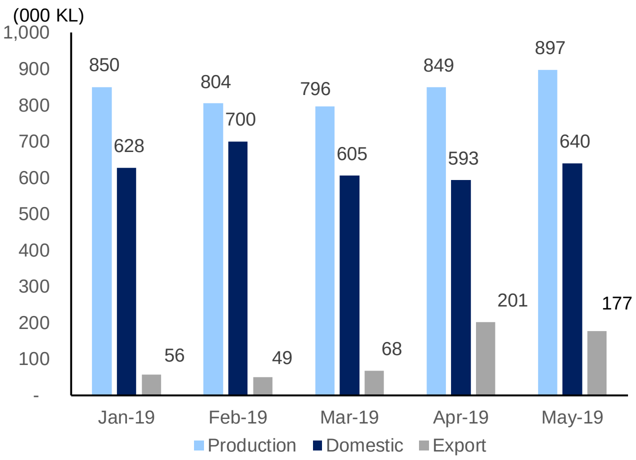
Source: PT Triputra Agro

Figure 9: Biodiesel capacity in Indonesia



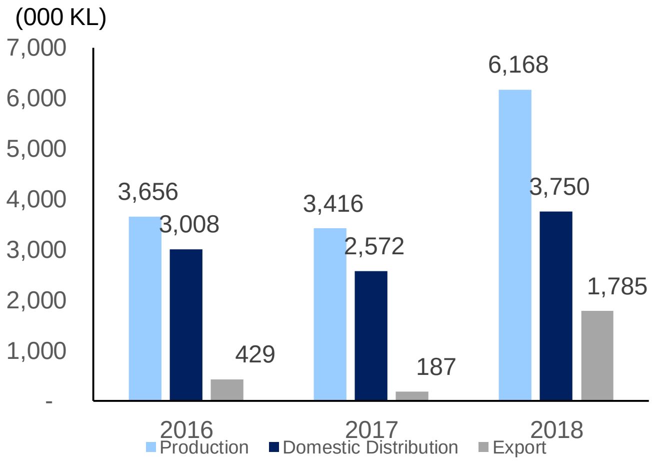
Source: PT Triputra Agro

Figure 10: Indonesia biodiesel statistics YTD-May



Source: Indonesia Biodiesel Producers Association (APROBI), RHB

Figure 11: Indonesia biodiesel statistics (2016-2018)



Source: APROBI, RHB

The EU has imposed extra tariffs of up to 18% for biodiesel imported from Indonesia to counter allegations of subsidies given to producers within the EU. Indonesia has reportedly indicated that it will counter this by imposing higher tariffs on EU dairy products (the tariff rate is currently at 5-10%). We believe this import tariff will not have a significant impact, as Indonesia only exports a small portion of biodiesel to the EU (around 10% of total output). B30, when implemented, should eliminate the risk of loss of biodiesel exports to the EU.

B**ased on discussions between Pertamina and Indonesian Oil Palm Estate Fund** (BPDP-KS) last month, both parties are quite optimistic that the B30 policy will be executed by end-Jan 2020. This is because they believe that Pertamina and all the producers have the necessary capacity to produce the volume of biodiesel required for the policy. Dono Boestami, the head of BPDP-KS, also explained that Pertamina is completing its green diesel pilot project and green gasoline project, which could improve the absorption of biodiesel moving ahead. Both projects are expected to ramp up in 2020.

We understand that some parties in Indonesia were somewhat apprehensive about the ability of passenger vehicles to use B30, citing engine issues, while there have also been questions about the ability of the current biodiesel equipment to process B30. However, the EDSM recently announced that its tests of B30 biodiesel on passenger vehicles have been successful thus far, while Indonesian Palm Oil Association (GAPKI) has also said that the current equipment is capable of producing B30. According to some parties, producing anything above B30 would trigger these problems, but B30 should still be achievable, based on the current government stance. Should the Government want to continue raising the mandate to above B30, the current pricing structure of biodiesel in Indonesia of CPO price plus USD100/tonne would need to be re-examined, and biodiesel capacities would have to be expanded.

Current installed capacity of biodiesel in Indonesia is around 12m kl (or 10m tonnes). Based on this year's B20 mandate, Indonesia should produce around 6m tonnes of biodiesel. In 2020, based on a B30 mandate, biodiesel production in Indonesia should increase to around 9m tonnes of biodiesel.

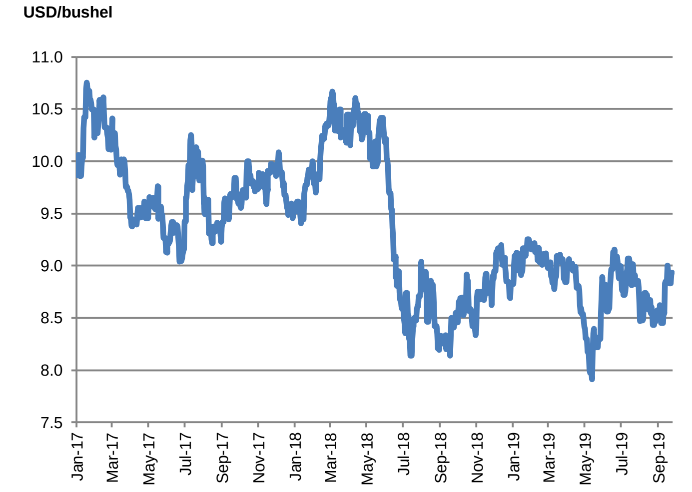
Soybean – CPO competitor losing steam due to trade war, but for how long?

Trade war developments. Since the development of the trade war, China implemented a 25% tariff on US soybean imports in Jul 2018. On 1 Sep, an additional 5-10% tariff was implemented on soybeans as part of a retaliatory tax after the US imposed an additional 10% tariff on c.USD300bn of goods imported from China. This tax will be implemented in two batches from 1 Sep and 15 Dec. On 13 Sep, China's state media reported that the Central Government will exempt some American soybeans and other agricultural products from additional tariffs, as reciprocity to the goodwill gesture by the US to delay the next round of tariff hikes – until the trade talks scheduled for early October are resumed.

Trade tariffs have depressed US soybean prices… Today, soybean is trading at around USD8.95/bushel, down c.12% from pre-trade war levels. As most Chinese importers have pulled out from US beans purchases after the trade war, we note that US soybean prices have fallen by c.15% QoQ and c.12% YoY in the quarter following the implementation of the 25% tariff in Jul 2018 (Jul-Sep 2018) – these prices have remained subdued since. Given the political and business landscape of China, we expect most Chinese oilseed crushers to support the Central Government and shun US beans, unless given the green light to procure from the country.

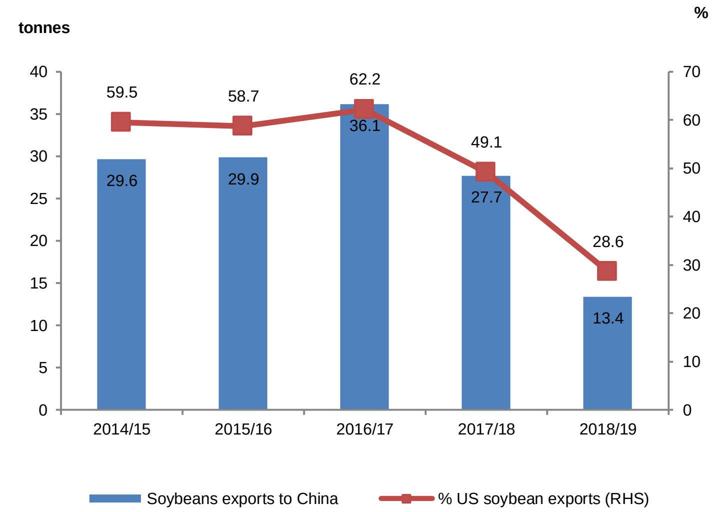
Consequently, US soybeans share of exports to China dropped to 49% in its market year (MY) 2017/2018, ending 31 Aug 2018. In MY2018/2019, US soybeans exports to China fell further to 28%. This is significantly lower than the pre-trade war levels at c.60%.

Figure 12: US soybean prices were down by about 12% from pre-trade war levels



Source: Chicago Board of Trade, Bloomberg

Figure 13: US exports of beans to China have declined by 52% since the trade war

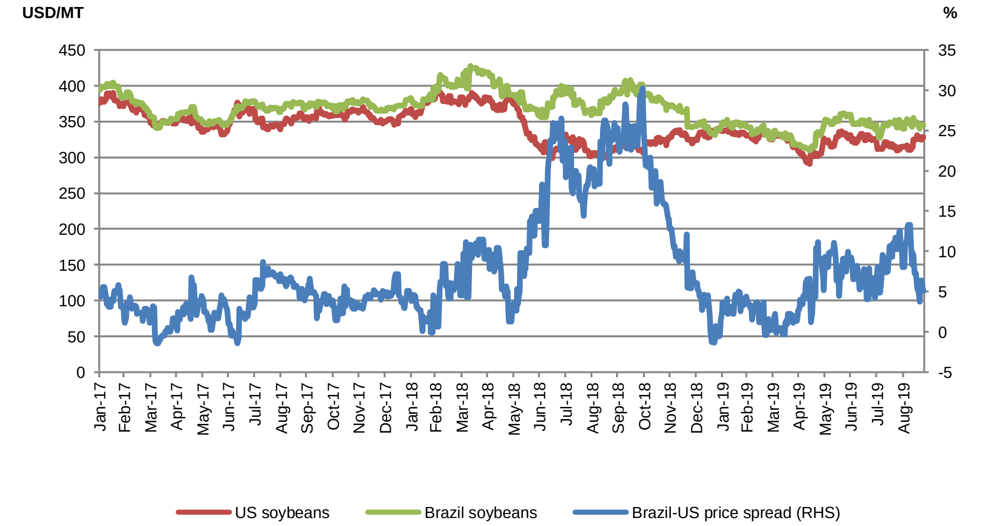


Source: USDA

…**and provides support for Brazilian soybean prices.** Trading at c.USD345/tonne, Brazilian soybean is priced c.11% lower than pre-trade war levels. However, the decline is largely due to huge soybean inventories in South America. We believe Brazilian bean prices would have been lower if not for the trade war. Since the development of the trade war, Brazilian bean prices have been at a premium to US beans, as Chinese importers switched from buying beans from the US, to purchasing from the South American country.

In the quarter following the introduction of tariffs on US beans, Brazilian soybean prices were at a c.21% premium to US bean prices, which are much higher than the historical spread of c.5%. The premium peaked at c.30% in Oct 2018 before tapering off in December that year, and reached parity with US bean prices in Jan 2019 due to strong production prospects for the crop in South America, as well as the resumption of US beans purchases during the 90-day trade truce. In May 2019, the escalation of the trade war resulted in the premium to US beans reverting back to c.8-9% before falling back to the historical spread of 5% on the prospect of trade talks.

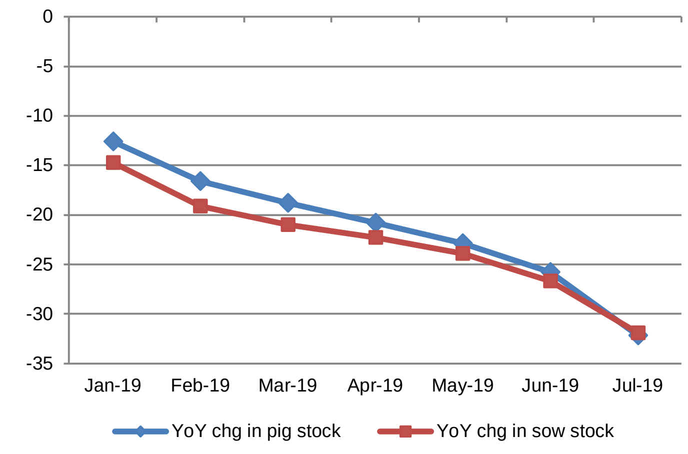
Figure 14: Brazil/US soybean prices and spread



Source: Bloomberg, RHB

Overall global demand soybean has grown at a slower pace due to China. According to the United States Department of Agriculture (USDA), global soybean crush volumes grew at a much slower pace of 1.5% YoY in MY201820/19, dragged down by lower crushing volumes in China. In particular, total soybean crushing volumes in China fell from 90m tonnes to 85m tonnes. This was, in part, due to the African swine fever which has resulted in lower pig stocks. In addition, to support the Chinese Government in the trade war, China Feed Industry Association lowered the minimum protein requirement for pork and poultry feed by c.1-2ppt.

Figure 15: China's hog inventory



Source: China Ministry of Agriculture and Rural Affairs, CEIC

Figure 16: Change in crude protein standards for hogs

STANDARD SET IN 2008

Weight of hogs	3kg-10kg	10kg-20kg	20kg-40kg	40kg-70kg	70kg-Slaughter
Crude protein (%)	≥18	≥17	≥15	≥14	≥13

STANDARD PROPOSED IN 2018

Weight of hogs	3 kg-<10 kg	10 kg-<25 kg	25 kg-<50 kg	50 kg-<75 kg	75 kg-<100 kg	100kg-Slaughter
Crude protein (%)	17.0-20.0	15.0-18.0	14.0-16.0	13.0-15.0	11.0-13.5	10.0-12.5

Source: China Feed Industry Association

Meanwhile, the US saw increased soybean imports from other countries due to favourable prices. However, these countries were not able to offset the decline in imports from China as they do not import as much as China. Despite the 52% YoY decline in soybean imports from China in MY2018/2019, China is still the largest soybean export market for the US.

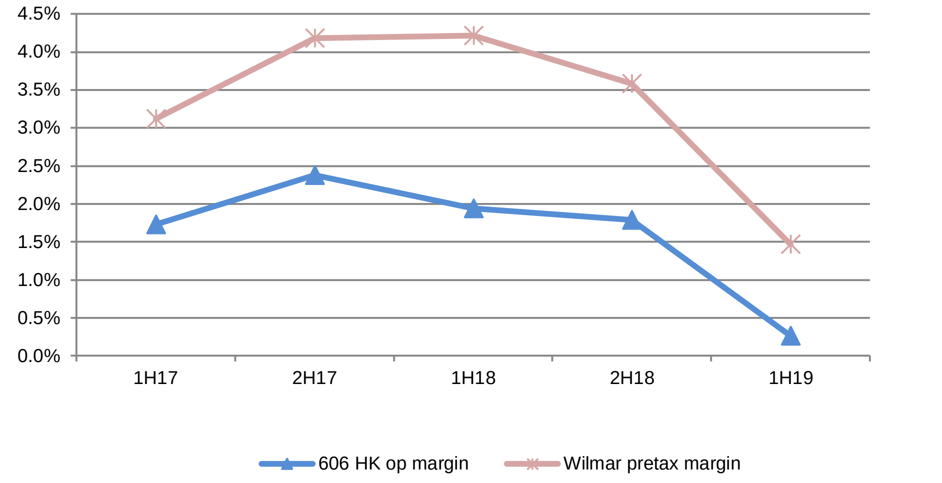
Figure 17: Top 5 export destinations for US soybeans in k tonnes

COUNTRY		2018/2019 EXPORTS	RANK	2017/2018 EXPORTS	RANK	2016/2017 EXPORTS	RANK	2015/2016 EXPORTS	RANK	2014/2015 EXPORTS	RANK
CHINA	:	13369.9	1	27681.8	1	36148.3	1	29855.0	1	29640.8	1
MEXICO	:	4918.1	2	4231.1	2	3665.0	2	3252.6	2	3438.8	2
EGYPT	:	2704.7	3	2436.5	4	807.2	10	295.4	19	712.4	11
JAPAN	:	2437.1	4	2153.5	6	2137.2	4	2145.6	3	2011.4	3
INDNSIA	:	2435.7	5	2424.8	5	2296.9	3	2028.6	5	1875.9	5

Source: USDA

Impact on China soybean crush margins. China soybean crush margins have been volatile as a result of global supply chain disruptions following the trade war. China Agri (606 HK, NR) and Wilmar are two of the largest oilseeds crushers in China. We note that both players managed to maintain decent margins in their oilseeds segments in 2H18 (after the implementation of tariffs on soybeans), presumably due to the low-cost soybean stocks in their inventories. The crush margins, however, began to fall in 1H19 as the low-cost inventories ran out and soy meal demand crashed as a result of the African swine fever.

Figure 18: China Agri and Wilmar's oilseeds segment margin



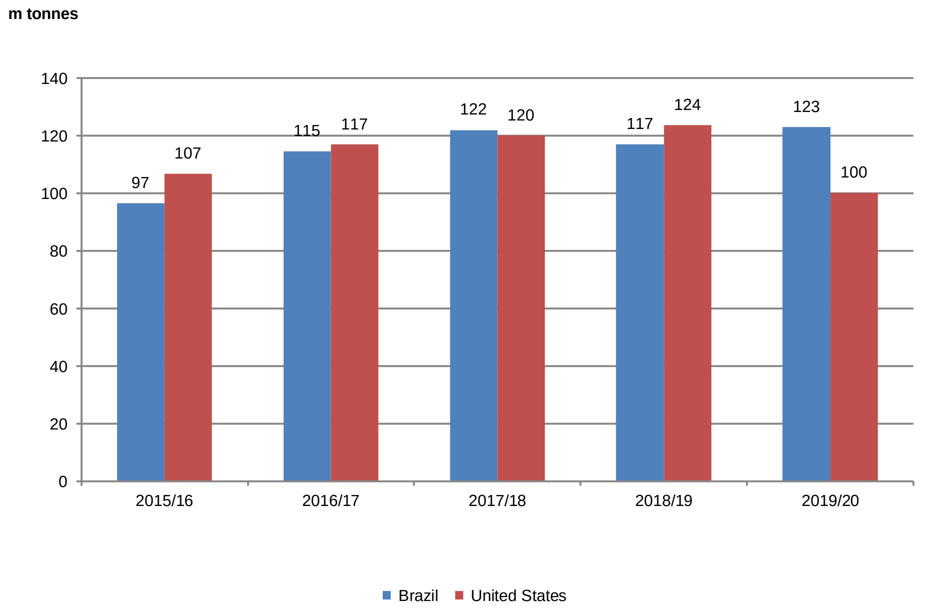
Note: 606 HK operating margin is for its Oilseeds processing segment while Wilmar pretax margin is for its Oilseeds & Grains segment

Source: Company data

Going forward, Brazil will continue to be the key replacement market for China demand. Brazil's total production has overtaken that of the US since MY2017/2018. Even with the disruption of soybean supply, c.80-90% of China's soybean crushing needs could still be fulfilled through Brazilian exports, thanks to strong production in the last two years. The USDA projects Brazil soybean production to grow by another 5% in the next production cycle.

Given our base-case scenario that the US-China trade war will remain for now, we expect Brazilian soybean to trade sideways. China's dependence on Brazilian beans should keep prices and premium against US beans supported. However, in the shorter term, there should be volatility to the price spread, depending on the sentiment on the trade war. On the other hand, strong prospects for production numbers and high ending stocks would limit major upside in Brazilian bean prices.

Figure 19: Being the largest soybean producer, Brazil is the only market capable of supplying China with adequate beans to replace that from the US after the tariffs implementation



Source: USDA

Hedging with trade deals with other markets. Since the escalation of the trade war, China has made several agricultural trade deals with other markets, presumably to seek replacement and reduce its reliance on US for soybeans:

i. In Jul 2018, China removed tariffs on the import of soybeans, soybean meal and rapeseed from five Asian countries – Bangladesh, India, Laos, South Korea, and Sri Lanka as part of the Asia Pacific Trade Agreement;

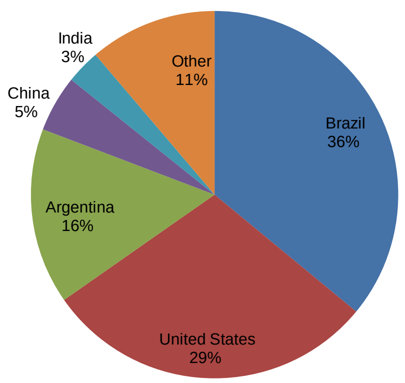
ii. In Jul 2019, China approved soybean imports from all parts of Russia and expect to double trade between the two countries over the next five years, driven largely by agricultural products;

iii. In Sep 2019, China further inked an agreement to allow the import of Argentinean soybean meals into China. We expect actual implementation to take another half a year to complete.

We note that other than India – which is one of the top 5 soybean-producing countries – the rest of the Asian countries have limited impact on soybean supplies. Even so, India's soybean production is small relative to Brazil and the US. We see the trade deals as supplements to China's soybean supplies, and steps to reduce the reliance on US beans. Brazil would still remain the largest exporter of soybean to China, assuming the trade war remains in place.

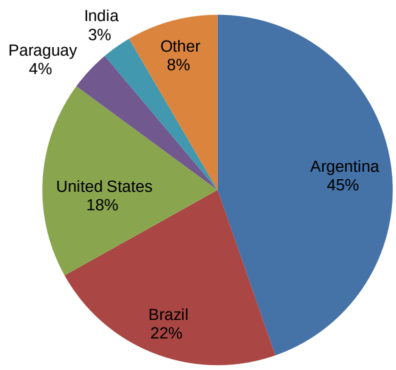
Argentina is the largest soybean meal-exporting country. Although China now allows imports of Argentinean soybean meal, we believe China's preference would still be to import soybeans and crush domestically. This is because soybean meals are perishable, and imports from Argentina are not that cost competitive after factoring in export tax and transport costs. We view the new import agreement with Argentina as insurance to China's soybean meal supply against adverse circumstances such as trade war escalation with the US or supply shortages in Brazil.

Figure 20: Top soybean-producing markets



Source: USDA

Figure 21: Top soybean meal-exporting markets



Source: USDA

Goodwill given to the US ahead of trade talks. The US and China are expected to resume trade talks in October. According to Bloomberg, China has given approvals for some oilseeds crushers to buy up to 2-3m tonnes of tariff-free US beans as a goodwill gesture preceding the trade talks. The optimism has brought some short-term respite to US bean prices.

However, given that soybean is one of the main leverage points China has on the trade negotiation, we believe some form of tariffs on soybeans will remain. China may, from time to time, give concessions to major oilseeds crushers to buy US soybeans – especially in 4Q when supplies from South America are tight post-harvesting season.

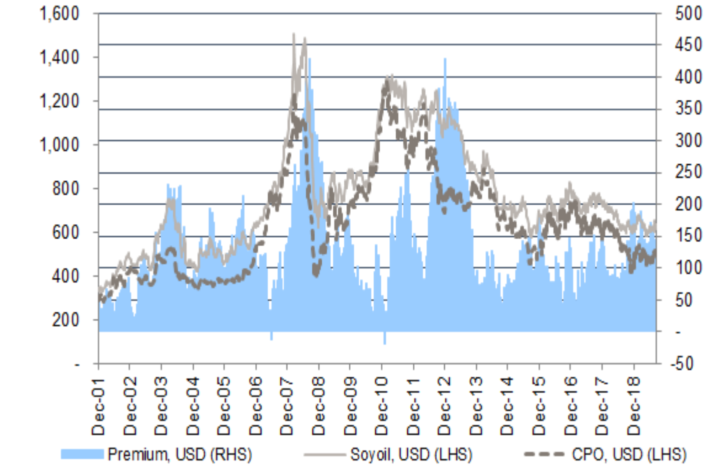
Impact on soybean crush margins in China. We expect soybean crushing margins to improve from the low levels in 1H19 as we expect China's feed meal demand to recover on rising poultry and pork prices while Brazilian soybean prices could trade sideways. Oilseeds crushers that were given quotas to import tariff-free US beans would benefit from the lower prices.

Over the longer term, we do not expect soybean crush margins to improve to pre-trade war levels as the opening of doors to soybean meal imports from Argentina and other Asian countries will intensify competition. This will put a price cap to what China soybean crushers could charge to feed producers and would limit major upside to crush margins.

Should a trade resolution come into effect; we believe short-term crushing margins will improve as excess soybeans stock from the US will hit the China market. However, this would be partially offset as US bean prices increase to reflect the reduction in tariffs.

