

Commodities Sector

Results season takeaways

Report type: Update

Sector Overview

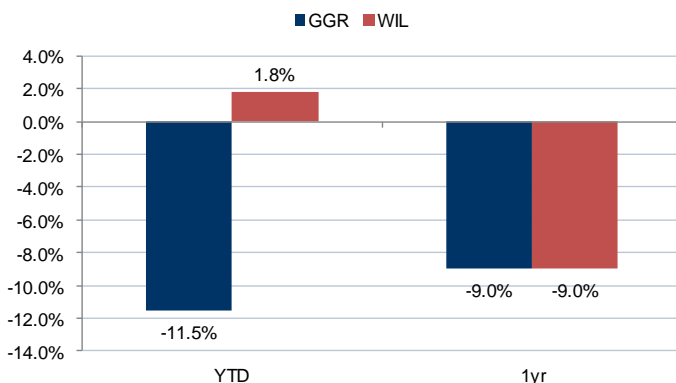
The Commodities Sector in our Singapore coverage consists of plantation and trading companies.

- Season ended with a mixed bag of results
- Muted CPO outlook
- Upstream players less preferred

Earnings surprise?

The recent earnings season ended with a mixed bag of results. For upstream planters, First Resources beat market expectation with strong net profit growth, while Indo-Agri reported a lower-than-expected net profit on lower production and average selling price. **Golden Agri's** results were mostly in-line thanks to better-than-expected drawdown in inventory which boosted sales volume. In addition, its China operations managed to turn around after 3 consecutive quarters of losses on lower soybean costs. For commodity traders, Noble reported weak 1Q results on agriculture losses and poor base metal demand, while Olam's 3Q earnings were satisfactory on higher volume growth from its Food Staples division. **Wilmar's** results were within expectations on robust palm refining performance and volume growth across all business segments.

Fig 1. Total return for the sector



Source: Bloomberg, Phillip Securities Research

Top pick: Wilmar International

We believe there is likely limited upside in CPO prices in the near to medium term. Given that more than 90% of Golden Agri's profits come from its upstream palm plantations, both earnings and stock price will be affected by the weaker CPO prices. We continue to like Wilmar for its positive long-term fundamentals. Furthermore, we believe Wilmar will be least impacted (among other plantation companies) by lower CPO prices, given that its upstream operations account for only ~25% of its profits.

Commodities Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (SG\$mn)
Golden Agri	Neutral	0.575	0.55	-4.3%	7,382
Wilmar Intl	Accumulate	3.37	3.70	9.8%	21,620

Source: Bloomberg, Phillip Securities Research

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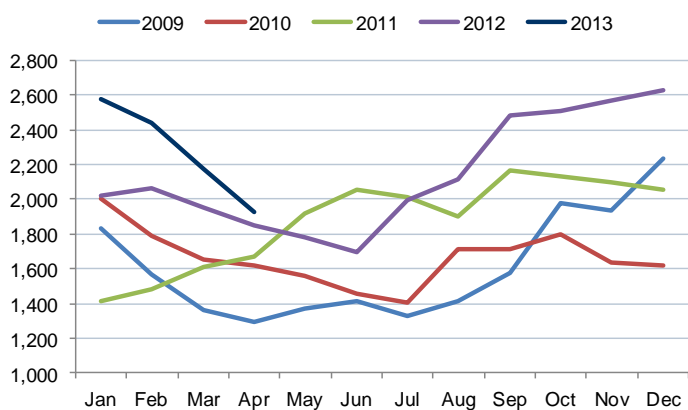
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Malaysia's inventory hit 9-month low

