

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 posted mixed results
- Commodity traders saw qoq improvement

CPO inventory to remain high

Malaysia's CPO inventory for Jan 2013 decreased marginally mom by 1.9% (+27.5% yoy), according to MPOB. Exports seem fairly strong as the numbers dropped 1.6% mom (+16.7% yoy). However, cargo surveyor, Intertek recently reports a 9.1% mom decline in Malaysia's Feb 2013 palm oil exports. We expect CPO inventory to remain high in Feb; any drop would be marginal due to the offsetting effect from low seasonal production.

Upstream planters posted mixed results

Upstream plantation companies had posted a mixed bag of results. **Golden Agri's** 4Q core net profit dropped 59.9% yoy, mainly due decrease in CPO selling prices by 11% offsetting strong production. Its China agri business incurred a pretax loss of US\$45mn due to the challenging market environment with higher input (soybean) cost, partly offset by a US\$14mn profit contributions from Florentina, its snack-noodle business and higher forex gains. Its CPO production growth, on the other hand, was 21.1% higher yoy, hitting a record high of 689k tonnes. However, we expect 1Q13 production numbers to ease due to the low production season.

Commodity traders saw qoq improvement

For commodity trading companies, Noble Group reported stable 4Q earnings despite weaker agriculture performance due low sugar prices which dampened earnings for its Brazilian sugar business, while Olam's 2Q earnings also improved on strong volume growth. **Wilmar's** 4Q results were satisfactory, core profit rose marginally by 3% qoq, on higher sales volumes from palm & laurics division. We raised core net profits for FY13-14E by 4-9% to account for the better refining margins and recovery in crushing margins. This increased our target price to S\$3.79 from S\$3.70, still based on blended PE (14.0x FY13E) and DCF valuations. We maintain our Neutral rating.

Commodities Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M Cap (US\$ mn)
Golden Agri	Accumulate	0.61	0.685	+12.3	6,286
Wilmar	Neutral	3.46	3.79	+9.5	17,764

Source: Company, Phillip Securities Research

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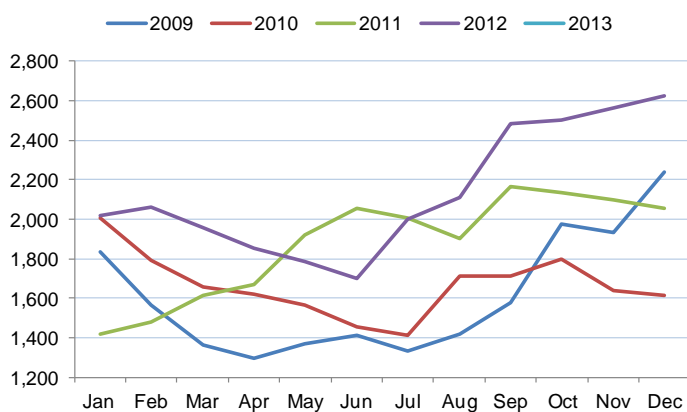
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Malaysia's inventory remained high

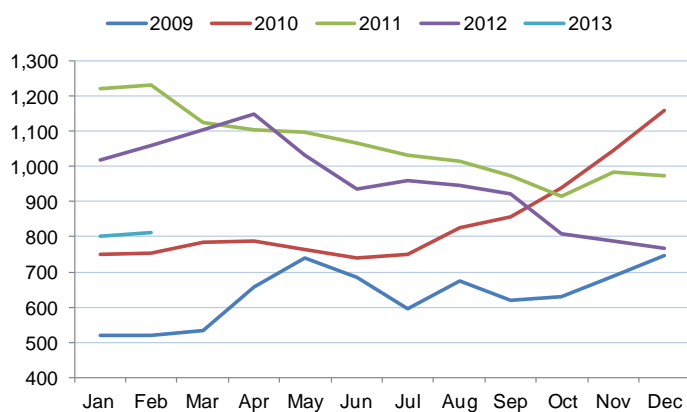
Malaysia's CPO inventory for Jan 2013 decreased marginally mom by 1.9% to 2.578mn tons after a six-month increase, while still up 27.5% yoy, according to MPOB. Exports seem fairly strong as the numbers dropped 1.6% mom but grew 16.7% yoy. However, cargo surveyor, Intertek recently reports a 9.1% mom decline in Malaysia's Feb 2013 palm oil exports. In view of this, we expect Malaysia's CPO inventory level to remain high in Feb and any drop would be marginal due to the offsetting effect from the seasonally lower CPO production.