What all this means to CPO demand is that while the trade war remains and the remnants of the African swine flu are still prevalent, soybean crushing activity may remain flattish and demand for CPO (as a replacement for soybean oil) would remain robust in China. This demand would, however, fluctuate depending on where the CPO-soybean oil gap is. Should the price gap widen too much to above USD150/tonne, price-sensitive countries could switch back to soybean oil.

Figure 22: Palm oil is trading at a USD129/tonne discount to soybean oil (from USD122/tonne last month)



Source: Bloomberg

Figure 23: Global soybean supply and demand

SOYBEANS : World Supply and Demand (Mn T)

	19/20F	18/19	17/18	16/17
Opening stocks	110.39*	91.77	94.69	77.04
Production	344.60*	361.80	341.73	345.05
N. Hemisphere	150.49*	173.92	168.76	161.20
EU-28	2.69*	2.71	2.63	2.48
Russia&Ukraine	8.80*	8.97*	8.37*	7.64*
Canada	6.58*	7.27	7.72	6.60
U.S.A.	100.16	123.66	120.07	116.93
China, P.R.	16.90*	15.40*	16.40*	11.71
India	9.80*	10.50*	8.30*	10.50*
S. Hemisphere	194.11*	187.88	172.97	183.85
Argentina	53.20*	56.00*	35.00*	52.00*
Brazil	122.80*	116.50*	122.00*	114.08
Paraguay	10.50*	8.50*	9.95*	10.00*
Uruguay	3.10*	2.83	1.50*	3.35*
Total supply	454.99*	453.57	436.42	422.09
Crush *(Sept/Aug)*	309.00*	299.79*	302.42	286.49
Other use	44.69*	43.39*	42.23	40.91
Ending stocks	101.30*	110.39*	91.77	94.69
U.S.A. Aug 31	21.50*	29.30*	11.92	8.21
Argentina Aug 31	31.30*	35.98*	24.00*	28.25*
Brazil Aug 31	29.50*	29.33*	34.36*	34.13*
Other countries	19.00*	15.78*	21.49*	24.10*
Stocks/usage	28.6%	32.2%	26.6%	28.9%

Source: Bloomberg

CPO prices – where do we go from here?

Demand for CPO to remain relatively robust. With our base case assumption that the trade war remains active, and that ASF in China takes 1-2 years before full recovery of the swine inventory takes place, we believe demand for CPO will remain relatively robust in 2020.

Demand for CPO from China has risen by 38% YoY in YTD-July, from the fact that soybean crushing is not taking place due to the ASF epidemic. With China's recent change in regulations to allow Brazilian soymeal to be imported into the country, we believe demand for CPO would remain intact in the medium term, as China seems to be moving towards lower reliance on US soybeans. Oil World projects CPO imports from China to rise 9.6% YoY in 2020, after rising 18% in 2019.

While stronger demand from China could be offset somewhat by weaker demand from India (post-import duty hike on Malaysian refined palm oil), we believe the overall decline in Indian demand for palm oil and its by-products would not be significant. This is due to the likely switching of demand in India to CPO, instead of to refined palm oil, and to Indonesian refined palm oil instead of Malaysian refined palm oil, due to the price discount of 5-6% in Indonesia.

In India, heavy rainfall has caused flooding in parts of Central India and damaged soybean crops. This could result in delayed harvesting and below-expected crop output in 2019. This could mean reliance on CPO could remain heavy this year (projected at +9.1% YoY by Oil World). In YTD-July, CPO imports are up 15% YoY.

Figure 24: India's rainfall records

INDIA : Rainfall at Selected Stations

	Aug 2019			July 2019			June 2019		
	actual mm	% of norm.	No. of days	actual mm	% of norm.	No. of days	actual mm	% of norm.	No. of days
Amritsar (Punjab)	72	40	4	226	110	14	22	49	4
New Delhi (")	120	47	9	199	88	13	11	16	1
Bikaner (Rajasthan) ..	181	274	8	36	37	4	7	18	1
Jodhpur (")	236	200	11	209	162	6	21	51	3
Ahmadabad (Gujarat)	309	119	16	95	37	10	103	101	6
Veraval (")	114	64	16	137	52	7	181	94	4
Indore (Mad.Pradesh)	366	118	23	368	134	15	102	80	8
Jagdalpur (")	668	187	25	668	185	15	203	78	12
Sagar (")	679	152	22	326	101	15	170	140	7
Akola (Maharashtra) ..	235	113	18	253	117	16	133	105	10
Mumbai (")	359	81	25	1175	167	30	341	59	14
Nagpur (")	290	102	20	435	149	19	73	42	7
Poona (")	209	166	19	377	203	20	198	157	12
Hyderabad (A.Prad.)	128	82	15	93	55	12	87	81	6
Masulipatnam(") ...	173	101	13	243	134	17	20	21	5
Average per station	**276**	**116**	**16**	**323**	**125**	**15**	**111**	**76**	**6**

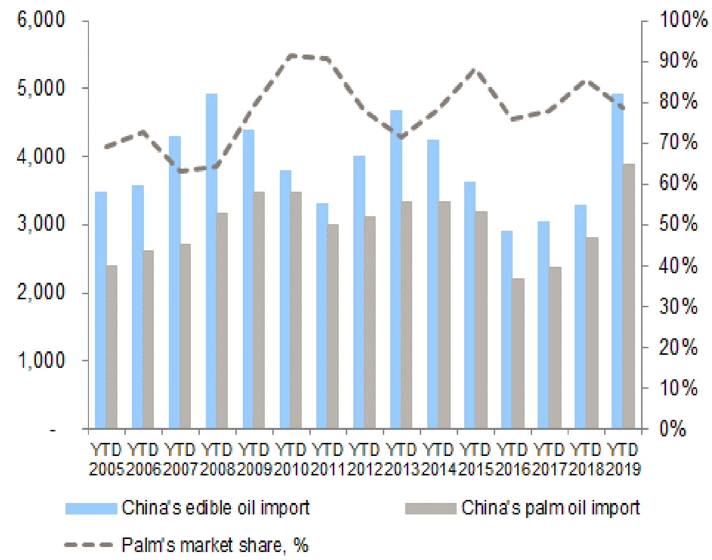
Source: Oil World

Figure 25: CPO consumption forecast

	Oct Sept 19/20F	Oct Sept 18/19	Oct Sept 17/18
Disappear.(a)			
EU-28..........	7740*	7711*	7571*
Russia.........	1120*	1095*	1024*
Egypt..........	920*	900*	820*
Nigeria........	2520*	2390*	2241*
U.S.A..........	1545*	1480*	1496
Colombia.......	1290*	1200*	1114*
China,PR.......	6930*	6324*	5357*
India..........	10069*	9790*	8976*
Indonesia......	16260*	15010*	11122*
Japan..........	800*	778*	743
Malaysia.......	3500*	3570*	3245*
Pakistan.......	3140*	3090*	2870*
Thailand.......	2833*	2726*	2346*
Turkey.........	655*	660*	617*
Oth countries..	20756*	20041*	19313*
Total..........	80078	76766	68855

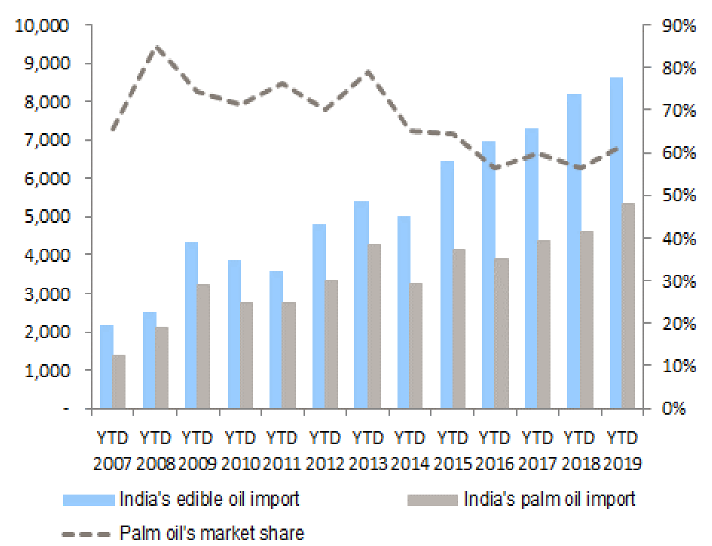
Source: Oil World

Figure 26: China's edible oil imports rose 50% YTD-July, while CPO imports were up 38% YoY



Source: Bloomberg

Figure 27: India's edible oil imports were up 5.1% YTD-July while CPO imports rose by 15.3% YoY

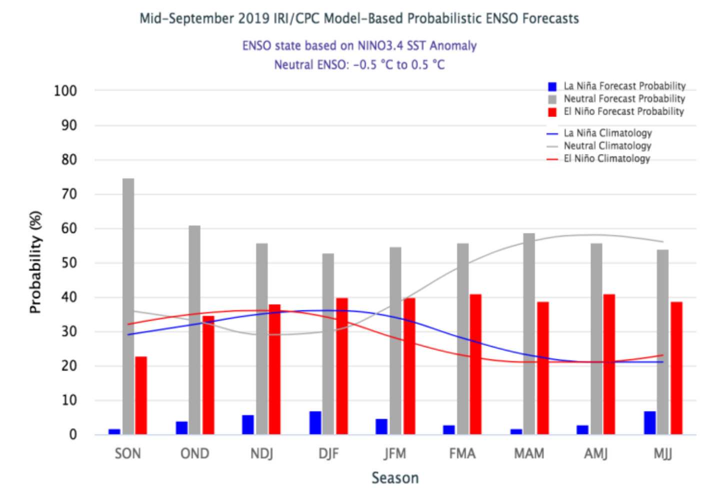


Source: Bloomberg

This, combined with the current weather conditions in Indonesia and Malaysia, leads us to believe CPO prices are due for a rerating in 2020. Currently, although the international climate models are still predicting neutral weather conditions to be the most likely scenario for the remainder of 2019 and into early 2020, the current reading for the Southern Oscillation Index (SOI) is at -12.6. This indicates *El Nino* conditions are currently being experienced as sea surface temperatures remain warmer than average - although it cannot be considered to be an *El Nino* event until the SOI remains below -7 for more than three months consecutively. This warmer and dryer weather is currently being experienced in Indonesia and Malaysia, hence causing the prevailing haze episodes in these countries.

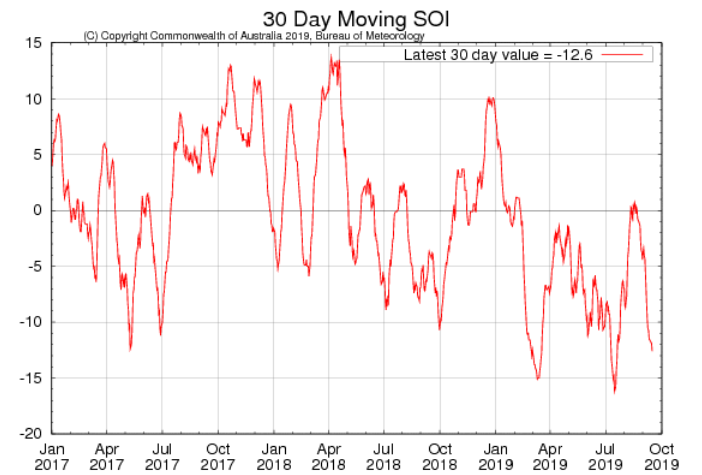
Should this dry weather continue for a couple more months, there will be some impact felt on production of CPO in 2020. Already in Indonesia, certain areas in Kalimantan were faced with patchy dry weather conditions since June/July, which resulted in weaker-than-expected CPO output in Indonesia.

Figure 28: Probability of a full-blown *El Nino* is low



Source: University of Columbia

Figure 29: Southern Oscillation Index at *El Nino* conditions of -12.6



Source: Australian Bureau of Meteorology

The official GAPKI forecasts for Indonesian CPO output in 2019 to rise to around 50m tonnes, up 5.5% YoY (from 47.4m tonnes in 2018), and to 60m tonnes by 2025. Official numbers for CPO output in YTD-July is +16.1% YoY. This means GAPKI expects CPO output growth to moderate in 2H19. In any case, we believe GAPKI production numbers may not be too accurate, given that it is not comprehensively collected from all CPO producers in the country. For all the Indonesian companies we cover, CPO output has been weaker YoY in 1H19, indicating a deviation from the official numbers. This is reflective of the dryness in certain areas in Sumatra (7% less rainfall YoY) and Kalimantan (9.5% less rainfall YoY). For 2020, we project Indonesia's CPO output to grow by a smaller 3-4% YoY, coming from the slowdown of new planting over the last few years and the dry weather experienced this year.

As for Malaysia, the official Malaysian Palm Oil Board (MPOB) forecasts CPO output to rise to 20.3m tonnes, up 5% YoY (from 19.5m tonnes in 2018). This is also a moderation from the YTD-Aug output growth of 10.8% YoY. For 2020, we believe CPO output could be flattish YoY, after a strong year of production, as the trees take a rest.

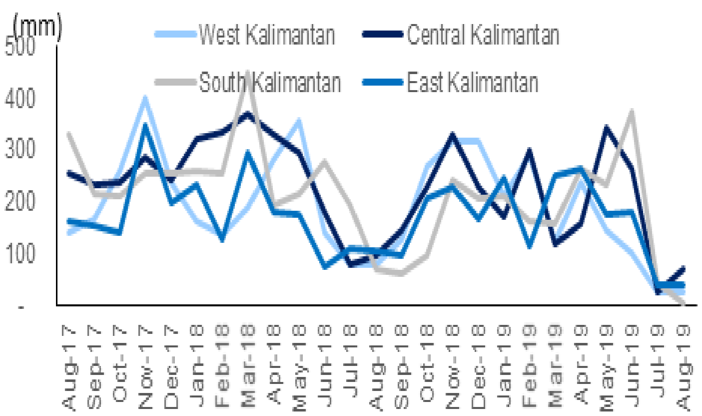
Figure 30: CPO supply and demand

PALM OIL : World Balance (Mn T)

	October / September				
	19/20F	18/19	17/18	16/17	15/16
Op'g stocks	14.69*	14.40	11.51	10.07	13.45
Production	**78.62***	**76.89***	**72.05**	**66.74**	**58.79**
Change	*+2.2%*	*+6.7%*	*+8.0%*	*+13.5%*	*-5.9%*
Imports	54.22*	53.43*	49.07	48.25	45.29
Exports	54.10*	53.27*	49.38	48.91	44.89
Consumption	**80.08***	**76.77***	**68.86**	**64.64**	**62.56**
Change	*+4.3%*	*+11.5%*	*+6.5%*	*+3.3%*	*+3.6%*
End'g stocks	13.35*	14.69*	14.40	11.51	10.07
Stocks/use ratio	*16.7%*	*19.1%*	*20.9%*	*17.8%*	*16.1%*

Source: Oil World

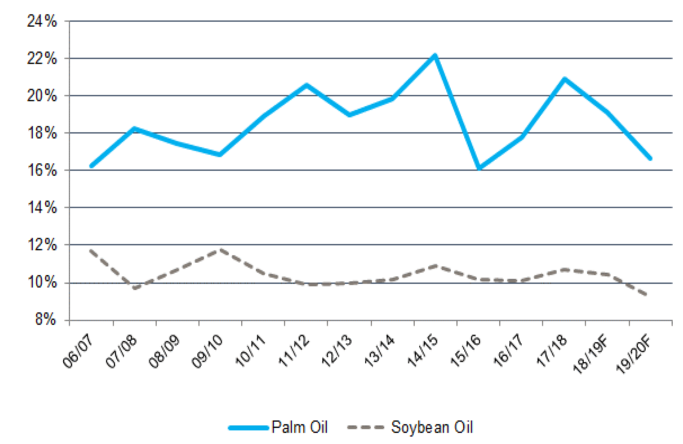
Figure 31: Indonesian rainfall shortage to affect output in 2020



Source: Oil World

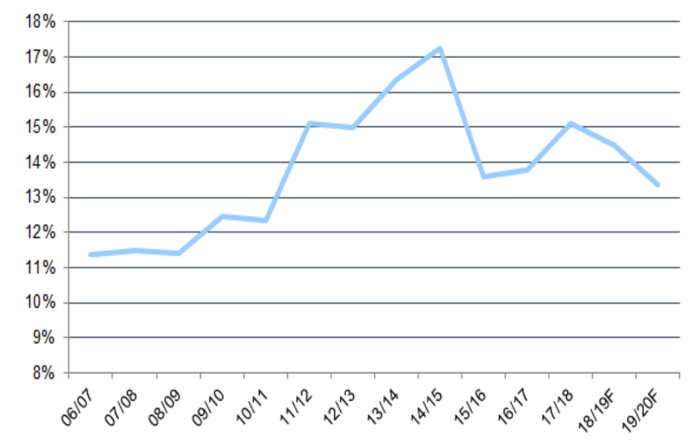
Stock/usage ratios looking healthier. In total, based on Oil World's projections, CPO production is estimated to rise by 1.7m tonnes in 2020, while demand is projected to rise by 3.3m tonnes, resulting in a lower ending stock level of 13.35m tonnes (-9.1% YoY). Stock/usage ratios are also expected to fall to 16.7% (from 19.1% in 2019), which is lower than the 15-year average of 17.5%. As for the eight vegetable oil complex, production growth is also expected to be overshadowed by consumption growth by 1.4m tonnes, resulting in a 5% YoY decline in ending stock levels. Stock/usage ratios for the eight vegetable oil complex are expected to decline to 13.4% in 2020, slightly below to the 15-year average of 13.5%. As these leading indicators all seem to be pointing to an improvement in fundamentals, we believe the time is ripe for CPO prices to be rerated upwards.

Figure 32: Palm oil and soybean oil stock/usage ratio



Source: Oil World, RHB

Figure 33: 8 vegetable oil complex stock/usage ratio



Source: Oil World, RHB

Recommendation – Upgrade sector to OVERWEIGHT

Overall, we expect 2020 to be a better year for the plantation sector, and we upgrade the sector to OVERWEIGHT (from Neutral). Caveats to our call include:

i. Our base case assumption that the trade war remains active;

ii. Crude oil prices are as our in-house forecasts of USD66/bbl and USD60/bbl for 2019 and 2020;

iii. No extreme climate conditions;

iv. Exchange rates are at MYR4.15/USD for 2019 and MYR4.10/USD for 2020.

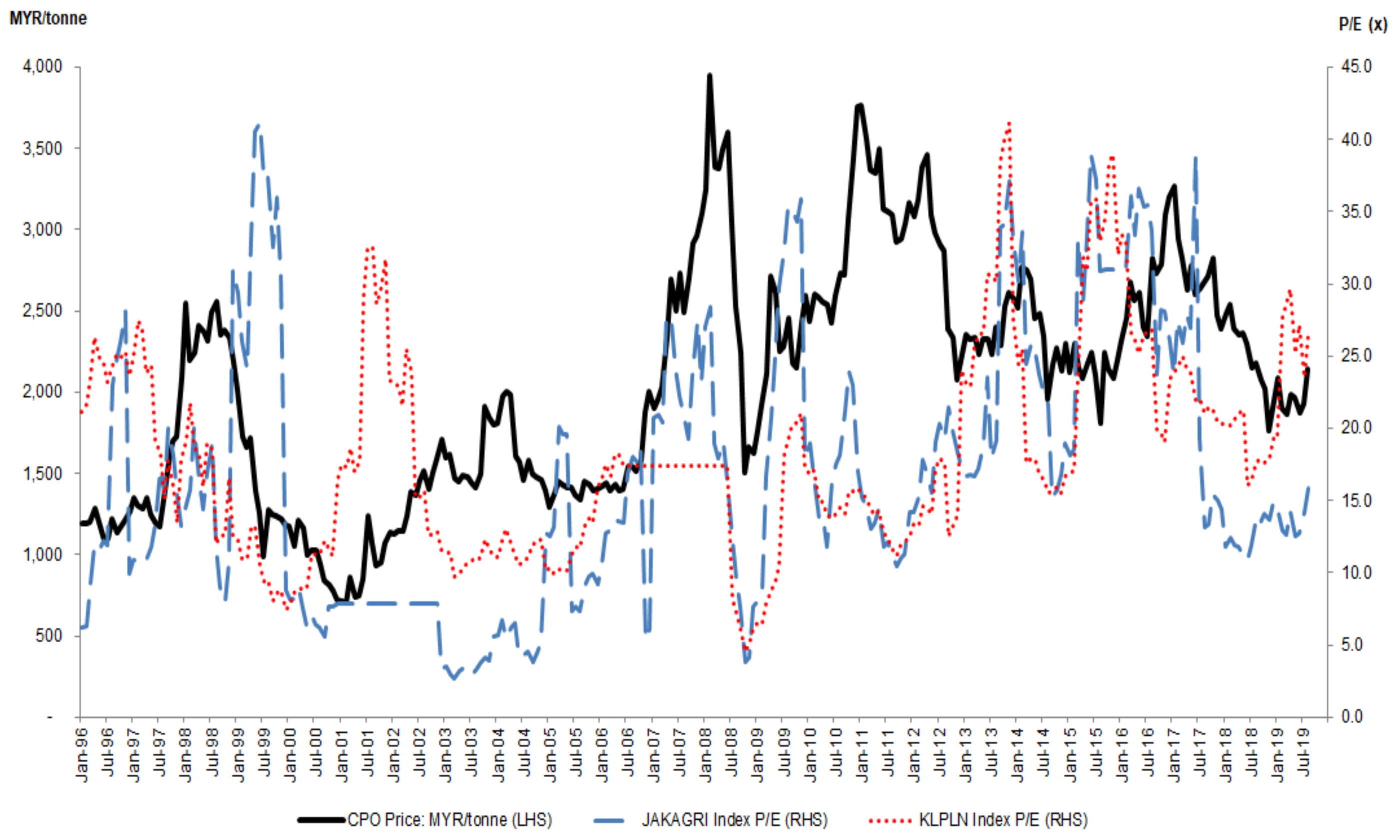
That being said, we believe our MYR2,400/tonne CPO price projection for 2020 already reflects our expectation of a stronger CPO price environment next year. We believe prices will be stronger in 1H20 than 2H20, as is seasonally the case. For the rest of 2019, we project CPO prices to remain in the range of MYR2,100-2,400/tonne. Our CPO price assumption of MYR2,200/tonne for 2019 remains intact – although it is likely that we would end the year averaging closer to MYR2,100/tonne, based on a YTD-average price of MYR2,000/tonne. Nevertheless, given the small gap, we are leaving our 2019 forecasts unchanged.

Valuations and stock picks

In view of this expectation, we believe plantation stocks would also likely rerate on the back of this price movement. Historically, CPO prices are the leading indicator for plantation companies' P/E valuations. As such, when CPO prices start moving, plantation P/Es will expand first, before earnings catch up and valuations return to normal. As such, we are raising our valuation targets for the plantation stocks under our coverage by 2-5x, as we expect plantation stocks to trade at more inflated valuations in the short term before earnings start improving.

Investors should position for the anticipated run-up in CPO prices that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market will need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions. Moreover, with the plantation sector in Malaysia having *shariah* status, we believe there would also be a scarcity premium accorded to the sector.

Figure 34: CPO prices are a leading indicator for plantation companies' P/Es



Source: RHB, Bloomberg

We summarise the changes made to our TPs and our recommendations in the table below. For most of the stocks, we have pegged the P/Es at 1SD above their historical means. We now assign higher target P/Es for the respective plantation divisions of the big-cap Malaysian planters of 30-35x (from 25-30x) and 16-18x for the mid-cap Malaysian planters and the SGX and IDX-listed stocks (from 14-15x).

We upgrade our recommendation on eight stocks across the region. We now have 7 BUYs (KL Kepong, Genting Plantations, Sarawak Oil Palms, First Resources, Wilmar, Astra Agro Lestari and London Sumatra), seven NEUTRAL stocks (IOI, FGV, IJM Plantations, CB Industrial Product, Bumitama Agri, Golden Agri and Sawit Sumbermas) and two SELL calls (TSH Resources and Sime Darby Plantation).

