



## PLANTATION SECTOR UPDATE

### Subtle Movement

#### Oversupply Continues in FY17 while the Industry Has Started to Show Recovery

Up to FY17, global CPO production still reveals oversupply, with 6.76 million MT, or 9.66% of global CPO production. This percentage increased significantly when compared to FY16, which only reached 5.01 million MT or 7.71% of global CPO production. This increase is due to the fact that CPO production is recovering as a result of weather normalization after the El Niño phenomenon, extending from late 2016 to August 2017. Throughout 2017, the palm oil industry showed recovery on both domestic and global markets. The observed agricultural sector, accounting for Indonesian economic growth in FY17 increased by 3.81% YoY.

#### Potential Increase in Domestic Consumption Becomes a Positive Catalyst

Domestic consumption of palm oil is expected to increase, in line with Indonesia's economic growth, estimated at 5.3% in FY18E. We estimate the potential for an increase in domestic consumption to reach 16.5% YoY in FY18E supported by: 1) the holding of several major national and international events; 2) CPO also fulfils needs of government biofuel programs. We expect CPO prices to move in the range RM2,400 - RM2,800 on FY18E.

#### Concern of USA and Europe Black Campaign

Allegations of Anti Dumping for Indonesia are a negative factor to be considered, however Government and business actors Indonesia biodiesel industry managed to win an appeals degree in the European Union (EU) Court in the case of imposition of Antidumping Import Duty (BMAD).

#### NEUTRAL Recommendation with Top Picks: LSIP

We still maintain **NEUTRAL** outlook for plantation sector in FY18E. We predict the plantation sector will stagnate as there is still oversupply, with production potential increased, supported by La Niña. We recommend a **NEUTRAL** rating for the plantation sector, with our main stock picks are **LSIP (BUY; TP: Rp1,600)** with the increasing in nucleus FFB production and good performance during the year. Our TP implies FY18E EV/EBITDA 5.41x.



#### Research Associate

Krestanti Nugrahane Widhi  
krestanti.widhi@mncgroup.com  
(021) 2980 3111 ext. 52166

Ticker	Market Cap (Rp bn)	PER (x)		EV/EBITDA(x)		Rec.	Target Price (Rp)
		FY18E	FY19F	FY18E	FY19F		
LSIP	9,245	5.41	5.04	10.72	10.53	BUY	1,600

Sources: Bloomberg, MNCS Estimate (as of March 02, 2018)

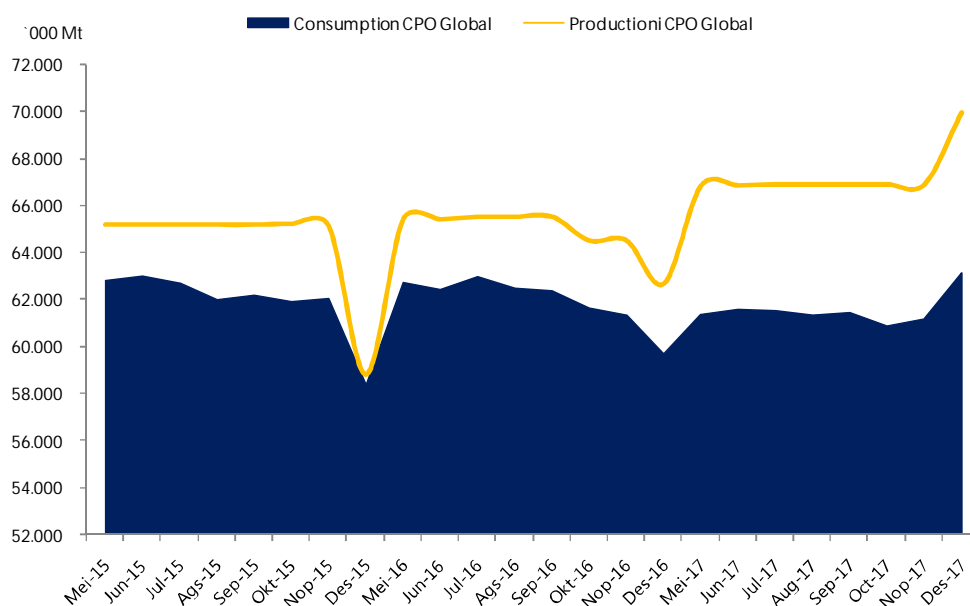
## Oversupply Continues in FY17 ...

