

# Commodities Sector

## Results season takeaways

### Report type: Update

#### Sector Overview

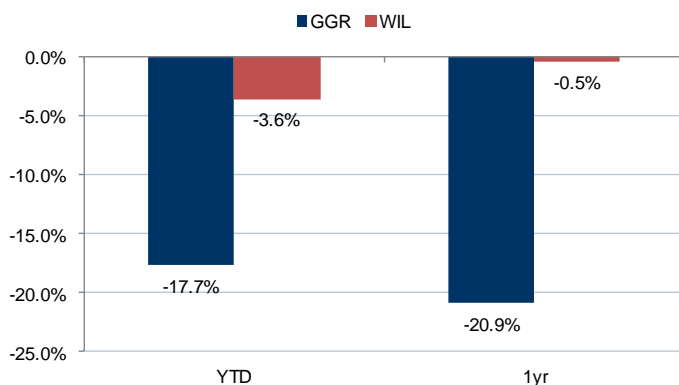
The Commodities Sector in our Singapore coverage consists of plantation and trading companies.

- Mixed bag of results for 2Q13
- CPO outlook remains muted
- We continue to like Wilmar

#### Earnings surprise?

There was a mixed bag of results in the recent earnings. For upstream planters, First Resources' results were within expectations despite weak yoy profit on lower prices and volumes, while Indo-Agri missed expectations on lower production, weak earnings from Edible oils & fats, and higher costs. **Golden Agri's** results were lower-than-expected no thanks to lower volumes and higher costs on increased fertilizer application. In addition, its refining margins are under downward pressure due to increased capacity in Indonesia. For commodity traders, Noble reported weak 2Q results on continued losses in the agriculture division, while Olam's 4Q earnings lower-than-expected due to higher tax. **Wilmar's** results were slightly below expectations mainly due to lower earnings recorded by Oilseeds & grains.

Fig 1. Total return for the sector



Source: Bloomberg, Phillip Securities Research

#### Top pick: Wilmar International

We believe CPO prices will remain muted in 2H13 on (i) steady production growth from Malaysia, (ii) anticipated higher supply of global vegetable oil such as soybean and rapeseed oil, which are substitutes of palm oil, and (iii) weaker Indian Rupee against the US\$, affecting demand from India, which is the largest importer of palm oil. We continue to like Wilmar for its positive long-term fundamentals as it remains a good proxy for the growing food demand in China and SEA.

#### Commodities Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (SG\$mn)
Golden Agri	Neutral	0.535	0.50	-6.5%	6,868
Wilmar Intl	Accumulate	3.22	3.61	12.1%	20,470

Source: Bloomberg, Phillip Securities Research

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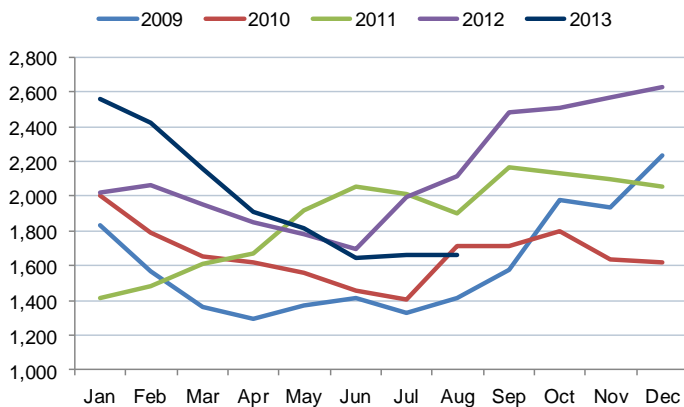
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**Malaysia's inventory to rise on seasonal factor**

Malaysia August CPO inventory remained flat at 1.666mn tons, merely 0.1% above the previous month's 1.664mn tons level while still down 21.2% yoy, according to MPOB. Stock level has been hovering around 1.65-1.67mn for the past three months, and this, in our opinion, is supporting CPO prices.

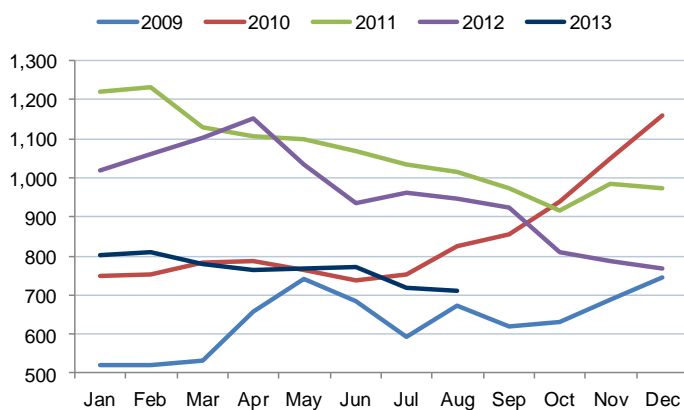
Export seems fairly strong as the numbers rose by 5.6% yoy (+7.4% mom) to 1.523mn tons, on steady demand from China (2nd largest importer of palm oil after India). In addition, cargo surveyor, Intertek recently reported a 10.8% yoy growth in CPO exports for the first 10 days, compared with the same period of August. Nonetheless, in view of the peak production season, we expect Malaysia's CPO inventory to start rising in the coming months.

