

# Commodities Sector

## Results season takeaways

### Report type: Season Update

#### Sector Overview

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

- 3Q13: Mixed set of results
- Planters generally still affected by low volume & ASP
- Wilmar remains our top pick

#### Earnings surprise?

The recent earnings season ended with a mixed set of results. For upstream planters, First Resources delivered results within expectations on higher production despite weaker CPO prices, while Indo-Agri's earnings were affected by lower selling prices, weak volumes, higher costs, but still in-line with consensus. **Golden Agri** reported weak-than-expected results no thanks to weaker ASP and higher inventory levels. For commodities traders, Noble's core earnings were decent with its agri division reversing from losses, while Olam's results were in-line with higher operating margin offsetting higher depreciation and finance costs. **Wilmar** announced better-than-expected results driven by higher Oilseeds and Consumer product margins as well as turnaround in Sugar.

#### Commodities Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (SG\$mn)
Golden Agri	Neutral	0.575	0.50	-13.0%	7,317
Wilmar Intl	Accumulate	3.52	3.88	10.2%	22,780

Source: Bloomberg, Phillip Securities Research

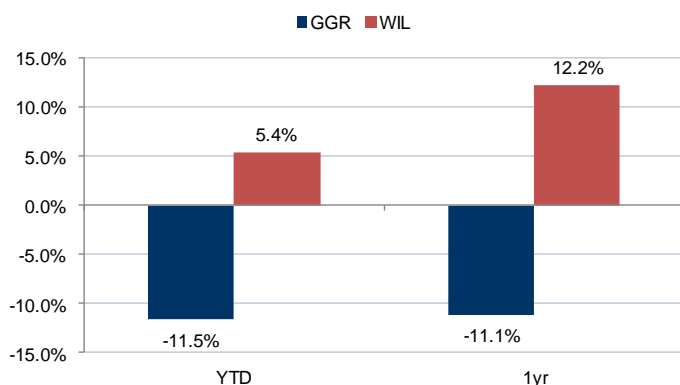
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Fig 1. Total return for the sector



Source: Bloomberg, Phillip Securities Research

#### Top pick: Wilmar International

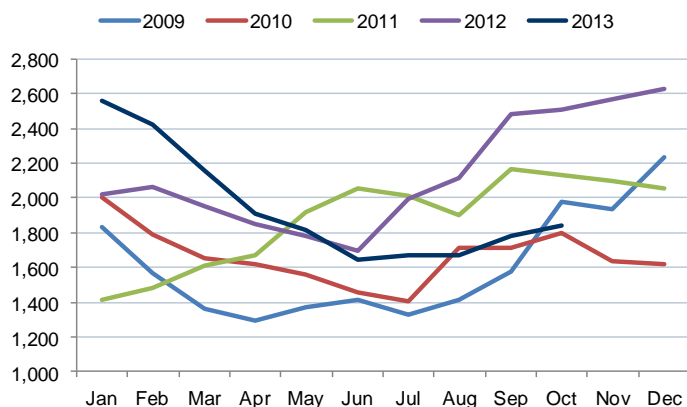
Albeit Malaysia's low inventory level (< 2mn tons) and weak CPO output have been supportive to the recent CPO price rally, we believe further upside could be limited in the near term on (i) softer demand during winter season, (ii) anticipated higher supply of global oilseeds, and (iii) narrowing discount gap between CPO and soybean oil. Wilmar remains our top pick within the commodities sector for its (i) huge exposure to growing markets like China, India and SEA, (ii) resilient palm & laurics business, (iii) good proxy for the growing food demand in Asia.

**Inventory to ease in 1H14**

CPO inventory for Malaysia in October increased 3.5% mom to 1.845mn tons, but still down 26.3% yoy, according to MPOB. Stock level has remained below the 2.0mn level for the past 7 months, and we believe this has resulted in the recent spike in CPO prices.

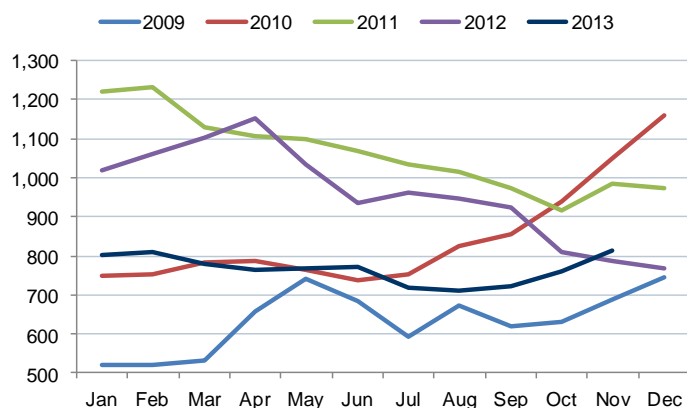
Export grew 3.3% mom (-6.6% yoy) to 1.659mn tons thanks to strong demand from China and Pakistan. That said, demand seems to ease as cargo surveyor, Intertek, recently reported a flattish (-0.1%) mom growth in CPO exports for the first 25 days, compared with the same period in October, due to weaker demand from China. As CPO production typically peaks in Oct-Nov period, we believe Malaysia CPO level would continue to rise in November, before it starts to ease in 1H14.

