

Regional Plantation



ONLINE TRADING
MADE EASY

PLANTATION: MARKET WEIGHT

Maintain MARKET WEIGHT. We expect CPO prices to trade sideways at RM2,100-2,500/tonne and expect prices to recover towards 4Q18.

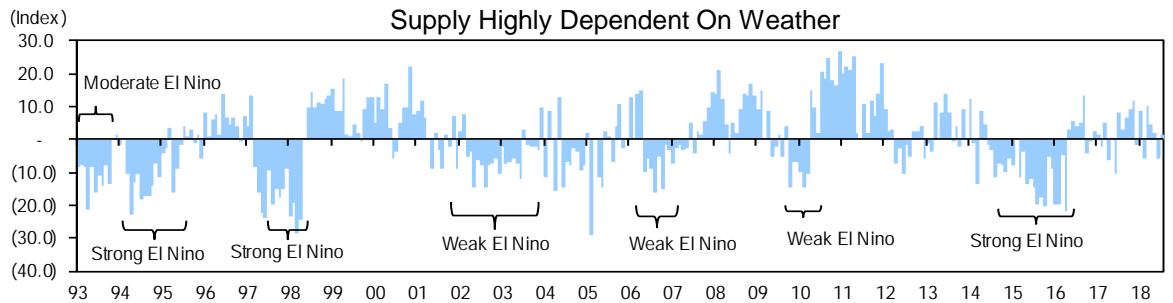
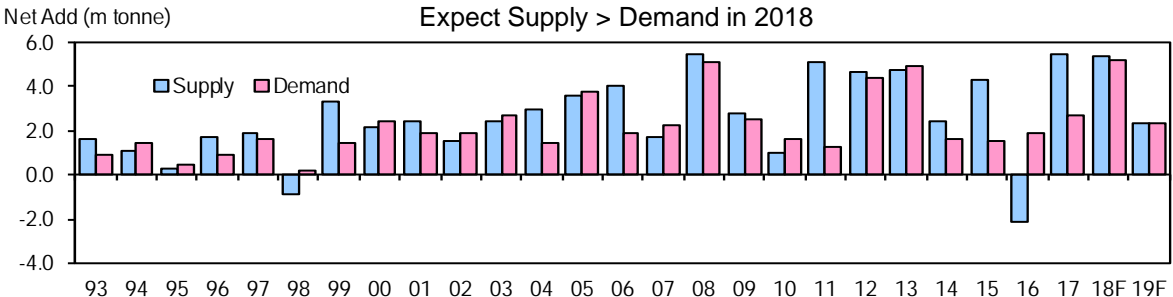
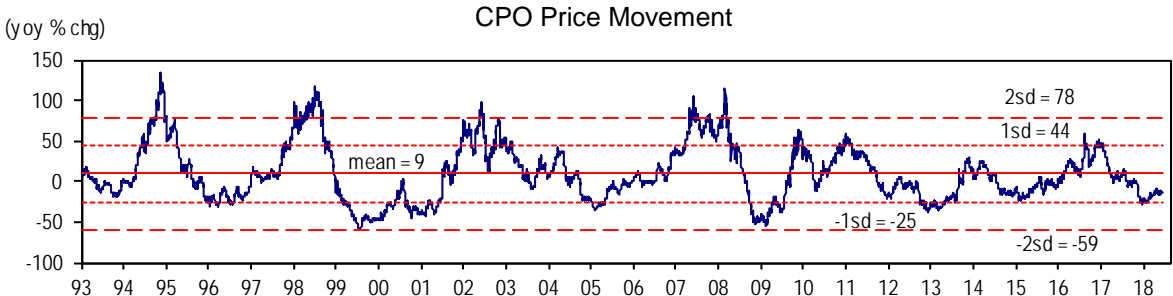
Downside risk on CPO prices is lower given weak production from Malaysia, but upside is capped by:

- **High PO inventories in Malaysia and Indonesia**
- **Pressure on US soybean prices due to US-China trade war**
- **Demand uncertainty due to weak EM currencies – PO demand growth largely from EM**

Factors that could turn more positive:

- **Weather – Start of dry seasons, next El Nino**
- **Soybean supply**
- **Takeup rate of biodiesel in Indonesia**

