

21 March 2014
Commodities Sector
Weather risk remains...
... but don't forget the downsides

SINGAPORE | COMMODITIES | UPDATE

Sector overview

The Commodities Sector in our Singapore coverage consists of plantation (Golden Agri-Resources and First Resources) as well as trading (Wilmar International) companies.

- **CPO price has recently rallied** to an one-year high of US\$890/MT due to three main factors, in our view, particularly (1) CPO demand from Indonesia's B10 biodiesel mandates, (2) dry weather risk which may impact CPO production, and (3) low inventory level.
- **Upside from weather risk, support from low inventory and biodiesel mandate.** The Australian Bureau of Meteorology stated in its 11th Mar-14 update that most climate models show temperatures approaching or exceeding an El Nino event. If weather risk materializes, CPO production is likely to be negatively impacted and this could lead to a tighter supply of CPO over the next two years (due to the lag effect of El Nino), providing significantly upside to CPO prices. In addition, we see good support in CPO prices at US\$750/MT from the low palm oil stock level in Malaysia, which has stayed below the 2mn tons level for the eleventh consecutive month. Albeit there are concerns on the unfavorable economics of biodiesel blending in Indonesia due to rising CPO prices, Pertamina has already procured 2.4mn kl of palm-based biodiesel. This represents 45% of its total 5.3mn kl target for 2014-15, or ~9% of Indonesia's annual CPO production.
- **Downside pressure from rising global vegetable oil supplies, soy-oil and production recovery.** Based on USDA projections, we estimate that the stock/usage ratio of global vegetable oils will increase to 12.3% in 2013/14 from 11.4% in 2012/13; this rise in global vegetable oils supply could put downward pressure to CPO prices. CPO currently trades at a discount of merely ~US\$76/MT to soybean-oil (vs. 5-year historical average of US\$197/MT). This narrower discount implies that CPO is less attractive relative to soybean oil, thus we may see shifting of demand from CPO to soybean oil. Furthermore, CPO prices are likely to trend downwards with stronger supply fundamentals in 2014 as we expect CPO production to recover from biological down-cycle last year (see initiation report on First Resources "[Quality planter: Upside still exist](#)", under section on CPO price analysis).
- **Stay selective.** We see upside risk to our CPO price estimate of US\$820/MT for 2014, should the weather risk materialize. We remain selective and prefer stocks which with good value. Maintain Accumulate on **Wilmar** and **First Resources**. We are still Neutral on **Golden Agri**.

Commodities Sector

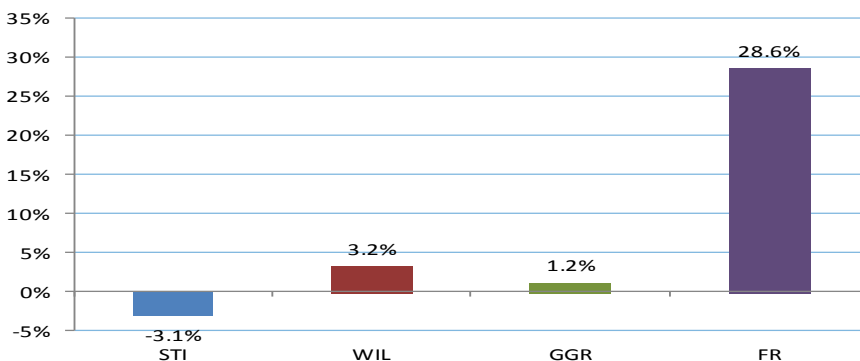
Company	Rating	Price (\$)	TP (\$)	M.Cap. (SG\$'mn)
Wilmar Intl	Accumulate	3.43	3.88	21,949
Golden Agri	Neutral	0.575	0.55	7,446
First Resources	Accumulate	2.33	2.53	3,691