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



Source: MPOB, Phillip Securities Research

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



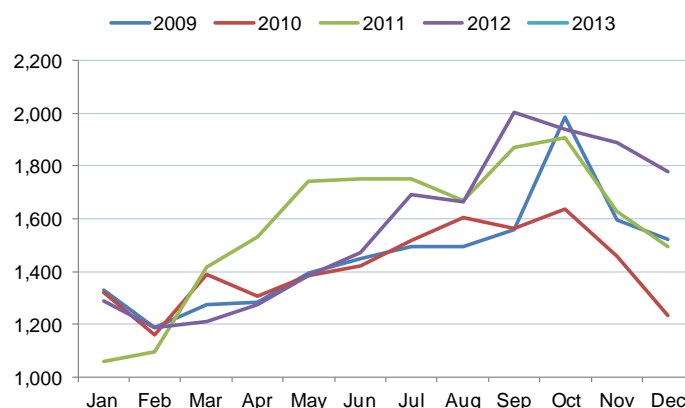
Source: Bloomberg, Phillip Securities Research

Malaysia CPO production recovering from 'stress'

CPO production in Malaysia for 2012 fell by 0.7% yoy due to the lag effect from El Nino (which occurred three years ago), thus affecting yield in 1H12. However, production yield improved subsequently in 2H12 as palm plantations recover from the "stress". Malaysia's Jan 2013 CPO production fell by 10.0% mom, as this period is traditionally the low production season. That said, production numbers still grew by 24.4% yoy, indicating a recovery from the El Nino lag effect. Over at Indonesia, we continue to see strong CPO production growth as shown in figure 4. USDA expects Malaysia and Indonesia palm oil production to increase

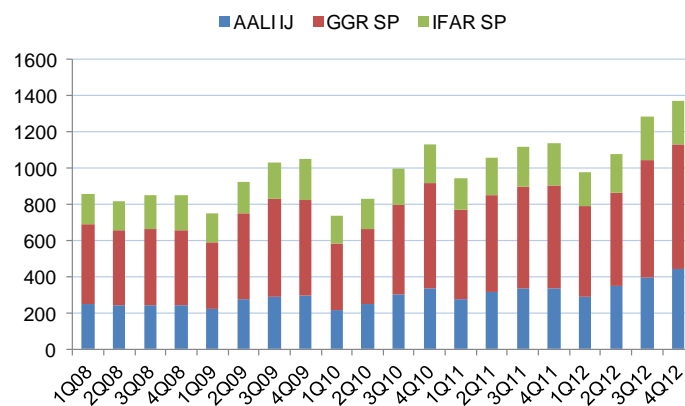
1.6% and 8.1% respectively in 2012/13, hence palm oil supply is expected to stay healthy going forward. However, our main concern is the anaemic global demand for palm oil, which in turn will cap upside on CPO prices.