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



Source: MPOB, Phillip Securities Research

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

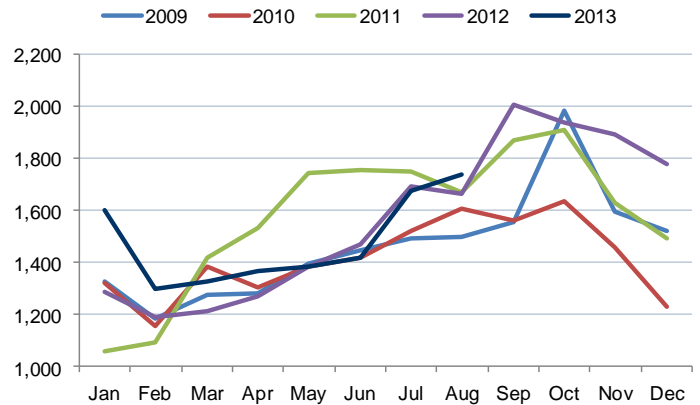


Source: Bloomberg, Phillip Securities Research

**Production in Indonesia affected by biological cycle**

Malaysia August CPO production continues to rise for the 6th consecutive month by 3.6% mom to 1.735mn tons, and it grew 4.3% yoy as we enter the peak production season. In addition, the yoy increase in production indicates no sign of biological slow down on plantation estates in Malaysia, in our view.

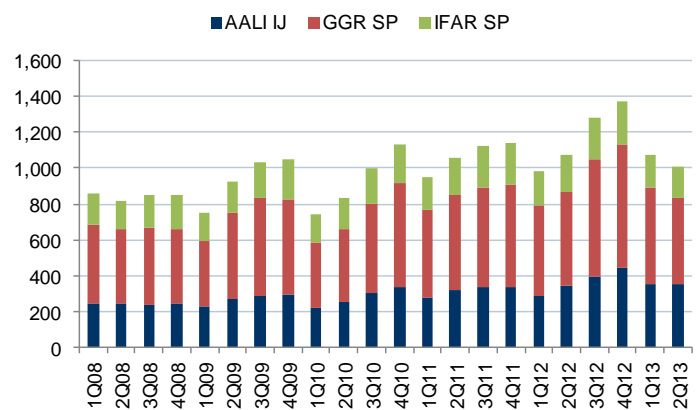
**Fig 4: Malaysia monthly CPO production trends ('000 MT)**



Source: MPOB, Phillip Securities Research

On the other hand, we see weaker CPO production over at Indonesia in 2Q13 (as shown in figure 5), due to palm tree's biological cycle following the bumper harvest last year. USDA expects global palm oil production to increase by 5% in 2013/14; we note that this is the lowest production growth compared over the past three years (6.6% in 2012/13, 6.4% in 2011/12 and 6.0% in 2010/11). We believe the lower growth in Indonesia should provide support to CPO prices.

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



Source: Companies data, Phillip Securities Research

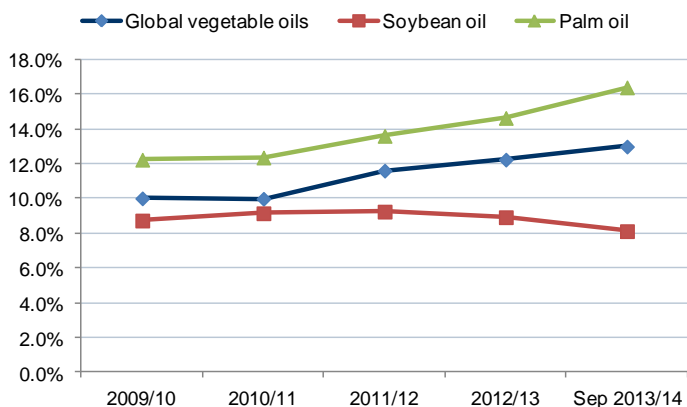
### Rising global vegetable oils supply capping CPO prices

Based on USDA projections in September 2013, we estimate that the stock/usage ratio of global vegetable oils (including palm, soybean and rapeseed) in 2013/14 is 13.0% (vs. 12.2% in 2012/13). This rise in stock/usage ratio indicates supply alleviation for global vegetable oils, in particular for rapeseed (13.4% in 2013/14 vs. 11.8% in 2012/13) and sunflower oil (20.6% in 2013/14 vs. 18.9% in 2012/13) due to higher production. This, in our view, could be one major factor capping meaningful CPO price recovery, despite Malaysia's CPO inventory remaining below 2.0mn tons level for the 5th consecutive month.