Figure 35: Recommendation and TP changes

Local Currency	FYE	Current Px 23/9/2019	Old TP	New TP	Old Rec	New Rec
CBIP	Dec	0.82	0.80	0.85	Sell	Neutral
FGV	Dec	0.93	0.90	1.00	Neutral	Neutral
GenP	Dec	10.00	9.30	11.35	Neutral	Buy
IJMP	Mar	1.50	1.20	1.45	Sell	Neutral
IOI	June	4.40	3.90	4.60	Neutral	Neutral
KLK	Sep	23.14	23.40	28.35	Neutral	Buy
Sime Plant	Dec	4.85	3.90	4.25	Sell	Sell
SOP	Dec	2.08	1.85	2.35	Neutral	Buy
TSH	Dec	0.90	0.70	0.76	Sell	Sell
Bumitama	Dec	0.61	0.54	0.60	Neutral	Neutral
FR	Dec	1.59	1.45	1.90	Neutral	Buy
GGR	Dec	0.25	0.22	0.25	Sell	Neutral
Wilmar	Dec	3.80	4.50	4.75	Buy	Buy
AALI	Dec	10,975	13,730	16,160	Buy	Buy
Lon Sum	Dec	1,235	1,290	1,450	Neutral	Buy
SSS	Dec	885	950	1,000	Neutral	Neutral

Source: RHB

Top regional picks – KL Kepong, AALI and First Resources. Given the expectation that upstream planters will benefit more from a rise in CPO prices than downstream planters, we are now switching our top regional picks to KL Kepong, Astra Agro Lestari and First Resources (from Wilmar).

Figure 36: 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	Neutral	0.82	0.85	18.7	12.4	0.7	Cash	2.5%	3.5%	N/A
FGV	FGV MK	Neutral	0.92	1.00	-22.0	228.1	0.8	53.1%	1.1%	-3.5%	34,026
Genting Plant	GENP MK	Buy	9.76	11.35	55.1	37.8	2.1	-37.3%	1.2%	3.7%	21,033
IJM Plantations	IJMP MK	Neutral	1.52	1.45	44.7	29.1	1.0	47.4%	1.3%	2.2%	8,636
IOI Corp	IOI MK	Neutral	4.42	4.60	39.1	37.0	3.1	34.1%	1.8%	8.2%	41,186
KL Kepong	KLK MK	Buy	23.16	28.35	37.2	27.9	2.1	20.3%	1.9%	5.7%	34,026
Sarawak Oil Palms	SOP MK	Buy	2.10	2.35	52.5	16.2	0.6	28.3%	2.4%	1.1%	5,040
Sime Plantations	SDPL MK	Sell	4.88	4.25	471.6	49.9	2.4	38.7%	0.2%	0.5%	19,389
TSH Resources	TSH MK	Sell	0.88	0.75	51.3	29.4	0.9	91.9%	0.6%	1.7%	14,680
Bumitama Agri	BAL SP	Neutral	0.58	0.60	31.2	15.0	1.3	64.1%	1.7%	4.7%	10,500
First Resources	FR SP	Buy	1.60	1.90	25.6	15.2	1.8	32.5%	1.0%	7.0%	13,522
Golden Agri	GGR SP	Neutral	0.23	0.25	-27.6	87.5	0.7	66.7%	0.0%	-2.6%	14,048
Wilmar	WIL SP	Buy	3.74	4.75	19.5	18.8	1.56	124.5%	2.8%	8.1%	N/A
Astra Agro Lestari	AALI IJ	Buy	10,750	16,160	96.8	13.3	1.0	19.3%	3.1%	1.1%	8,137
London Sumatra	LSIP IJ	Buy	1,195	1,450	38.5	15.7	1.0	Cash	1.1%	5.5%	5,240
Sawit Sumbermas	SSMS IJ	Neutral	945	1,000	40.8	18.8	2.1	0.1%	0.3%	5.2%	14,798
Regional Average					**40.0**	**23.5**	**1.5**				**18,051**

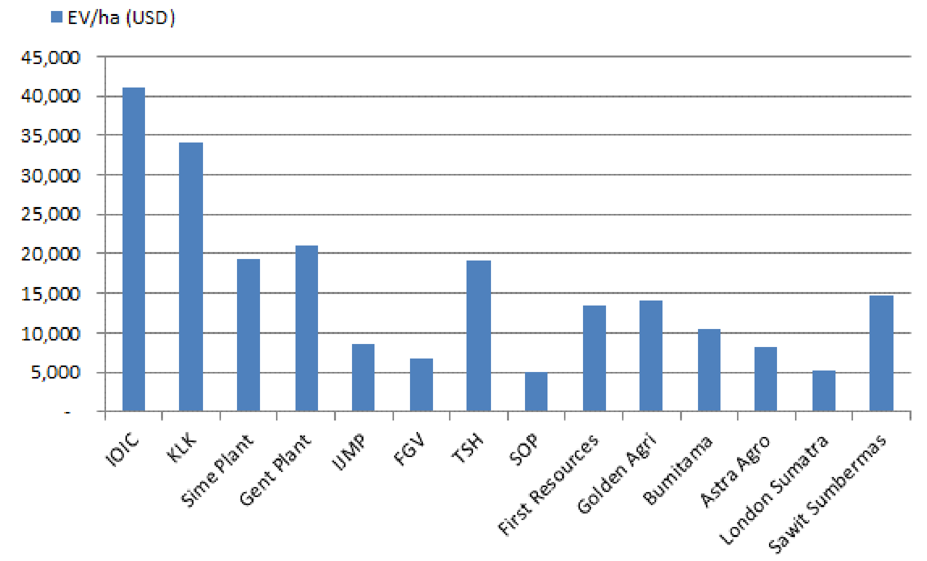
Note: Prices are as at 27 Sep 2019
Source: RHB, Bloomberg, Company data

Figure 37: Earnings sensitivity to changes in CPO prices

	Net Profit Change For Every MYR100/tonne Change
Genting Plantations	6-8%
KLK	4-6%
IJMP	5-7%
IOI Corp	3-5%
Sime Plantation	7-9%
FGV	4-6%
SOP	6-8%
TSH	4-5%
Golden Agri, SGD	8-10%
First Resources, SGD	4-5%
Bumitama Agri, SGD	5-6%
AALI, IDR	9-11%
Lonsum, IDR	11-12%
SSS, IDR	12-13%

Source: RHB

Figure 38: Peer comparison based on EV/ha



Source: RHB

Shariah Compliant

30 September 2019

Agriculture | Plantation

Astra Agro Lestari (AALI IJ)

Buy (Maintained)

Ready Player One; Maintain BUY With New TP

Target Price (Return)	IDR16,160 (+50%)
Price:	IDR10,750
Market Cap:	USD1,459m
Avg Daily Turnover (IDR/USD)	10bn/0.74m

- **Maintain BUY, new IDR16,160 TP** from IDR13,730, 50% upside with 3% yield. We upgraded AALI's TP together with that of the other planters we cover, on our now-more bullish view on the sector. In our view, AALI will benefit the most from the bullish outlook for CPO prices. This is our preferred pick, and our proxy to the Indonesian plantation sector – due to its good corporate governance and operational excellence.
- **Astra Agro Lestari's share price has climbed by 15%** from a weak point of IDR9,800 to its peak at IDR11,350, since it booked soft 2Q results while the CPO price recovered from MYR1,900 to MYR2,200. When the CPO price breaches upwards past its peak of RM2,200, its share price might run up faster than that of the commodity
- **We raise our target P/E but maintain other assumptions.** When CPO prices start moving, plantation companies' P/Es will expand first. This is why we bumped up AALI's target P/E to 20x from 17x – as AALI is the proxy to the plantation sector in Indonesia, and it has the capacity to capture the major changes in CPO prices.
- **Deserves a premium vs other plantation companies.** We prefer AALI over to London Sumatra (LSIP IJ, BUY, TP: IDR1,450) and Sawit Sumbermas Sarana (SSMS IJ, NEUTRAL, TP: IDR1,000) due its better corporate governance, replanting programme, and ability to improve sales volume by diversifying its sales volume sources to its trading business. Also, AALI should be valued at a premium, being owned by a major conglomerate – which should allow it to benefit the most from the bullish outlook, due to its operational excellence.
- **Good capacity to maintain margins historically.** The company's GPM and NPM are strongly correlated to CPO price movements, as with other planters. However, when other companies booked negative earnings, it managed to record a positive NPM in its quarterly results in the past three years, excluding 3Q15.
- **New target P/E target of 20x from 17x**. This also means our TP is now higher, at IDR16,160 from IDR13,730. Downside risks to our call: the CPO price rally not being sustained, and if AALI is unable to capture the CPO price rally in its sales volume.

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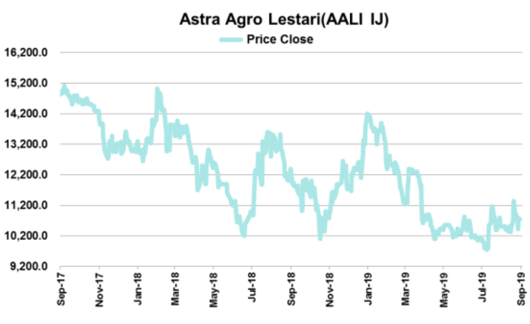
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.1)	(0.5)	3.4	(4.9)	(11.9)
Relative	(9.7)	(0.7)	4.6	(1.2)	(18.0)
52-wk Price low/high (IDR)				9500 - 14400	



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRbn)	17,306	19,084	17,992	20,765	22,117
Reported net profit (IDRbn)	1,968	1,439	214	1,555	2,275
Recurring net profit growth (%)	(2)	(27)	(85)	625	46
EPS (IDR)	1,023	747	111	808	1,182
DPS (IDR)	518	434	337	50	364
P/E (x)	10.5	14.4	96.5	13.3	9.1
P/B (x)	1.1	1.1	1.0	0.9	0.9
P/CF	3.9	8.8	6.6	4.2	3.0
Dividend Yield (%)	4.8	4.0	3.1	0.5	3.4
EV/Ha (USD)	10,237	10,237	10,237	10,237	10,237
ROAE (%)	14.9	7.6	1.1	7.5	10.4
Net debt to equity	19.8	24.0	18.9	12.9	9.2

Source: Company data, RHB

Financial Exhibits

Financial model updated on: 2019-09-26

Asia
Indonesia
Agriculture | CPO
Astra Agro Lestari
Bloomberg AALI IJ
BUY

Major shareholders (%)	
Astra International	79.7
Sun Life Financial I	1.4
Dimensional Fund	1.0

Valuation basis

20x P/E -0.5SD below the mean. This is because we believe AALI should trade close to its mean due to its healthy FFB yields and replanting programme, on top of good GCG and operating excellence.

Key drivers

i. Increase in palm product prices;
ii. Increase in palm product sales volume;
iii. A drop in Indonesia's and Malaysia's inventory levels.

Key risks

i. Further weakening of CPO prices;
ii. Significant drop in production.

Company Profile

Astra Agro Lestari operates rubber plantations and manufactures cooking oil. Through its subsidiaries, the company also runs oil palm, tea and cocoa plantations.

Financial Summary	**2017**	**2018**	**2019F**	**2020F**	**2021F**
EPS (IDR)	1,023	747	111	808	1,182
DPS (IDR)	518	434	337	50	364
BVPS (IDR)	9,722	10,118	10,593	11,405	11,885
FCFPS (IDR)	1,433	634	843	1,323	1,857
Weighted Avg Adjusted Shares (m)	1,925	1,925	1,925	1,925	1,925

Valuation Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
P/E (x)	10.5	14.4	96.5	13.3	9.1
P/B (x)	1.1	1.1	1.0	0.9	0.9
FCF Yield (%)	13.3	5.9	7.8	12.3	17.3
Dividend Yield (%)	4.8	4.0	3.1	0.5	3.4
EV/EBITDA (x)	7.0	7.9	15.2	7.4	5.7
EV/ha (planted)	10,237	10,237	10,237	10,237	10,237

Income Statement (IDRbn)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Turnover	17,306	19,084	17,992	20,765	22,117
Gross Profit	4,145	3,540	1,770	3,708	4,701
EBITDA	3,743	3,338	1,731	3,533	4,585
Depreciation and Amortisation	863	1,131	1,334	1,403	1,469
Operating Profit	3,051	2,326	611	2,320	3,303
Net Interest	(104)	(133)	(217)	(217)	(217)
Pre-Tax Profit	2,880	2,207	397	2,130	3,116
Taxation	(810)	(686)	(183)	(575)	(841)
Minority Interests	103	76	11	78	114
Net Profit	1,968	1,439	214	1,555	2,275

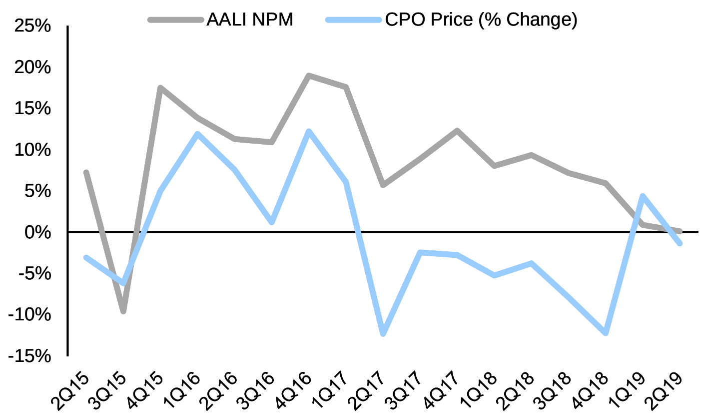
Cash Flow (IDRbn)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Working Capital	(877)	(188)	(83)	(102)	(44)
Cash Flow from Operations	2,757	1,220	1,623	2,546	3,575
Capex	1,466	(1,499)	(1,500)	(1,500)	(1,500)
Cash Flow from Investing Activities	(1,754)	(1,519)	(1,490)	(1,525)	(1,512)
Proceeds from Issue of Shares	-	-	-	-	-
Dividends Paid	(997)	(835)	(648)	(97)	(700)
Cash Flow from Financing Activities	(1,277)	86	699	8	(1,352)
Cash at Beginning of Period	532	262	49	881	1,910
Net Change in Cash	(273)	(213)	832	1,029	711
Ending Balance Cash	262	49	881	1,910	2,621

Balance Sheet (IDRb)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Cash and Equivalents	262	49	881	1,910	2,621
Fixed assets	16,899	17,268	17,434	17,530	17,561
Total Assets	25,120	26,857	27,553	29,502	30,637
Total Current Liabilities	2,309	3,077	2,981	3,224	3,354
Total Non-Current Liabilities	4,098	4,306	4,184	4,327	4,409
Total Liabilities	6,407	7,382	7,165	7,551	7,763
Shareholders' Equity	18,712	18,990	19,931	21,423	22,312
Minority Interests	477	485	457	528	562
Total Liabilities & Equity	25,120	26,857	27,553	29,502	30,637

Key Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Revenue Growth (%)	22.5	10.3	(5.7)	15.4	6.5
EPS Growth (%)	(14)	(27)	(85.09)	625	46
Gross Margin (%)	24.0	18.5	9.8	17.9	21.3
EBITDA Margin (%)	21.6	17.5	9.6	17.0	20.7
Net Profit Margin (%)	11.4	7.5	1.2	7.5	10.3
Dividend Payout Ratio (%)	45	45	45	45	45

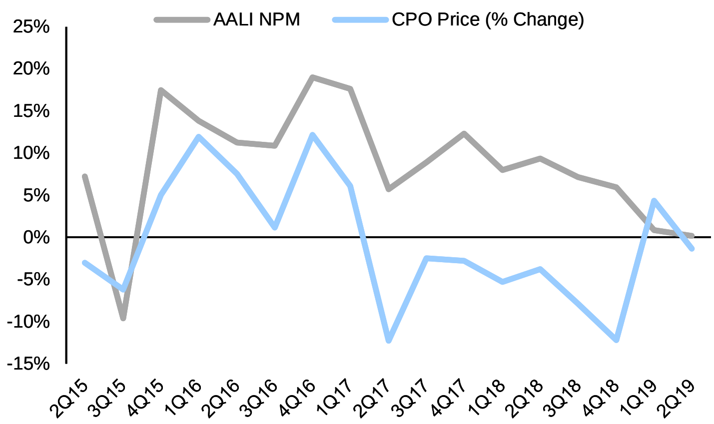
Source: Company data, RHB

Figure 1: AALI's Net Profit Margin vs CPO price change (%) 2Q15 – 2Q19)



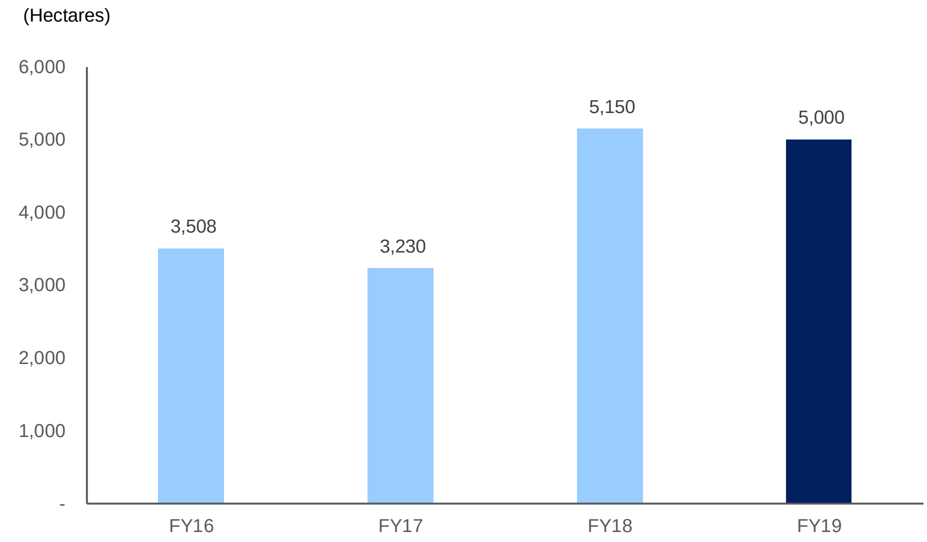
Source: RHB, Company

Figure 2: AALI's Gross Profit Margin vs CPO price change (%) 2Q15 – 2Q19)



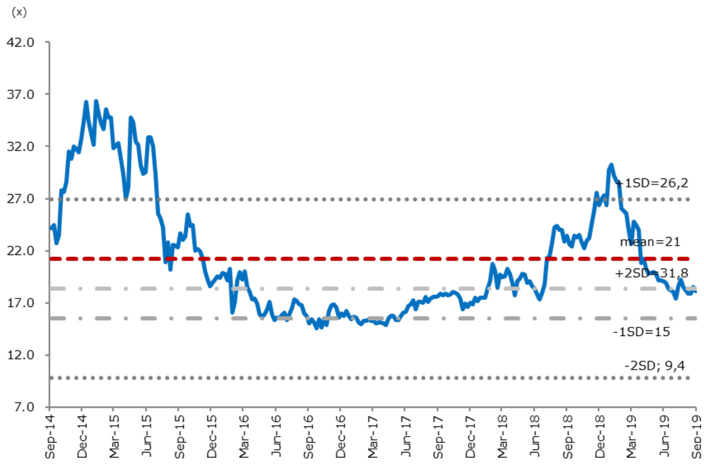
Source: RHB, Company

Figure 3: AALI's replanting programme



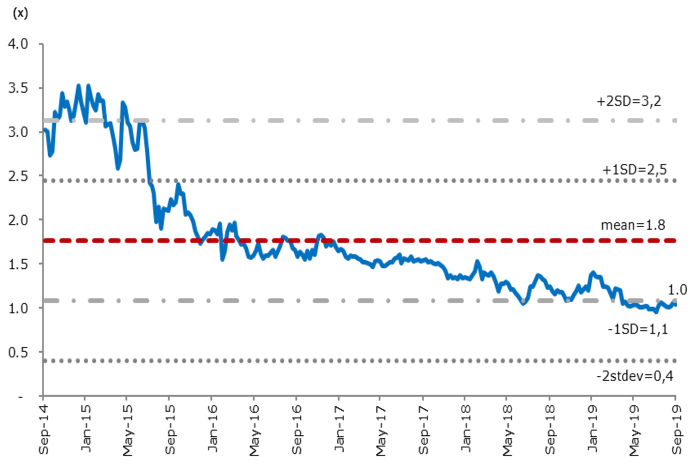
Source: Company data

Figure 4: AALI's 5-year P/E band



Source: Bloomberg, RHB

Figure 5: AALI's 5-year P/BV band



Source: Bloomberg, RHB

30 September 2019

Agriculture | Plantation

Bumitama Agri (BAL SP)

Neutral (Maintained)

Valuations At Fair Levels; Stay NEUTRAL

Target Price (Return)	SGD0.60 (+3%)
Price:	SGD0.58
Market Cap:	USD760m
Avg Daily Turnover (SGD/USD)	0.26m/0.06m

- **Maintain NEUTRAL, SOP-based TP of SGD0.60, 3% upside**. This is on the back of our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue rising in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first**, before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices remain at high levels, causing positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Still NEUTRAL**. Our TP rises to SGD0.60 from SGD0.54, after we lift our P/E to 16x (from 14x), which is 1SD above its historical average. Our TP implies an EV/ha of USD10,000 – at the low end of the peer range of USD10,000-15,000/ha. Although Bumitama is a pure upstream company, and will benefit from the hike in CPO prices, we believe valuations are already relatively fair at current levels, and upside is somewhat limited.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRbn)	8,131.4	8,381.2	7,929.1	9,039.6	9,621.5
Recurring net profit (IDRbn)	1,188.2	1,201.9	372.2	712.0	813.5
Recurring net profit growth (%)	23.5	1.2	(69.0)	91.3	14.3
Recurring P/E (x)	9.4	9.2	29.1	15.1	13.3
P/BV (x)	1.5	1.4	1.4	1.3	1.2
P/CF (x)	5.9	7.3	9.9	6.8	6.2
Dividend Yield (%)	4.7	4.7	1.7	3.0	3.4
EV/EBITDA (x)	4.3	4.4	8.2	5.6	5.1
ROE (%)	16.0	14.1	4.7	8.5	9.3
Net debt to equity (%)	60.8	63.4	64.1	59.0	56.2
Interest coverage (x)	11.7	9.3	2.7	4.6	5.3

Source: Company data, RHB

Analyst

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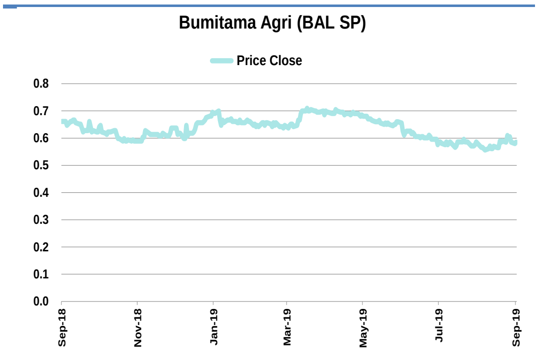
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(0.8)	(11.4)	(12.7)	(14.6)
Relative	0.3	0.4	(6.2)	(8.1)	(2.9)
52-wk Price low/high (MYR)					0.54 - 0.735



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
Bumitama Agri
BAL SP

Valuation basis

We use 16x 2020 P/E to value Bumitama Agri at 1SD above its historical average. This implies an EV/ha of USD10,000, which is at the low end of its peers' range of USD10,000-15,000.

Key drivers

CPO prices and FFB production.

Key risks

CPO price movements, weather risks, and the demand and supply dynamics of the global vegetable oil industry.

Company Profile

Bumitama Agri is a pure upstream plantation company in Indonesia, with landbank mostly in Kalimantan.