UNEXCITING TREND IN CPO PRICES



Source: Bloomberg, Oil World, UOB Kay Hian, Australia BoM

Expect CPO prices to recover towards 4Q18

2019 will see a more balanced situation – less pressure on pricing

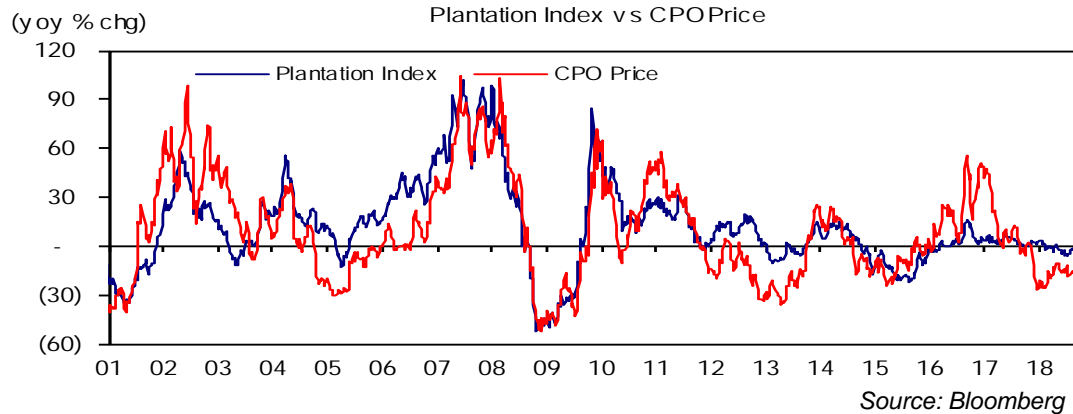
Events to watch in 2019:

- **Development of El Niño**
- **Implementation of Indonesia’s biodiesel expanded mandate**
- **Next soybean planting in South America; potentially more to come**

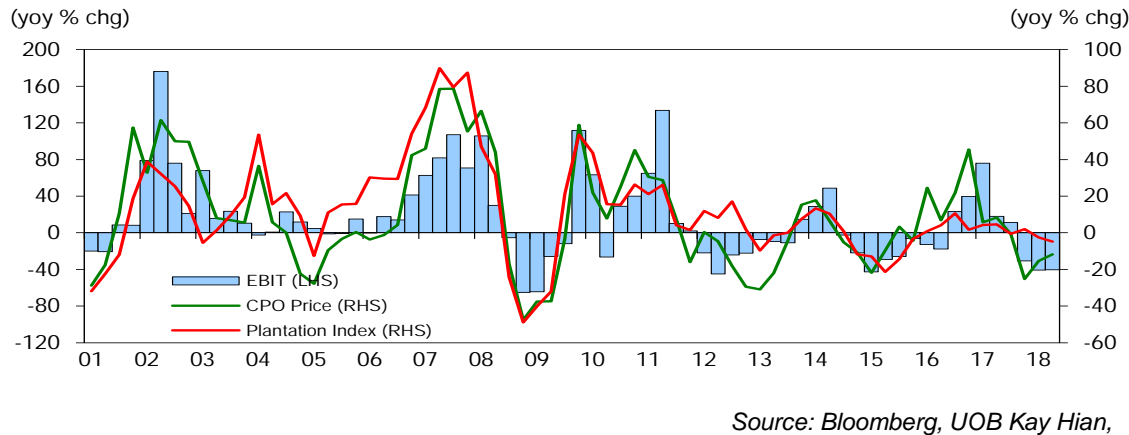
CPO prices to trade at RM2,100-2,500/tonne and to recover towards 4Q18

DRIVERS OF SHARE PRICES

Share Price Highly Correlated With CPO Price



Earnings Is Another Share Price Catalyst



Sector underperformed in last two years largely due to:

- **Weak CPO prices**
- **Weak earnings momentum**

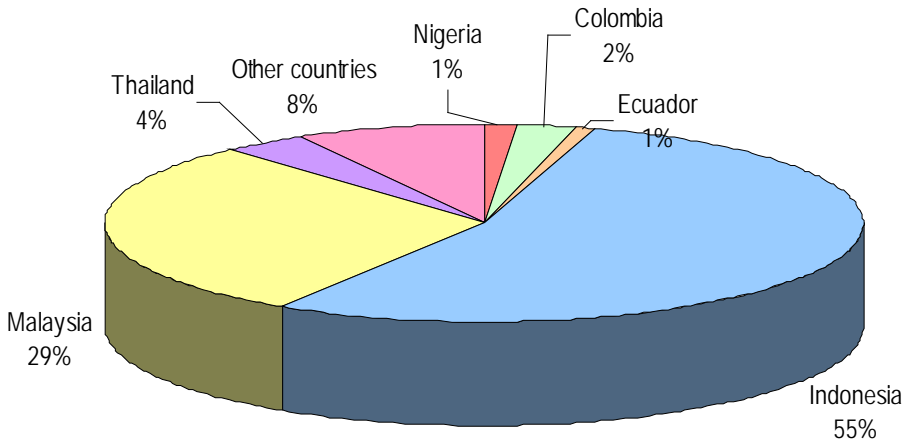
Malaysia-listed companies outperformed peers in Singapore and Indonesia

- Strong support from local funds – Index and Shariah benchmarking
- Dividend yield – companies mainly sitting on good cash flows

SUPPLY: MAJOR PRODUCERS

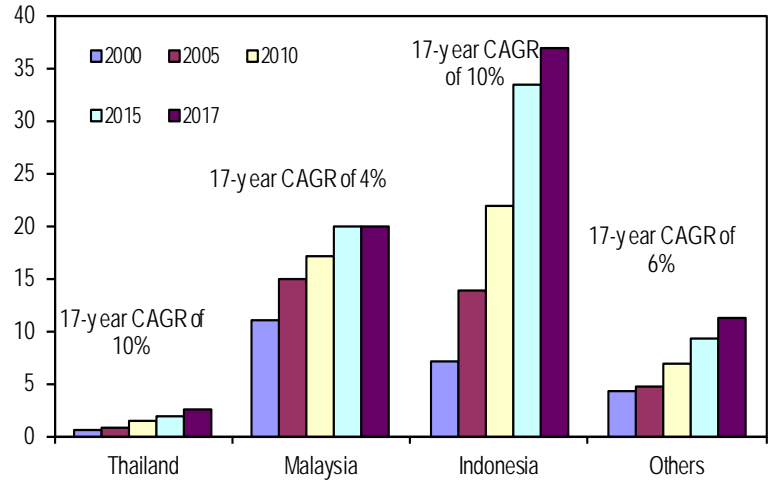
Indonesia 55% + Malaysia 29% + Thailand 4% = 88%

2017 Production: 67.9m tonnes



Source: Oil World

Highest Growth Coming From Indonesia (m tonnes)



Source: Oil World

SUPPLY: STRONG PRODUCTION

(m mt)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
Malaysia	17.7	17.6	17.0	18.9	18.8	19.2	19.7	20.0	17.3	19.9	19.4	19.9
Indonesia	19.4	21.0	22.1	24.3	26.9	28.5	31.4	33.4	31.8	36.8	40.5	43.2
Others	6.4	6.7	6.7	7.6	8.1	8.6	8.6	9.1	10.1	11.1	12.2	12.8
Total production	43.6	45.3	46.0	50.8	53.7	56.3	59.7	62.5	59.2	67.9	72.1	75.9
Total supply	49.8	52.5	53.6	58.7	63.3	68.1	70.5	74.8	72.6	78.1	84.5	88.9
Growth (%)												
Production	12.2	3.9	1.6	10.4	5.8	4.8	6.0	4.7	(5.3)	14.7	6.1	5.3
Supply	12.2	5.6	1.9	9.6	8.0	7.5	3.5	6.1	(2.9)	7.5	8.2	5.3
Inventory	20.5	1.1	7.9	20.3	23.0	(7.4)	3.2	21.1	(24.8)	22.3	5.4	(3.8)