### Top pick: Wilmar International

Despite the weaker CPO production growth from Indonesia and favourable biodiesel blending mandates from both Malaysia and Indonesia, we believe CPO prices will remain muted in 2H13 on (i) steady production growth from Malaysia, (ii) anticipated higher supply of global vegetable oil such as soybean and rapeseed oil, which are substitutes of palm oil, and (iii) weaker Indian Rupee against the US\$, affecting demand from India, which is the largest importer of palm oil. All these, coupled with the seasonally peak production period would cap any upside recovery on CPO prices in the 2nd half of the year.

**Fig 6: Global vegetable and soybean oils usage ratio**

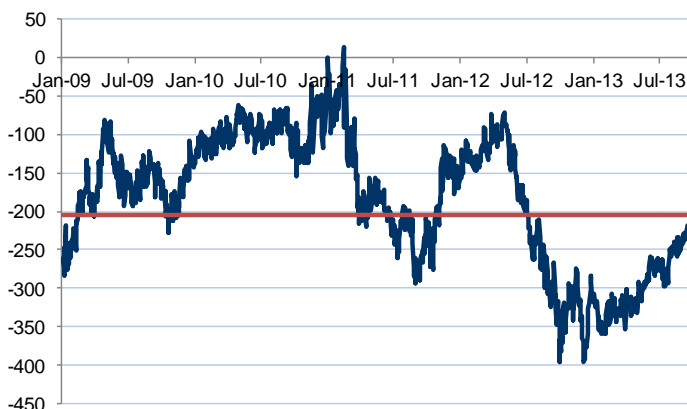


Source: USDA, Phillip Securities Research

CPO is currently trading at ~US\$220/MT discount to soybean oil (from a peak of more than US\$300/MT), which is slightly above its historical long-term average of US\$205/MT on lower soybean prices.

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

Historical long-term premium/(discount) = -US\$205/MT



Source: Bloomberg, Phillip Securities Research

We continue to like Wilmar (Accumulate, TP: S\$3.61) for its positive long-term fundamentals as it remains a good proxy for the growing food demand in China and SEA. In addition, being a supply chain manager, it will be less affected by low commodity prices as compared to pure upstream players. Golden Agri (Neutral, TP: S\$0.50), having more than 90% of earnings coming from its upstream plantations, would continue to be affected by the weak CPO pricing.

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	3.22	16,329	18.9	12.5	11.4	1.0	1.0	8.7	8.9	1.6
Noble	Not Rated	0.95	4,950	19.6	13.1	9.2	0.9	0.9	6.7	8.9	1.9
Olam	Not Rated	1.45	2,738	8.7	10.8	9.5	1.0	0.9	10.1	10.2	2.8
<b>Singapore trading companies average</b>					<b>12.1</b>	<b>10.1</b>	<b>1.0</b>	<b>0.9</b>	<b>8.5</b>	<b>9.4</b>	<b>2.1</b>
Golden Agri	Neutral	0.54	5,445	25.1	13.7	11.4	0.6	0.6	4.4	5.1	2.1
Indofood Agri	Not Rated	0.83	931	1.5	19.0	12.4	0.7	0.6	3.3	5.2	0.7
First Resources	Not Rated	1.93	2,417	3.0	11.8	10.5	1.9	1.6	16.6	16.7	2.3
<b>Singapore plantation companies average</b>					<b>14.8</b>	<b>11.4</b>	<b>1.1</b>	<b>1.0</b>	<b>8.1</b>	<b>9.0</b>	<b>1.7</b>
<b>Singapore average</b>					<b>13.5</b>	<b>10.7</b>	<b>1.0</b>	<b>0.9</b>	<b>8.3</b>	<b>9.2</b>	<b>1.9</b>