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



Source: MPOB, Phillip Securities Research

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

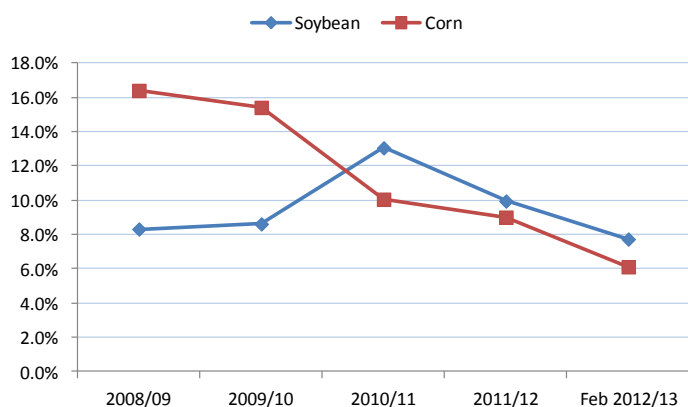


Source: Companies data, Phillip Securities Research

Global vegetable oils supply tightness in 1H13

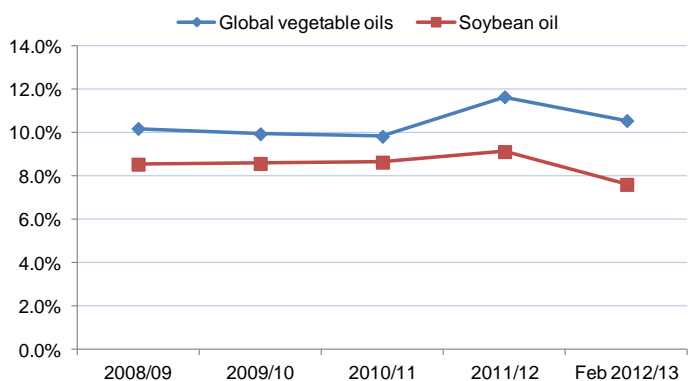
USDA expects soybean crop from Argentina and Brazil to increase significantly yoy by 32.2% and 25.6% respectively in 2012/13. Despite the greater increase in production from South America, we estimate that global stock/usage ratio of soybean in 2012/13 will merely increase marginally to 25.9% in 2012/13 from 24.4% in 2011/12. This is still lower than the 2010/11 level of 31.6%, due to the devastating drought in the US last year which resulted in lower harvest. In addition, based on USDA projections, we estimate that the stock/usage ratio of global vegetable oils (including palm, soybean, rapeseed) in 2012/13 is 10.6% (versus 11.7% in 2011/12), which indicates that global vegetable oils supply will remain tight in 1H13.

Fig 5: US corn and soybean usage ratio



Source: USDA, Phillip Securities Research

Fig 6: Global vegetable and soybean oils usage ratio



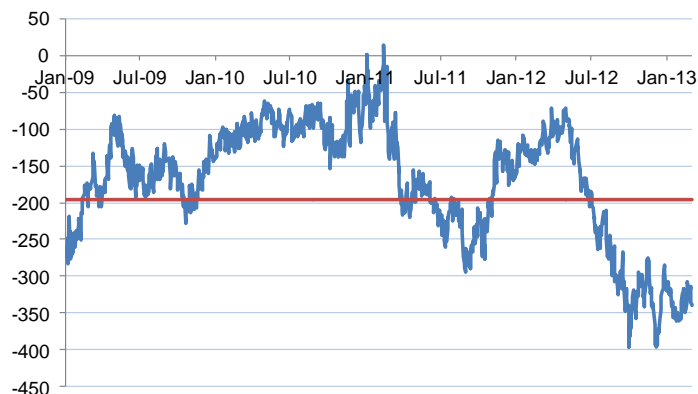
Source: USDA, Phillip Securities Research

Potential biodiesel demand from the US

CPO is currently trading at US\$339/MT discount to soybean oil, which is way above its historical long-term discount of US\$196/MT. This shows that CPO is still competitively priced relative to soybean oil, and we could see a potential shift in demand to the cheap tropical oil from soybean oil to counter the shortfall in vegetable oil supply. Furthermore, the US Congress has revived the tax credit of US\$1/gallon (about US\$300/MT) at the start of 2013, which expired in 2011. This would mean that importing CPO biodiesel will be commercially viable again, and coupled with the wide palm to soybean oil discount of US\$339/MT, the biodiesel market in the US could be a wild card for potential upside in CPO demand.

Fig 7: CPO to soybean oil price discount (US\$/MT)

Historical long-term premium/(discount) = -US\$196/MT



Source: Bloomberg, Phillip Securities Research

Fig 8: CPO to Brent crude oil price discount (US\$/MT)

Historical long-term premium/(discount) = US\$135/MT



Source: Bloomberg, Phillip Securities Research

Our top pick: Golden Agri (GAR)

We prefer GAR due to its high liquid proxy for CPO prices. We believe that purer plantation companies like GAR should be able to benefit from any recovery in CPO prices in 1H13. Furthermore, we are also positive on GAR's long term prospects as it moves to expand its downstream business to leverage on its large CPO production. We maintain our Accumulate rating for GAR.

We downgraded Wilmar (WIL) in Jan 2013 as the share price has run up by 13% since our upgrade in Nov 2013. Its oilseeds and grains division posted another profitable quarter, suggesting that crushing margins could have reached a relatively stabilized level. We believe the long-term fundamental of the company remains strong, given that Wilmar makes almost half of its (FY12) revenue come from China. Maintain our Neutral rating.