Source: Oil World

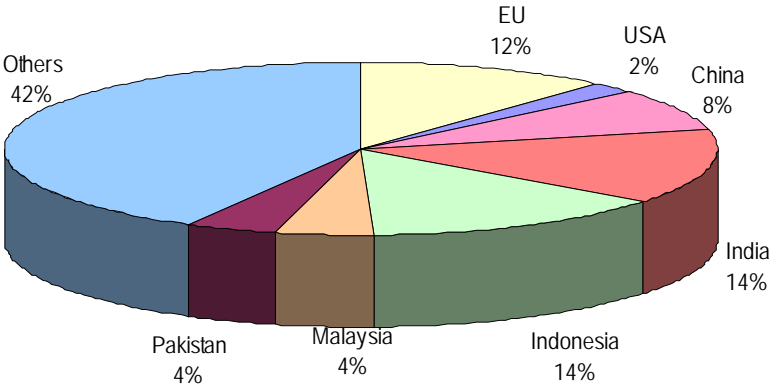
Post El-Nino, production recovered but hit by weaker demand, resulting in high inventory and placing pressure on CPO prices

DEMAND: MAJOR CONSUMERS

Top 4 Consuming Markets

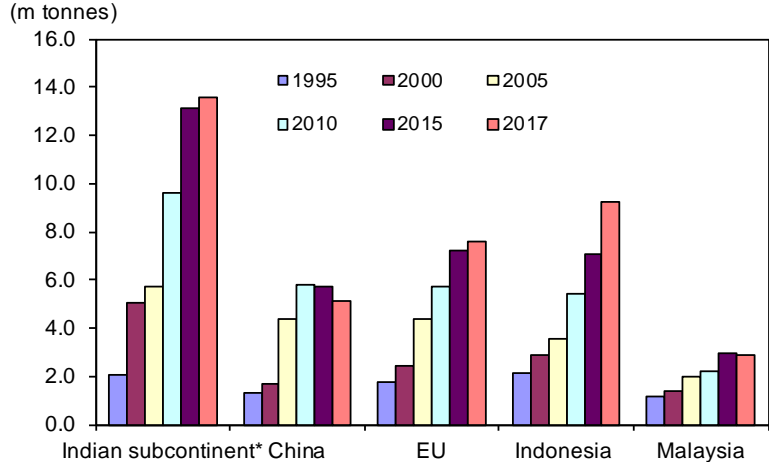
Indonesia, India, Europe & China = 42%

2017 Consumption: 65.2m tonnes



Source: Oil World

Highest Growth Coming From Developing Countries

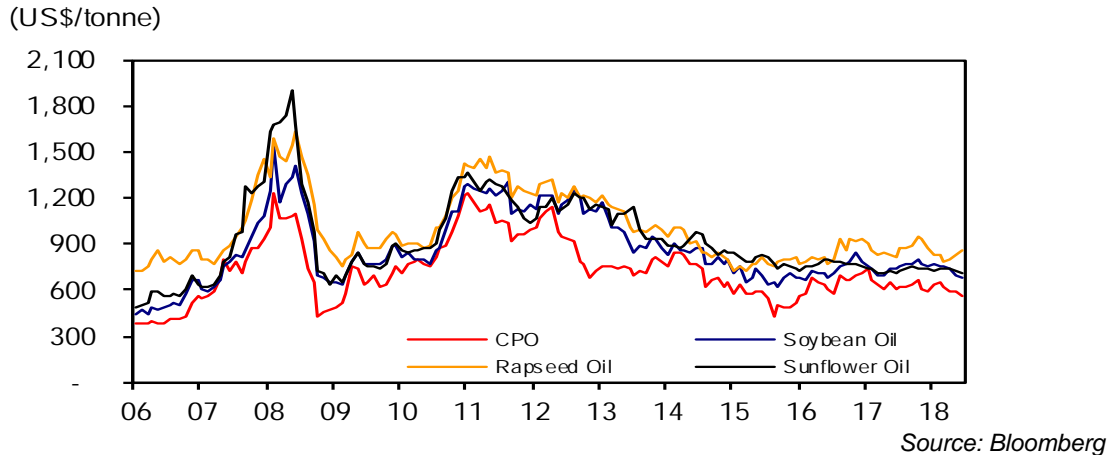


* Indian subcontinent – India, Bangladesh, Pakistan

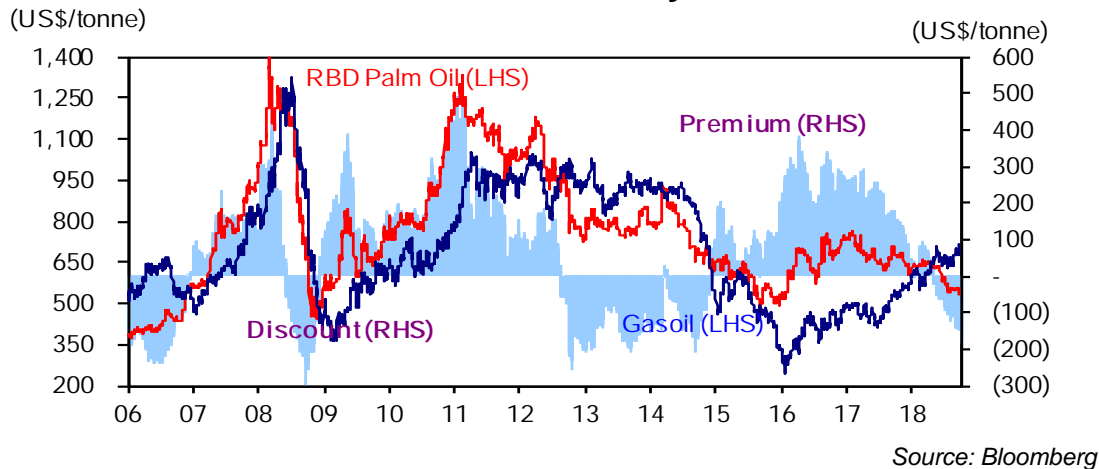
Source: Oil World

DEMAND: RELATIVELY WEAK

Losing Market Share To Other Oilseeds As Discount Gap Narrows



Biodiesel More Commercially Viable Now



Subdued exports

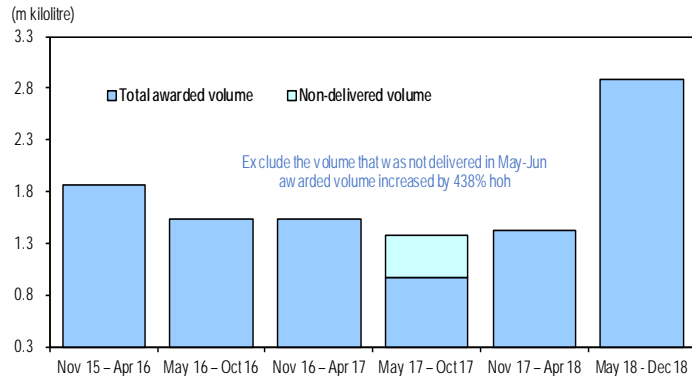
- PO losing market share to other oilseeds
- Price gap narrowing due to higher production of all oilseeds
- Three major markets see stagnation – India, EU and China

Support from domestic market

- Expands biodiesel mandate to entire sector
- Increases domestic demand by at least 1.0m tonnes