## ... While the Industry Has Started to Show Recovery

Up to FY17, global CPO production still reveals oversupply, with 6.76 million MT, or 9.66% of global CPO production. This percentage increased significantly when compared to FY16, which only reached 5.01 million MT or 7.71% of global CPO production. This increase is due to the fact that CPO production is recovering as a result of weather normalization after the El Niño phenomenon, extending from late 2016 to August 2017. On the other hand, there is an economic slowdown in China and Europe, as the world's largest CPO importers. China's GDP growth is projected to decline to 6.5% in FY18E from 6.9% in FY17, while the EU economy is predicted by the IMF slightly to decrease from 2.5% in FY17 to 1.90% in FY18E.

Throughout 2017, the palm oil industry showed recovery on both domestic and global markets. The observed agricultural sector, accounting for Indonesian economic growth in FY17 increased by 3.81% YoY. Indonesia contributed 58.72% or 38,17 million ton to global CPO inventories at FY17 and increased production to 41.98 million MT as of FY17. This recovery is reflected in the performance of one of the listed plantation companies, LSIP, where in FY17 the Company recorded satisfactory performance, supported by a sales increase of 23.17% YoY to Rp4,74 trillion and net profit of 12.7% YoY to Rp763,5 billion.

Exhibit 01. CPO Global Supply vs Demand

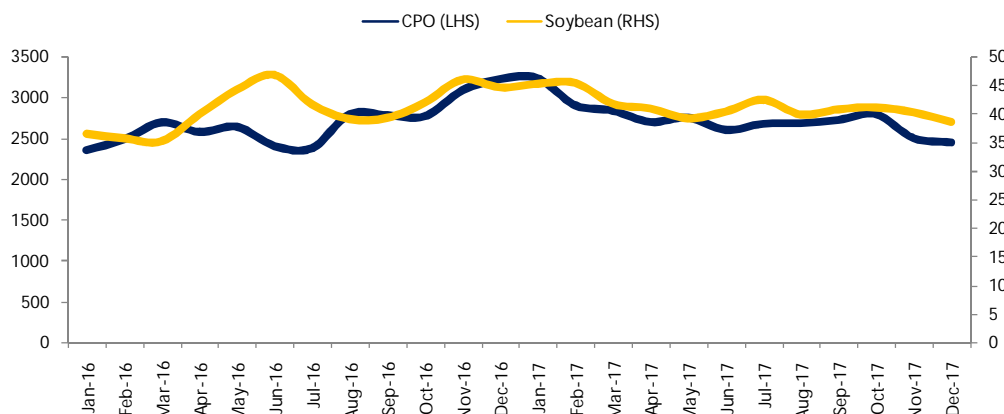


Source : Bloomberg

Domestic consumption of palm oil is expected to increase, in line with Indonesia's economic growth, estimated at 5.3% in FY18E, supported by the holding of several major national and international events, such as: 1) Asian Games 2018; 2) IMF Annual Meeting, and 3) Direct elections. We estimate the potential for an increase in domestic consumption to reach 16.5% YoY in FY18E. In addition to being used as vegetable oil, CPO also fulfills needs of government biofuel programs. The use of biofuel from year to year is expected to continue to rise, especially with the increase of CPO from 10% (B-10) and 20% (B-20) from 2017 to 30% (B-30) by 2020. We expect CPO prices to move in the range RM2,400 - RM2,800 on FY18E.