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



Source: MPOB, Phillip Securities Research

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

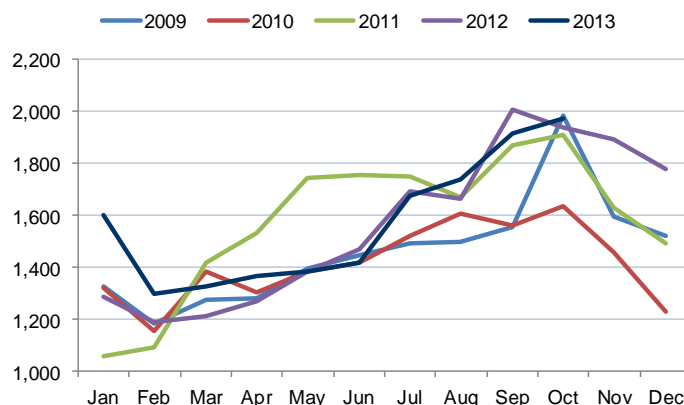


Source: Bloomberg, Phillip Securities Research

**Weaker production on biological trend**

Malaysia's CPO production in October was up for the 8<sup>th</sup> consecutive month by 3.1% mom (+1.7% yoy) to 1.972mn tons on seasonal factors. Year-to-Oct production increased 3.8% yoy – indicating biological impact on Malaysia plantation estates, in our view, though to a lesser degree as compared to its Indonesian counterparts.

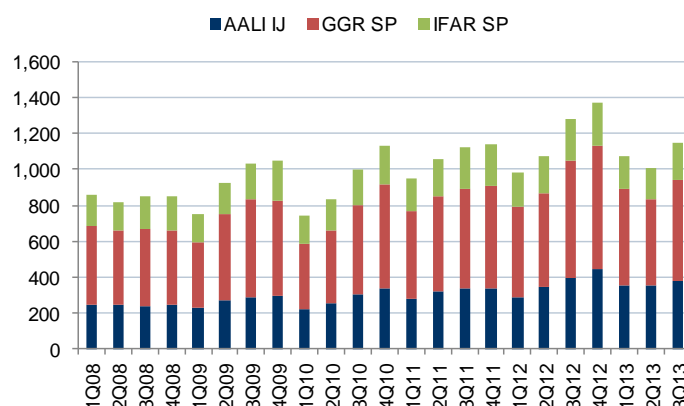
**Fig 4: Malaysia monthly CPO production trends ('000 MT)**



Source: MPOB, Phillip Securities Research

Over in Indonesia, as shown in figure 5, CPO production continued to be weak in 3Q13, resulting from palm tree's biological trend. According to USDA, global CPO production is expected to grow by 4.7% (< 5%) for 2013/14 marketing year, which is lower than the 7.3%/6.6%/5.8% growth in 2012/13, 2011/12 and 2010/11 respectively. Given the weaker 2H13 production figures in both Malaysia and Indonesia, this would imply a recovery from biological cycle in 1H14 which will result in stronger CPO production (vs. 1H13).

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



Source: Companies data, Phillip Securities Research

**Global oilseeds supply outlook still bright**

Based on USDA projections in Nov 2013, we estimate that the stock/usage ratio of global vegetable oils in 2013/14 marketing year is 13.0% (vs. 12.1% in 2012/13). This continues to indicate supply alleviation for global vegetable oils, mainly driven by higher palm oil stock/usage partially offset by lower soybean oil stock/usage.