Financial summary	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Recurring EPS (SGD)	0.06	0.06	0.02	0.04	0.04
DPS (SGD)	0.03	0.03	0.01	0.02	0.02
BVPS (SGD)	0.39	0.41	0.43	0.45	0.47
ROE (%)	16.02	14.12	4.68	8.53	9.26

Valuation metrics	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Recurring P/E (x)	9.5	9.3	32.0	15.4	13.6
P/B (x)	1.52	1.44	1.38	1.31	1.26
FCF Yield (%)	2.44	1.98	1.63	2.06	2.19
Dividend yield (%)	4.7	4.7	1.7	3.0	3.4
EV/EBITDA (x)	4.4	4.5	8.4	5.7	5.2
EV/EBIT (x)	5.6	5.8	16.3	8.9	7.8

Income statement (IDRbn)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Total turnover	8131	8381	7929	9040	9622
Gross profit	2,389	2,391	1,397	2,032	2,260
EBITDA (adj.)	2,458	2,398	1,250	1,824	2,038
Depreciation & amortisation	(518)	(550)	(606)	(651)	(693)
Operating profit	1,940	1,848	643	1,173	1,345
Net interest	(18)	(35)	(60)	(70)	(69)
Pre-tax profit	1,894	1,705	584	1,104	1,276
Taxation	(470)	(410)	(146)	(276)	(319)
Net profit	1,193	1,097	372	712	814
Recurring net profit	1,188	1,202	372	712	814

Cash flow (IDRbn)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Change in working capital	2,244	1,974	1,238	1,851	2,067
Cash flow from operations	1,883	1,517	1,092	1,575	1,748
Capex	(796)	(629)	(621)	(604)	(588)
Cash flow from investing activities	(1,030)	(929)	(924)	(920)	(928)
Dividends paid	(382)	(570)	(187)	(325)	(375)
Cash flow from financing activities	(1,151)	(511)	(343)	(582)	(828)
Cash at beginning of period	517	217	299	124	197
Net change in cash	(300)	82	(175)	74	(8)
Ending balance cash	217	299	124	197	189

Balance sheet (IDRbn)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Total cash and equivalents	217	299	124	197	189
Tangible fixed assets	11,942	12,170	11,916	11,743	11,426
Total investments	-	-	-	-	-
Total assets	15,290	16,539	16,536	16,964	17,821
Short-term debt	339	4,289	4,289	4,289	4,289
Total long-term debt	4,410	935	935	835	835
Total liabilities	7,840	8,768	8,579	8,621	9,038
Total equity	7,449	7,771	7,957	8,343	8,782
Total liabilities & equity	15,290	16,539	16,536	16,964	17,821

Key metrics	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Revenue growth (%)	22.6	3.1	(5.4)	14.0	6.4
Recurrent EPS growth (%)	23.5	1.2	(69.0)	91.3	14.3
Gross margin (%)	29.4	28.5	17.6	22.5	23.5
Operating EBITDA margin (%)	30.2	28.6	15.8	20.2	21.2
Net profit margin (%)	14.6	14.3	4.7	7.9	8.5
Capex/sales (%)	9.8	7.5	7.8	6.7	6.1
Interest cover (x)	105.6	49.8	10.8	16.9	19.4

Source: Company data, RHB

Figure 1: Key assumptions for Bumitama

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production (tonnes)	1,513,422	1,784,729	2,276,866	2,340,825	2,592,354	2,888,889
% change	(4.1%)	17.9%	27.6%	2.8%	10.7%	11.4%
CPO price assumptions (IDR/kg)	7,378	8,099	7,029	7,607	8,371	8,720
% change	6.4%	9.8%	(13.2%)	8.2%	10.0%	4.2%
PK price assumptions (IDR/kg)	6,359	6,033	5,287	4,495	5,406	5,406
% change	50.6%	7.9%	(22.9%)	(15.0%)	20.3%	0.0%

Source: Company data, RHB

30 September 2019

Agriculture | Plantation

CB Industrial Product (CBP MK)

Neutral (From Sell)

Limited Downside; Upgrade to NEUTRAL

Target Price (Return)	MYR0.85 (+3.6%)
Price:	MYR0.82
Market Cap:	USD105.3m
Avg Daily Turnover (MYR/USD)	0.25m/0.06m

- **Upgrade to NEUTRAL, new MYR0.85** from MYR0.80, 4% upside with 2% yield. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue growing in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  - i. Trade war is still on, with import duties being levied on US soybeans;
  - ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  - iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  - iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  - v. Crude oil prices remain at high levels, causing positive CPO-gasoil price gap;
  - vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Upgrade to NEUTRAL with a higher SOP-based TP of MYR0.85** (from MYR0.80) based on a higher 11x 2020F P/E (from 9x) for the plantations division and 12x 2020F P/E for the oil mill engineering and retrofitting unit. Its share price has retreated substantially in the last year and we believe downside risks are limited from hereon. Although CBIP is not exactly a plantation stock, it will stand to benefit when CPO prices recover, as capex cycles will normalise.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	669.8	481.1	459.5	503.5	640.9
Recurring net profit (MYRm)	81.6	49.7	26.7	40.4	58.0
Recurring net profit growth	(5.8)	(39.1)	(46.2)	51.0	43.7
Recurring P/E (x)	6.1	10.1	18.7	12.4	8.6
P/BV (x)	0.7	0.7	0.7	0.7	0.6
P/CF (x)	8.6	9.4	13.6	9.7	7.1
Dividend Yield (%)	7.4	4.9	2.5	4.3	4.9
EV/EBITDA (x)	5.3	5.0	10.7	7.9	5.9
ROE (%)	7.0	6.3	3.6	5.3	7.3
Net debt to equity (%)	Net cash	3.2	8.5	10.8	15.4
Interest coverage (x)	39.8	24.2	7.6	9.5	14.2

Source: Company data, RHB

Analyst

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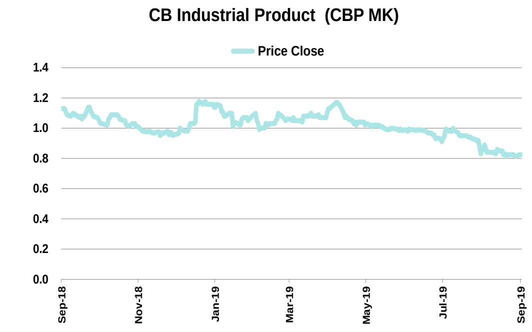
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.5)	(0.6)	(16.7)	(23.6)	(28.3)
Relative	(11.6)	0.6	(11.6)	(19.0)	(16.6)
52-wk Price low/high (MYR)					0.815 - 1.38



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Industrial
CB Industrial Product
CBP MK

Valuation basis

We use SOP to value CBIP, applying a 2020F target P/E of 12x for its oil mill engineering division and 11x for its plantation division. We also add/(deduct) CBIP's net cash/(debt) to this value

Key drivers

Demand/supply of new and replacement palm oil mills in the global market, CPO price movement.

Key risks

Slowdown of contract wins, changes in the direction of the USD/MYR rate, and CPO price movement.

Company Profile

CB Industrial Product manufactures and markets its patented palm oil mills and related products. It is also involved in retrofitting special vehicles and the cultivation of palm oil plantations.

Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring EPS (MYR)	0.13	0.08	0.04	0.07	0.09
DPS (MYR)	0.06	0.04	0.02	0.04	0.04
BVPS (MYR)	1.16	1.19	1.21	1.24	1.30
ROE (%)	6.96	6.31	3.56	5.26	7.31

Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring P/E (x)	6.1	10.1	18.7	12.4	8.6
P/B (x)	0.71	0.69	0.67	0.66	0.63
FCF Yield (%)	(15.56)	(3.48)	(18.25)	(14.60)	(17.89)
Dividend yield (%)	7.4	4.9	2.5	4.3	4.9
EV/EBITDA (x)	5.3	5.0	10.7	7.9	5.9
EV/EBIT (x)	5.8	5.3	13.2	9.3	6.7

Income statement (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total turnover	670	481	459	504	641
Gross profit	142	141	75	98	139
EBITDA (adj.)	82	105	53	74	106
Depreciation & amortisation	(8)	(7)	(10)	(11)	(12)
Operating profit	75	98	43	63	94
Net interest	2	(2)	(4)	(5)	(5)
Pre-tax profit	88	92	30	61	91
Taxation	(24)	(29)	(5)	(11)	(18)
Net profit	50	46	27	40	58
Recurring net profit	82	50	27	40	58

Cash flow (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Change in working capital	(76)	35	5	(5)	(44)
Cash flow from operations	(0)	35	(31)	(15)	(29)
Capex	(68)	(50)	(50)	(50)	(50)
Cash flow from investing activities	(43)	(78)	94	16	13
Dividends paid	(32)	(26)	(12)	(21)	(25)
Cash flow from financing activities	13	8	38	(21)	(25)
Cash at beginning of period	73	43	9	110	90
Net change in cash	(30)	(35)	101	(20)	(41)
Ending balance cash	43	9	110	90	49

Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total cash and equivalents	134	100	110	90	49
Tangible fixed assets	343	420	460	499	537
Total investments	136	135	135	135	135
Total assets	1,003	1,049	1,110	1,137	1,197
Short-term debt	50	30	80	80	80
Total long-term debt	17	94	94	94	94
Total liabilities	279	306	353	360	386
Total equity	724	743	758	777	810
Total liabilities & equity	1,003	1,049	1,110	1,137	1,197

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	17.5	(28.2)	(4.5)	9.6	27.3
Recurrent EPS growth (%)	(48.4)	(7.1)	(46.9)	38.6	43.7
Gross margin (%)	(5.8)	29.4	16.3	19.4	21.7
Operating EBITDA margin (%)	12.3	21.8	11.4	14.6	16.5
Net profit margin (%)	12.2	10.3	5.8	8.0	9.1
Capex/sales (%)	10.1	10.4	10.9	9.9	7.8
Interest cover (x)	46.0	21.8	4.3	8.3	12.8

Source: Company data, RHB

Figure 1: Earnings assumptions for CBIP

FYE Dec	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Oil mill division revenue growth (%)	-3	-5	-16	-15	16	1	6
CPO Selling Price (MYR/t)	2,150	2,500	2,600	2,400	2,200	2,400	2,400

Source: RHB

Figure 2: SOP valuation

	Valuation method	Target P/E	MYRm
Plantation	2020F P/E	11	84.7
Oil Mill construction	2020F P/E	12	455.0
Net cash / (debt)	End-2QFY19 and including cash outlay and debt assumption for biodiesel plant acquisitions		(84.3)
Revalued NAV			**455.4**
Issued Shrs (m shrs)			542.1
RNAV/share (MYR)			**0.84**

Source: RHB

30 September 2019

Agriculture | Plantations

First Resources (FR SP)

Buy (From Neutral)

Sensitive To CPO Prices; Upgrade To BUY

Target Price (Return)	SGD1.90 (+19%)
Price:	SGD1.59
Market Cap:	USD1,828m
Avg Daily Turnover	1.44m/0.35m

- **Upgrade to BUY from Neutral, new TP of SGD1.90** from SGD1.45, 19% upside. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue increasing in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first**, before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Our TP rises SGD1.90 from SGD1.45,** on higher 18x P/E (from 15x), 1SD above First Resources' historical average. This implies an EV/ha of USD13,000, in line with the peers' USD10,000-15,000 range. Its mostly upstream operations will stand it in good stead in a CPO price upcycle, while it will also benefit from higher biodiesel profits as Indonesia implements its B30 mandate in 2020. Upgrade to BUY.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	647.0	633.5	485.8	602.7	663.5
Recurring net profit (USDm)	137.4	112.5	69.3	118.1	137.5
Recurring net profit growth (%)	22.2	(18.2)	(38.4)	70.5	16.4
Recurring P/E (x)	14.1	16.6	26.2	15.3	13.3
P/BV (x)	2.0	2.0	1.8	1.7	1.5
P/CF (x)	14.1	30.2	27.0	15.4	13.8
Dividend Yield (%)	4.3	2.0	1.0	1.7	1.9
EV/EBITDA (x)	9.9	10.9	14.7	10.5	9.1
ROE (%)	14.9	12.6	6.8	11.1	12.3
Net debt to equity (%)	27.0	34.9	32.5	21.4	10.1
Interest coverage (x)	9.7	9.7	7.0	14.7	25.8

Source: Company data, RHB

Analyst

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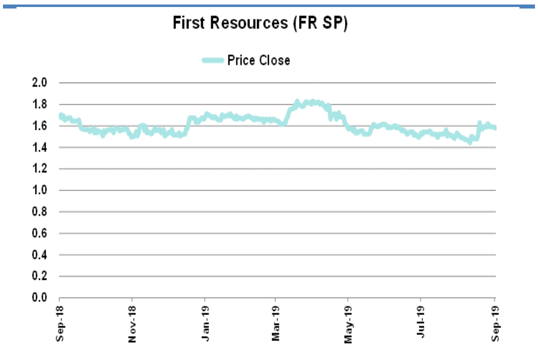
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.6	2.6	(2.5)	(6.5)	(7.6)
Relative	8.5	3.8	2.7	(1.9)	4.1

52-wk Price low/high (MYR) 1.44 - 1.88



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
First Resources
FR SP

Valuation basis

18x 2020F P/E, at 1SD above its historical average. This implies an EV/ha of USD13,000, in line with its peers' range of USD10,000-15,000.

Key drivers

CPO prices, FFB production, and refinery and biodiesel margins.

Key risks

CPO price movement, weather risks, and the demand and supply dynamics of the global vegetable oils industry.

Company Profile

First Resources is an Indonesian planter listed on the Singapore Exchange, with most estates located in Sumatra. It is involved in both upstream and downstream palm oil businesses.

Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring EPS (SGD)	0.11	0.10	0.06	0.10	0.12
DPS (SGD)	0.07	0.03	0.02	0.03	0.03
BVPS (SGD)	0.80	0.79	0.87	0.95	1.03
ROE (%)	14.86	12.60	6.82	11.10	12.34

Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring P/E (x)	14.1	16.6	26.2	15.3	13.3
P/B (x)	1.99	2.00	1.84	1.68	1.54
FCF Yield (%)	12.21	7.57	3.53	9.21	11.26
Dividend yield (%)	4.3	2.0	1.0	1.7	1.9
EV/EBITDA (x)	9.9	10.9	14.7	10.5	9.1
EV/EBIT (x)	12.6	14.9	23.8	15.3	13.1

Income statement (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total turnover	647	633	486	603	664
Gross profit	370	346	256	343	384
EBITDA (adj.)	290	254	194	269	302
Depreciation & amortisation	(63)	(67)	(74)	(83)	(93)
Operating profit	227	187	120	186	210
Net interest	(21)	(17)	(15)	(10)	(6)
Pre-tax profit	209	181	107	178	206
Taxation	(64)	(53)	(31)	(50)	(58)
Net profit	138	120	71	120	139
Recurring net profit	137	112	69	118	137

Cash flow (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Change in working capital	26	(56)	(23)	14	8
Cash flow from operations	232	112	129	227	252
Capex	(85)	(77)	(107)	(107)	(107)
Cash flow from investing activities	(93)	(94)	(107)	(107)	(107)
Dividends paid	(43)	(81)	(18)	(30)	(35)
Cash flow from financing activities	(12)	(197)	(18)	(130)	(134)
Cash at beginning of period	108	234	56	61	51
Net change in cash	126	(179)	5	(10)	11
Ending balance cash	234	55	61	51	61

Balance sheet (USDM)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total cash and equivalents	279	100	105	95	106
Tangible fixed assets	1,119	1,054	1,106	1,130	1,144
Total investments	-	-	-	-	-
Total assets	1,731	1,571	1,623	1,631	1,666
Short-term debt	21	30	30	30	30
Total long-term debt	475	351	351	251	151
Total liabilities	759	639	637	553	483
Total equity	972	932	987	1,078	1,183
Total liabilities & equity	1,731	1,571	1,623	1,631	1,666

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	12.5	(2.1)	(23.3)	24.1	10.1
Recurrent EPS growth (%)	22.2	(18.2)	(38.4)	70.5	16.4
Gross margin (%)	57.1	54.6	52.7	56.9	57.8
Operating EBITDA margin (%)	44.8	40.2	39.8	44.7	45.6
Net profit margin (%)	21.2	17.8	14.3	19.6	20.7
Capex/sales (%)	13.1	12.2	22.0	17.8	16.1
Interest cover (x)	11.1	11.6	8.3	18.1	36.2

Source: Company data, RHB

Figure 1: Key assumptions for First Resources

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production (tonnes)	2,367,767	2,682,942	3,061,819	3,171,822	3,417,909	3,660,391
% change	(6.4%)	13.3%	14.1%	3.6%	7.8%	7.1%
CPO price assumptions (IDR/kg)	587	603	540	493	544	567
% change	8.6%	2,7%	(10.4%)	(8.7%)	10.4%	4.2%

Source: RHB

30 September 2019

Agriculture | Plantation

FGV Holdings (FGV MK)

Neutral (Maintained)

Held Back By Corporate Risks; Stay NEUTRAL

Target Price (Return)	MYR1.00 (+9%)
Price:	MYR0.915
Market Cap:	USD796m
Avg Daily Turnover (MYR/USD)	6.12m/1.47m

- **Maintain NEUTRAL,** revised TP of MYR1.00 from MYR0.90, 9% upside with 1% yield. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and increasing in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation P/E valuations.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Maintain NEUTRAL**. Despite our more bullish industry stance, corporate risks still abound for FGV in the form of continued weakness in its sugar division and downstream JV earnings. As such we maintain our call, but with a higher SOP-based TP of MYR1.00 (from MYR0.90), based on an 80% discount to peers' EV of USD10,000/ha for its plantation division, 15x 2020 for its logistics division (from 12x), and a holding company discount of 5%.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	16,974.7	13,467.3	13,968.3	14,357.6	14,920.6
Recurring net profit (MYRm)	132.2	(162.3)	(151.6)	14.6	74.8
Recurring net profit growth (%)	(195.3)	(222.8)	(6.6)	(109.7)	411.1
Recurring P/E (x)	25.3	(20.6)	(22.0)	228.1	44.6
P/BV (x)	0.6	0.7	0.8	0.8	0.8
P/CF (x)	4.0	(8.7)	5.4	4.1	3.6
Dividend Yield (%)	5.5	1.1	1.1	1.1	2.2
EV/EBITDA (x)	2.2	44.7	5.0	2.6	2.3
ROE (%)	2.6	(24.2)	(3.5)	0.3	1.8
Net debt to equity (%)	42.2	68.8	53.1	58.7	62.4
Interest coverage (x)	4.4	(3.2)	(0.5)	1.9	2.3

Source: Company data, RHB

Analyst

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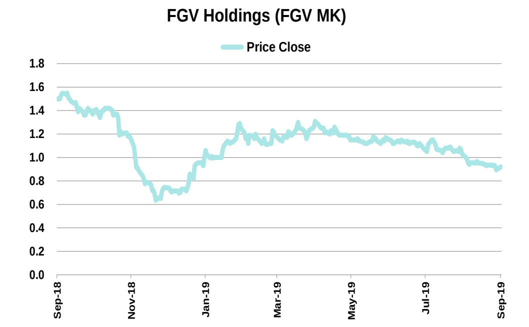
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.7	(10.7)	(20.0)	(22.7)	(38.7)
Relative	34.6	(9.5)	(14.9)	(18.1)	(27.0)
52-wk Price low/high (MYR)					0.63 - 1.56



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Plantation
FGV Holdings
FGV MK

Valuation basis

Our SOP valuation comprises EV/ha (given that it does not own the landbank) for the plantations division, 2020F P/E for the other divisions and P/BV for sugar subsidiary MSM.

Key drivers

i. CPO and sugar price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing and sugar division vs its peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

FGV is the commercial arm of FELDA in the upstream and downstream palm oil business and other agribusinesses. FGV currently produces oil palm and rubber plantation products, soybean and canola products, oleochemical products and sugar products, and has operations spread out across 10 countries. FGV was listed on the Bursa Malaysia in Jun 2012.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (MYR)	0.04	(0.04)	(0.04)	0.00	0.02
DPS (MYR)	0.05	0.01	0.01	0.01	0.02
BVPS (MYR)	1.54	1.22	1.17	1.17	1.17
ROE (%)	2.56	(24.17)	(3.54)	0.34	1.76

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	25.3	(20.6)	(22.0)	228.1	44.6
P/B (x)	0.6	0.7	0.8	0.8	0.8
FCF Yield (%)	0.2	(0.1)	(0.2)	(0.3)	(0.3)
Dividend yield (%)	5.5	1.1	1.1	1.1	2.2
EV/EBITDA (x)	2.2	44.7	5.0	2.6	2.3
EV/EBIT (x)	4.2	(5.6)	(34.1)	7.0	5.7

Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	16,975	13,467	13,968	14,358	14,921
Gross profit	1,958	1,276	1,707	1,815	1,994
EBITDA (adj.)	1,493	75	670	1,289	1,445
Depreciation & amortisation	(686)	(698)	(773)	(807)	(852)
Operating profit	801	(594)	(98)	477	588
Net interest	(119)	(155)	(184)	(219)	(236)
Pre-tax profit	417	(1,023)	(526)	23	117
Taxation	(203)	(101)	342	(7)	(35)
Net profit	144	(1,080)	(152)	15	75
Recurring net profit	132	(162)	(152)	15	75

Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	356	(302)	41	(71)	(76)
Cash flow from operations	1,801	737	383	(78)	(111)
Capex	(1,153)	(923)	(900)	(900)	(900)
Cash flow from investing activities	(950)	(686)	(900)	(900)	(900)
Dividends paid	(404)	(46)	(36)	(36)	(73)
Cash flow from financing activities	(934)	(655)	714	(36)	(73)
Cash at beginning of period	1,848	1,741	1,137	1,547	1,319
Net change in cash	(107)	(598)	410	(228)	(158)
Ending balance cash	1,741	1,137	1,547	1,319	1,160

Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	1,741	1,220	1,547	1,319	1,160
Tangible fixed assets	10,665	10,665	10,821	10,942	11,018
Total investments	0	0	0	0	0
Total assets	20,815	18,739	19,352	19,364	19,409
Short-term debt	3,377	3,304	3,621	3,621	3,621
Total long-term debt	1,956	2,066	1,679	1,679	1,679
Total liabilities	15,206	14,271	15,072	15,106	15,149
Total equity	5,609	4,468	4,280	4,258	4,260
Total liabilities & equity	20,815	18,739	19,352	19,364	19,409

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	(1.8)	(20.7)	3.7	2.8	3.9
Recurrent EPS growth (%)	(195.3)	(222.8)	(6.6)	(109.7)	411.1
Gross margin (%)	11.5	9.5	12.2	12.6	13.4
Operating EBITDA margin (%)	8.8	0.6	4.8	9.0	9.7
Net profit margin (%)	0.8	(1.2)	(1.1)	0.1	0.5
Capex/sales (%)	6.8	6.9	6.4	6.3	6.0
Interest cover (x)	4.4	(3.2)	(0.5)	1.9	2.3

Source: Company data, RHB

Figure 1: Key assumptions

	Dec-16	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
FFB produced (‘m tonnes)	3.91	4.26	4.21	4.49	4.74	4.99
Average CPO price (MYR/tonne)	2,560	2,792	2,282	2,200	2,400	2,500

Source: Company data, RHB

Figure 2: SOP valuation

	Valuation method	MYRm
Plantations	EV/ha of USD2,000/ha	2,290.8
Logistics and others	15x 2020F P/E	1,068.8
Sugar - MSM (51% stake)	0.5x P/BV	430.2
TOTAL		**3,789.8**
No of shares (m)		3648.2
SOP (MYR/share)		**1.04**
Less: Discount for uncertainty risk over LLA landbank	5%	5%
Target price (MYR/share)		**0.99**

Source: Company data, RHB

30 September 2019

Agriculture | Plantation

Genting Plantations (GENP MK)

Buy (from Neutral)

Strong FFB Growth Provides Stable Base

Target Price (Return)	MYR11.35 (+16%)
Price:	MYR9.76
Market Cap:	USD2,009m
Avg Daily Turnover (MYR/USD)	4.32m/1.03m

- **Upgrade to BUY from Neutral with a new MYR11.35 TP from MYR9.30, 16% upside.** This is on our OVERWEIGHT sector upgrade, as we expect CPO prices to rerate upwards in 4Q19 and continue the upward trend in 1H20. We believe plantation stocks will also likely rerate on this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **We upgrade our recommendation** with a higher SOP-based TP, after raising our target P/E for the plantations wing to 30x 2020F, from 25x, and maintaining our 40% discount to RNAV for the property division. The TP implies EV/ha of USD18,000, in line with peers' range of USD15,000-20,000. Genting Plantations' mostly upstream earnings will bode well in a CPO price upcycle, while its decent double-digit FFB growth should provide a stable earnings base.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	1,804.3	1,902.9	1,443.3	1,766.6	1,907.8
Recurring net profit (MYRm)	328.0	156.0	153.0	223.1	262.5
Recurring net profit growth	9.0	(52.4)	(1.9)	45.8	17.6
Recurring P/E (x)	23.9	50.3	55.1	37.8	32.1
P/BV (x)	1.9	2.0	2.1	2.0	2.0
P/CF (x)	15.5	21.4	22.1	18.4	16.7
Dividend Yield (%)	2.5	1.3	1.2	1.6	1.8
EV/EBITDA (x)	14.4	21.2	19.4	15.9	14.6
ROE (%)	7.5	3.9	3.7	5.4	6.4
Net debt to equity (%)	45.3	44.6	37.3	42.1	47.1
Interest coverage (x)	6.0	2.1	2.7	3.5	4.1

Source: Company data, RHB

Analyst

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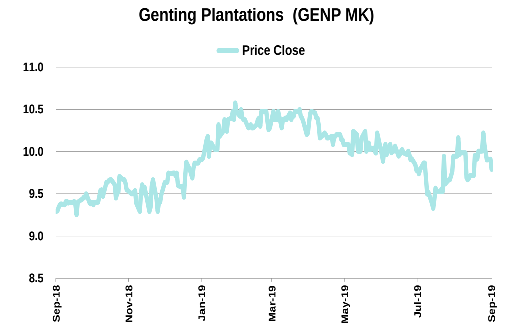
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	(1.9)	(2.9)	(5.9)	4.1
Relative	5.2	(0.7)	2.3	(1.3)	15.8
52-wk Price low/high (MYR)					9.06 - 10.78



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Plantation
Genting Plantations
GENP MK

Valuation basis

We use SOP to value Genting Plantations, comprising 30x 2020F P/E for the plantation unit's earnings and a 40% discount to RNAV for the property division. This is collaborated with an USD18,000 EV/ha valuation target – in line with peers.