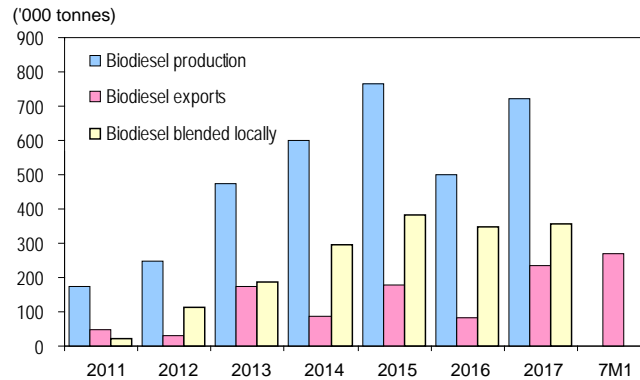
DEMAND: BIODIESEL

Higher Indonesia Biodiesel Allocation



Source: Bloomberg, GAPKI, ESDM

Malaysia Biodiesel Production & Exports



Source: Malaysian Biodiesel Association

Indonesia biodiesel

- Expected volume for 2018 to hit 3.6m-3.8m kl (vs earlier 3.0m-3.02m kl) vs 2017's 2.54m kl
- The increase comes from implementation of B20 mandate in domestic non-PSO sectors

Expect Higher Indonesia Biodiesel Consumption

(m kl)	PSO	Non-PSO	Exports	Total
2018 previous	3.0		1.5	4.5
2018 revised	4.0		1.5	5.5
2019 expectation	3.0	3.0	1.0 -1.5	7.0-7.5

Source: Various media, UOB Kay Hian

Malaysia biodiesel

- Domestic usage still capped at 300,000-350,000 tonnes
- Exports for 8M18 at 305,287 tonnes (vs 235,291 tonnes in 2017)

INVESTMENT STRATEGY

Investment Strategy: Prefer Indonesia-based companies with a younger age profile that can deliver higher production growth to offset weak CPO prices. Malaysia-based companies are facing severe labour shortage, higher cost and slower production growth due to an older age profile.