Source: Bloomberg, Phillip Securities Research

Analyst

Nicholas Ong
 nicholasonghg@phillip.com.sg
 +65 9787 5819

Figure 1: 1 year total return for the sector



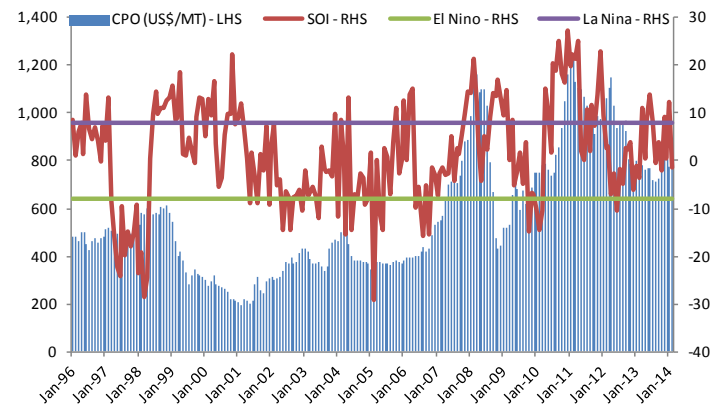
Source: Bloomberg, Phillip Securities Research

Weather risk; potential upside to CPO price

According to the latest update (11th Mar-14) by the Bureau of Meteorology Australia, most climate models show temperatures approaching or exceeding El Nino thresholds during the austral winter (which starts in June), indicating that the risk of El Nino developing in 2H14 is still there. An El Nino event will affect planters in Southeast Asia as the hot and dry weather pattern can deal serious damage to CPO production Indonesia and Malaysia.

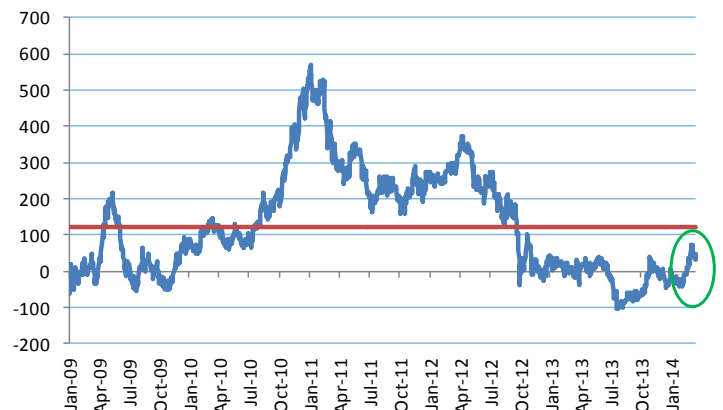
Not only will it decrease palm yield in the immediate months, it will also render lag adverse impact on production yield one to two years after an El Nino occurrence. The latest 30-day Southern Oscillation Index (SOI) to 9 March 2014 is -6.3. For an El Nino event, we need to see sustained negative values of SOI below -8.

Figure 2: CPO prices versus Southern Oscillation Index (SOI)