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division vs peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

Genting Plantations is a 53.6%-owned subsidiary of the Genting group. It has 261,000ha of plantation landbank, of which close to 200,000ha is in Indonesia. It also has property development projects in Johor, Melaka, and Kedah. The group has also invested significantly in biotechnology via the use of genomics to raise productivity and sustainability. In addition, it has downstream assets in the form of a refinery and biodiesel plants.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (MYR)	0.41	0.19	0.18	0.26	0.30
DPS (MYR)	0.25	0.13	0.12	0.16	0.18
BVPS (MYR)	5.15	4.77	4.75	4.78	4.79
ROE (%)	7.50	3.90	3.72	5.42	6.36

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	23.9	50.3	55.1	37.8	32.1
P/B (x)	1.89	2.04	2.05	2.04	2.04
FCF Yield (%)	3.23	(1.08)	1.68	(0.01)	0.59
Dividend yield (%)	2.5	1.3	1.2	1.6	1.8
EV/EBITDA (x)	14.4	21.2	19.4	15.9	14.6
EV/EBIT (x)	20.1	40.4	37.5	27.0	23.5

Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	1804	1903	1443	1767	1908
Gross profit	623	408	388	513	586
EBITDA (adj.)	628	442	473	573	639
Depreciation & amortisation	(177)	(210)	(228)	(235)	(242)
Operating profit	451	232	245	338	397
Net interest	(34)	(76)	(58)	(62)	(68)
Pre-tax profit	461	208	223	312	365
Taxation	(116)	(61)	(56)	(75)	(88)
Net profit	338	165	153	223	262
Recurring net profit	328	156	153	223	262

Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	74	(80)	3	(35)	(22)
Cash flow from operations	596	256	522	399	443
Capex	(361)	(334)	(400)	(400)	(400)
Cash flow from investing activities	(842)	240	(124)	(504)	(521)
Dividends paid	(199)	(205)	(101)	(99)	(134)
Cash flow from financing activities	208	(760)	(101)	(99)	(134)
Cash at beginning of period	1,260	1,222	958	1,255	1,052
Net change in cash	(39)	(263)	297	(203)	(212)
Ending balance cash	1,222	950	1,255	1,052	840

Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	1,222	950	1,255	1,052	840
Tangible fixed assets	5,319	5,355	5,527	5,692	5,850
Total investments	357	350	36	72	108
Total assets	8,469	7,834	7,712	7,820	7,853
Short-term debt	625	507	507	507	507
Total long-term debt	2,559	2,279	2,279	2,279	2,279
Total liabilities	3,900	3,522	3,403	3,476	3,487
Total equity	4,569	4,312	4,309	4,344	4,366
Total liabilities & equity	8,469	7,834	7,712	7,820	7,853

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	21.9	5.5	(24.2)	22.4	8.0
Recurrent EPS growth (%)	9.0	(52.4)	(1.9)	45.8	17.6
Gross margin (%)	34.5	21.5	26.9	29.0	30.7
Operating EBITDA margin (%)	34.8	23.2	32.8	32.4	33.5
Net profit margin (%)	18.2	8.2	10.6	12.6	13.8
Capex/sales (%)	20.0	17.6	27.7	22.6	21.0
Interest cover (x)	6.6	2.4	3.0	3.8	4.4

Source: Company data, RHB

Figure 1: Forecast assumptions for Genting Plantations

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
FFB Produced ('000 tonnes)	1,727	1,614	1,884	2,084	2,362	2,735	3,005
CPO Production ('000 tonnes)	376	348	286	449	532	626	691
PK Production ('000 tonnes)	64	57	61	57	59	60	60
Average CPO price (MYR/tonne)	2,122	2,631	2,715	2,117	2,200	2,400	2,400
Average PK price (MYR/tonne)	1,552	2,477	2,443	1,681	1,300	1,550	1,550

Source: RHB

Figure 2: SOP valuation

	Valuation basis	FV (MYRm)
Plantation earnings	30x 2020 earnings	6,491.68
Property earnings	40% discount to RNAV	2,632.97
SOP (MYRm)		**9,124.65**
SOP/share (MYR)		**11.34**
Shares (m)		804.43

Source: RHB

Singapore Company Update

30 September 2019

Agriculture | Plantations

Golden Agri (GGR SP)

Neutral (From Sell)

Now NEUTRAL Due To Sector Upgrade

Target Price (Return)	SGD0.25 (6.4%)
Price:	SGD0.235
Market Cap:	USD2,188m
Avg Daily Turnover (SGD/USD)	4.16m/1m

- **Upgrade to NEUTRAL from Sell, new SOP-based TP of SGD0.25** from SGD0.22, 6% upside. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19m, and continue rising in 1H20. Plantation stocks will also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantations' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first**, before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Upgrade to NEUTRAL, with a higher SOP-based TP of SGD0.25 (**from SGD0.22). We apply an EV/ha of USD5,500/ha (from USD5,000) for Golden Agri's plantation assets and target P/E of 15x FY20F (12x) for its downstream division. This is at the lower end of its peers' range of USD6,000-14,000/ha, which we believe is justified given its older age profile. The downstream target P/E of 15x is in line with its peers' 12-15x.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	7,507.6	7,167.4	6,912.9	7,747.3	8,225.5
Recurring net profit (USDm)	74.0	(1.8)	(107.1)	33.8	52.8
Recurring net profit growth (%)	192.5	(71.9)	(366.3)	(131.5)	56.5
Recurring P/E (x)	16.2	55.6	(21.0)	67.2	42.9
P/BV (x)	0.6	0.5	0.6	0.6	0.5
P/CF (x)	4.4	7.9	6.8	4.6	5.1
Dividend Yield (%)	3.4	2.5	-	0.7	1.2
EV/EBITDA (x)	8.9	11.7	22.3	11.9	10.3
ROE (%)	1.8	(0.0)	(2.6)	0.8	1.3
Net debt to equity (%)	70.7	67.6	66.7	59.6	53.8
Interest coverage (x)	2.3	1.2	(0.6)	0.8	1.0

Source: Company data, RHB

Analyst

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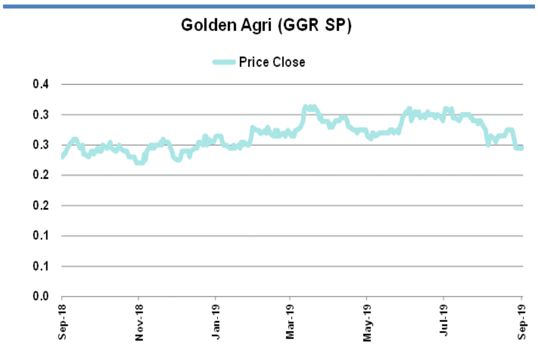
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	(14.0)	(19.7)	(12.5)	4.3
Relative	6.0	(12.8)	(14.5)	(7.9)	15.9
52-wk Price low/high (MYR)					0.225 - 0.32



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
Golden Agri-Resources
GGR SP

Valuation basis

We use SOP to value Golden Agri. We apply an EV/ha valuation of USD5,500/ha for its plantation assets and a target P/E of 15x to FY20F for its downstream division. This is at the lower end of its peers' range of USD6,000-14,000/ha, which we believe is justified given its older age profile. The downstream target P/E is in line with its peers' 12-15x.

Key drivers

CPO price, FFB production, refinery and biodiesel margins.

Key risks

CPO price movements, weather risks, demand and supply dynamics of the global vegetable oil industry.

Company Profile

Golden Agri is Indonesia's largest oil palm plantation company and also the biggest local player in the cooking oil market.

Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring EPS (SGD)	0.01	0.00	(0.01)	0.00	0.01
DPS (SGD)	0.01	0.00	-	0.00	0.00
BVPS (SGD)	0.41	0.44	0.43	0.43	0.43
ROE (%)	1.85	(0.04)	(2.62)	0.82	1.27

Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring P/E (x)	20.4	69.8	(26.4)	84.4	53.9
P/B (x)	0.73	0.67	0.69	0.69	0.69
FCF Yield (%)	2.58	1.96	1.87	2.42	2.25
Dividend yield (%)	2.1	1.5	-	0.4	0.7
EV/EBITDA (x)	9.9	13.0	24.9	13.4	11.6
EV/EBIT (x)	12.1	19.0	(42.6)	29.1	21.6

Income statement (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total turnover	7508	7167	6913	7747	8225
Gross profit	1,097	1,007	487	730	830
EBITDA (adj.)	582	432	223	395	437
Depreciation & amortisation	(341)	(284)	(289)	(297)	(305)
Operating profit	241	148	(66)	98	132
Net interest	(106)	(126)	(117)	(119)	(131)
Pre-tax profit	114	86	(149)	54	81
Taxation	(35)	(84)	45	(16)	(24)
Net profit	74	(2)	(107)	34	53
Recurring net profit	143	40	(107)	34	53

Cash flow (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Change in working capital	24	40	164	146	69
Cash flow from operations	533	283	329	490	441
Capex	(218)	(266)	(200)	(200)	(200)
Cash flow from investing activities	(315)	(340)	(200)	(200)	(200)
Dividends paid	(122)	(12)	-	(17)	(26)
Cash flow from financing activities	(213)	89	(92)	(317)	(226)
Cash at beginning of period	123	127	159	197	170
Net change in cash	5	32	38	(27)	15
Ending balance cash	127	159	197	170	185

Balance sheet (USDM)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total cash and equivalents	159	193	197	170	185
Tangible fixed assets	3,692	3,716	3,627	3,530	3,425
Total investments	839	1,184	1,265	1,268	1,272
Total assets	8,138	8,546	8,403	8,494	8,519
Short-term debt	1,742	1,501	1,501	1,501	1,501
Total long-term debt	1,250	1,509	1,409	1,109	909
Total liabilities	4,131	4,377	4,320	4,384	4,367
Total equity	4,007	4,169	4,083	4,110	4,152
Total liabilities & equity	8,138	8,546	8,403	8,494	8,519

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	4.1	(4.5)	(3.6)	12.1	6.2
Recurrent EPS growth (%)	192.5	(71.9)	(366.3)	(131.5)	56.5
Gross margin (%)	14.6	14.0	7.1	9.4	10.1
Operating EBITDA margin (%)	7.8	6.0	3.2	5.1	5.3
Net profit margin (%)	1.9	0.6	(1.5)	0.4	0.6
Capex/sales (%)	2.9	3.7	2.9	2.6	2.4
Interest cover (x)	2.1	1.7	0.3	1.5	1.6

Source: Company data, RHB

Figure 1: Key assumptions

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production, tonnes	6,905,000	7,498,000	8,111,000	7,948,780	8,187,243	8,432,861
% change	-6.4%	8.6%	8.2%	-2.0%	3.0%	3.0%
CPO price assumption, USD/tonne	663	719	565	530	585	610
% change	7.3%	8.4%	-21.4%	-6.2%	10.4%	4.2%

Source: Company data, RHB

Figure 2: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	5,500	2241.72
Downstream	2020 P/E (x)	15	109.95
			2351.67
Share base			12,838
TP per share (USD)			0.18
TP per share (SGD)			**0.25**

Source: Company data, RHB

30 September 2019

Agriculture | Plantation

IJM Plantations (IJMP MK)

Neutral (From Sell)

News Flow Driven; U/G To NEUTRAL

Target Price (Return)	MYR1.45 (-4.6%)
Price:	MYR1.52
Market Cap:	USD319m
Avg Daily Turnover (MYR/USD)	0.23m/0.05m

Analyst

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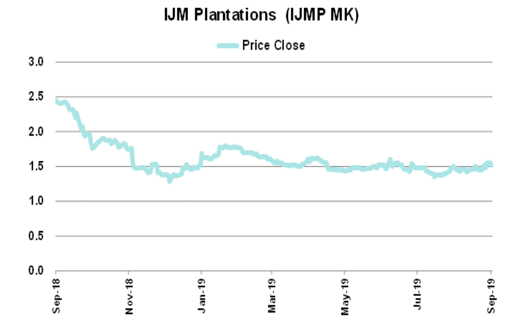
- **Upgrade to NEUTRAL with a revised TP of MYR1.45**, 5% downside with 1% yield. This is on our sector upgrade to Overweight, as we expect CPO prices to rerate upwards in 4Q19 and continue its upward trend in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for planters' P/E valuations.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Upgrade to NEUTRAL,** with a higher TP of MYR1.45 based on a 30x 2020F target (from 25x). This is 1SD above its historical average. Our TP implies an EV/ha of USD9,000/ha, on the low end of its mid-cap peer range of USD8,000-15,000/ha. Although IJMP could remain affected by a high percentage of young mature areas in Indonesia (bearing high start-up costs and low FFB yields), it should start to reach a transition point for a turnaround by next year. In addition, potential news flow on a takeover or sale could provide support.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.6	1.3	(1.3)	(6.7)	(38.7)
Relative	14.5	2.6	3.9	(2.1)	(27.0)
52-wk Price low/high (MYR)					1.30 - 2.48



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (MYRm)	747.2	630.9	652.1	739.1	790.2
Recurring net profit (MYRm)	81.7	-10.4	29.9	46.0	69.4
Recurring net profit growth	-33.2	-112.8	-387.4	53.6	50.9
Recurring P/E (x)	16.4	-128.4	44.7	29.1	19.3
P/BV (x)	0.8	1.0	1.0	1.0	1.0
P/CF (x)	10.6	17.8	9.1	8.3	7.0
Dividend Yield (%)	3.3	1.3	1.3	2.0	2.6
EV/EBITDA (x)	6.8	11.7	7.3	6.6	5.6
ROE (%)	2.9	-2.7	2.2	3.4	5.0
Net debt to equity (%)	31.8	48.8	47.4	46.9	44.8
Interest coverage (x)	5.4	0.3	2.8	3.9	5.4

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Plantation
IJM Plantations
IJMP MK

Valuation basis

We use a target P/E of 30x 2020. This is backed up by an EV/ha of USD9,000/ha, which is at the low end of its mid-cap Malaysian peer average of USD8,000-13,000/ha.

Key drivers

i. CPO price movement;
ii. FFB production output;

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

IJM Plantations is a pure upstream palm oil plantations company operating in Malaysia and Indonesia.

Financial summary	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Recurring EPS (MYR)	15.4	(120.8)	42.0	27.4	18.1
DPS (MYR)	0.78	0.95	0.94	0.93	0.90
BVPS (MYR)	(3.94)	(8.38)	0.39	0.85	2.41
ROE (%)	3.5	1.4	1.4	2.1	2.8

Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Recurring P/E (x)	16.4	(128.4)	44.7	29.1	19.3
P/B (x)	0.82	1.01	1.00	0.98	0.96
FCF Yield (%)	(3.71)	(7.88)	0.37	0.80	2.27
Dividend yield (%)	3.3	1.3	1.3	2.0	2.6
EV/EBITDA (x)	6.8	11.7	7.3	6.6	5.6
EV/EBIT (x)	10.8	192.9	19.7	15.5	11.5

Income statement (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover	747	631	652	739	790
Gross profit	224	93	160	194	233
EBITDA (adj.)	198	114	183	202	237
Depreciation & amortisation	(80)	(112)	(118)	(116)	(121)
Operating profit	124	7	68	86	116
Net interest	(17)	(20)	(22)	(21)	(21)
Pre-tax profit	77	(43)	44	65	95
Taxation	(33)	(1)	(12)	(17)	(24)
Net profit	47	(36)	30	46	69
Recurring net profit	82	(10)	30	46	69

Cash flow (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Change in working capital	(41)	(17)	6	(15)	(19)
Cash flow from operations	110	94	150	144	169
Capex	(111)	(132)	(120)	(120)	(120)
Cash flow from investing activities	-	-	-	-	-
Dividends paid	(62)	(44)	(18)	(26)	(35)
Cash flow from financing activities	(144)	(33)	(126)	(46)	(55)
Cash at beginning of period	394	217	139	44	22
Net change in cash	(177)	(78)	(95)	(22)	(7)
Ending balance cash	217	139	44	22	15

Balance sheet (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total cash and equivalents	217	139	44	22	15
Tangible fixed assets	2,135	1,837	1,849	1,863	1,872
Total investments	-	-	-	-	-
Total assets	2,624	2,282	2,203	2,216	2,246
Short-term debt	733	788	680	660	640
Total long-term debt	-	-	-	-	-
Total liabilities	1,001	955	863	856	852
Total equity	1,623	1,328	1,340	1,360	1,394
Total liabilities & equity	2,624	2,282	2,203	2,216	2,246

Key metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Revenue growth (%)	(0.9)	(15.6)	3.4	13.3	6.9
Recurrent EPS growth (%)	(36.1)	(112.8)	387.4	53.6	50.9
Gross margin (%)	29.9	14.7	24.5	26.3	29.4
Operating EBITDA margin (%)	26.5	18.1	28.1	27.3	30.0
Net profit margin (%)	10.9	(1.7)	4.6	6.2	8.8
Capex/sales (%)	14.8	20.9	18.4	16.2	15.2
Interest cover (x)	5.4	(1.1)	3.0	4.0	5.5

Source: Company data, RHB

Figure 1: Key assumptions

FYE Mar	FY18	FY19	FY20F	FY21F	FY22F
FFB produced ('000 tonnes)	933	976	1,009	1,087	1,130
Average CPO price - blended (MYR/tonne)	2,312	1,856	2,128	2,220	2,313

Source: Company data, RHB

30 September 2019

Agriculture | Plantation

IOI Corporation (IOIC MK)

Neutral (Maintained)

Current Valuations Are Fair; Still NEUTRAL

Target Price (Return)	MYR4.60 (+4%)
Price:	MYR4.42
Market Cap:	USD6,626m
Avg Daily Turnover (MYR/USD)	8.54m/2.05m

- **Maintain NEUTRAL, new** TP of MYR4.60 from MYR3.90, 4% upside with 2% FY20F (Jun) yield. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue hiking up in 1H20. We believe plantation stocks would also likely rerate on this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  - i. Trade war is still on, with import duties being levied on US soybeans;
  - ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  - iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  - iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  - v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  - vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Stay NEUTRAL, with a higher SOP-based TP of MYR4.60** from MYR3.90, after raising our P/Es for its plantation division to 35x (from 30x) 2020, manufacturing division to 15x (from 12x) 2020, and updating our TP of SGD0.60 from SGD0.54 for Bumitama Agri. Our P/E target is 1SD above its historical average and implies an EV/ha of USD40,000, ie at the highest end of its peer valuation. We believe it is fairly valued at the current juncture.

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	12,110.5	7,385.6	7,667.5	8,025.9	8,163.3
Recurring net profit (MYRm)	1,060.2	710.5	772.5	823.5	828.6
Recurring net profit growth	2.8	(33.0)	8.7	6.6	0.6
Recurring P/E (x)	26.2	39.1	37.0	34.7	34.5
P/BV (x)	3.3	3.2	3.2	3.1	3.0
P/CF (x)	18.9	25.6	23.2	21.6	21.0
Dividend Yield (%)	4.6	1.8	1.8	2.0	2.0
EV/EBITDA (x)	16.8	24.5	21.0	19.2	18.7
ROE (%)	11.6	7.6	8.2	8.5	8.4
Net debt to equity (%)	26.4	24.3	34.1	27.1	20.3
Interest coverage (x)	6.9	8.2	5.5	6.8	7.7

Source: Company data, RHB

Analyst

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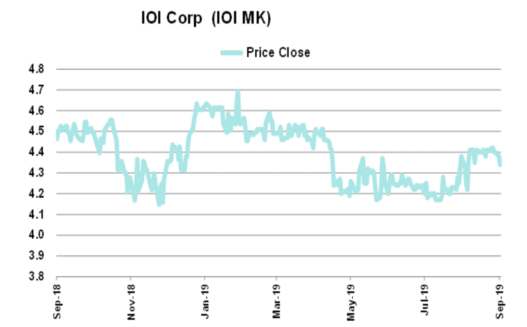
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	(0.9)	3.3	(3.3)	(3.6)
Relative	3.5	0.3	8.4	1.2	8.1
52-wk Price low/high (MYR)					4.10 - 4.74



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Agriculture
IOI Corporation
IOI MK

Valuation basis

We use SOP valuation comprising target P/E of 35x 2020F for the plantations division and 15x 2020F for the downstream divisions as well as our TP for associate Bumitama. This is backed up by an EV/ha of USD30,000-40,000/ha, which is in line with its Malaysian peers

Key drivers

CPO price, FFB production, and downstream product margins.

Key risks

CPO price movement, weather risks, and the demand and supply dynamics of the global vegetable oil industry.

Company Profile

IOI is a large integrated palm oil producer, with oil palm plantation land in Malaysia and Indonesia. It also has downstream manufacturing facilities like refineries, oleochemical, and specialty fats manufacturing plants.