Stock Picks:

Bumitama (BAL SP/BUY/Target: S\$0.93): Pure upstream exposure with good age profile that delivers rising yield and good cash flow. Strong production growth of 15-20% to compensate for price weakness. Our target price is based on 11x 2018F PE.

Tunas Baru Lampung (TBLA IJ/BUY/Target: Rp1,300): Beneficiary of higher biodiesel volume, Indonesia's sugar policy and good dividend yield of 6%. The stock is trading at 5.8x 2018F PE, far below the industry average of 12-14x PE. Our target price is pegged at 6.4x 2018F PE.

Wilmar International (WIL SP/BUY/Target: S\$3.90): Integrated business model and strong market presence in its key markets. China listing in late-19 at higher PE could be a catalyst. Our SOTP-based target price translates into 2019F PE of 13.7x.

SECTOR VALUATION

	Ticker	Rec	Share	Target	Market	PE (x)			ROE	P/B	Net	Div Yield (%)	
			Price 28 Sep 18 (RM)	Price (RM)	Price (US\$m)	2017	2018F	2019F	(%)	(x)	Gearing (x)	17	18F
Malaysia													
Kim Loong	KIML MK	BUY	1.32	1.50	298	13.1	12.9	11.7	16.3	1.7	(0.4)	5.8	4.2
Sarawak Oil Palms	SOP MK	BUY	2.78	4.15	384	6.1	14.4	8.7	12.0	1.1	0.4	0.0	2.7
Genting Plantations	GENP MK	HOLD	9.49	10.15	1,846	21.3	23.3	17.7	7.8	1.8	0.3	2.7	2.2
IJM Plantations	IJMP MK	HOLD	2.44	2.33	519	46.0	26.0	19.8	2.7	1.6	0.3	2.9	1.6
KLK Kepong	KLK MK	HOLD	24.96	23.00	6,424	23.0	28.4	23.9	9.1	2.4	0.2	2.0	1.6
TH Plantations	THP MK	SELL	0.68	0.60	145	11.9	28.3	16.6	2.6	0.4	0.7	5.3	0.9
Sime Darby Plantation	SDPL MK	SELL	5.30	4.30	8,711	20.9	66.3	29.6	14.2	2.6	0.4	3.3	0.8
IOI Corporation	IOI MK	SELL	4.54	3.80	6,700	22.1	42.8	21.1	36.8	3.1	0.2	4.5	2.3
Felda Global	FGV MK	NR	1.55	NA	1,367	39.7	96.9	36.9	2.5	1.0	0.5	3.2	2.3
United Plantations	UPL MK	NR	26.90	NA	1,351	14.2	NA	NA	16.1	2.1	(0.3)	1.5	NA
TSH Resources	TSH MK	NR	1.13	NA	377	13.4	22.6	18.5	7.7	1.2	0.8	1.8	1.3
Boustead Plantation	BPLANT MK	NR	1.13	NA	612	3.8	35.3	27.6	28.1	0.9	0.0	7.9	3.9
Hap Seng Plantations	HAPL MK	NR	2.21	NA	427	13.1	29.5	19.7	6.6	1.1	(0.1)	5.0	2.9
United Malacca	UMR MK	NR	5.99	NA	304	25.9	40.7	20.0	2.8	0.8	0.0	2.0	2.1
TDM	TDM MK	NR	0.25	NA	100	16.8	NA	NA	1.7	0.4	0.5	0.0	NA
Rimbunan Sawit	RSAW MK	NR	0.22	NA	75	(3.4)	NA	NA	-21.7	0.6	0.9	0.0	NA
Sarawak Plantations	SPLB MK	NR	1.80	NA	122	(49.2)	360.0	58.1	-1.6	1.1	0.0	0.0	2.8
Sector						22.2	46.4	24.7					