Source: Australian Bureau of Meteorology, Phillip Securities Research

Figure 3: CPO has rise to a premium to Brent since mid-Feb 2014

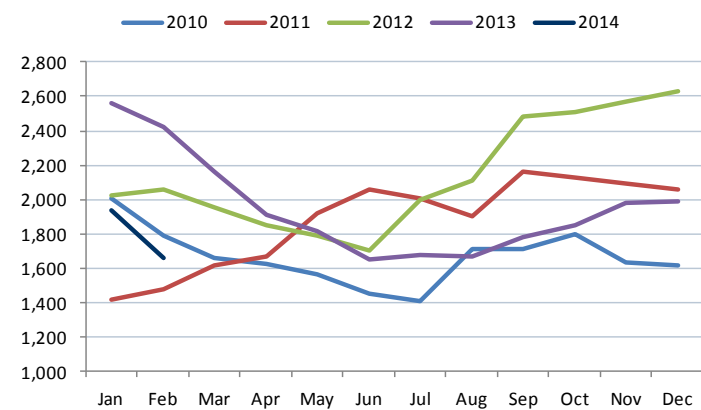


Source: Bloomberg, Phillip Securities Research

Biodiesel mandate and low inventories supporting demand

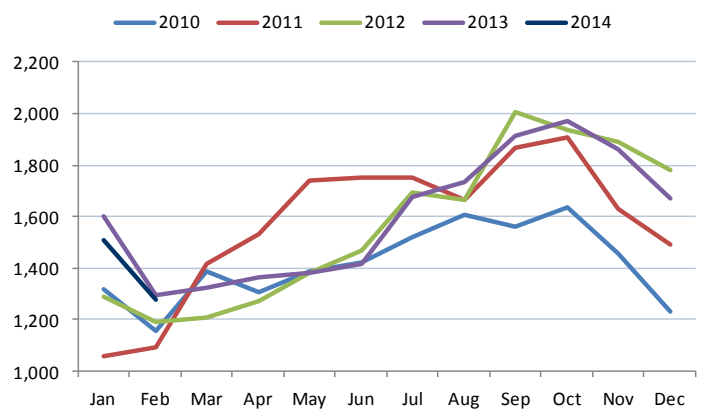
Albeit there are concerns on the unfavorable economics of biodiesel blending due to rising CPO prices, Pertamina has already procured 2.4mn kl of palm-based biodiesel, which represents 45% of its total 5.3mn kl target for 2014 and 2015, this is ~8-9% of Indonesia's annual CPO production.

Figure 4: Malaysia monthly CPO inventory level ('000 MT)



Source: MPOB, Phillip Securities Research

Figure 5: Malaysia monthly CPO production trends ('000 MT)



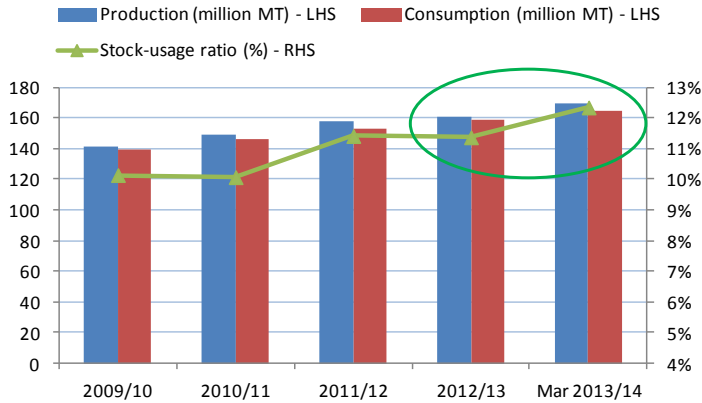
Source: MPOB, Phillip Securities Research

Malaysia stock level has remained below the 2.0mn level for the past eleven months; Feb 2014 inventories, according to MPOB, fell 14% mom (-32% yoy) to 1.66mn tons on lower production, and we believe this is supportive of CPO pricing.

Rising global vegetable oils supply capping CPO price increase

USDA forecast 2013/14 global vegetable oils production to rise by 5% yoy, mainly driven by 5%/4%/16% yoy increase in palm/soybean/sunflower oil. This will lead to higher supply of global vegetable oils, as the stock/usage ratio will rise to 12.3% in 2013/14 from 11.4% in 2012/13, based on our estimates, hence putting downward pressure to CPO price.

Figure 6: Global vegetable oil production growth would raise stock-usage ratio



Source: USDA, Phillip Securities Research

CPO prices remain unattractive relative to substitute – soybean oil

Albeit soybean oil prices have decreased by ~15% over the past one year, CPO prices have rose by ~15% over the same period, mainly due to lower production on biological downtrend, low inventories and weather-related risks. CPO prices are currently trading at US\$76/MT discount to soybean oil (versus historical average of US\$197/MT since 2008); this implies that CPO prices are less attractive relative to soybean oil, which we believe, will result in shifting demand from CPO to soybean oil.