Financial summary	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring EPS (MYR)	0.17	0.11	0.12	0.13	0.13
DPS (MYR)	0.21	0.08	0.08	0.09	0.09
BVPS (MYR)	1.42	1.44	1.46	1.49	1.53
ROE (%)	11.58	7.64	8.21	8.53	8.37

Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring P/E (x)	26.2	39.1	37.0	34.7	34.5
P/B (x)	3.12	3.07	3.03	2.96	2.88
FCF Yield (%)	3.18	2.86	2.70	2.84	2.92
Dividend yield (%)	4.6	1.8	1.8	2.0	2.0
EV/EBITDA (x)	16.8	24.5	21.0	19.2	18.7
EV/EBIT (x)	21.6	34.8	30.2	27.8	27.8

Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover	12111	7386	7668	8026	8163
Gross profit	3,521	858	1,107	1,179	1,155
EBITDA (adj.)	1,844	1,261	1,514	1,622	1,633
Depreciation & amortisation	(409)	(375)	(461)	(499)	(535)
Operating profit	1,436	886	1,053	1,123	1,098
Net interest	(144)	(102)	(74)	(77)	(63)
Pre-tax profit	3,430	873	1,153	1,257	1,256
Taxation	(362)	(255)	(291)	(313)	(307)
Net profit	3,061	632	773	823	829
Recurring net profit	1,060	711	773	823	829

Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Change in working capital	(161)	198	(10)	(40)	(19)
Cash flow from operations	1,352	1,214	1,172	1,211	1,235
Capex	(444)	(396)	(400)	(400)	(400)
Cash flow from investing activities	3,128	(207)	(497)	(535)	(544)
Dividends paid	(1,338)	(534)	(517)	(582)	(582)
Cash flow from financing activities	(3,276)	(1,178)	(375)	(582)	(582)
Cash at beginning of period	1,187	2,430	2,264	2,564	2,658
Net change in cash	1,243	(166)	300	94	109
Ending balance cash	2,430	2,264	2,564	2,658	2,767

Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total cash and equivalents	2,765	2,599	2,564	2,658	2,767
Tangible fixed assets	8,411	8,459	9,389	10,282	11,138
Total investments	293	284	284	284	284
Total assets	16,743	16,500	17,429	18,296	19,512
Short-term debt	895	409	409	409	409
Total long-term debt	4,285	4,452	5,367	4,867	4,367
Total liabilities	8,701	7,201	8,016	8,640	9,610
Total equity	9,156	9,300	9,413	9,655	9,902
Total liabilities & equity	17,857	16,500	17,429	18,296	19,512

Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Revenue growth (%)	(14.3)	(39.0)	3.8	4.7	1.7
Recurrent EPS growth (%)	2.8	(33.0)	5.7	6.6	0.6
Gross margin (%)	29.1	11.6	14.4	14.7	14.2
Operating EBITDA margin (%)	15.2	17.1	19.7	20.2	20.0
Net profit margin (%)	8.8	9.6	10.1	10.3	10.1
Capex/sales (%)	3.7	5.4	5.2	5.0	4.9
Interest cover (x)	23.8	7.9	14.3	14.5	17.3

Source: Company data, RHB

Figure 1: IOIC's forecast assumptions

FYE Jun	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
CPO Selling Price (MYR/tonne)	2,249	2,766	2,549	2,025	2,300	2,400	2,400
PK Selling Price (MYR/tonne)	1,740	2,691	2,252	1,390	1,425	1,550	1,550
FFB Production Growth (%)	(11.2)	0.3	11.4	(3.3)	3.6	3.9	2.2

Source: RHB

Figure 2: SOP valuation

	Valuation basis	FV (MYRm)
Plantation earnings (Excluding Net Interest)	35x 2020	27,868.92
Manufacturing earnings	15x 2020	2,402.04
Add: 30.5% stake in Bumitama	RHB Fair Value of SGD0.65/share	972.63
Less: Net debt (3QFY19)		(2,262.00)
SOP (MYRm)		**28,981.59**
No shares *		6,285
SOP/share (MYR)		**4.61**

*Note: *Excludes treasury shares*
Source: RHB

30 September 2019

Agriculture | Plantation

Kuala Lumpur Kepong (KLK MK)

Buy (From Neutral)

Top Malaysian Sector Pick; Now a BUY

Target Price (Return)	MYR28.35 (+22%)
Price:	MYR23.16
Market Cap:	USD5,824m
Avg Daily Turnover (MYR/USD)	15.53m/3.72m

- **Upgrade to BUY** with a new MYR28.35 TP from MYR23.40, 22% upside. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue its upward trend in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation P/E valuations.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  - i. Trade war is still on, with import duties being levied on US soybeans;
  - ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  - iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  - iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  - v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  - vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Upgrade to BUY, with a higher SOP-based TP of MYR28.35** (from MYR23.40). Our TP comprises a higher 30x 2020 target P/E for its plantation unit (from 27x), 15x for its manufacturing unit (from 12x), and a 60% discount applied to the RNAV of its property landbank. Our P/E target is at 1SD above its historical average, and implies a fair EV/ha of USD35,000, in line with its peers' range of USD30,000-40,000. KL Kepong's 60-65% exposure to upstream operations will stand it in good stead in a CPO price upcycle.

Forecasts and Valuation	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Total turnover (MYRm)	21,004.0	18,400.5	14,305.4	15,618.0	16,616.9
Recurring net profit (MYRm)	1,102.8	855.2	664.9	885.8	930.6
Recurring net profit growth	14.4	(22.5)	(22.3)	33.2	5.1
Recurring P/E (x)	22.4	28.8	37.2	27.9	26.6
P/BV (x)	2.2	2.2	2.2	2.1	2.0
P/CF (x)	17.6	31.1	14.4	14.4	17.0
Dividend Yield (%)	2.2	1.9	1.7	1.9	2.2
EV/EBITDA (x)	11.3	13.2	15.1	12.5	12.1
ROE (%)	8.7	6.6	5.7	7.3	7.5
Net debt to equity (%)	25.7	26.3	20.3	14.7	12.1
Interest coverage (x)	10.1	7.9	6.5	9.3	11.7

Source: Company data, RHB

Analyst

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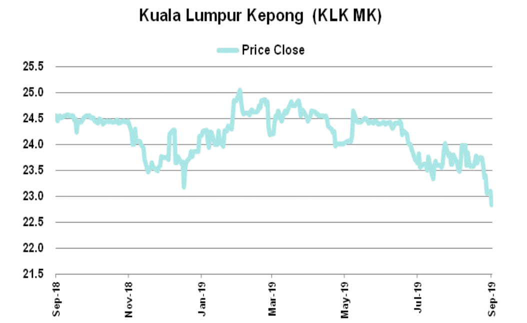
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.4)	(3.9)	(6.8)	(6.0)	(8.5)
Relative	(1.5)	(2.7)	(1.7)	(1.4)	3.2
52-wk Price low/high (MYR)					22.12 - 25.78



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Plantation
Kuala Lumpur Kepong
KLK MK

Valuation basis

Our SOP-based TP comprises a target P/E of 30x on 2020 for the plantations division, 15x 2020 for the downstream divisions, and RNAV for the property division. This is backed up by an EV/ha of USD30,000-40,000/ha, which is in line with its Malaysian peers.

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division vs peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

Kuala Lumpur Kepong is an integrated plantations company with palm oil plantations landbank in Malaysia, Indonesia and Liberia. It also operates in the downstream manufacturing segment through its edible oil refineries and oleochemical businesses. In addition, KLK is involved in the property development business.

Financial summary	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Recurring EPS (MYR)	1.03	0.80	0.62	0.83	0.87
DPS (MYR)	0.50	0.45	0.40	0.45	0.50
BVPS (MYR)	10.54	10.41	10.68	11.06	11.43
ROE (%)	0.09	0.07	0.06	0.07	0.07

Valuation metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Recurring P/E (x)	22.4	28.8	37.2	27.9	26.6
P/B (x)	2.20	2.23	2.17	2.09	2.03
FCF Yield (%)	2.94	1.31	4.34	4.34	3.25
Dividend yield (%)	2.2	1.9	1.7	1.9	2.2
EV/EBITDA (x)	13.9	16.4	18.3	15.0	14.3
EV/EBIT (x)	18.7	23.9	27.5	21.3	20.6

Income statement (MYRm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Total turnover	21,004	18,401	14,305	15,618	16,617
Gross profit	2,713	2,244	2,124	2,508	2,614
EBITDA (adj.)	2,196	1,871	1,641	1,972	2,048
Depreciation & amortisation	(474)	(473)	(546)	(588)	(630)
Operating profit	1,624	1,286	1,094	1,383	1,417
Net interest	(170)	(175)	(167)	(149)	(121)
Pre-tax profit	1,450	1,117	923	1,230	1,293
Taxation	(383)	(313)	(222)	(295)	(310)
Net profit	1,005	753	665	886	931
Recurring net profit	1,103	855	665	886	931

Cash flow (MYRm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Change in working capital	12	(426)	471	196	(163)
Cash flow from operations	1,404	795	1,723	1,723	1,454
Capex	(678)	(472)	(650)	(650)	(650)
Cash flow from investing activities	(213)	(243)	(650)	(650)	(650)
Dividends paid	(583)	(567)	(427)	(480)	(534)
Cash flow from financing activities	(776)	(633)	(627)	(1,180)	(1,234)
Cash at beginning of period	937	1,351	1,271	1,716	1,609
Net change in cash	401	(163)	446	(108)	(430)
Ending balance cash	1,351	1,271	1,716	1,609	1,179

Balance sheet (MYRm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Total cash and equivalents	1,463	1,278	1,716	1,609	1,179
Tangible fixed assets	8,936	9,044	8,990	9,051	9,071
Total investments	2,574	2,698	2,698	2,698	2,698
Total assets	19,504	18,996	18,724	18,331	18,110
Short-term debt	1,376	1,221	1,021	821	621
Total long-term debt	3,067	3,062	3,062	2,562	2,062
Total liabilities	7,928	7,571	7,061	6,263	5,645
Total equity	11,576	11,425	11,663	12,068	12,465
Total liabilities & equity	19,504	18,996	18,724	18,331	18,110

Key metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Revenue growth (%)	27.3	(12.4)	(22.3)	9.2	6.4
Recurrent EPS growth (%)	14.4	(22.5)	(22.3)	33.2	5.1
Gross margin (%)	12.9	12.2	14.8	16.1	15.7
Operating EBITDA margin (%)	10.5	10.2	11.5	12.6	12.3
Net profit margin (%)	5.3	4.6	4.6	5.7	5.6
Capex/sales (%)	3.2	2.6	4.5	4.2	3.9
Interest cover (x)	9.6	7.4	6.5	9.3	11.7

Source: Company data, RHB

Figure 1: KL Kepong's forecast assumptions

	2015	2016	2017	2018	2019F	2020F	2021F
FFB Produced ('000 tonnes)	3,806	3,496	3,874	3,927	4,084	4,257	4,444
CPO Production ('000 tonnes)	861	788	847	854	1,058	1,106	1,148
PK Production ('000 tonnes)	174	155	167	171	213	221	230
Average CPO price (MYR/tonne)	2,106	2,270	2,735	2,335	2,100	2,300	2,400
Average PK price (MYR/tonne)	1,424	1,881	2,534	1,967	1,350	1,600	1,600

Source: RHB

Figure 2: RNAV of KL Kepong's property landbank

	Acres	BV (MYRm)	MV (MYRm)	Effective stake	Net surplus (MYR m)
Ijok, Selangor	1,947	32	1,103	100%	750
Colville, Ng Sembilan	1,040	10	453	100%	310
Gombak, Selangor	996	142	4,338	100%	2,937
Bagan Samak, Kedah	867	13	189	100%	123
Tanjung Kupang, Johor	502	884	884	60%	-
Tj Malim, Selangor	425	8	56	100%	34
Paloh, Johor	64	0	7	100%	5
KLK Complex, Sg Buloh	20	3	34	100%	22
Ladang Tuan Mee, Sg Buloh	3,677	17	8,008	100%	5,593
Ladang Fraser, Kulai	2,500	12	871	40%	241
Subtotal					10,014
Shareholders' funds					1,389
Total RNAV					**11,403**
Discount to RNAV					60%
Discounted RNAV					**4,561**

Source: RHB, Company data

Figure 3: KL Kepong's SOP valuation

	Valuation basis	MYR'm
Plantation earnings	30x 2020F earnings	22,896.81
Manufacturing earnings	15x 2020F earnings	3,641.83
Property RNAV	60% discount to RNAV	4,561.13
Synthomer Plc Investment	Mkt value	1,036.01
MP Evans Investment	Mkt value	249.46
Net cash/(debt)	As at 3QFY19	(2,514.20)
TOTAL SOP		**29,871.04**
No Shares* (m)		1,054.06
SOP/share (MYR)		**28.34**

*Note: * excludes treasury shares*
Source: RHB

30 September 2019

Agriculture | Plantation

PP London Sumatra Indonesia (LSIP IJ)

Buy (From Neutral)

Set For a Good CPO Price Run; BUY

Target Price (Return)	IDR1,450 (+21%)
Price:	IDR1,195
Market Cap:	575m
Avg Daily Turnover	13673.97m/0.97m

- **Upgrade to BUY from Neutral, new IDR1,450 TP** from IDR1,290, 21% upside with 1% yield. We upgraded LSIP along with other planters we cover, on our new OVERWEIGHT sector rating. LSIP will also benefit from the movement in the CPO price, being a pure upstream player. Its sturdy balance sheet is also why it has survived the volatility in the CPO price. However, considering AALI's operational excellence and corporate governance track record, we still prefer AALI over LSIP.
- **Not our first pick, but London Sumatra remains one of the strongest and most established plantation companies in Indonesia.** We believe it has the healthiest balance sheet of planters within our coverage universe, on its historical net cash gearing. In addition, it has maintained margins despite the CPO price volatility – owing to its robust balance sheet. However, risk regarding its sales volume and rubber price still looms – evidenced in recent quarters when it booked negative earnings.
- **Dragged by rubber.** We believe it is exposed to the risk in rubber sales, which account for 5% of total sales. LSIP's rubber segment has been in the red since 2018 (1H18: loss of IDR65.9bn, which took 1H18 gross profit for the company to –IDR12.5bn). Although, the slump in rubber prices would not impact the company much if the CPO price skyrocketed, LSIP still has no plans to convert its rubber plantations to oil palm plantations – even though a sister company has done so.
- **Sluggish replanting programme** regardless of having the oldest plantation fields. The programme has been slowing down in the past three years, compared to its peer Astra Agro Lestari (AALI IJ, BUY, TP: IDR16,160), which ramped its replanting up. At a recent meeting with company representatives, we learned that LSIP's replanting will likely fall below its target, at its 100 ha vs its 500 ha target.
- **Upgrading target P/E to 19x from 17x.** As such, our TP rises to IDR1,450 from initially IDR1,290 as it may be able to capture the projected uptrend in the CPO price. Its P/E is slightly lower than AALI's 20x, as the latter has better corporate governance and operational excellence. Nonetheless, LSIP is a sturdy planter and has the healthiest balance sheet.

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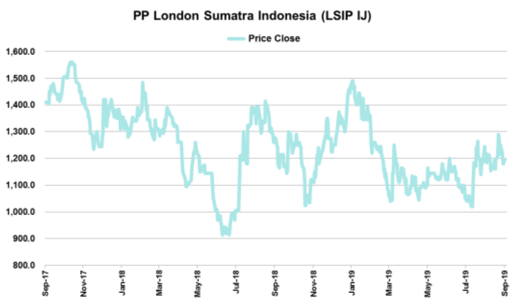
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.4)	(4.0)	6.7	10.6	(6.6)
Relative	(5.0)	(4.3)	8.0	14.4	(12.7)
52-wk Price low/high (IDR)					1000 - 1520



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRb)	4,738	4,020	3,995	4,511	4,674
Reported net profit (IDRb)	733	331	211	519	556
Recurring net profit growth	24	(55)	(36)	146	7
EPS (IDR)	107	49	31	76	82
DPS (IDR)	45	20	13	32	34
P/E (x)	11.1	24.6	38.7	15.7	14.7
P/B (x)	0.99	0.98	0.97	0.92	0.89
P/CF	9.0	3.2	(0.5)	6.1	6.3
Dividend Yield (%)	4	2	1	3	3
EV/Ha (usd)	5,847	5,847	5,847	5,847	5,847
ROAE (%)	9.2	4.0	2.5	6.0	6.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Financial model updated on: 2019-09-26

Asia
Indonesia
Agriculture | CPO
London Sumatra
Bloomberg LSIPIJ
BUY
Major shareholders (%)

PT Salim Ivomas Pratama	59.51

Valuation basis

19 x P/E, slightly below its mean

Key drivers

i. Increase in palm product prices;
ii. Increase in palm product sales volume;
iii. A drop in Indonesia's and Malaysia's inventory.

Key risks

i. Higher inventory;
ii. Decrease in palm product prices;
iii. Decrease in competing vegetable oil prices.

Company Profile

London Sumatra cultivates, harvests, and processes palm oil, rubber, coconut, cocoa, coffee and tea.

Financial Summary	**2017**	**2018**	**2019F**	**2020F**	**2021F**
EPS (IDR)	107	49	31	76	82
DPS (IDR)	45	20	13	32	34
BVPS (IDR)	1,206	1,221	1,232	1,296	1,347
FCFPS (IDR)	108	38	(7)	73	75
Weighted Avg Adjusted Shares (m)	6,823	6,823	6,823	6,823	6,823

Valuation Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
P/E (x)	11.1	24.6	38.7	15.7	14.7
P/B (x)	1.0	1.0	1.0	0.9	0.9
FCF Yield (%)	9.0%	3.2%	-0.5%	6.1%	6.3%
Dividend Yield (%)	3.76	1.70	1.08	2.66	2.85
EV/EBITDA (x)	5.2	9.2	13.2	8.9	8.4
EV/ha (Planted Nucleus)	5,847	5,847	5,847	5,847	5,847

Income Statement (IDRbn)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Turnover	4,738	4,020	3,995	4,511	4,674
Gross Profit	1,294	683	515	676	695
EBITDA	1,306	742	518	767	816
Depreciation and Amortisation	402	402	422	444	464
Operating Profit	904	340	96	324	352
Net Interest	58	77	74	94	96
Pre-Tax Profit	963	417	170	418	448
Taxation	(229)	(88)	41	100	108
Minority Interests	(0)	(2)	(0)	0	0
Net Profit	733	331	211	519	556

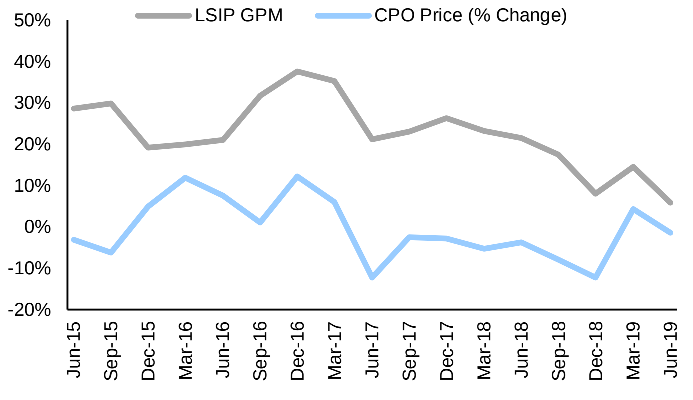
Cash Flow (IDRbn)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Working Capital	(13)	(63)	4	(52)	(14)
Cash Flow from Operations	1,262	625	470	1,007	1,020
Capex	(370)	(310)	(500)	(500)	(500)
Cash Flow from Investing Activities	(525)	(366)	(514)	(507)	(509)
Proceeds from Issue of Shares	-	-	-	-	-
Dividends Paid	(239)	(307)	(139)	(88)	(217)
Cash Flow from Financing Activities	(248)	(230)	(135)	(83)	(212)
Cash at Beginning of Period	1,141	1,633	1,663	1,484	1,902
Net Change in Cash	493	30	(179)	417	300
Ending Balance Cash	1,633	1,663	1,484	1,902	2,201

Balance Sheet (IDRbn)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Cash and Equivalents	1,633	1,663	1,484	1,902	2,201
Fixed assets	6,299	6,235	6,330	6,406	6,463
Total Assets	9,853	10,037	9,873	10,507	10,912
Non-current liabilities	416	525	465	534	554
Total non-current liabilities	1,206	1,180	999	1,128	1,169
Total Liabilities	1,622	1,705	1,464	1,662	1,723
Shareholders' Equity	8,225	8,328	8,405	8,840	9,184
Minority Interests	6	4	4	4	5
Total Liabilities & Equity	9,853	10,037	9,873	10,507	10,912

Key Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Revenue Growth (%)	23.1	(15.2)	(0.6)	12.9	3.6
EPS Growth (%)	23.5	(54.8)	(36.4)	146.1	7.2
Gross Margin (%)	27.3	17.0	12.9	15.0	14.9
EBITDA Margin (%)	27.57	18.45	12.95	17.01	17.47
Net Profit Margin (%)	15.48	8.24	5.28	11.50	11.90
Dividend Payout Ratio (%)	42	42	42	42	42

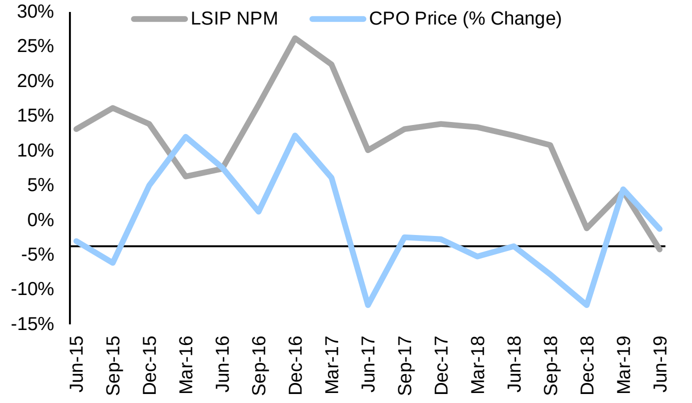
Source: Company, RHB

Figure 1: LSIP's GPM vs CPO price change (Jun 2015-Jun 2019)



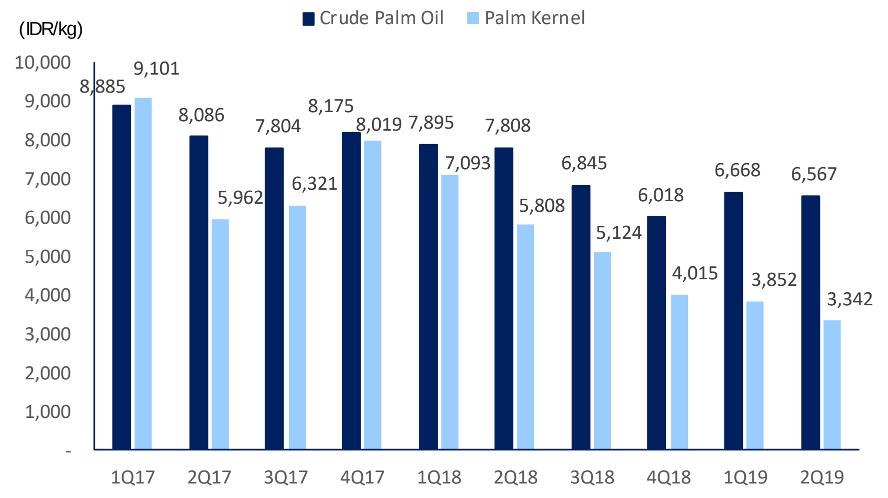
Source: Company data, RHB

Figure 2: LSIP's NPM vs CPO price change (Jun 2015-June 2019)