Source: UOB Kay Hian, Bloomberg

SECTOR VALUATION

	Ticker	Rec	Share	Target	Market	PE (x)			ROE	P/B	Net	Div Yield (%)	
			Price	Price	Price	2017	2018F	2019F	(%)	(x)	Gearing	17	18F
			28 Sep 18		(US\$m)						(x)		
Singapore			(S\$)	(S\$)									
Wilmar International	WIL SP	BUY	3.22	3.90	14,889	11.7	12.4	11.2	8.0	0.9	1.0	3.1	2.7
Bumitama Agri	BAL SP	BUY	0.670	0.93	852	9.7	7.9	7.6	16.8	2.3	0.5	3.0	3.8
First Resources	FR SP	HOLD	1.680	1.60	1,945	13.6	13.9	11.9	14.9	2.2	0.3	4.0	2.1
Golden Agri-Res	GGR SP	SELL	0.250	0.16	2,327	16.3	21.5	10.7	1.8	0.6	0.6	3.2	0.9
Indofood Agri Resources	IFAR SP	NR	0.189	NA	193	43.7	4.6	3.0	3.7	0.3	0.4	2.8	2.7
Sector						12.6	13.3	11.0					
Indonesia			(Rp)	(Rp)									
London Sumatra	LSIP IJ	BUY	1,275	1,300	584	11.4	12.8	13.3	9.7	1.1	(0.2)	2.8	3.3
Tunas Baru Lampung	TBLA IJ	BUY	1,045	1,300	375	5.9	5.4	4.9	25.7	1.4	1.4	2.9	5.7
Astra Agro Lestari	AALI IJ	HOLD	12,400	12,200	1,602	12.2	14.1	12.4	11.4	1.3	0.2	0.6	3.6
Sampoerna Agro	SGRO IJ	HOLD	2,330	2,450	296	14.5	12.4	11.0	7.9	1.1	0.6	3.0	1.0
Sawit Sumbermas Sarana	SSMS IJ	NR	1,290	NA	825	15.6	14.4	11.2	21.0	2.9	0.6	1.4	2.4
Salim Ivomas	SIMP IJ	NR	490	NA	520	14.8	16.5	15.2	3.5	0.5	0.4	2.0	1.4
Dharma Satya Nusantara	DSNG IJ	NR	380	NA	270	6.9	9.1	6.6	20.2	NA	1.1	2.6	2.6
Austindo Nusantara	ANJT IJ	NR	1,310	NA	295	6.2	NA	NA	12.7	0.7	0.2	0.0	NA
Eagle High Plantations	BWPT IJ	NR	202	NA	427	(34.2)	NA	NA	-3.1	1.0	1.2	0.0	NA
Sector						12.3	13.1	11.5					

Source: UOB Kay Hian, Bloomberg

STOCK PICKS

Singapore Picks

A Wilmar International

B Bumitama Agri

C First Resources

D Golden Agri

Wilmar International (WIL SP/Target: S\$3.90)

- A leading integrated agribusiness group with businesses ranging from upstream operations to production of consumer packs.
- Three major business segments:
 - **Palm & Lauric Oil** – Largest palm oil-based processor and has a market share of about 45% of global palm oil trades. Main operations are in Indonesia and Malaysia.
 - **Oilseeds & Grains** – Second-largest soybean crusher and largest cooking oil producer in China. Operations mainly range from midstream processing to production of consumer packs (cooking oil, rice and flour).
 - **Sugar** – World's largest sugar trader with strong presence in major producing countries – Australia, Brazil, Thailand. Owns major sugar millers and refiners in Australia.
- Other businesses include trading of fertilisers and shipping mainly related to its 3 core businesses.

