

Commodities Sector

Results Season Takeaways

Report type: Update

Sector Overview

The Commodities Sector in our Singapore coverage consists of plantation and trading companies.

- CPO inventory expected to ease from record high
- Upstream planters offered mixed bag of results
- Upgraded Wilmar to Accumulate

CPO inventory expected to ease from record high

CPO prices have fallen c.20% since early September, as Malaysia's stockpile of palm oil hit a record high of 2.5mil tonnes. Historically, CPO production peaks in Oct, and we expect inventory level to start coming down in the months ahead. CPO is currently trading at US\$342/MT discount to soybean oil, which is way above its historical long-term average of US\$189/MT. We believe that the supply tightness in other vegetable oils, coupled with the low production season, should provide support to CPO price at least till the first half of 2013.

Upstream planters offered mixed bag of results

Upstream plantation companies had offered a mixed bag of 3Q results. **Golden Agri's** 3Q core net profit dropped 23% YoY, on weaker selling prices, higher inventory, and losses from its China operations. We were surprised by the US\$20m losses for its China agribusiness, which were related to higher soybean costs. However, with soybean prices fallen c.19% since early Sep, this should translate to lower feedstock costs and better margins coming 4Q. Its CPO production growth, on the other hand, was 24% higher QoQ, hitting a record high of 647k tonnes. We expect 4Q production figure to be even stronger.

Upgraded Wilmar to Accumulate

For commodity trading companies, Noble Group reported lower 3Q earnings due to weak agriculture performance, while Olam's 1Q earnings improved on stronger volumes. **Wilmar's** 3Q results were in-line with our expectations, recording better qoq performance. We upgraded Wilmar to Accumulate on improving crushing margins. In particular, earnings from Oilseeds & Grains bounced back from losses in 3Q, reversing its 2Q loss, reducing its total 9M12 loss for the segment to US\$32m. Hence we see potential upside for its earnings in this segment coming 4Q. Overall, we are positive in the long-term fundamental of the company.

Commodities Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M Cap (US\$'mn)
Golden Agri	Accumulate	0.66	0.68	+3.0	6,938
Wilmar	Accumulate	3.19	3.47	+8.8	16,707

Source: Company, Phillip Securities Research

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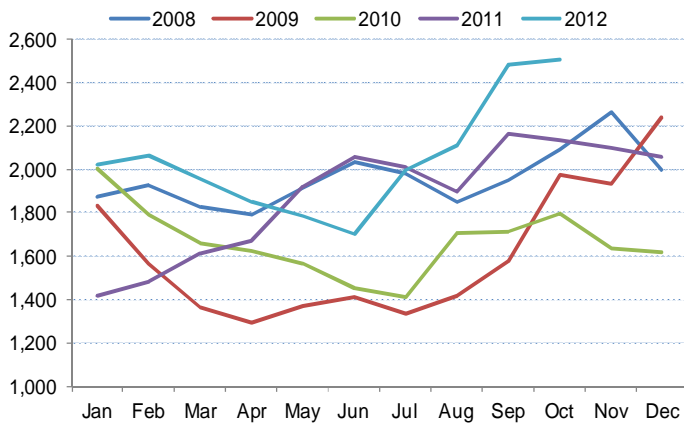
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Malaysia's inventory hitting record high

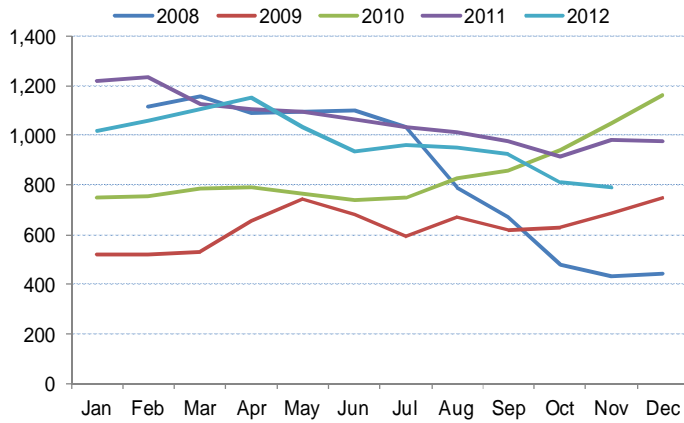
According to MPOB, Malaysia's CPO inventory for Oct 2012 continued to increase for the fourth consecutive month by 1% MoM and 18% YoY, hitting a record high of 2.509 mil tons. The high inventory level is mainly due to weaker demand from China; exports to China for the first ten months decreased by 21% YoY. That said, inventory growth seems to have slowed down due to a 16% MoM rise in export (despite down 5% YoY) of 1.758 mil tons. As production peaked in Oct, we expect inventory level to start coming down in the months ahead.