Source: Bloomberg, Phillip Securities Research

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

	2009/10	2010/11	2011/12	2012/13	Aug 2013/14	Sep 2013/14
<b>Production</b>						
Oil Coconut	3.63	3.81	3.5	3.75	3.74	3.74
Oil Cottonseed	4.6	4.97	5.26	5.27	5.2	5.22
Oil Olive	3.08	3.25	3.24	2.67	3.28	3.28
Oil Palm	45.99	48.75	51.89	55.32	58.09	58.09
Oil Palm Kernel	5.59	5.7	6.06	6.44	6.82	6.82
Oil Peanut	4.87	5.3	5.31	5.55	5.58	5.58
Oil Rapeseed	22.56	23.52	24.28	24.73	24.87	24.84
Oil Soybean	38.79	41.28	42.56	42.74	44.32	44.36
Oil Sunflowerseed	12.28	12.42	15.34	13.94	15.02	15.37
<b>Total</b>	<b>141.38</b>	<b>148.99</b>	<b>157.43</b>	<b>160.4</b>	<b>166.91</b>	<b>167.29</b>
<b>Imports</b>						
Oil Coconut	2.28	1.78	1.8	1.89	1.87	1.87
Oil Cottonseed	0.07	0.07	0.07	0.08	0.06	0.06
Oil Olive	0.52	0.55	0.62	0.63	0.66	0.66
Oil Palm	35.21	36.29	38.74	41.16	42.26	42.4
Oil Palm Kernel	2.55	2.43	2.53	2.74	2.78	2.78
Oil Peanut	0.19	0.2	0.16	0.17	0.19	0.19
Oil Rapeseed	2.93	3.31	4.01	3.82	3.51	3.57
Oil Soybean	8.68	9.42	8.02	8.61	8.93	8.78
Oil Sunflowerseed	3.73	3.66	5.62	5.53	5.89	6.16
<b>Total</b>	<b>56.14</b>	<b>57.7</b>	<b>61.56</b>	<b>64.61</b>	<b>66.15</b>	<b>66.46</b>
<b>Exports</b>						
Oil Coconut	2.17	1.72	1.88	1.88	1.89	1.89
Oil Cottonseed	0.11	0.14	0.18	0.17	0.16	0.16
Oil Olive	0.68	0.75	0.85	0.69	0.78	0.78
Oil Palm	35.51	36.86	39.03	41.75	42.68	43
Oil Palm Kernel	2.49	2.54	2.44	2.73	2.92	2.92
Oil Peanut	0.19	0.17	0.17	0.17	0.19	0.19
Oil Rapeseed	2.73	3.43	3.99	3.95	3.85	3.88
Oil Soybean	9.11	9.58	8.49	8.88	9.22	9.04
Oil Sunflowerseed	4.49	4.54	6.42	5.83	6.61	6.83
<b>Total</b>	<b>57.49</b>	<b>59.72</b>	<b>63.44</b>	<b>66.06</b>	<b>68.29</b>	<b>68.67</b>
<b>Domestic Consumption</b>						
Oil Coconut	3.94	3.77	3.59	3.83	3.82	3.82
Oil Cottonseed	4.59	4.79	5.17	5.23	5.13	5.14
Oil Olive	2.96	3.02	3.07	2.87	3.05	3.05
Oil Palm	45.1	47.8	50.62	53.74	56.02	56.16
Oil Palm Kernel	5.43	5.67	5.86	6.38	6.72	6.72
Oil Peanut	5.03	5.3	5.35	5.56	5.56	5.56
Oil Rapeseed	22.63	23.51	23.79	23.51	24.06	24.07
Oil Soybean	38.22	40.73	41.93	42.55	44.17	44.29
Oil Sunflowerseed	11.79	11.76	13.1	13.71	14.07	14.34
<b>Total</b>	<b>139.69</b>	<b>146.34</b>	<b>152.47</b>	<b>157.39</b>	<b>162.59</b>	<b>163.15</b>
<b>Ending Stocks</b>						
Oil Coconut	0.66	0.76	0.59	0.51	0.41	0.41
Oil Cottonseed	0.17	0.27	0.25	0.2	0.17	0.18
Oil Olive	0.6	0.62	0.57	0.3	0.41	0.41
Oil Palm	5.52	5.91	6.89	7.87	9.68	9.21
Oil Palm Kernel	0.9	0.82	1.11	1.18	1.14	1.14
Oil Peanut	0.09	0.12	0.07	0.06	0.07	0.07
Oil Rapeseed	1.27	1.16	1.68	2.77	3.12	3.23
Oil Soybean	3.34	3.73	3.88	3.8	3.63	3.6
Oil Sunflowerseed	1.45	1.22	2.66	2.59	2.77	2.95
<b>Total</b>	<b>13.99</b>	<b>14.62</b>	<b>17.7</b>	<b>19.27</b>	<b>21.4</b>	<b>21.2</b>

Source: USDA, Phillip Securities Research

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