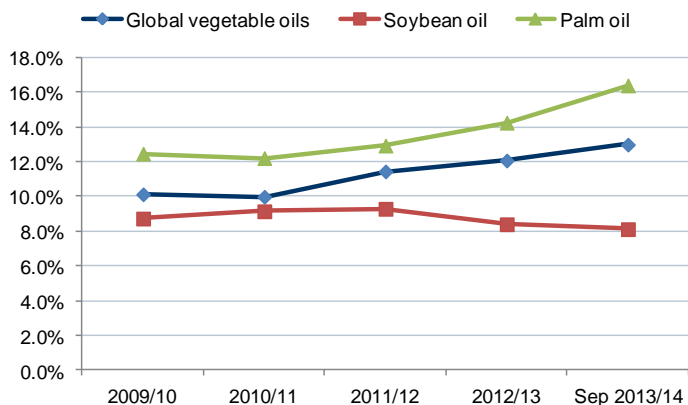
Recent news on weather improvement in South America seems to boost the supply prospect for soybeans in Brazil (world's largest producer of soybeans). In addition, with EU imposing biodiesel anti-dumping duties on imports from Argentina and Indonesia, this will, nonetheless, dampen CPO demand outlook given that ~90% of Indonesia's total biodiesel export (1.5mkl) in 2012 went to EU. That said, there is potential upside in CPO demand coming from domestic consumption, if Indonesia could smoothly implement the B10 biodiesel mandate on time (~3mkl p.a.).

**Top pick: Wilmar International**

Albeit Malaysia's low inventory level (< 2mn tons) and weak CPO output have been supportive to the recent CPO price rally, we believe further upside could be limited in the near term on (i) softer demand during winter season, (ii) anticipated higher supply of global oilseeds, and (iii) narrowing discount gap between CPO and soybean oil.

Wilmar (Accumulate, TP: S\$3.88) remains our top pick within the commodities sector for its (i) huge exposure to growing markets like China, India and SEA, (ii) resilient palm & laurics business, (iii) good proxy for the growing food demand in Asia. As we see no near-term catalyst for any potential upside to CPO price, we remain Neutral on Golden Agri (TP: S\$0.50).

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

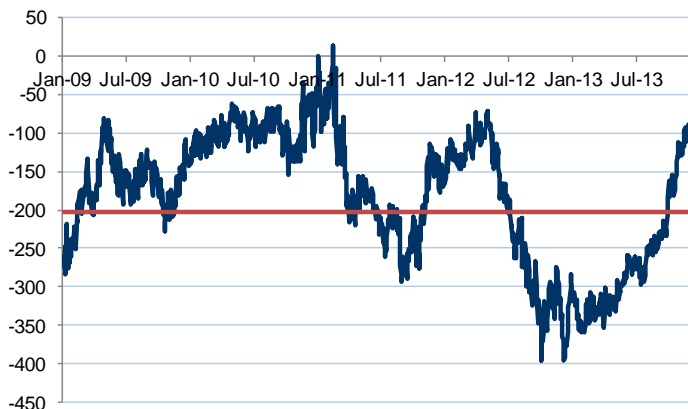


Source: USDA, Phillip Securities Research

Currently, CPO discount to soybean oil is ~US\$90/MT (from a peak of more than US\$300/MT), which is below the long-term average level of US\$203/MT. This indicates that substitution from soybean oil to CPO is no longer a catalyst for CPO demand.

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

Historical long-term premium/(discount) = -US\$203/MT



Source: Bloomberg, Phillip Securities Research

**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	2014E
Wilmar	Accumulate	3.52	17,936	19.3	13.9	12.1	1.2	1.1	8.8	9.3	1.7
Noble	Not Rated	1.11	5,831	20.4	18.0	11.9	1.1	1.0	5.9	8.6	1.5
Olam	Not Rated	1.54	2,931	6.0	11.5	11.0	1.1	1.0	10.1	9.0	2.7
<b>Singapore trading companies average</b>					<b>14.4</b>	<b>11.7</b>	<b>1.1</b>	<b>1.0</b>	<b>8.2</b>	<b>9.0</b>	<b>1.9</b>
Golden Agri	Neutral	0.58	5,878	20.9	18.2	12.3	0.7	0.6	3.6	5.1	2.4
Indofood Agri	Not Rated	0.92	1,033	1.6	23.8	14.4	0.8	0.8	3.3	5.2	0.6
First Resources	Not Rated	2.24	2,826	3.2	14.0	12.4	2.2	2.0	16.4	16.5	2.0
<b>Singapore plantation companies average</b>					<b>18.7</b>	<b>13.0</b>	<b>1.2</b>	<b>1.1</b>	<b>7.8</b>	<b>8.9</b>	<b>1.7</b>
<b>Singapore average</b>					<b>16.6</b>	<b>12.3</b>	<b>1.2</b>	<b>1.1</b>	<b>8.0</b>	<b>8.9</b>	<b>1.8</b>