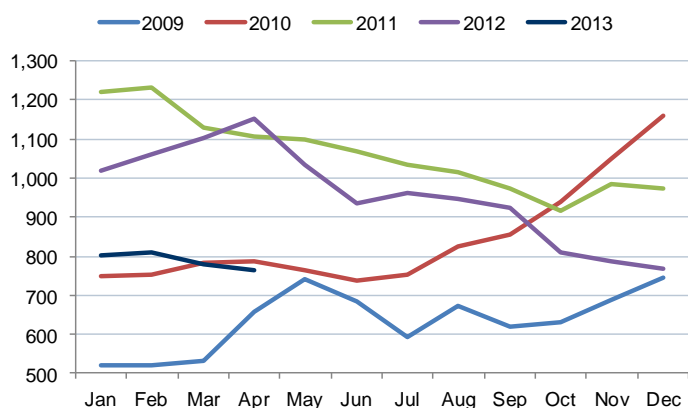
Malaysia's CPO inventory for April 2013 decreased meaningfully mom by 11.3% to 1.927mn tons (which is the 4th consecutive monthly decline), while still up 4.1% yoy, according to MPOB. This is despite a 5.6% mom fall in exports (but +8.7% yoy), which was mainly due to easing demand from China during the month. We expect Malaysia's CPO inventory to ease further over the next 2 months, as CPO demand from South Asia and the Middle East historically picks up ahead of Ramadan (which starts in July this year). Having said that, we believe the drawdown of inventories will not be as substantial as the ones we saw in March (-10.9% mom) and April (-11.3% mom) this year. After Ramadan, inventory should start to recover and rise as production increases in 2H.

Fig 2: Malaysia monthly CPO inventory level ('000 MT)



Source: MPOB, Phillip Securities Research

Fig 3: Monthly CPO prices (US\$/MT)

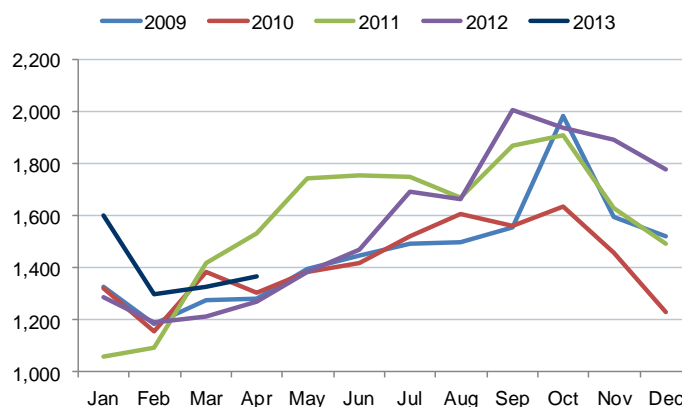


Source: Bloomberg, Phillip Securities Research

Healthy production from Malaysia and Indonesia

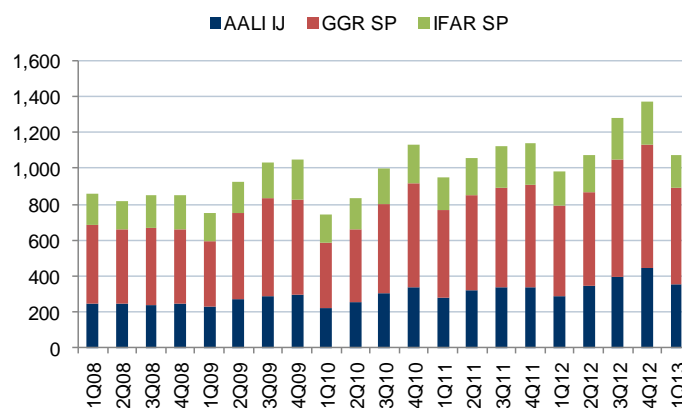
CPO production in Malaysia from January to April 2013 rose by 12.7% yoy. Malaysia's April CPO production continues to rise for the 2nd consecutive month by 3.1% mom (+7.4% yoy). As mentioned in our previous sector report, the higher production is mainly due to palm plantations recovering from tree "stress", and we believe this improvement will continue for the rest of the year. Over at Indonesia, we also see YTD CPO production growth in Indonesia as shown in figure 5. Going forward, we expect production in both countries to stay healthy for 2013, which in turn will limit any upside potential in CPO prices.

Fig 4: Malaysia monthly CPO production trends ('000 MT)



Source: MPOB, Phillip Securities Research

Fig 5: Indonesia planters' CPO production ('000 MT)

