



## PLANTATION SECTOR UPDATE

### Welcoming Seasonality Return!

#### Global Issues Deflate Stock Price

Following the dimming market condition, with JCI at the level of 4,947.78 (-21.46% YTD) we can see that as a whole, the sectors as well as some stocks would perform similarly. As with JAKAGRI, it seems that the decline is deeper. JAKAGRI has decreased by -34.55% YTD/-28.67% YoY due to the price downtrend on the 1H (exhibit 04) and the global issues that have been affecting the market. Some Plantation companies, which are within the MNCS Coverage (AALI & LSIP), are reflecting the slump as well with an average of -47.15% YTD. Historically speaking, the first half of the last five years have shown decreases in month on month stocks return (exhibit 05 & 06) with an average of -4.55% on June (5-Year average). We deemed this as an opportunity to buy the plantation stocks at a lower price as their valuations are currently lagging (exhibit 11 & 12).

#### Annual CPO Price Climbs supports the 1Q20 Performance

As of June 5, 2020, CPO stood at MYR2,348/mt, increased by 15.78% YoY being another victorious commodity after metals such as gold (+26.67% YoY) and nickel (+10.84% YoY) while crude oil dropped by 23.47% YoY. Meanwhile, Indonesia's CPO inventory declined by 34.12% YoY in FY19 despite the rise in Malaysia's CPO production in FY19 (exhibit 08 & 09). Planters may gain advantage on the climbing CPO Price, as recorded by AALI, revenue rose by 13.31% YoY to IDR4.79 trillion while LSIP recorded a decrease on revenue by 12.70% YoY to IDR810 billion. Although, by average their CPO sales volume decreased by 12% YoY. On the flip side, LSIP booked a staggering growth on net profit of 109.80% YoY to IDR81 billion followed by AALI's skyrocketing growth of 891.90% YoY to IDR371.06 billion in 1Q20. We estimated that CPO price will reached MYR2,395.91/mt in FY20E.

#### Awaiting for the Coming Economic Revival

The rally on CPO price may as well be a positive catalyst in the long run despite the competitiveness of soybean as the substitute which has decreased by -19.22% YoY. Although the increased levy on export from USD50 to USD55 will be a thorn on some companies side as it will increase cost and resulted in weakening bottom line. On the other hand, the outbreak of Covid-19 has affected China as the largest export destination from Indonesia contributing 82.40% to the total CPO export from Indonesia. This is reflected in the slump on export by -51.14% MoM on Jan-2020, making the export dropped by -33.37% YoY on 1Q20 (exhibit 07) as most of the businesses are being forced to shutdown to overcome the virus. This also became the cause of CPO price downturn in early 2020 (-23.07% YTD). With the recoveries in most of the countries, China included, we see that the demand on CPO will continue rising, pushing the price forward especially on the 2H20E despite the drop in the 1H20.

#### NEUTRAL Outlook with Preferred Stock LSIP (BUY; TP: IDR1,000)

With economic recoveries followed by the expected CPO price rally on the 2H20E we believe that CPO price will be positively affected. Still, we recommend **NEUTRAL** on Plantation sector. We estimate there will be potential stocks rebound on August (exhibit 05 & 06) which historically reached 7.42% (5-Year average). Our stock pick on this sector remains on **LSIP (BUY; TP: IDR1,000)**, being the company with zero debt and high in cash. LSIP is currently traded at -2.14 STD with PBV at 0.62x.



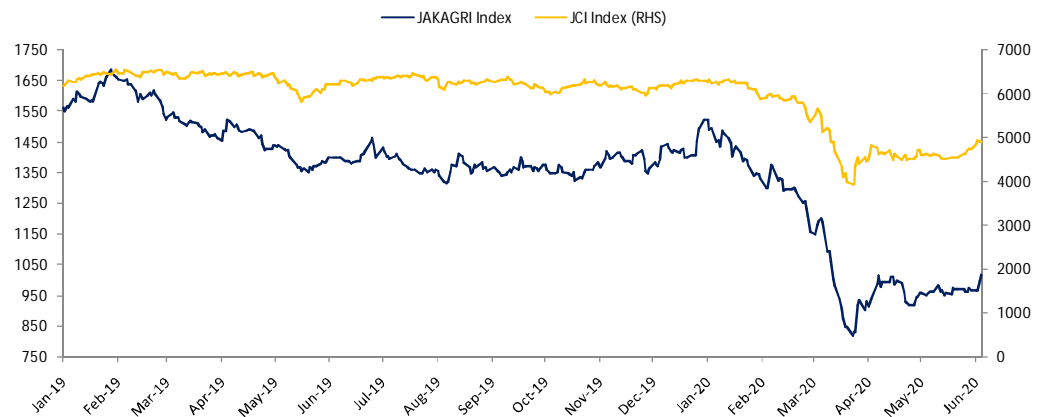
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Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY20E	FY21F	FY20E	FY21F		
AALI IJ	15,109	72.92	77.49	0.81	0.80	HOLD	9,125
LSIP IJ	5,288	16.43	13.39	0.94	0.81	BUY	1,000