1

Dominant position in key markets

2

Good earnings despite weak commodity market

3

Catalyst: China A-share listing

4

Dividend yield of 2.5-3.0%

VALUATION

WIL

BUY

Target S\$3.90

Implied 13.7x
blended 2019F PE

Wilmar International (WIL SP)

BUY on support, immediate
resistance S\$3.26

Last price: S\$3.22

Resistance: S\$3.26, S\$3.33

Support: S\$3.10, S\$3.05



KEY FINANCIALS

WIL

Year to 31 Dec (US\$m)	2016	2017	2018F	2019F	2020F
Net turnover	41,402	43,846	43,830	49,457	54,102
EBITDA	2,080	2,325	2,278	2,579	2,881
Operating profit	1,316	1,550	1,472	1,754	2,039
Net profit (rep./act.)	972	1,219	1,149	1,267	1,492
Net profit (adj.)	977	1,047	1,149	1,267	1,492
EPS (US\$ cent)	15.3	16.4	18.0	19.8	23.3
PE (x)	15.5	14.5	13.2	12.0	10.1
P/B (x)	1.0	0.9	0.9	0.9	0.8
EV/EBITDA (x)	16.4	14.7	15.0	13.3	11.9
Dividend yield (%)	2.7	4.2	3.6	4.0	4.7
Net margin (%)	2.3	2.8	2.6	2.6	2.8
Net debt/(cash) to equity (%)	90.8	105.7	109.8	110.0	107.1
Interest cover (x)	13.3	12.9	8.7	8.4	9.2
ROE (%)	6.7	8.0	7.1	7.5	8.5
Consensus net profit	-	-	1,145	1,265	1,376
UOBKH/Consensus (x)	-	-	1.00	1.00	1.08

Source: Wilmar International, Bloomberg, UOB Kay Hian

Bumitama Agri (BAL)

- Pure upstream plantation company with total landbank of 233,000 ha of land (including land under the Plasma Programme), of which 182,675 ha are planted areas.
- Estates strategically located in three provinces in Indonesia – Central Kalimantan, West Kalimantan and Riau.
- Trees are in the early matured age category where only about half of the planted area has reached peak production age.
- High production growth to mitigate impact of weaker CPO prices.

1

Young age profile to deliver stronger production growth

2

Rising cash flow as oil palm trees enter higher yielding age bracket

3

Hands-on management team to deliver high productivity – among the top in delivering best oil yield per ha

4

Relatively higher dividend yield of 3.5-4.0%

VALUATION

BAL

BUY

Target S\$0.93

Based on 11x 2018F PE

Bumitama Agri (BAL SP)

NUETRAL, sideways movement

Last price: S\$0.67

Resistance: S\$0.70, S\$0.75

Support: S\$0.65, S\$0.60



KEY FINANCIALS

BAL

Year to 31 Dec (Rpb)	2016	2017	2018F	2019F	2020F
Net turnover	6,630	8,131	7,912	8,676	9,009
EBITDA	1,912	2,403	2,847	2,972	3,029
Operating profit	1,476	1,885	2,281	2,335	2,314
Net profit (rep./act.)	1,005	1,193	1,427	1,485	1,501
Net profit (adj.)	969	1,172	1,427	1,485	1,501
EPS (Rp)	551.4	667.0	811.9	844.9	853.9
PE (x)	13.6	11.2	9.2	8.9	8.8
P/B (x)	2.0	1.8	1.6	1.4	1.2
EV/EBITDA (x)	9.6	7.7	6.5	6.2	6.1
Dividend yield (%)	1.9	2.6	3.3	3.4	3.4
Net margin (%)	15.2	14.7	18.0	17.1	16.7
Net debt/(cash) to equity (%)	64.8	60.8	49.2	39.6	32.2
Interest cover (x)	n.a.	132.7	27.1	43.2	127.5
ROE (%)	16.2	16.8	18.0	16.6	15.0
Consensus net profit	-	-	1,234	1,348	1,440
UOBKH/Consensus (x)	-	-	1.16	1.10	1.04

Source: Bumitama Agri, Bloomberg, UOB Kay Hian

VALUATION

FR

HOLD

Target S\$1.60

Based on 13x 2018F PE

First Resources (FR SP)

BUY on pullback, key support RM1.67

Last price: RM1.68

Resistance: S\$1.74, S\$1.80

Support: S\$1.67, S\$1.60



VALUATION

GGR

SELL

Target S\$0.16

Based on 14x 2018F PE

Golden Agri (GGR SP)

BUY on key support of S\$0.235

Last price: S\$0.250

Resistance: S\$0.270, S\$0.295

Support: S\$0.235



THANK YOU

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