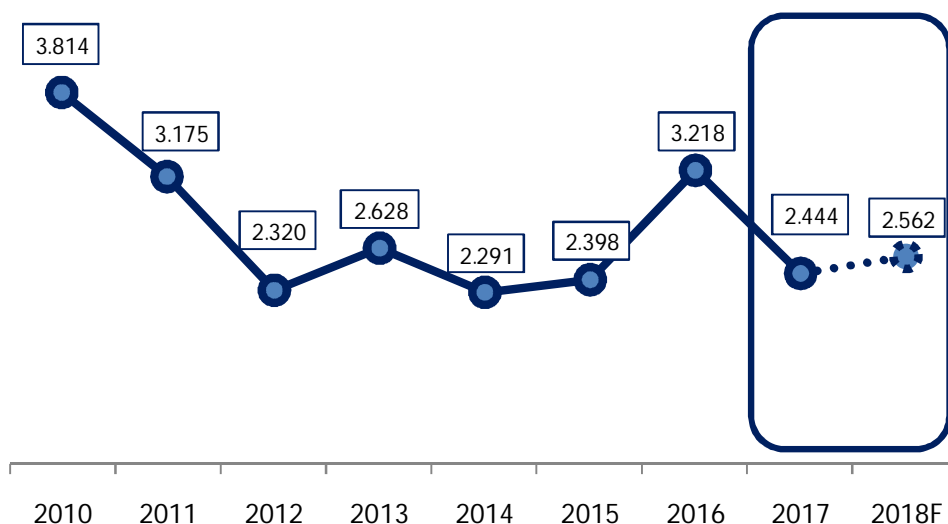
## Potential Increase in Domestic Consumption Becomes a Positive Catalyst

Exhibit 02. CPO Price vs Soybean Oil Price



Source : Bloomberg

Exhibit 03. CPO Price Estimate



Source : Bloomberg, MNCS

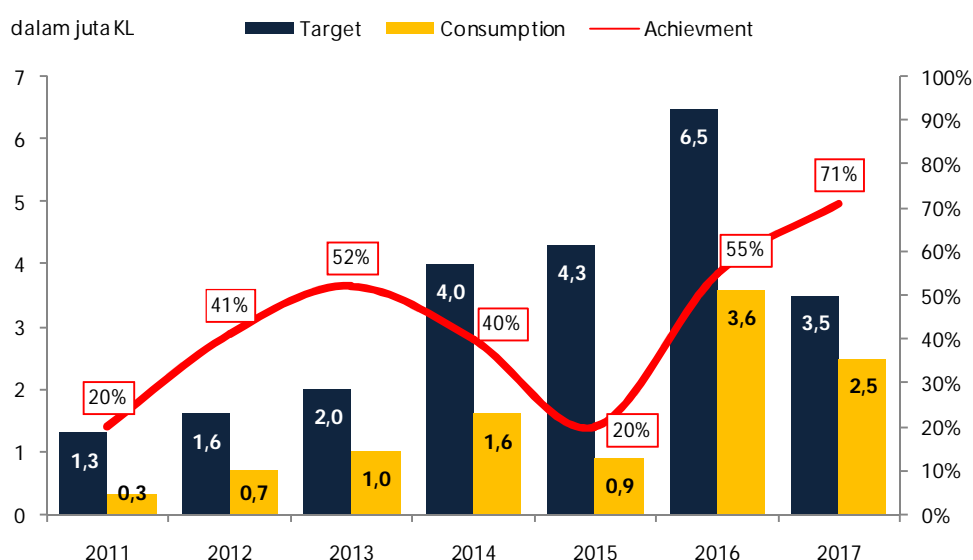
**Replanting Effect are Special Attention**

We see global CPO production growing up to 7% in FY18E. In order to sustain the palm oil industry, the Government is making efforts to replant oil palms to offset the limitation of oil palm expansion. Based on data from the Ministry of Agriculture of Indonesia, the area of oil palms up to 2017 is estimated to reach 12.31 million ha, an increase of 3.30% YoY. The area of mature plants in 2017 reached 75.26% of the total area, with productivity reached 3.82x tons/ha. Although the growth of oil palm plantation area has been slowing, the productivity of mature plants has continued to increase, as indicated by productivity rose by 3.76x in FY17, compared to FY16. However, we see the effects of replanting during FY17 will not be seen in FY18E production because the maturity of palm oil production takes 4-5 years.