Sources: Bloomberg, MNCS

Exhibit 01. JCI Index vs JAKAGRI Index



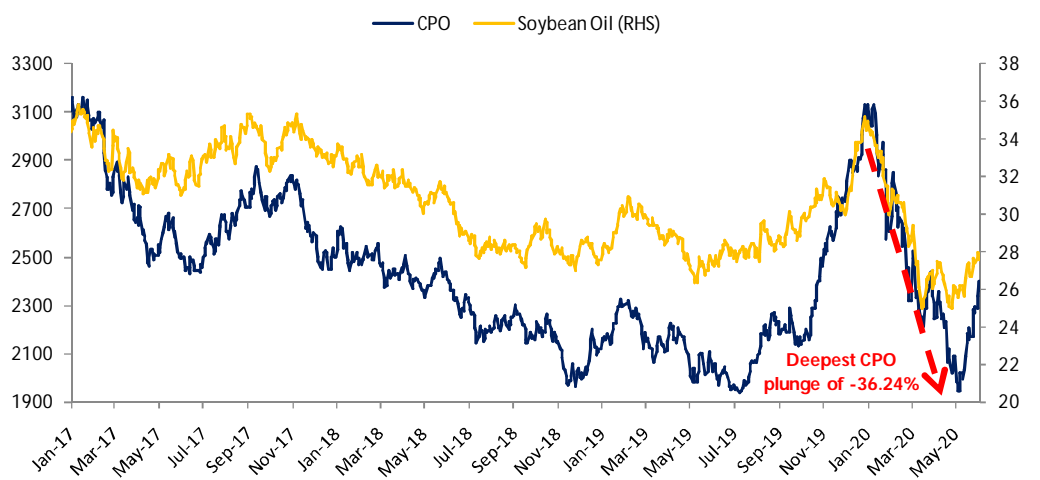
Sources : Bloomberg, MNCS

Exhibit 02. LSIP and AALI Price Movement



Sources : Bloomberg, MNCS

Exhibit 03. Incentives for Property Sector with JCI Movement and Jakprop Index



Sources : Bloomberg, MNCS

Exhibit 04. CPO Seasonality Chart (Heat Map)