Fig 7. Singapore commodities sector valuation table

	Rating	Price 31-Aug	M Cap (US\$mn)	ADTV (US\$mn)	P/E (x)		P/B (x)		ROE (%)		Div yield (%)
					2013E	2014E	2013E	2014E	2013E	2014E	2013E
Wilmar	Neutral	3.46	17,764	33.6	12.8	12.4	1.2	1.1	9.3	9.1	1.6
Noble	Not Rated	1.16	6,019	37.1	9.7	8.8	1.1	1.0	11.9	11.8	2.3
Olam	Not Rated	1.67	3,194	24.9	11.7	9.5	1.1	1.1	10.5	11.8	2.5
Singapore trading companies average					11.4	10.2	1.1	1.1	10.6	10.9	2.1
Golden Agri	Accumulate	0.61	6,286	37.7	11.4	11.0	0.7	0.7	6.1	6.8	1.9
Indofood Agri	Not Rated	1.21	1,393	2.8	10.2	9.0	0.9	0.9	8.8	10.2	0.9
First Resources	Not Rated	1.91	2,429	3.4	10.5	11.5	1.9	2.2	18.9	19.2	1.8
Singapore plantation companies average					10.7	10.5	1.2	1.3	11.2	12.1	1.5
Singapore average					11.1	10.4	1.1	1.2	10.9	11.5	1.8

Source: Bloomberg, Phillip Securities Research

Fig 8. Major Vegetable Oils: World Supply and Distribution (Feb 2013 estimate)

	2008/09	2009/10	2010/11	2011/12	Feb 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	5.23
Oil Olive	2.78	3.08	3.25	3.39	2.87
Oil Palm	44.02	45.87	47.92	50.7	53.33
Oil Palm Kernel	5.17	5.5	5.55	5.91	6.25
Oil Peanut	5.08	4.74	5.04	5.07	5.29
Oil Rapeseed	20.59	22.52	23.68	24.29	23.52
Oil Soybean	35.88	38.82	41.29	42.4	43.41
Oil Sunflowerseed	11.95	12.12	12.29	15.12	13.81
Total	133.76	140.88	147.82	155.71	157.23
Imports					
Oil Coconut	1.66	2.29	1.78	1.86	1.84
Oil Cottonseed	0.06	0.07	0.05	0.07	0.06
Oil Olive	0.55	0.52	0.55	0.62	0.64
Oil Palm	34.06	35.32	36.11	38.11	39.79
Oil Palm Kernel	2.35	2.4	2.43	2.58	2.71
Oil Peanut	0.14	0.19	0.2	0.16	0.17
Oil Rapeseed	2.43	2.91	3.3	3.96	3.51
Oil Soybean	9.07	8.62	9.24	8.17	8.79
Oil Sunflowerseed	4.06	3.73	3.65	5.55	5.46
Total	54.38	56.04	57.31	61.09	62.96
Exports					
Oil Coconut	1.48	2.17	1.71	1.85	1.77
Oil Cottonseed	0.16	0.11	0.15	0.19	0.12
Oil Olive	0.64	0.68	0.75	0.84	0.69
Oil Palm	34.93	35.75	37.05	38.96	40.79
Oil Palm Kernel	2.61	2.62	2.81	2.53	3.08
Oil Peanut	0.2	0.19	0.18	0.19	0.22
Oil Rapeseed	2.44	2.76	3.45	3.97	3.75
Oil Soybean	9.15	9.14	9.53	8.52	9.08
Oil Sunflowerseed	4.55	4.49	4.58	6.43	6.22
Total	56.15	57.91	60.2	63.47	65.72
Domestic Consumption					
Oil Coconut	3.35	3.96	3.81	3.73	3.68
Oil Cottonseed	4.74	4.6	4.77	5.15	5.25
Oil Olive	2.91	2.96	3.02	3.07	3.09
Oil Palm	42.71	44.79	46.77	48.86	51.79
Oil Palm Kernel	4.9	5.06	5.25	5.68	5.8
Oil Peanut	4.94	4.88	5.04	5.07	5.25
Oil Rapeseed	20.3	22.59	23.54	23.75	23.74
Oil Soybean	36.17	38.13	40.76	41.76	43.62
Oil Sunflowerseed	10.68	11.59	11.55	12.98	13.33
Total	130.69	138.55	144.51	150.03	155.54
Ending Stocks					
Oil Coconut	0.79	0.57	0.66	0.51	0.42
Oil Cottonseed	0.2	0.16	0.27	0.26	0.17
Oil Olive	0.64	0.6	0.63	0.73	0.46
Oil Palm	4.82	5.46	5.68	6.67	7.2
Oil Palm Kernel	0.67	0.9	0.82	1.11	1.19
Oil Peanut	0.25	0.1	0.12	0.09	0.08
Oil Rapeseed	1.13	1.22	1.22	1.75	1.3
Oil Soybean	3.09	3.27	3.52	3.81	3.32
Oil Sunflowerseed	1.72	1.49	1.29	2.56	2.28
Total	13.32	13.78	14.2	17.48	16.42

Source: USDA, Phillip Securities Research

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