Fig 1. Malaysia monthly CPO inventory level ('000 MT)



Source: MPOB, Phillip Securities Research

Fig 2. Monthly CPO prices (US\$/MT)

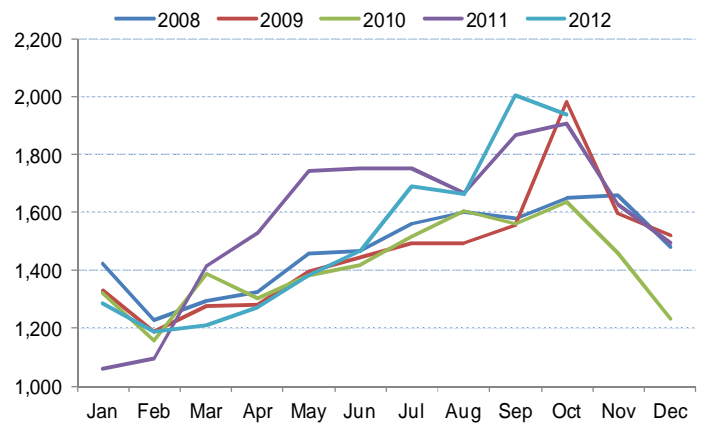


Source: Bloomberg, Phillip Securities Research

Lower Malaysia production offset by Indonesia

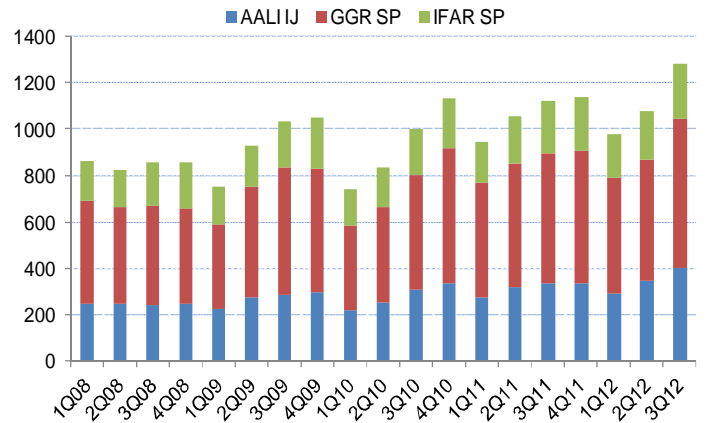
CPO production in Malaysia from Jan to Oct 2012 fell 4% YoY. Malaysia's Oct CPO production fell slightly by 3% MoM, despite a 2% YoY increase. We expect production in Malaysia to fall in Nov as we enter the low production season. Furthermore, with just two months left for 2012, we do not expect CPO production in Malaysia to match that of previous year. On the other hand, we continue to see YTD CPO production growth in Indonesia as shown in figure 4. The stronger production figure in Indonesia is primarily due to better age profile and increased in matured planted areas.

Fig 3. Malaysia monthly CPO production trends ('000 MT)



Source: MPOB, Phillip Securities Research

Fig 4. Indonesia planters' CPO production ('000 MT)