Sources : Bloomberg, MNCS

Exhibit 05. LSIP Stock Price Heat Map



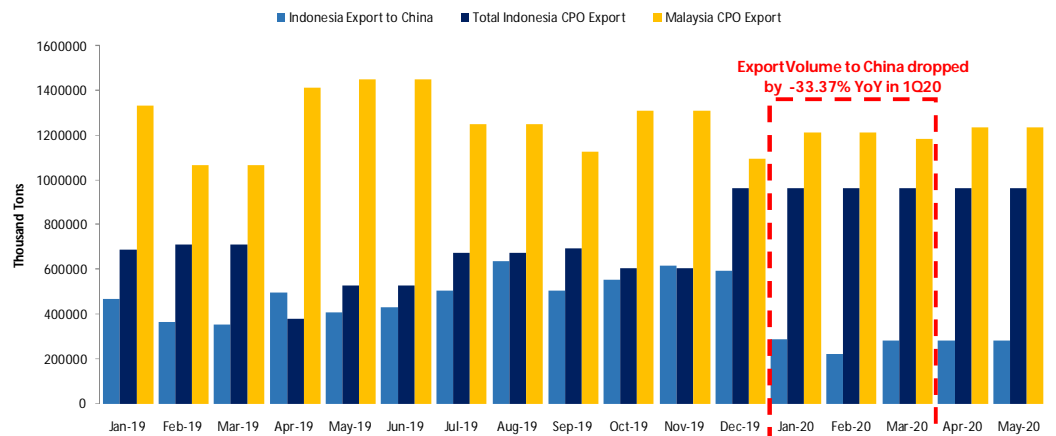
Sources : Bloomberg, MNCS

Exhibit 06. AALI Stock Price Heat Map



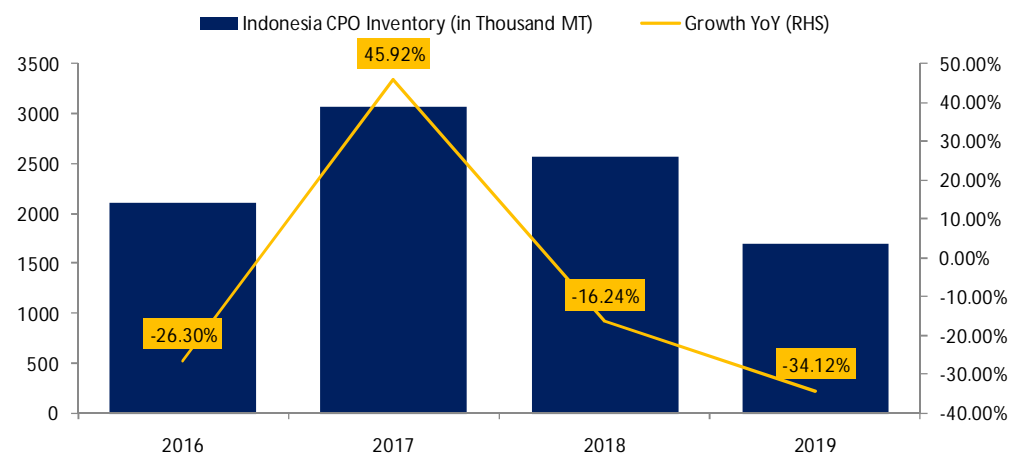
Sources : Bloomberg, MNCS

Exhibit 07. Indonesia and Malaysia CPO Export Quantity



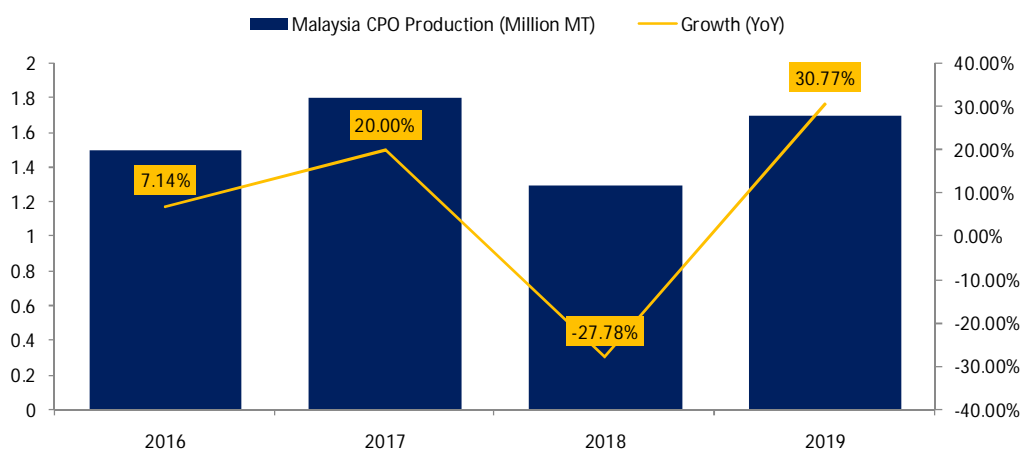
Sources : Bloomberg, MNCS

Exhibit 08. Indonesia CPO Inventory Trend



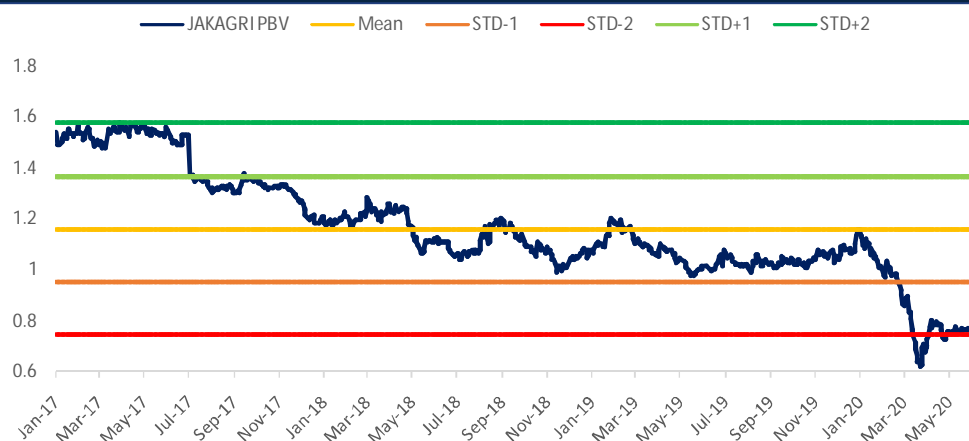
Sources : Indexamundi, Palmoil Analytics, MNCS

Exhibit 09. Malaysia CPO Production Trend



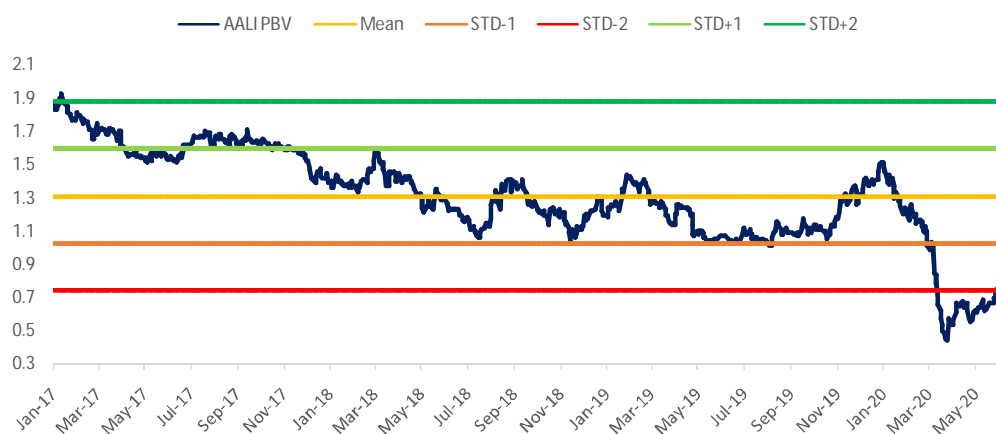