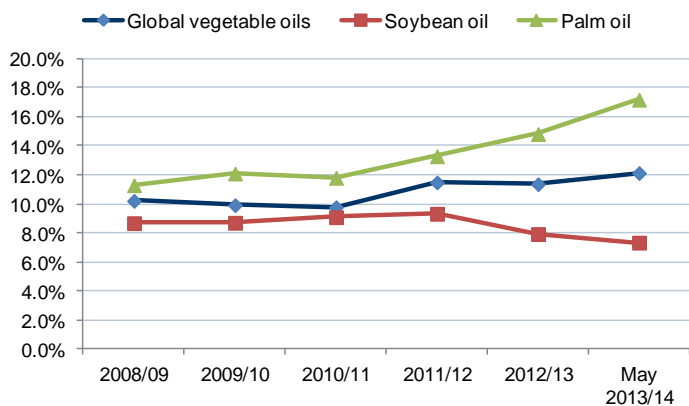


Source: Companies data, Phillip Securities Research

Strong palm oil output alleviating global vegetable oils supply

Based on USDA projections in May 2012, we estimate that the stock/usage ratio of global vegetable oils (including palm, rapeseed, soybean and sunflowerseed) in 2013/14 is 12.1% (vs. 11.4% in 2012/13). This rise in stock/usage ratio indicates supply alleviation for global vegetable oils, in particular for palm oil (17.2% in 2013/14 vs. 14.8% in 2012/13) due to greater production, especially in Indonesia – the top palm oil producer. CPO is currently trading at ~US\$300/MT discount to soybean oil, which is still above its historical long-term average of US\$200/MT. That said, we believe the lower CPO prices will make exports more attractive as compared to soybean oil.

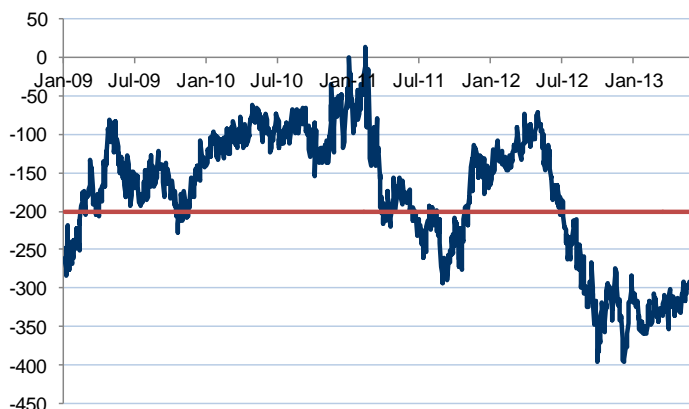
Fig 6: Global vegetable and soybean oils usage ratio



Source: USDA, Phillip Securities Research

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

Historical long-term premium/(discount) = -US\$200/MT



Source: Bloomberg, Phillip Securities Research

Top pick: Wilmar

We believe there is likely limited upside in CPO prices in the near to medium term. This is because palm oil production historically picks up during the 2nd half of the year, before reaching its peak in October. This, coupled with an anticipated higher soybean harvest from the US in 2H13, would continue to exert downward pressure on CPO prices in the 2nd half of the year.

Given that more than 90% of Golden Agri's (Neutral, TP: S\$0.55) profits come from its upstream palm plantations, both earnings and stock price will be affected by the weaker CPO prices. We continue to like Wilmar (Accumulate, TP: S\$3.70) for its positive long-term fundamentals. Furthermore, we believe Wilmar will be least impacted (among other plantation companies) by lower CPO prices, given that its upstream operations account for only ~25% of its profits.

Fig 8: Singapore commodities sector valuation table

	Rating	Price	M Cap (US\$mn)	ADTV (US\$mn)	P/E (x)		P/B (x)		ROE (%)		Div yield (%)
					2013E	2014E	2013E	2014E	2013E	2014E	2013E
Wilmar	Accumulate	3.37	17,038	28.2	13.2	11.9	1.1	1.0	8.9	9.1	1.5
Noble	Not Rated	1.06	5,528	23.4	10.0	8.1	1.0	0.9	9.9	11.2	2.6
Olam	Not Rated	1.86	3,514	18.6	13.7	11.1	1.3	1.2	10.4	11.5	2.2
Singapore trading companies average					12.3	10.4	1.1	1.0	9.7	10.6	2.1
Golden Agri	Neutral	0.58	5,834	31.7	13.1	10.8	0.7	0.6	5.1	5.9	2.3
Indofood Agri	Not Rated	1.04	1,179	2.2	11.2	9.0	0.8	0.7	6.9	8.0	0.7
First Resources	Not Rated	1.92	2,398	3.4	11.2	9.7	1.9	1.6	17.2	17.4	2.4
Singapore plantation companies average					11.8	9.8	1.1	1.0	9.7	10.4	1.8
Singapore average					12.1	10.1	1.1	1.0	9.7	10.5	2.0