Source: Bloomberg, Phillip Securities Research

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

	2009/10	2010/11	2011/12	2012/13	Sep 2013/14	Nov 2013/14
<b>Production</b>						
Oil Coconut	3.62	3.8	3.49	3.74	3.74	3.72
Oil Cottonseed	4.59	4.96	5.25	5.27	5.22	5.19
Oil Olive	3.08	3.25	3.24	2.67	3.28	3.28
Oil Palm	45.99	48.66	51.87	55.68	58.09	58.31
Oil Palm Kernel	5.58	5.7	6.1	6.48	6.82	6.82
Oil Peanut	4.87	5.3	5.31	5.55	5.58	5.59
Oil Rapeseed	22.56	23.52	24.22	24.83	24.84	25.27
Oil Soybean	38.79	41.28	42.56	42.83	44.36	44.63
Oil Sunflowerseed	12.28	12.42	15.34	13.81	15.37	15.6
<b>Total</b>	<b>141.36</b>	<b>148.89</b>	<b>157.37</b>	<b>160.85</b>	<b>167.29</b>	<b>168.41</b>
<b>Imports</b>						
Oil Coconut	2.28	1.78	1.82	1.87	1.87	1.87
Oil Cottonseed	0.07	0.07	0.08	0.08	0.06	0.07
Oil Olive	0.52	0.55	0.62	0.66	0.66	0.66
Oil Palm	35.22	36.31	38.83	41.49	42.4	42.4
Oil Palm Kernel	2.55	2.43	2.54	2.79	2.78	2.78
Oil Peanut	0.19	0.2	0.16	0.16	0.19	0.19
Oil Rapeseed	2.92	3.31	4.01	3.91	3.57	3.76
Oil Soybean	8.67	9.42	8.04	8.45	8.78	8.78
Oil Sunflowerseed	3.73	3.65	5.64	5.43	6.16	6.21
<b>Total</b>	<b>56.14</b>	<b>57.7</b>	<b>61.72</b>	<b>64.85</b>	<b>66.46</b>	<b>66.72</b>
<b>Exports</b>						
Oil Coconut	2.17	1.72	1.87	1.89	1.89	1.89
Oil Cottonseed	0.11	0.14	0.18	0.16	0.16	0.15
Oil Olive	0.68	0.75	0.85	0.74	0.78	0.78
Oil Palm	35.51	36.85	39.02	41.73	43	42.97
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	3.42	3.97	3.91	3.88	4.01
Oil Soybean	9.11	9.57	8.49	9.16	9.04	9.16
Oil Sunflowerseed	4.47	4.52	6.4	5.74	6.83	6.89
<b>Total</b>	<b>57.46</b>	<b>59.68</b>	<b>63.39</b>	<b>66.24</b>	<b>68.67</b>	<b>68.95</b>
<b>Domestic Consumption</b>						
Oil Coconut	3.93	3.76	3.6	3.8	3.82	3.81
Oil Cottonseed	4.59	4.78	5.16	5.24	5.14	5.12
Oil Olive	2.97	3.03	3.07	2.86	3.05	3.05
Oil Palm	45.06	47.88	50.93	54.29	56.16	56.33
Oil Palm Kernel	5.45	5.67	5.91	6.47	6.72	6.72
Oil Peanut	5.03	5.3	5.35	5.54	5.56	5.57
Oil Rapeseed	22.61	23.5	23.78	23.64	24.07	24.5
Oil Soybean	38.22	40.73	41.93	42.45	44.29	44.38
Oil Sunflowerseed	11.79	11.77	13.1	13.6	14.34	14.46
<b>Total</b>	<b>139.65</b>	<b>146.42</b>	<b>152.83</b>	<b>157.89</b>	<b>163.15</b>	<b>163.92</b>
<b>Ending Stocks</b>						
Oil Coconut	0.65	0.75	0.59	0.5	0.41	0.4
Oil Cottonseed	0.17	0.27	0.26	0.23	0.18	0.21
Oil Olive	0.6	0.62	0.57	0.3	0.41	0.41
Oil Palm	5.62	5.85	6.59	7.74	9.21	9.16
Oil Palm Kernel	0.89	0.81	1.1	1.16	1.14	1.13
Oil Peanut	0.09	0.12	0.07	0.06	0.07	0.07
Oil Rapeseed	1.29	1.19	1.67	2.87	3.23	3.4
Oil Soybean	3.34	3.73	3.9	3.57	3.6	3.44
Oil Sunflowerseed	1.51	1.28	2.75	2.65	2.95	3.11
<b>Total</b>	<b>14.15</b>	<b>14.63</b>	<b>17.5</b>	<b>19.07</b>	<b>21.2</b>	<b>21.32</b>

Source: USDA, Phillip Securities Research

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