Sources : Indexamundi, Palmoil Analytics, MNCS

Exhibit 10. JAKAGRI is currently traded at -1.71 STD with PBV at 0.80x



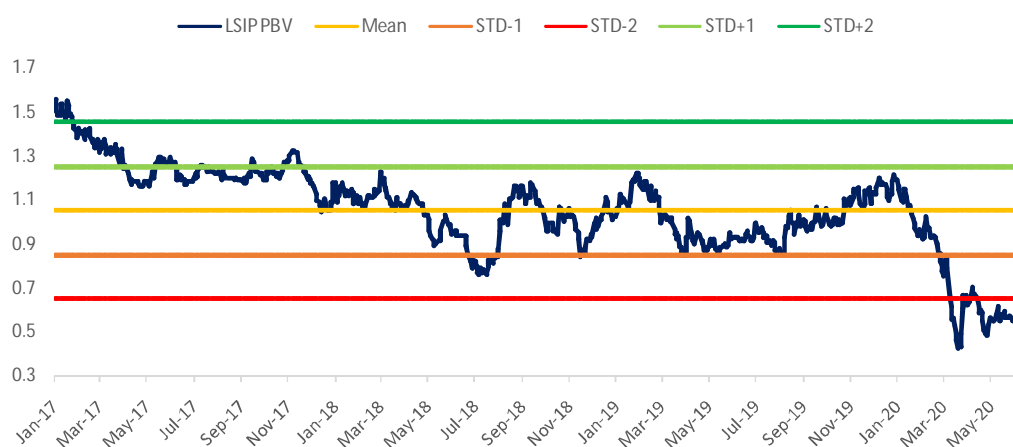
Sources : Bloomberg, MNCS

Exhibit 11. AALI is currently traded at -1.79 STD with PBV at 0.80x



Sources : Bloomberg, MNCS

Exhibit 12. LSIP is currently traded at -2.14 STD with PBV at 0.62x



Sources : Bloomberg, MNCS



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### 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

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