## Gray Result from Biodiesel Application

Test results reveal application of 20% biodiesel (B20) on the use of heavy equipment, as well as alutsista stated the application of B20 is still not effective. Increased machine maintenance costs resulting from the use of B20, became one obstacle. The prediction is that world biofuel consumption will increase in FY20F, as seen from the amount of Indonesian biodiesel production in FY17 reaching 2.6 million KL, supported by a 2.4 million tons increase in domestic consumption, as the increase of Indonesian biodiesel market share on the global market marks 3% in 2016. Indonesia recorded an average growth of 65.40% in biodiesel YoY. On the other hand, the price of crude oil is predicted to average US\$56 during FY18E. The high crude oil price has the potential to encourage people to switch to a more affordable substitution product which means biodiesel. Maximum domestic consumption of biodiesel will help increase the country's foreign exchange, because biodiesel reduces energy consumption based on petroleum. However, the lack of effective use of biodiesel has resulted in the lack of maximum biodiesel demand during FY18E.

Exhibit 04. Biodiesel Consumption in Indonesia



Source : Secretariat General Of Ministry Of Energy And Mineral Resources

## The 'Save Local Producers' Action in India an Export Constraint

We expect the oversupply condition to persist in FY18E. This is caused by a hampered production increase in the presence of export constraints to several destination countries. One of these actions is 'save the local producers' in India, Indonesia's largest CPO export destination country, drawing more than 20% of Indonesia's total CPO exports. According to ICRA, India needs 24 million tonnes of edible oil during 2016, of which 9 million tonnes is domestic and 15 million tonnes dependent on imports. Local producers of edible oil cannot offer prices that can compete with imported edible oil, especially palm oil from Indonesia. Therefore, the Indian government has imposed an increase in import duties on edible oil, in order to empower local producers.

### Concern of USA and Europe Black Campaign

The Indian government is currently running 'National Mission on Oilseeds and Oil Palm (NMOOP)' which targets local production of oilseeds to reach 42 million tonnes in FY22F; this will impact India's import demand for palm oil from Indonesia: we note a -4.83% MoM in December 2017. We saw an increase in palm oil exports to India up to 10M17, increased by 40.75% YoY to 7.62 million tonnes, as temporary stockpiling ahead of India's imposition of an increased import tariff. Therefore, the growth of palm oil exports to India may slowly stagnate in the future.

As of end October 2017, the United States planned to enforce an anti-dumping policy in the form of an 'Anti Dumping Import Duty' (BMAD) on palm biodiesel from Indonesia, which kicked in from 10M17 with a range of 40% -70%. The impact of the imposition of BMAD, seen on export growth of palm oil to the United States during 10M17, was 18.13% YoY growth, below an average of 44.17% per year. In April 2017, Europe also issued a resolution, targeted from FY20F, not to use palm oil in biodiesel because it triggers deforestation. However, the resolution has not affected Indonesia's export growth to Europe in FY18E, which shows Indonesia's palm oil exports to Europe up 29.55% YoY in 10M17. Government and business actors Indonesia biodiesel industry managed to win an appeals degree in the European Union (EU) Court in the case of imposition of Antidumping Import Duty (BMAD). EU eliminates the imposition of BMAD by 8.8%-23.3%, making it easier for business actors to be able to export biodiesel without the imposition of anti dumping import tariff on biodiesel products from Indonesia. The removal of BMAD is valid on March 16, 2018. However, there are still obstacles in the sale of CPO in the EU region as happened in the UK. Iceland Co, Britain's supermarket chain, has stopped using palm oil in its brand by the end of 2018, indicating there are still black campaigns against CPO sales in the EU. Gapki stated there needs to be a regulatory change regarding the implementation of the CPO supporting fund to keep the subsidy alleged to impose anti-dumping duties on Indonesia's biodiesel products.