Figure 7: CPO's price discount to soybean oil (US\$/MT) has remained narrow in recent months; this could lead to shifting demand away from CPO

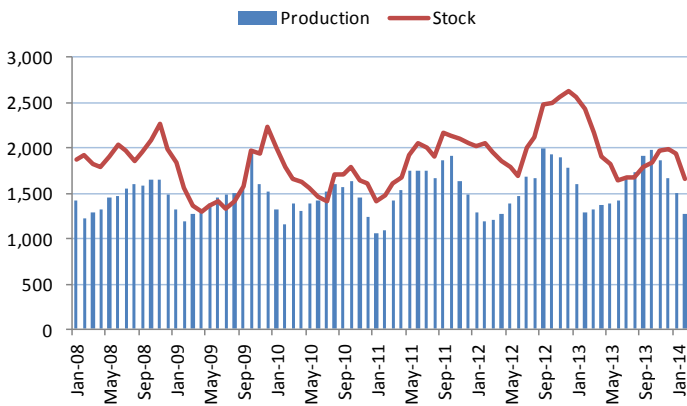


Source: Bloomberg, Phillip Securities Research

Stronger CPO supply fundamentals on recovery from biological downtrend

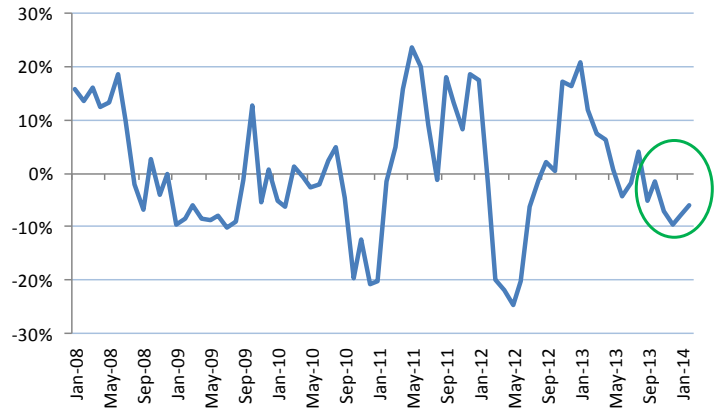
Supply of CPO in both Indonesia and Malaysia (to a lesser degree) has been weak in 2013 due to palm tree's low yield biological cycle following bumper crop experienced in 2012. That said, we expect yield to recover in 2014. Based on our analysis, there is a high chance that YoY change in Malaysia FFB yield could reverse and reach positive territory in the coming months. This could lead to an increase in supply going forward, which in turn will put downward pressure on CPO prices.

Figure 8: Malaysia monthly CPO stock and production ('000MT)



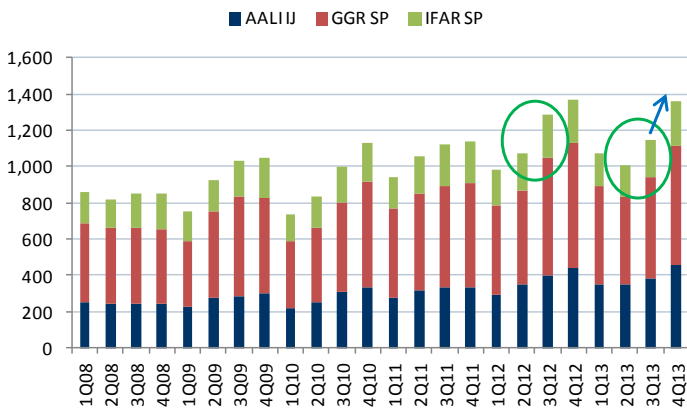
Source: MPOB, Phillip Securities Research

Figure 9: Malaysia FFB yield YoY change (%)



Source: MPOB, Phillip Securities Research

Figure 10: Indonesia planters' quarterly CPO production ('000 MT)