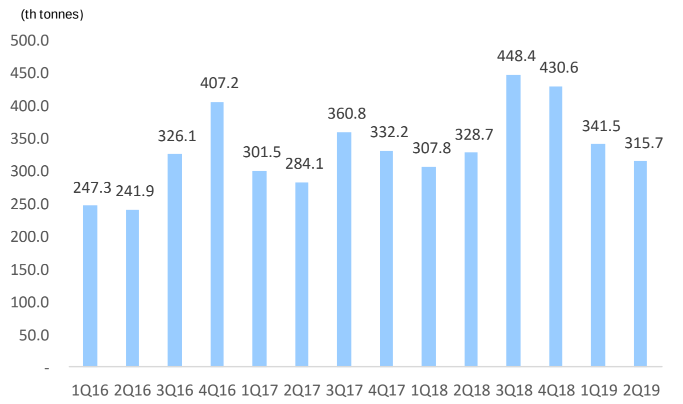
Source: Company data, RHB

Figure 3: LSIP's ASP trends for CPO and PK



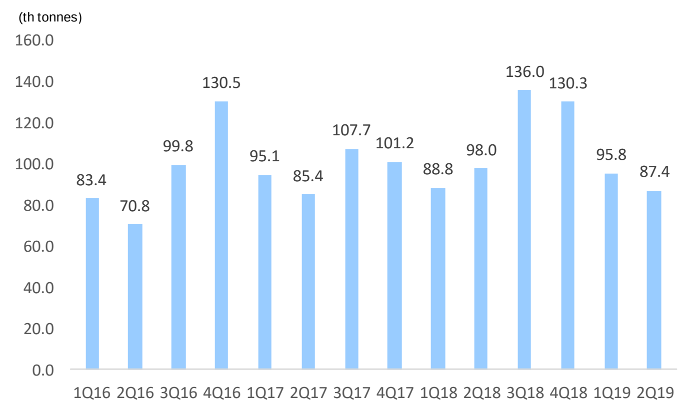
Source: Company data, RHB

Figure 4: LSIP's FFB nucleus production



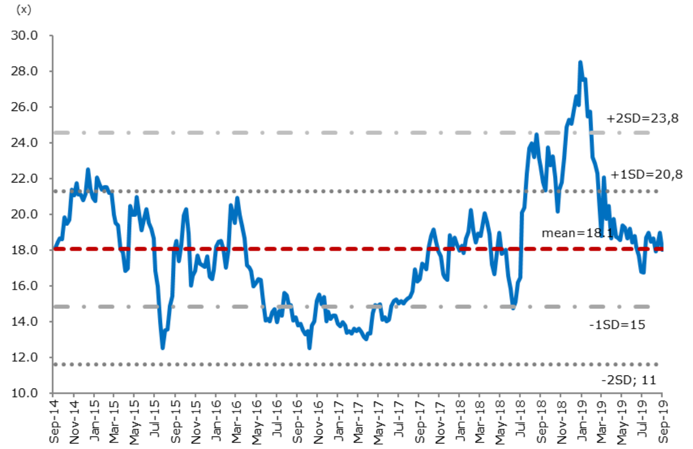
Source: Company data, RHB

Figure 5: LSIP's CPO production



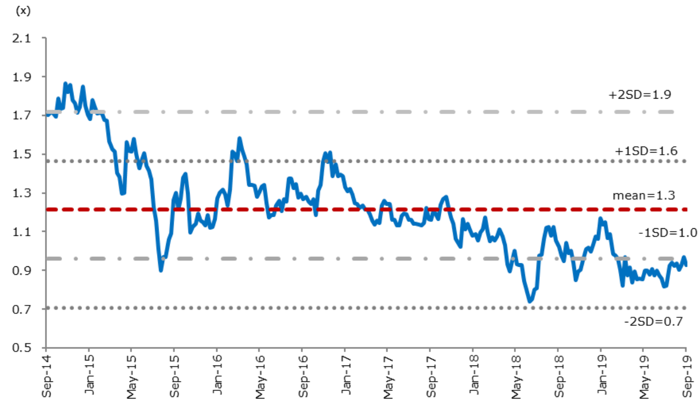
Source: Company data, RHB

Figure 6: LSIP's 5-year P/E band



Source: Bloomberg data, RHB

Figure 7: LSIP's 5-year P/BV band



Source: Bloomberg data, RHB

30 September 2019

Agriculture | Plantation

Sarawak Oil Palms (SOP MK)

Buy (From Neutral)

Trading At Discount To Peers; U/G To BUY

Target Price (Return)	MYR2.35 (+12%)
Price:	MYR2.10
Market Cap:	USD286.3m
Avg Daily Turnover (MYR/USD)	0.09m/0.02m

- **Upgrade to BUY from Neutral, new MYR2.35 TP**, 12% upside with 2% yield. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue climbing in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Now a BUY.** Given its mostly upstream earnings exposure, Sarawak Oil Palms should benefit more from a CPO price upcycle. With almost 20% decline in share price over the last six months, valuations are now more attractive. Our new MYR2.35 TP is based on a higher P/E of 18x (from 15x) 2020, 1SD above its historical average. This implies an EV/ha of USD9,000/ha, in line with its peers' USD8,000-13,000/ha.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	4,913.4	3,532.9	4,129.0	4,456.8	4,575.6
Recurring net profit (MYRm)	217.8	73.1	22.9	73.9	91.0
Recurring net profit growth	93.6	(66.4)	(68.7)	223.3	23.2
Recurring P/E (x)	5.5	16.4	52.5	16.2	13.2
P/BV (x)	0.6	0.6	0.6	0.6	0.6
P/CF (x)	(8.8)	3.1	8.0	5.6	4.8
Dividend Yield (%)	2.9	2.4	2.4	2.9	3.3
EV/EBITDA (x)	4.0	6.3	8.8	6.4	5.6
ROE (%)	11.4	2.9	1.1	3.5	4.2
Net debt to equity (%)	36.9	28.9	28.3	24.4	19.7
Interest coverage (x)	10.6	3.5	1.9	4.2	5.8

Source: Company data, RHB

Analyst

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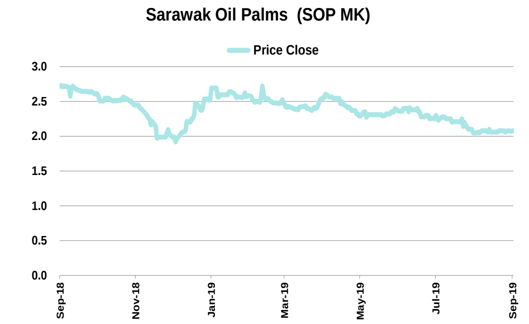
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.0)	1.5	(13.7)	(19.4)	(24.9)
Relative	5.0	2.7	(8.5)	(14.8)	(13.2)
52-wk Price low/high (MYR)					1.96 - 2.85



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Plantation
Sarawak Oil Palms
SOP MK

Valuation basis

We apply a target P/E of 18x on 2020 earnings (in line with historical peers), backed up by an EV/ha of USD9,000/ha, in line with its peer average of USD8,000-13,000/ha.

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division vs peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

Sarawak Oil Palms is involved in oil palm cultivation and CPO refining in the state of Sarawak.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (MYR)	0.42	0.11	0.04	0.13	0.16
DPS (MYR)	0.06	0.05	0.05	0.06	0.07
BVPS (MYR)	3.38	3.45	3.35	3.42	3.51
ROE (%)	11.39	2.86	1.10	3.48	4.19

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	5.0	19.6	52.5	16.2	13.2
P/B (x)	0.62	0.61	0.63	0.61	0.60
FCF Yield (%)	(19.23)	20.54	4.52	8.58	10.35
Dividend yield (%)	2.9	2.4	2.4	2.9	3.3
EV/EBITDA (x)	4.0	6.3	8.8	6.4	5.6
EV/EBIT (x)	5.5	11.9	27.2	13.3	11.2

Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	4913	3533	4129	4457	4576
Gross profit	543	143	194	277	304
EBITDA (adj.)	518	306	217	289	311
Depreciation & amortisation	(141)	(145)	(147)	(150)	(154)
Operating profit	399	150	70	138	157
Net interest	(37)	(43)	(37)	(33)	(27)
Pre-tax profit	381	95	33	106	130
Taxation	(101)	(40)	(8)	(25)	(31)
Net profit	239	61	23	74	91
Recurring net profit	218	73	23	74	91

Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	(563)	144	(23)	(15)	(5)
Cash flow from operations	(136)	393	149	216	247
Capex	(95)	(146)	(95)	(113)	(123)
Cash flow from investing activities	(77)	(121)	(91)	(108)	(119)
Dividends paid	(42)	(37)	(29)	(34)	(40)
Cash flow from financing activities	114	(257)	(229)	(234)	(240)
Cash at beginning of period	735	636	651	481	354
Net change in cash	(96)	18	(170)	(127)	(111)
Ending balance cash	639	654	481	354	243

Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	639	654	481	354	243
Tangible fixed assets	2,624	2,627	2,632	2,610	2,585
Total investments	-	-	-	-	-
Total assets	4,274	4,120	4,133	4,011	3,881
Short-term debt	616	521	321	121	(79)
Total long-term debt	798	751	751	751	751
Total liabilities	2,072	1,871	1,940	1,771	1,582
Total equity	2,202	2,249	2,194	2,240	2,299
Total liabilities & equity	4,274	4,120	4,133	4,011	3,881

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	11.3	(28.1)	16.9	7.9	2.7
Recurrent EPS growth (%)	93.6	(66.4)	(68.7)	223.3	23.2
Gross margin (%)	11.1	4.0	4.7	6.2	6.6
Operating EBITDA margin (%)	10.6	8.7	5.3	6.5	6.8
Net profit margin (%)	4.4	2.1	0.6	1.7	2.0
Capex/sales (%)	1.9	4.1	2.3	2.5	2.7
Interest cover (x)	11.2	3.2	1.9	4.2	5.8

Source: Company data, RHB

Figure 1: Key assumptions

	FY16	FY17	FY18	FY19F	FY20F	FY21F
FFB production, tonnes	979,423	1,374,608	1,340,289	1,372,667	1,473,543	1,613,558
% change	-10.8%	40.3%	-2.5%	2.4%	7.3%	9.5%
Effective CPO price (MYR)	2,610	2,848	2,239	2,200	2,400	2,400
Refinery utilization rate	95%	95%	95%	95%	95%	95%

Source: Company data, RHB

30 September 2019

Agriculture | Plantation

Sawit Sumbermas Sarana (SSMS IJ)

Neutral (Maintained)

Young Gun Ready To Roll; Stay NEUTRAL

Target Price (Return)	IDR1,000 (+6%)
Price:	IDR945
Market Cap:	634.8m
Avg Daily Turnover (IDR/USD)	40780.17m/2.88m

- **Maintain NEUTRAL, new TP of IDR1,000** from IDR950, 6% upside and 1% yield. We lift our TP on a higher P/E, as we have turned bullish on the sector. Our NEUTRAL call is unchanged, as there is still an overhang on SSMS' global bond, which dragged its financial performance due to the high interest rate and FX exposure. Despite the younger oil palm age profile, we still prefer AALI and LSIP as proxies to the Indonesian plantation sector.
- **We recently turned bullish in our CPO outlook**, which resulted in our upgrade on the numbers and calls of the plantation stocks in our coverage universe. Other than Sawit Sumbermas Sarana, we also increased TPs for Astra Agro Lestari (AALI IJ, BUY, TP IDR16,160), and London Sumatra (LSIP IJ, BUY, TP: IDR1,450). We prefer the latter two stocks, as we believe they offer better value vs SSMS' premium valuation. Our higher TP for SSMS is premised on our now-higher P/E (ie, to 20x from 19x).
- **SSMS has the potential to book better earnings** when the CPO price reaches a high, as margins can expand more vs that of other planters. When CPO price was at a high in 2016, SSMS booked GPMs of 40-60% and NPMs of c.20%. We believe this was due to its young and productive trees – which averaged nine years. This is very young, compared to LSIP's average of 15.9 years and AALI's 15.2 years. In terms of production, SSMS' nucleus yield is 24.4 tonnes per ha, higher than AALI's 21.8 tonnes and on par with LSIP's 24.4 tonnes.
- **The recent CPO price downturn dragged down NPM to its lowest level** of -37% in 4Q18. In addition, in 2Q19, SSMS' results implied a -19% NPM. The volatile bottomline margins do illustrate how more exposed SSMS is to the risk of a CPO price downturn vs other planters we cover. Moreover, its premium valuation and geared balance sheet compared to other companies provide more reasons as to why we applied the lowest increase in our target multiples to SSMS. SSMS' balance sheet is the most leveraged, among the plantation companies we cover. FY18 net debt-to-equity is 1.47x, vs AALI's 0.24x and LSIP's net cash.
- **NEUTRAL, for now.** We lift our TP by 5% but maintain NEUTRAL on SSMS as we believe other companies in our universe should offer better upside in the coming periods.

Analysts

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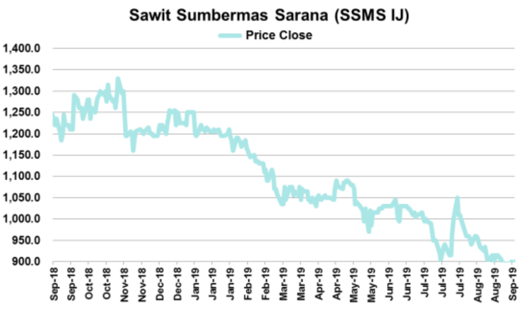
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	-24.4	3.3	-6.0	-12.1	-22.2
Relative	-25.0	3.0	-4.7	-8.4	-28.3

52-wk Price low/high (IDR) 865 – 1,355



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRbn)	3,241	3,711	3,376	3,931	4,256
Reported net profit (IDRbn)	807	86	221	478	678
Recurring net profit growth (%)	33	(89)	156	117	42
EPS (IDR)	85	9	23	50	71
DPS (IDR)	19	25	3	7	15
P/E (x)	11.2	104.4	40.8	18.8	13.3
P/B (x)	2.15	2.21	2.12	1.92	1.72
Dividend Yield (%)	1.97	2.62	0.28	0.72	1.55
EV/Ha (USD)	9,610	9,610	9,610	9,610	9,610
ROAE (%)	19.4	2.1	5.3	10.8	13.7
Net debt to equity	1.12	1.47	1.41	1.28	1.14

Source: Company data, RHB

Financial Exhibits

Financial model updated on: 2019-09-26

Asia
Indonesia
Agriculture | CPO
Sawit Sumbermas Sarana
Bloomberg SSMS IJ
BUY
Major shareholders (%)

Citra Borneo Indah	53.8
Putra Borneo Agro Lestari	10.22

Valuation basis

Our TP of IDR1,000 is based on 20x FY20F P/E or 0.5SD below its mean.

Key drivers

Our FY19F are most sensitive to changes in:
i. Movement in CPO prices;
ii. FX loss due to high FX loans and financing costs;
iii. Disruption in production.

Key risks

The downside risks include:
i. Lower CPO price;
ii. Low production;
iii. Further IDR depreciation

The converse represents the upside risks.

Company Profile

Sawit Sumbermas Sarana operates in the agriculture industry. The company trades in palm oil.

Financial Summary	**2017**	**2018**	**2019F**	**2020F**	**2021F**
EPS (IDR)	85	9	23	50	71
DPS (IDR)	19	25	3	7	15
BVPS (IDR)	439	427	447	491	549
FCFPS (IDR)	894	(43)	671	667	1,025
Weighted Avg Adjusted Shares (m)	9,525	9,525	9,525	9,525	9,525

Valuation Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
P/E (x)	11.15	104.41	40.77	18.82	13.27
P/B (x)	2.15	2.21	2.12	1.92	1.72
FCF Yield (%)	94.6%	-4.6%	71.0%	70.6%	108.4%
Dividend Yield (%)	1.97	2.62	0.28	0.72	1.55
EV/EBITDA (x)	13.6	37.0	50.7	22.4	15.8
EV/ha (planted nucleus)	9,610	9,610	9,610	9,610	9,610

Income Statement (IDRb)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Turnover	3,241	3,711	3,376	3,931	4,256
Gross Profit	1,726	1,601	1,181	1,630	1,899
EBITDA	953	351	256	580	823
Depreciation and Amortisation	(261)	(267)	(288)	(309)	(330)
Operating Profit	1,214	618	544	889	1,153
Net Interest	(93)	(277)	(248)	(247)	(243)
Pre-Tax Profit	1,120	341	296	642	910
Taxation	(309)	(254)	(74)	(160)	(228)
Minority Interests	4	1	1	3	4
Net Profit	807	86	221	478	678

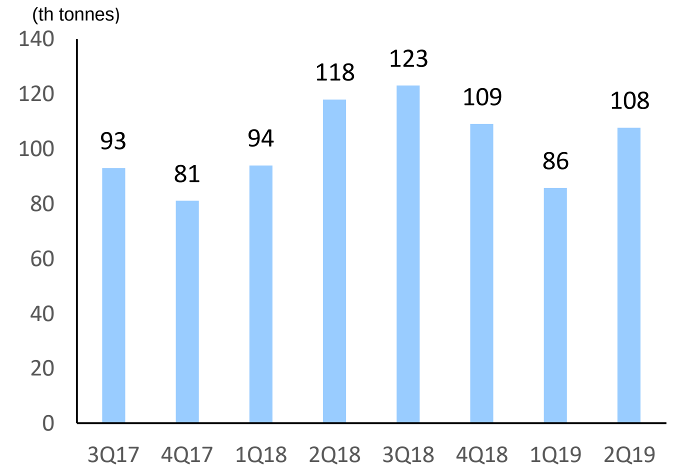
Cash Flow (IDRb)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Working Capital	(720)	(194)	(16)	(20)	(11)
Cash Flow from Operations	908	4	724	720	1,077
Capex	(133)	(447)	(500)	(500)	(500)
Cash Flow from Investing Activities	(342)	(447)	(500)	(500)	(500)
Dividends Paid	(178)	(236)	(25)	(65)	(140)
Cash Flow from Financing Activities	1,473	546	(25)	(65)	(140)
Cash at Beginning of Period	162	2,201	2,304	2,502	2,657
Net Change in Cash	2,038	103	199	155	437
Ending Balance Cash	2,201	2,304	2,502	2,657	3,094

Balance Sheet (IDRb)	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Total Cash and Equivalents	2,201	2,305	2,502	2,657	3,094
Fixed assets	4,399	4,579	4,791	4,982	5,152
Total Assets	9,774	11,296	11,367	11,927	12,562
Non current liabilities	1,122	1,156	1,099	1,192	1,247
Total non current liabilities	4,469	6,070	6,015	6,058	6,088
Total Liabilities	5,592	7,227	7,114	7,250	7,334
Shareholders' Equity	4,164	4,051	4,236	4,660	5,210
Minority Interests	18	19	19	19	19
Total Liabilities & Equity	9,774	11,296	11,368	11,929	12,563

Key Metrics	**2017**	**2018**	**2019F**	**2020F**	**2021F**
Revenue Growth (%)	19.0	14.5	(9.0)	16.4	8.3
EPS Growth (%)	33.0	(89.3)	156.1	116.7	41.8
Gross Margin (%)	53.2	43.1	35.0	41.5	44.6
EBITDA Margin (%)	29.40	9.45	7.59	14.74	19.34
Net Profit Margin (%)	24.90	2.32	6.54	12.17	15.93
Dividend Payout Ratio (%)	22	274	11	14	21

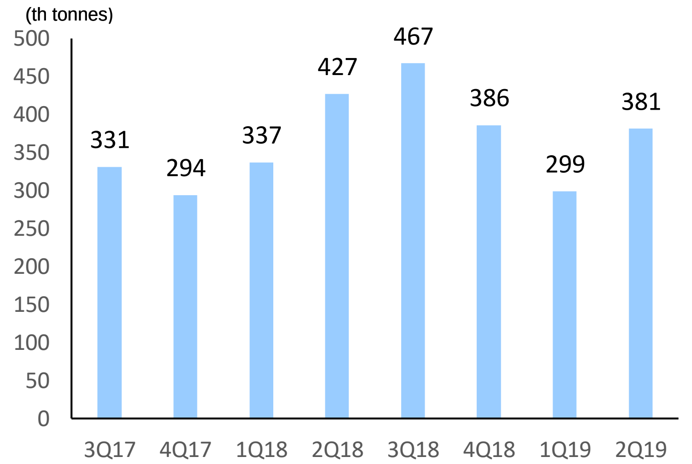
Source: Company, RHB

Figure 1: SSMS' CPO production (3Q17-2Q19)



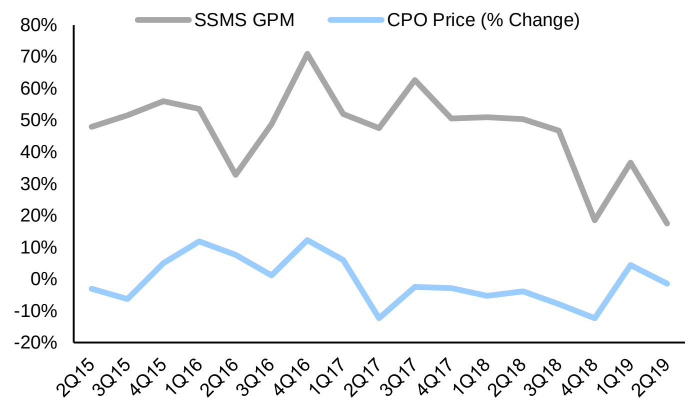
Source: Company data, RHB

Figure 2: SSMS' FFB production (3Q17-2Q19)



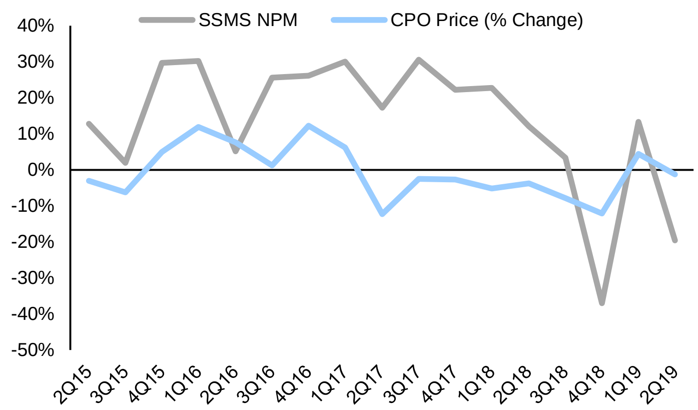
Source: Company data, RHB

Figure 3: SSMS' GPM vs change in CPO price (%)



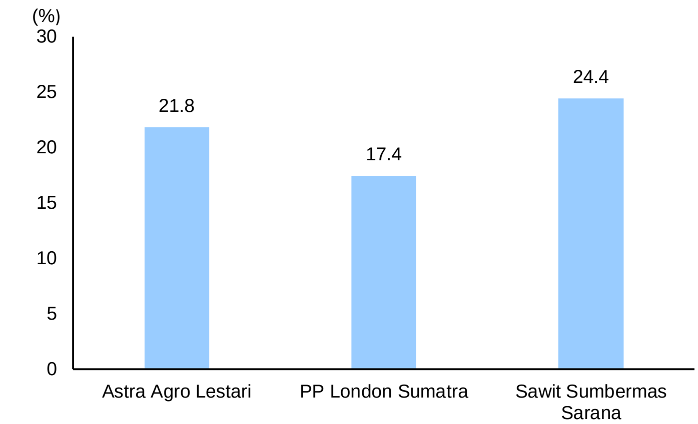
Source: Company data, RHB

Figure 4: SSMS' NPM vs change in CPO price (%)



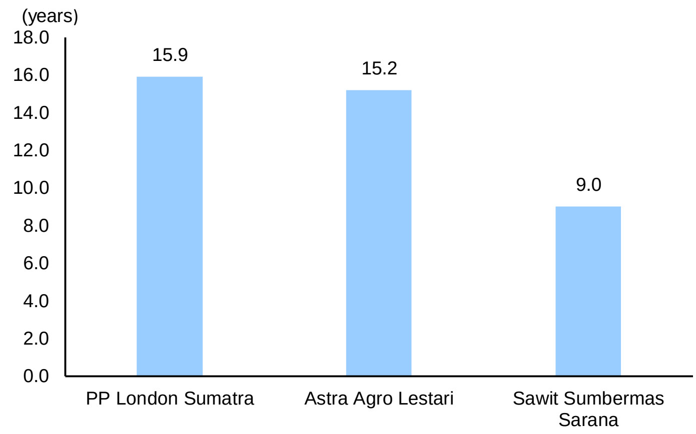
Source: Company data, RHB

Figure 5: SSMS' CPO production vs other planters



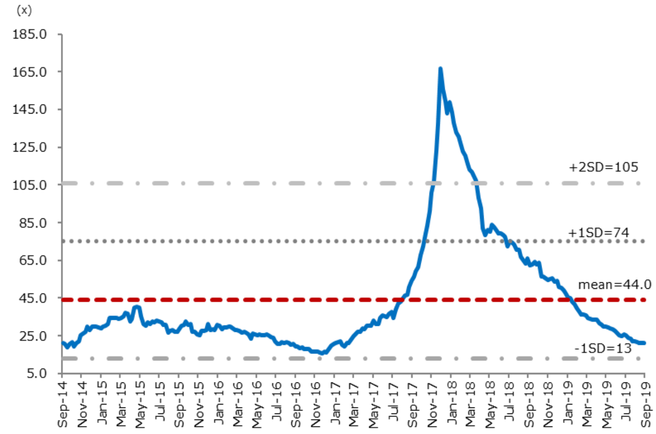
Source: Company data, RHB

Figure 6: SSMS' FFB production vs other planters



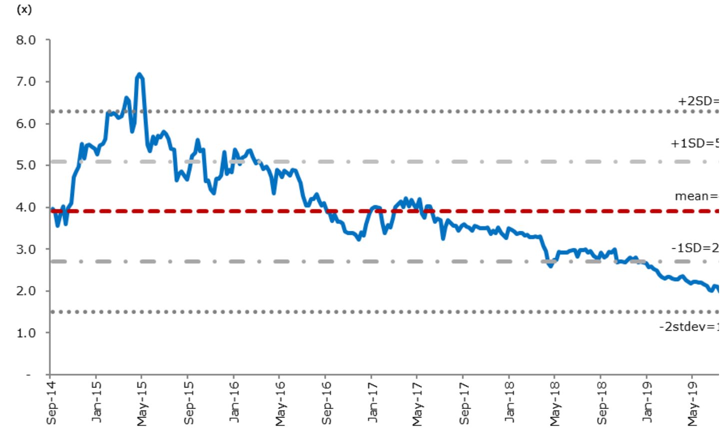
Source: Company data, RHB

Figure 7: SSMS' P/E band



Source: Bloomberg data, RHB

Figure 8: SSMS' P/BV band



Source: Bloomberg data, RHB

Malaysia Company Update

Shariah Compliant

30 September 2019

Agriculture | Plantation

Sime Darby Plantation (SDPL MK)

Sell (Maintained)

Wait For a Lower Entry Point; Keep SELL

Target Price (Return)	MYR4.25 (-14.6%)
Price:	MYR4.98
Market Cap:	USD7,916m
Avg Daily Turnover (MYR/USD)	11.32m/2.71m

- **Maintain SELL, new** MYR4.25 TP from MYR3.90, 15% downside. Although we upgraded the sector to OVERWEIGHT, expecting CPO prices to rerate upwards in 4Q19 and continue its upward trend in 1H20, Sime Plant's valuations remain prohibitive at current levels.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  - i. Trade war is still on, with import duties being levied on US soybeans;
  - ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  - iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  - iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  - v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  - vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Maintain SELL as valuations are at a too much of a premium at current prices,** at 50x FY20F P/E. Our TP rises to MYR4.25 on a higher P/E target of 35x for its plantation division (1SD above historical average), and unchanged 3x P/BV for its downstream division. Our TP implies an EV/ha of USD18,000, ie at a discount to its Malaysian large-cap listed peers, which trade at a higher USD30,000-40,000, likely due to its older age profile.