### NEUTRAL Recommendation with Top Picks: LSIP

We still maintain **NEUTRAL** outlook for plantation sector in FY18E. We predict the plantation sector will stagnate as there is still oversupply, with production potential increased, supported by La Niña. Barriers to export growth to some of the main destination countries have not been accompanied by a balanced absorption of domestic consumption. However, we have selected our top picks **LSIP (BUY, TP: Rp1.600)**.

## MNC SEKURITAS RESEARCH TEAM

### Thendra Crisnanda

Head of Institutional Research, Strategy  
thendra.crisnanda@mncgroup.com  
(021) 2980 3111 ext. 52162

### Victoria Venny

Telco, Toll Road, Logistics, Consumer, Poultry  
victoria.nawang@mncgroup.com  
(021) 2980 3111 ext. 52236

### Rr. Nurulita Harwaningrum

Banking, Auto, Plantation  
roro.harwaningrum@mncgroup.com  
(021) 2980 3111 ext. 52237

### M. Rudy Setiawan

Research Associate  
muhamad.setiawan@mncgroup.com  
(021) 2980 3111 ext. 52317

### Edwin J. Sebayang

Head of Retail Research, Technical, Auto, Mining  
edwin.sebayang@mncgroup.com  
(021) 2980 3111 ext. 52233

### Gilang Anindito

Property, Construction, Mining, Media  
gilang.dhiroboto@mncgroup.com  
(021) 2980 3111 ext. 52235

### Tomy Zulfikar

Research Analyst  
tomy.zulfikar@mncgroup.com  
(021) 2980 3111 ext. 52316

### Khazar Srikandi

Research Associate  
khazar.srikandi@mncgroup.com  
(021) 2980 3111 ext. 52313

### I Made Adi Saputra

Head of Fixed Income Research  
imade.saputra@mncgroup.com  
(021) 2980 3111 ext. 52117

### Rheza Dewangga Nugraha

Junior Analyst of Fixed Income  
rheza.nugraha@mncgroup.com  
(021) 2980 3111 ext. 52294

### Krestanti Nugrahane Widhi

Research Associate, Plantation, Consumer  
krestanti.widhi@mncgroup.com  
(021) 2980 3111 ext. 52166

### Sukisnawati Puspitasari

Research Associate, Cement, Mining  
sukisnawati.sari@mncgroup.com  
(021) 2980 3111 ext. 52307

## MNC SEKURITAS EQUITY SALES TEAM

### T. Hedy Arifien

Head of High Networth  
hedy.arifien@mncgroup.com  
(021) 2980 3111 ext. 52310

### Harun Nurrosyid

Senior Equity Institutional Sales  
harun.nurrosyid@mncgroup.com  
(021) 2980 3111 ext. 52187

### Agus Eko Santoso

Senior Equity Institutional Sales  
agus.santoso@mncgroup.com  
(021) 2980 3111 ext. 52185

### Okhy Ibrahim

Senior Equity Institutional Sales  
okhy.ibrahim@mncgroup.com  
(021) 2980 3111 ext. 52180

### Gilang Ramadhan

Senior Equity Institutional Sales  
gilang.ramadhan@mncgroup.com  
(021) 2980 3111 ext. 52178

### Muhamad Fauzan Saputra

Junior Equity Sales  
Muh.saputra@mncgroup.com  
(021) 2980 3111 ext. 52150

### Nesya Kharismawati

Senior Equity Institutional Sales  
nesya.kharismawati@mncgroup.com  
(021) 2980 3111 ext. 52182

### Iman Hadimulya, ST

Senior Equity Institutional Sales  
iman.hadimulya@mncgroup.com  
(021) 2980 3111 ext. 52174

### Paksi Jaladara

Junior Equity Sales  
paksi.jaladara@mncgroup.com  
(021) 2980 3111 ext. 52173

### MNC Research Investment Ratings Guidance

**BUY** : Share price may exceed 10% over the next 12 months

**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months

**SELL** : Share price may fall by more than 10% over the next 12 months

**Not Rated** : Stock is not within regular research coverage

#### Disclaimer

This research report has been issued by PT MNC Sekuritas. It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.