Source: Companies, Phillip Securities Research

Figure 11: CPO prices (US\$/MT) with mean = US\$852/MT



Source: Bloomberg, Phillip Securities Research

Figure 12: ASEAN Commodities/Plantation sector valuation table

	Rating	Curr	Price (\$)	M cap (US\$ mn)	ADTV (US\$ mn)	P/E (x)		P/B (x)		ROE (%)		Div yield (%)
						2014E	2015E	2014E	2015E	2014E	2015E	2014E
Wilmar	Accumulate	SGD	3.43	17,174	18.1	11.5	10.7	1.1	1.0	9.6	9.5	2.1
Noble	NR	SGD	1.07	5,524	19.4	11.6	9.5	1.0	0.9	8.6	9.7	1.9
Olam	NR	SGD	2.21	4,133	6.8	14.4	12.5	1.4	1.2	9.4	10.2	1.9
Singapore (midstream) average						12.5	10.9	1.1	1.0	9.2	9.8	2.0
Golden Agri	Neutral	SGD	0.58	5,776	16.7	12.3	10.8	0.6	0.6	5.3	5.8	2.4
Indofood Agri	NR	SGD	0.90	998	1.2	13.1	10.5	0.7	0.7	5.6	6.8	0.8
First Resources	Accumulate	SGD	2.33	2,888	4.0	12.3	10.9	2.5	2.1	21.7	20.8	2.0
Singapore (upstream) average						12.6	10.7	1.3	1.1	10.9	11.1	1.7
Singapore average						12.5	10.8	1.2	1.1	10.1	10.5	1.8
Sime Darby Bhd	NR	MYR	9.20	16,781	17.0	17.4	15.2	1.9	1.8	11.3	12.2	3.2
IOI Corp	NR	MYR	4.70	8,976	10.6	20.7	19.7	3.8	3.6	15.5	18.7	3.1
Kuala Lumpur Kepong	NR	MYR	23.70	7,592	4.9	21.5	19.8	3.1	2.9	15.2	14.9	2.6
Genting Plantations	NR	MYR	10.60	2,420	0.9	20.9	17.1	2.1	2.0	10.2	11.6	1.2
Malaysia average						20.1	18.0	2.8	2.6	13.1	14.3	2.5
Astra Agro Lestari	NR	IDR	25,900	3,564	3.0	16.0	14.7	3.6	3.2	23.6	22.9	2.5
Salim Ivomas Pratama	NR	IDR	905	1,251	1.1	16.0	13.0	1.0	0.9	6.3	8.1	1.3
London Sumatra	NR	IDR	2,290	1,365	5.7	16.8	15.4	2.2	2.0	12.8	13.9	1.9
Sampoerna Agro	NR	IDR	2,130	352	0.2	15.3	13.0	1.4	1.3	8.2	10.0	1.4
Indonesia average						16.0	14.0	2.1	1.9	12.7	13.7	1.8
Overall average						16.2	14.3	2.0	1.8	11.9	12.8	2.0

Source: Bloomberg, Phillip Securities Research

Figure 13: Major Vegetable Oils: World Supply and Distribution (Mar 2014 estimate)