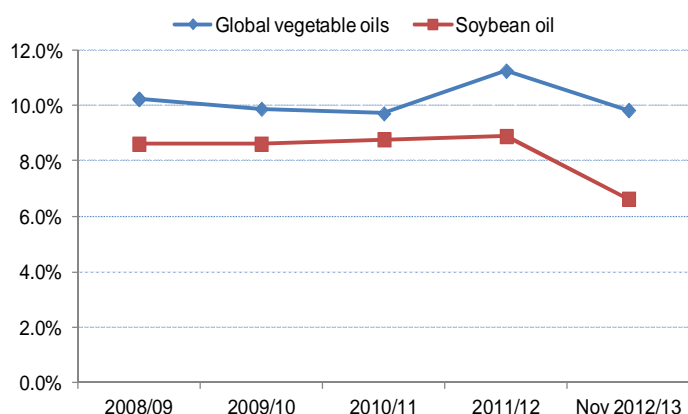


Source: Companies data, Phillip Securities Research

Strong palm oil output to support global vegetable oils supply tightness

Based on USDA projections in Nov 2012, we estimate that the stock/usage ratio of global vegetable oils (including palm, rapeseed, soybean and sunflowerseed) in 2012/13 is 9.8% (vs 11.3% in 2011/12). Albeit the lower stock/usage ratio indicates supply tightness for global vegetable oils (in particular for soybean, rapeseed and sunflowerseed oil), it is still slightly higher than the 2010/11 ratio of 9.7%. We think this issue is alleviated due to the higher palm oil production output. CPO is currently trading at US\$342/MT discount to soybean oil, which is way above its historical long-term average of US\$189/MT. We believe that the supply tightness in other vegetable oils, coupled with the low production season, should provide support to CPO price at least till the first half of 2013.

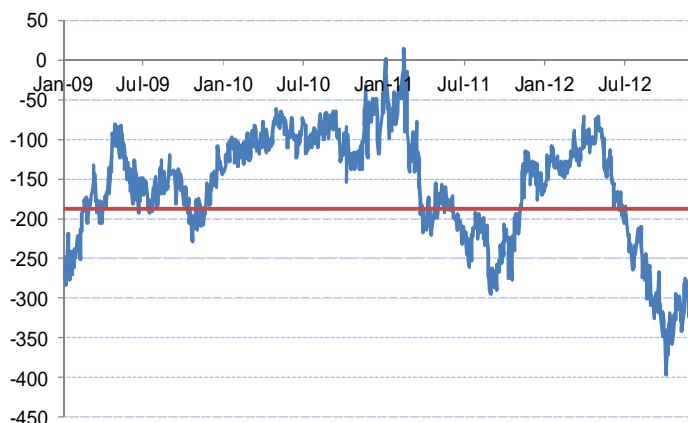
Fig 5. Global vegetable and soybean oils usage ratio



Source: USDA, Phillip Securities Research

Fig 6. CPO to soybean oil price discount (US\$/MT)

Average discount = -US\$189/MT



Source: Bloomberg, Phillip Securities Research

Weather concerns in South America

There are concerns that heavy rain in Argentina and dry condition in Brazil will result in planting delays of soybean crops. According to Buenos Aires Cereals Exchange, 37% of soybean crop was planted in Argentina (vs. 47% in 2011, as of 22nd Nov). And according to Celeres, Brazil has sown 74% of its soybeans (vs. 81% in 2011, as of 26th Nov). If the weather conditions continue to be unfavorable, this in turn will affect new soybean supply in 2013, keeping consumers relying on the declining US stocks for longer. Hence, this provides potential upside for CPO prices.

Upgrade Wilmar; Maintain Golden Agri

We maintain Accumulate ratings for Golden Agri. Despite the weak 3Q12 results and CPO prices, we still like the stock given its high liquid proxy for CPO prices. Any recovery in CPO prices (particularly in 1Q13) will benefit upstream planters, and Golden Agri is in a very good position to gain from any upside risk in CPO prices.

Wilmar's Oilseeds & Grains segment bounced back from losses in 3Q, due to more timely purchases of raw materials. We expect 4Q margins to remain positive and earnings from this segment to breakeven for FY12. This should drive 2H12 earnings recovery. It is currently trading at 1.21x P/B, which is between 1.5 and 20 SD below its long-term average. Wilmar's long-term business model remains intact. We upgraded our call to Accumulate.

Fig 7. Singapore commodities sector valuation table

	Rating	Price	M Cap	ADTV	P/E (x)		P/B (x)		ROE (%)		Div yield
		31-Aug	(US\$m)	(US\$m)	2012E	2013E	2012E	2013E	2012E	2013E	(%)
Wilmar	Accumulate	3.19	16,707	29.9	15.2	12.4	1.2	1.1	7.9	9.1	1.6
Noble	Not Rated	1.09	5,767	42.7	11.4	8.8	1.1	1.0	10.2	11.8	2.3
Olam	Not Rated	1.58	3,083	25.5	11.0	9.5	1.2	1.1	13.1	11.8	2.5
Singapore trading companies average					12.5	10.2	1.2	1.1	10.4	10.9	2.1
Golden Agri	Accumulate	0.66	6,938	38.9	13.5	11.0	0.8	0.7	6.0	6.8	1.9
Indofood Agri	Not Rated	1.27	1,492	2.9	11.3	9.0	1.0	0.9	8.6	10.2	0.9
First Resources	Not Rated	2.13	2,763	3.1	13.5	11.5	2.5	2.2	19.7	19.2	1.8
Singapore plantation companies average					12.8	10.5	1.4	1.3	11.4	12.1	1.5
Singapore average					12.6	10.4	1.3	1.2	10.9	11.5	1.8