Analyst

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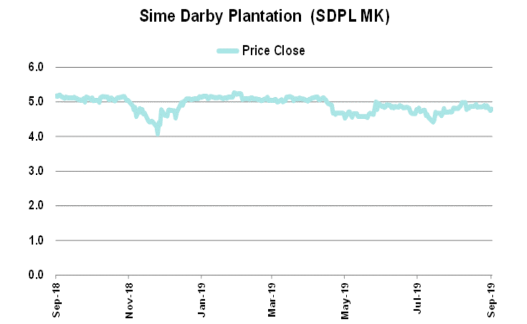
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.6	(0.6)	(1.6)	(5.5)	(9.2)
Relative	6.6	0.6	3.5	(0.9)	2.5
52-wk Price low/high (MYR)					3.95 - 5.39



Source: Bloomberg

Forecasts and Valuation	Jun-18	6MDec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	14,369.0	6,530.0	13,065.1	15,145.2	15,689.7
Recurring net profit	1,210.0	224.0	70.4	665.3	893.0
Recurring net profit growth	9.3	(79.8)	(94.2)	nm	34.2
Recurring P/E (x)	27.4	148.1	471.6	49.9	37.2
P/BV (x)	2.4	2.4	2.4	2.4	2.3
P/CF (x)	14.0	39.8	23.8	16.5	14.8
Dividend Yield (%)	3.5	0.3	0.2	1.2	1.5
EV/EBITDA (x)	8.4	23.0	15.7	10.6	9.5
ROE (%)	9.3	n.m	0.5	4.8	6.3
Net debt to equity (%)	44.8	n.m	38.7	38.5	35.7
Interest coverage (x)	4.5	11.2	4.9	3.1	8.5

Source: Company data, RHB

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia
Malaysia
Plantation
Sime Darby Plantation
SDPL MK

Valuation basis

SOP, applying 35x 2020 to its plantations earnings and 3x BV for its downstream division.

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division vs peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

Sime Darby Plantation is the largest listed plantation company on Bursa Malaysia, with more than 600,000ha of oil palm land bank.

Financial summary	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (MYR)	0.16	0.18	0.01	0.10	0.13
DPS (MYR)	0.13	0.17	0.01	0.06	0.08
BVPS (MYR)	1.83	2.01	2.01	2.05	2.11
ROE (%)	31.81	13.22	0.52	4.82	6.32

Valuation metrics	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	30.0	27.4	471.6	49.9	37.2
P/B (x)	2.66	2.43	2.43	2.38	2.32
FCF Yield (%)	4.82	3.25	2.72	1.02	2.30
Dividend yield (%)	2.7	3.5	0.2	1.2	1.5
EV/EBITDA (x)	7.7	8.4	15.7	10.6	9.5
EV/EBIT (x)	12.2	13.2	61.8	21.7	17.6

Income statement (MYRm)	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	14779	14369	13065	15145	15690
Gross profit	6,923	7,041	6,402	7,573	7,845
EBITDA (adj.)	3,384	3,210	1,776	2,627	2,958
Depreciation & amortisation	(1,247)	(1,154)	(1,324)	(1,340)	(1,355)
Operating profit	2,138	2,056	452	1,287	1,602
Net interest	(424)	(159)	(136)	(141)	(137)
Pre-tax profit	4,031	2,377	283	1,116	1,438
Taxation	(479)	(492)	(85)	(313)	(403)
Net profit	3,508	1,727	70	665	893
Recurring net profit	1,107	1,210	70	665	893

Cash flow (MYRm)	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	478	(123)	926	(254)	(75)
Cash flow from operations	3,292	2,675	2,401	1,840	2,263
Capex	(1,691)	(1,595)	(1,500)	(1,500)	(1,500)
Cash flow from investing activities	(1,578)	(884)	(1,500)	(1,500)	(1,500)
Dividends paid	(960)	(434)	(68)	(408)	(510)
Cash flow from financing activities	(1,673)	(2,091)	(368)	(608)	(810)
Cash at beginning of period	636	713	363	896	628
Net change in cash	41	(300)	533	(268)	(47)
Ending balance cash	713	363	896	628	581

Balance sheet (MYRm)	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	546	279	726	578	531
Tangible fixed assets	18,355	17,757	18,005	18,238	18,455
Total investments	719	504	504	504	504
Total assets	29,455	27,491	27,614	27,965	28,209
Short-term debt	(1,325)	(1,094)	(1,094)	(1,094)	(1,094)
Total long-term debt	(6,412)	(5,395)	(5,095)	(4,895)	(4,595)
Total liabilities	(16,997)	(13,816)	(13,937)	(14,030)	(13,892)
Total equity	12,458	13,675	13,677	13,935	14,318
Total liabilities & equity	29,455	27,491	27,614	27,965	28,209

Key metrics	Jun-17	Jun-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	23.7	(2.8)	(9.1)	15.9	3.6
Recurrent EPS growth (%)	262.7	(99.7)	(94.2)	845.5	34.2
Gross margin (%)	46.8	49.0	49.0	50.0	50.0
Operating EBITDA margin (%)	22.9	22.3	13.6	17.3	18.9
Net profit margin (%)	23.7	12.0	0.5	4.4	5.7
Capex/sales (%)	(11.4)	(11.1)	(11.5)	(9.9)	(9.6)
Interest cover (x)	4.5	11.2	3.1	8.5	11.0

Source: Company data, RHB

Figure 1: SDPlant's forecast assumptions

FYE	Jun-16	Jun-17	Jun-18	6MDec-18	Dec-19F	Dec-20F	Dec-21F
CPO Price (MYR/tonne)	2,242	2,848	2,546	1,974	2,200	2,400	2,500
FFB Production ('m tonnes)	9.6	9.8	10.2	5.6	10.7	11.1	11.3
Downstream Margin (%)	2.4	2.1	2.5	2.9	3.0	4.0	4.0

Source: RHB

Figure 2: SDPlant's SOP valuation

	Basis	Valuation (MYRm)
Plantations Upstream	2020 P/E Target of 35x	15,234
Plantations Downstream	3x Book Value	13,560
TOTAL		**28,795**
No. issued shares (m)		6,800
SOP/share (MYR)		**4.23**

Source: RHB

30 September 2019

Agriculture | Plantation

TSH Resources (TSH MK)

Sell (Maintained)

Lofty Valuations; Still a SELL

Target Price (Return)	MYR0.75 (-15%)
Price:	MYR0.88
Market Cap:	USD286.5m
Avg Daily Turnover (MYR/USD)	0.12m/0.03m

- **Maintain SELL, new TP of MYR0.75** from MYR0.70, 15% downside. Although we upgraded the sector to OVERWEIGHT, expecting CPO prices to rerate upwards in 4Q19 and continue its upward trend in 1H20, TSH's valuations remain prohibitive at current levels.
- **When CPO prices start moving, plantation companies' P/Es will expand first,** before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Maintain SELL, as TSH is trading at a lofty 29x FY20F P/E** – above its peers' range of 16-20x. Our revised SOP-based TP of MYR0.75 (from MYR0.70), applies a higher 18x 2020 target P/E on its plantations division (from 16x) and unchanged 0.5x P/BV on its other divisions. This implies an EV/ha of USD10,000, in line with its peer range of USD8,000-15,000/ha. Although it should see decent FFB growth over the next few years, we believe higher unit costs relating to young plantations will hamper earnings.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	1,073.5	906.3	956.3	1,066.9	1,058.0
Recurring net profit (MYRm)	105.5	52.8	23.4	40.8	51.8
Recurring net profit growth	16.0	(50.0)	(55.6)	74.4	26.8
Recurring P/E (x)	11.4	22.8	51.3	29.4	23.2
P/BV (x)	0.8	0.9	0.9	0.9	0.9
P/CF (x)	5.7	8.4	6.0	4.8	5.0
Dividend Yield (%)	2.3	1.1	0.6	1.1	1.1
EV/EBITDA (x)	10.4	13.1	14.8	11.8	10.7
ROE (%)	7.7	2.9	1.7	2.9	3.6
Net debt to equity (%)	88.4	98.4	91.9	82.7	80.9
Interest coverage (x)	4.7	2.8	1.4	2.0	2.5

Source: Company data, RHB

Analyst

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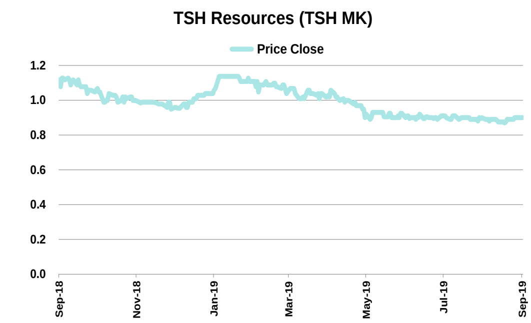
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.1)	0.0	0.0	(14.3)	(20.4)
Relative	(3.1)	1.2	5.2	(9.7)	(8.7)
52-wk Price low/high (MYR)					0.865 - 1.19



Source: Bloomberg

Financial Exhibits

Asia
Malaysia
Plantation
TSH Resrouces
TSH MK

Valuation basis

We apply an SOP valuation, comprising 18x 2020 P/E on its upstream division and 0.5x P/BV for its other divisions. Our TP implies an EV/ha of USD10,000/ha, in line with the peers' range of USD8,000-15,000/ha..

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division vs peers.

Key risks

i. CPO price movement;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

TSH Resources is involved in oil palm plantations in Sabah and Indonesia. It also has a 50% stake in a joint venture refinery with Wilmar International.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (MYR)	0.08	0.04	0.02	0.03	0.04
DPS (MYR)	0.02	0.01	0.01	0.01	0.01
BVPS (MYR)	1.04	0.96	0.97	0.99	1.02
ROE (%)	7.73	2.93	1.69	2.89	3.57

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	11.4	22.8	51.3	29.4	23.2
P/B (x)	0.85	0.91	0.90	0.88	0.86
FCF Yield (%)	6.97	(0.42)	6.68	9.81	8.97
Dividend yield (%)	2.3	1.1	0.6	1.1	1.1
EV/EBITDA (x)	10.4	13.1	14.8	11.8	10.7
EV/EBIT (x)	13.5	21.9	36.7	26.3	23.3

Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	1074	906	956	1067	1058
Gross profit	381	288	292	339	363
EBITDA (adj.)	253	204	177	212	237
Depreciation & amortisation	(59)	(81)	(116)	(127)	(138)
Operating profit	195	122	71	95	109
Net interest	(28)	(35)	(41)	(38)	(34)
Pre-tax profit	192	81	37	64	81
Taxation	(50)	(30)	(9)	(16)	(20)
Net profit	114	40	23	41	52
Recurring net profit	105	53	23	41	52

Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	56	48	20	37	2
Cash flow from operations	210	143	201	250	239
Capex	(165)	(163)	(131)	(142)	(141)
Cash flow from investing activities	(126)	(148)	(121)	(132)	(131)
Dividends paid	(1)	(29)	(7)	(14)	(14)
Cash flow from financing activities	(70)	(23)	(107)	(114)	(114)
Cash at beginning of period	131	139	108	81	86
Net change in cash	13	(28)	(27)	4	(6)
Ending balance cash	145	111	81	86	80

Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	139	108	81	86	80
Tangible fixed assets	2,380	2,338	2,349	2,361	2,361
Total investments	159	149	156	163	170
Total assets	3,345	3,214	3,411	3,480	3,246
Short-term debt	649	663	663	663	663
Total long-term debt	793	793	692	591	591
Total liabilities	1,739	1,713	1,889	1,923	1,643
Total equity	1,606	1,501	1,522	1,556	1,604
Total liabilities & equity	3,345	3,214	3,411	3,480	3,246

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	23.0	(15.6)	5.5	11.6	(0.8)
Recurrent EPS growth (%)	16.0	(50.0)	(55.6)	74.4	26.8
Gross margin (%)	35.5	31.7	30.5	31.8	34.3
Operating EBITDA margin (%)	23.6	22.5	18.5	19.9	22.4
Net profit margin (%)	9.8	5.8	2.4	3.8	4.9
Capex/sales (%)	15.3	18.0	13.7	13.3	13.3
Interest cover (x)	7.8	3.3	1.9	2.7	3.4

Source: Company data, RHB

Figure 1: TSH's key assumptions

	FY16	FY17	FY18	FY19F	FY20F	FY21F
FFB production, tonnes	597,137	706,097	856,843	892,769	968,146	1,046,822
% change	-8.0%	18.2%	21.3%	4.2%	8.4%	8.1%
Percentage of production from Indonesia	82.5%	84.7%	87.4%	87.4%	88.0%	88.6%
CPO price assumption (Malaysia), MYR/tonne	2,454	2,701	2,086	2,200	2,400	2,400

Source: RHB

Figure 2: TSH's SOP valuation

Division	Valuation methodology	Per share value, MYR
Plantation	18x FY20F earnings	0.54
Other divisions	0.5x book value	0.22
	TP	**0.76**

Source: RHB

Singapore Company Update

30 September 2019

Agriculture | Plantation

Wilmar (WIL SP)

Buy (Maintained)

China IPO Still The Key Catalyst; Maintain BUY

Target Price (Return)	SGD4.75 (+27%)
Price:	SGD3.74
Market Cap:	USD17,133m
Avg Daily Turnover (SGD/USD)	23.9m/17.3m

- **Reiterate BUY, higher TP of SGD4.75 from SGD4.50,** 27% upside and c.3% dividend yield. This is due to our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue their upward trend in 1H20. CPO prices are the leading indicator for plantation P/E valuations. Being one of the largest oil palm owners, we expect Wilmar's upstream business to benefit from rising CPO prices. We now value its plantations at a higher P/E.
- **We expect upstream planters to benefit more** from the rise in CPO prices than Wilmar, which is exposed to the entire supply chain of palm oil. As such, we have switched our Singapore plantation sector Top Pick to First Resources. Wilmar remains one of our Singapore Top Picks, as the upcoming China IPO remains a key positive catalyst for its share price.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade** are:
  i. Trade war is still on, with import duties being levied on US soybeans;
  ii. A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  iii. Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  iv. The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  v. Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  vi. Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **Positioned for CPO price recovery.** Although Wilmar is much bigger in the processing space, we note that management has highlighted its expectation of a CPO price recovery in the previous two briefings. This leads us to believe the group has positioned itself to capture higher margins in the upstream segment, while keeping low-cost inventories for its mid-stream and downstream business for subsequent quarters when CPO prices go up.
- **Higher SOP-derived TP of SGD4.75.** We apply a higher P/E of 16x to Wilmar's upstream plantation earnings in FY20F (10x previously). We expect its share price to still be largely driven by the rerating of its oilseeds & grains business upon its China listing.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	43,574	44,498	45,731	49,886	53,629
Recurring net profit (USDm)	1,047	1,305	1,215	1,300	1,372
Recurring net profit growth (%)	7.3	24.6	(6.9)	7.0	5.6
Recurring P/E (x)	16.6	13.3	14.3	13.4	12.7
P/BV (x)	1.1	1.1	1.0	1.0	0.9
P/CF (x)	66.0	15.3	5.9	9.4	7.2
Dividend Yield (%)	2.8	3.1	2.7	2.9	2.9
EV/EBITDA (x)	16.8	14.9	13.7	12.8	11.8
ROE (%)	7.5	7.2	7.2	7.4	7.4
Net debt to equity (%)	105.7	124.5	103.4	93.7	80.4
Interest coverage (x)	2.7	2.2	3.3	3.3	3.4

Source: Company data, RHB

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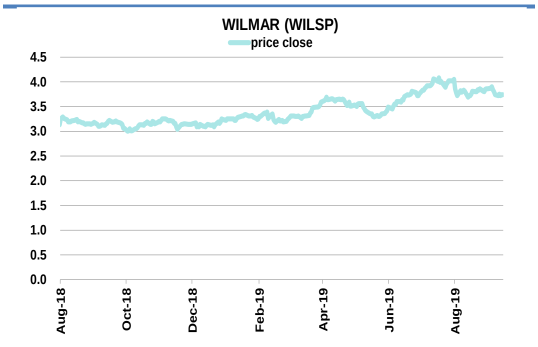
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.9	0.5	3.0	13.3	16.9
Relative	18.0	(1.4)	9.1	15.6	20.3

52-wk Price low/high (SGD) 2.99 – 4.11



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
Wilmar Intentaional
WIL SP

Valuation basis

SOP.

Key drivers

i. China IPO;
ii. Commodities prices;
iii. Demand for downstream products

Key risks

i. Escalation of trade war;
ii. Regulatory risks;
iii. Trading losses.

Company Profile

Wilmar is an agribusiness company. Its three main commodities are palm oil, soybean and sugar. Its business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining and the production of downstream products including consumer-packed oil, rice, flour, specialty fats, oleochemicals and biodiesel.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (USD)	0.17	0.21	0.19	0.21	0.22
DPS (SGD)	0.08	0.08	0.07	0.08	0.08
BVPS (USD)	2.53	2.54	2.65	2.78	2.92
ROE (%)	7.49	7.19	7.23	7.39	7.44

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	16.6	13.3	14.3	13.4	12.7
P/B (x)	1.1	1.1	1.0	1.0	0.9
FCF Yield (%)	-2.9	1.8	17.5	8.8	13.2
Dividend yield (%)	2.8	2.8	2.7	2.9	2.9
EV/EBITDA (x)	16.8	14.9	13.7	12.8	11.8
EV/EBIT (x)	25.5	21.3	21.6	20.4	19.1

Income statement (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	43,574	44,498	45,731	49,886	53,629
Gross profit	3,767	4,395	4,070	4,490	4,809
EBITDA (adj.)	2,118	2,572	2,618	2,735	2,826
Depreciation & amortisation	725	777	961	1,020	1,078
Operating profit	1,393	1,795	1,657	1,716	1,748
Net interest	-253	-352	-384	-373	-367
Pre-tax profit	1,563	1,617	1,656	1,781	1,868
Taxation	-282	-350	-331	-362	-379
Net profit	1,280	1,268	1,325	1,420	1,489
Recurring net profit	1,047	1,305	1,215	1,300	1,372

Cash flow (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	-1,728	145	1,716	416	1,118
Cash flow from operations	363	1,567	4,083	2,549	3,326
Capex	-879	-1,259	-1,000	-1,000	-1,000
Cash flow from investing activities	-854	-1,370	-1,132	-1,201	-1,201
Dividends paid	-320	-495	-471	-504	-508
Cash flow from financing activities	918	29	-2,957	-975	-1,983
Cash at beginning of period	1,185	1,455	1,650	1,645	2,018
Net change in cash	427	226	-6	373	142
Ending balance cash	1,455	1,650	1,645	2,018	2,160

Balance sheet (USDM)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	1,455	1,650	1,645	2,018	2,160
Tangible fixed assets	9,478	10,008	10,147	10,229	10,253
Total investments	3,428	3,715	4,087	4,616	5,192
Total assets	40,933	44,866	43,666	44,268	43,846
Short-term debt	16,130	17,821	17,000	16,500	15,000
Total long-term debt	3,696	5,523	4,000	4,000	4,000
Total liabilities	23,947	27,726	25,700	25,415	24,040
Total equity	16,985	16,767	17,594	18,480	19,434
Total liabilities & equity	40,933	44,493	43,293	43,895	43,473

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	5.2	2.1	2.8	9.1	7.5
Recurrent EPS growth (%)	7.3	24.6	(7.0)	7.0	5.6
Gross margin (%)	8.6	9.9	8.9	9.0	9.0
Operating EBITDA margin (%)	5.0	5.9	5.7	5.5	5.3
Net profit margin (%)	2.4	2.9	2.7	2.6	2.6
Capex/sales (%)	2.0	2.8	2.2	2.0	1.9
Interest cover (x)	2.7	2.2	3.3	3.3	3.4

Source: Company data, RHB

Figure 1: Our earnings assumptions remain unchanged

	FY19F	FY20F	FY21F
Tropical oils			
Revenue (USDm)	15,068	16,880	17,776
Pretax earnings (USDm)	677	683	655
Pretax margins (%)	4.5%	4.0%	3.7%
CPO price assumption (USD/tonne)	530	585	610
CPO price assumption (MYR/tonne)	2,200	2,400	2,500
PK price assumption (USD/tonne)	313	378	378
PK price assumption (MYR/tonne)	1300	1550	1550
Processing pretax margin (%)	3.4%	2.7%	2.3%
Oilseeds & grains			
Revenue (USDm)	15,068	16,880	17,776
Pretax earnings (USDm)	471	564	631
Pretax margins (%)	3.1%	3.3%	3.5%
Sugar			
Revenue (USDm)	6,427	7,321	8,350
Pretax earnings (USDm)	96	96	96
Pretax margins (%)	1.5%	1.3%	1.1%

Source: RHB

Figure 2: TP derivation

New SOP valuation	Value (USD m)	Valuation basis
Plantation business	2,967	16x FY20F P/E
Palm manufacturing	2,425	DCF: CoE 12.3%, Rf 5.9%, Beta 1.0, Rm 12.6%, TG 0.0%
Oilseeds & Grains	10,768	20x blended FY18-19F P/E
Sugar	765	10x FY20F P/E
Others	325	DCF: CoE 9.3%, Rf 3%, Beta 1.0, Rm 9.5%, TG 0%
JV & Associates	4,616	1x P/BV
SOP	**21,866**	
Value per share (USD)	3.46	
Exchange rate	1.38	
Value per share (SGD)	**4.75**	

Source: RHB

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