	2009/10	2010/11	2011/12	2012/13	Feb 2013/14	Mar 2013/14
Production						
Oil Coconut	3.52	3.7	3.41	3.65	3.63	3.54
Oil Cottonseed	4.59	4.96	5.25	5.27	5.14	5.11
Oil Olive	3.08	3.25	3.24	2.67	3.28	3.28
Oil Palm	46.04	48.73	51.95	55.77	58.43	58.43
Oil Palm Kernel	5.6	5.73	6.14	6.51	6.86	6.86
Oil Peanut	4.89	5.33	5.32	5.55	5.6	5.67
Oil Rapeseed	22.56	23.52	24.22	24.9	25.71	25.76
Oil Soybean	38.8	41.3	42.59	42.81	44.61	44.66
Oil Sunflowerseed	12.28	12.42	15.34	13.53	15.67	15.67
	0	0	0	0	0	0
Total	141.37	148.94	157.45	160.65	168.93	168.98
Imports						
Oil Coconut	2.28	1.78	1.82	1.88	1.88	1.82
Oil Cottonseed	0.07	0.07	0.08	0.08	0.06	0.06
Oil Olive	0.52	0.55	0.62	0.65	0.63	0.63
Oil Palm	35.2	36.3	38.82	42.33	42.66	42.95
Oil Palm Kernel	2.55	2.43	2.54	3.02	2.83	2.81
Oil Peanut	0.19	0.2	0.16	0.16	0.19	0.19
Oil Rapeseed	2.92	3.31	4.01	3.88	3.84	3.84
Oil Soybean	8.64	9.4	7.96	8.43	8.8	8.81
Oil Sunflowerseed	3.73	3.64	5.64	4.96	6.4	6.4
Total	56.1	57.68	61.64	65.38	67.28	67.5
Exports						
Oil Coconut	2.17	1.71	1.88	1.9	1.88	1.79
Oil Cottonseed	0.11	0.14	0.17	0.15	0.14	0.14
Oil Olive	0.68	0.75	0.85	0.78	0.79	0.79
Oil Palm	35.47	36.87	39.02	42.65	43.29	43.29
Oil Palm Kernel	2.49	2.54	2.44	2.74	2.92	2.92
Oil Peanut	0.19	0.17	0.17	0.2	0.19	0.22
Oil Rapeseed	2.73	3.42	3.97	3.93	4.07	4.07
Oil Soybean	9.1	9.56	8.47	9.25	9.19	9.28
Oil Sunflowerseed	4.47	4.52	6.41	5.48	7.03	7.03
Total	57.41	59.67	63.38	67.07	69.5	69.53
Domestic Consumption						
Oil Coconut	3.84	3.67	3.53	3.78	3.74	3.68
Oil Cottonseed	4.59	4.78	5.16	5.24	5.09	5.06
Oil Olive	2.97	3.03	3.07	2.85	3.01	3.01
Oil Palm	45.15	47.9	51.05	54.94	56.62	56.91
Oil Palm Kernel	5.47	5.7	5.95	6.62	6.83	6.84
Oil Peanut	5.04	5.32	5.37	5.53	5.58	5.61
Oil Rapeseed	22.61	23.5	23.78	23.69	24.65	24.66
Oil Soybean	38.2	40.7	41.99	42.45	44.21	44.33
Oil Sunflowerseed	11.79	11.76	13.11	13.32	14.55	14.55
Total	139.65	146.37	153	158.41	164.27	164.64
Ending Stocks						
Oil Coconut	0.64	0.75	0.57	0.42	0.41	0.32
Oil Cottonseed	0.16	0.27	0.26	0.22	0.2	0.2
Oil Olive	0.6	0.62	0.57	0.27	0.37	0.37
Oil Palm	5.61	5.87	6.57	7.08	8.06	8.26
Oil Palm Kernel	0.89	0.81	1.1	1.27	1.15	1.18
Oil Peanut	0.1	0.13	0.08	0.05	0.07	0.07
Oil Rapeseed	1.29	1.19	1.67	2.82	3.66	3.7
Oil Soybean	3.37	3.81	3.9	3.43	3.53	3.3
Oil Sunflowerseed	1.51	1.28	2.74	2.44	2.93	2.92
Total	14.16	14.74	17.46	18.01	20.39	20.32

Source: USDA, Phillip Securities Research

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)		
Management		
Chan Wai Chee (CEO, Research - Special Opportunities)	+65 6531 1231	Research Operations Officer Jermaine Tock +65 6531 1240
Joshua Tan (Head, Research - Equities & Asset Allocation)	+65 6531 1249	
Macro Asset Allocation Equities	Commodities Offshore & Marine	US Equities
Joshua Tan +65 6531 1249	Nicholas Ong +65 6531 5440	Wong Yong Kai +65 6531 1685
Telecoms	Real Estate	Real Estate
Colin Tan +65 6531 1221	Caroline Tay +65 6531 1792	Lucas Tan +65 6531 1229
Market Analyst Equities	Finance	
Kenneth Koh +65 6531 1791	Benjamin Ong +65 6531 1535	

Contact Information (Regional Member Companies)		
SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg	MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my	HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk
JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangkok, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com
UNITED STATES Phillip Futures Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005	AUSTRALIA PhillipCapital Level 12, 15 William Street, Melbourne, Victoria 3000, Australia Tel +61-03 9629 8288 Fax +61-03 9629 8882 Website: www.phillipcapital.com.au	SRI LANKA Asha Phillip Securities Limited No 10, Prince Alfred Tower, Alfred House Gardens, Colombo 3, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 Website: www.ashaphillip.net/home.htm
INDIA PhillipCapital (India) Private Limited No. 1, C-Block, 2nd Floor, Modern Center , Jacob Circle, K. K. Marg, Mahalaxmi Mumbai 400011 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 Website: www.phillipcapital.in		