Source: Bloomberg, Phillip Securities Research

Fig 9: Major Vegetable Oils: World Supply and Distribution (May 2013 estimate)

	2008/09	2009/10	2010/11	2011/12	2012/13	May 2013/14
Production						
Oil Coc	3.54	3.63	3.81	3.5	3.75	3.74
Oil Cot	4.75	4.6	4.97	5.27	5.28	5.29
Oil Oliv	2.78	3.08	3.25	3.24	2.67	3.28
Oil Pali	44.05	45.88	48.68	51.86	55.29	58.07
Oil Pali	5.17	5.51	5.63	5.97	6.35	6.73
Oil Pea	5.05	4.72	5.08	5.06	5.25	5.29
Oil Raç	20.59	22.56	23.52	24.3	24.05	24.23
Oil Soy	35.88	38.78	41.27	42.35	42.92	44.58
Oil Sur	12.08	12.28	12.42	15.26	14.08	14.92
Total	133.9	141.04	148.62	156.8	159.64	166.11
Imports						
Oil Coc	1.66	2.28	1.78	1.81	1.85	1.87
Oil Cot	0.06	0.07	0.07	0.07	0.07	0.06
Oil Oliv	0.55	0.52	0.55	0.62	0.64	0.66
Oil Pali	34.12	35.21	36.29	38.74	40.95	42.17
Oil Pali	2.35	2.55	2.43	2.53	2.7	2.78
Oil Pea	0.14	0.19	0.2	0.16	0.18	0.19
Oil Raç	2.43	2.91	3.31	3.99	3.41	3.41
Oil Soy	9.11	8.68	9.42	8.06	8.47	8.71
Oil Sur	4.06	3.73	3.65	5.61	5.59	5.78
Total	54.48	56.13	57.69	61.59	63.85	65.62
Exports						
Oil Coc	1.48	2.17	1.72	1.88	1.8	1.89
Oil Cot	0.16	0.11	0.14	0.18	0.17	0.16
Oil Oliv	0.64	0.68	0.75	0.85	0.69	0.78
Oil Pali	34.71	35.51	36.88	39.03	41.6	42.79
Oil Pali	2.5	2.49	2.54	2.44	2.72	2.91
Oil Pea	0.2	0.19	0.18	0.17	0.18	0.19
Oil Raç	2.44	2.74	3.42	3.96	3.8	3.82
Oil Soy	9.14	9.12	9.58	8.47	8.82	9.11
Oil Sur	4.55	4.49	4.54	6.43	6.17	6.48
Total	55.8	57.51	59.75	63.41	65.95	68.12
Domestic Consumption						
Oil Coc	3.36	3.95	3.77	3.58	3.87	3.82
Oil Cot	4.74	4.6	4.79	5.17	5.23	5.22
Oil Oliv	2.91	2.96	3.02	3.07	2.89	3.05
Oil Pali	42.71	44.96	47.87	50.5	53.43	55.79
Oil Pali	4.9	5.35	5.6	5.78	6.25	6.63
Oil Pea	4.91	4.88	5.07	5.09	5.27	5.27
Oil Raç	20.3	22.61	23.49	23.79	23.46	23.79
Oil Soy	36.2	38.16	40.73	41.74	43.04	44.33
Oil Sur	10.82	11.75	11.73	13.1	13.68	13.95
Total	130.84	139.22	146.08	151.82	157.12	161.84
Ending Stocks						
Oil Coc	0.79	0.57	0.68	0.52	0.44	0.34
Oil Cot	0.2	0.16	0.26	0.25	0.2	0.16
Oil Oliv	0.64	0.6	0.62	0.57	0.3	0.41
Oil Pali	4.82	5.44	5.65	6.71	7.92	9.59
Oil Pali	0.68	0.9	0.82	1.1	1.17	1.14
Oil Pea	0.25	0.09	0.12	0.07	0.06	0.08
Oil Raç	1.14	1.25	1.16	1.71	1.91	1.94
Oil Soy	3.14	3.32	3.7	3.89	3.41	3.25
Oil Sur	1.71	1.47	1.27	2.62	2.44	2.72
Total	13.36	13.8	14.28	17.43	17.85	19.63

Source: USDA, Phillip Securities Research

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