Source: Bloomberg, Phillip Securities Research

Fig 8. Major Vegetable Oils: World Supply and Distribution (Nov 2012 estimate)

	2008/09	2009/10	2010/11	2011/12	Nov 2012/13
Production					
Oil Coconut	3.54	3.63	3.83	3.56	3.52
Oil Cottonseed	4.75	4.6	4.97	5.27	5.17
Oil Olive	2.78	3.05	3.25	3.31	2.94
Oil Palm	44.02	45.87	47.92	50.7	53.33
Oil Palm Kernel	5.17	5.5	5.56	5.9	6.25
Oil Peanut	5.08	4.74	5.1	5.26	5.18
Oil Rapeseed	20.61	22.53	23.69	24.31	23.49
Oil Soybean	35.9	38.82	41.31	42.4	43.07
Oil Sunflowerseed	11.95	12.12	12.22	15.06	13.26
Total	133.79	140.84	147.85	155.77	156.22
Imports					
Oil Coconut	1.66	2.29	1.78	1.87	1.84
Oil Cottonseed	0.06	0.07	0.05	0.07	0.06
Oil Olive	0.57	0.54	0.57	0.6	0.65
Oil Palm	34.06	35.32	35.88	37.87	39.91
Oil Palm Kernel	2.35	2.4	2.42	2.57	2.71
Oil Peanut	0.14	0.19	0.2	0.17	0.19
Oil Rapeseed	2.43	2.91	3.3	3.9	3.61
Oil Soybean	9.07	8.62	9.24	8.28	8.28
Oil Sunflowerseed	4.01	3.71	3.61	5.43	5.38
Total	54.35	56.04	57.05	60.76	62.63
Exports					
Oil Coconut	1.48	2.17	1.71	1.71	1.7
Oil Cottonseed	0.16	0.11	0.14	0.2	0.13
Oil Olive	0.65	0.7	0.78	0.77	0.77
Oil Palm	34.93	35.75	36.76	38.45	40.71
Oil Palm Kernel	2.61	2.62	2.81	2.8	3.08
Oil Peanut	0.2	0.19	0.17	0.17	0.21
Oil Rapeseed	2.43	2.75	3.45	3.95	3.7
Oil Soybean	9.15	9.14	9.51	8.46	8.53
Oil Sunflowerseed	4.55	4.49	4.58	6.45	5.89
Total	56.15	57.91	59.92	62.96	64.71
Domestic Consumption					
Oil Coconut	3.35	3.96	3.81	3.82	3.77
Oil Cottonseed	4.74	4.6	4.77	5.15	5.19
Oil Olive	2.92	2.95	3	3.04	3.06
Oil Palm	42.71	44.91	46.91	49	52.09
Oil Palm Kernel	4.9	5.06	5.25	5.62	5.75
Oil Peanut	4.94	4.88	5.11	5.27	5.19
Oil Rapeseed	20.31	22.6	23.56	23.74	23.79
Oil Soybean	36.17	38.13	40.76	42.05	43.65
Oil Sunflowerseed	10.63	11.56	11.47	12.95	13.29
Total	130.66	138.64	144.63	150.65	155.78
Ending Stocks					
Oil Coconut	0.79	0.57	0.66	0.56	0.45
Oil Cottonseed	0.2	0.16	0.27	0.26	0.18
Oil Olive	0.66	0.59	0.64	0.74	0.51
Oil Palm	4.82	5.35	5.48	6.6	7.04
Oil Palm Kernel	0.67	0.9	0.82	0.87	1
Oil Peanut	0.25	0.1	0.12	0.1	0.07
Oil Rapeseed	1.15	1.24	1.23	1.74	1.36
Oil Soybean	3.12	3.29	3.58	3.74	2.9
Oil Sunflowerseed	1.72	1.49	1.27	2.36	1.82
Total	13.38	13.71	14.06	16.97	15.33

Source: USDA, Phillip Securities Research

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