



PLANTATION SECTOR UPDATE

Surfing the Storm

Bad Weather, Good Price

- CPO might seem to be declining earlier this year reaching RM3,388/metric ton (-5.89% YTD), but the weather shows otherwise as data from Colombia University stated that there is a 65% chance that La Nina might last until May 2021.
- CPO price has rallied by 24.83% from October to now, followed by a higher incline on soybean oil (+33.73%). The high rise in Soybean would encourage a shift towards CPO.
- Furthermore, Malaysia's CPO inventory has recorded a deep decline (-37.09% YoY) in FY20, while export surged by 16.21% YoY.
- Subsequently, Indonesia recorded a growing export to India and China as CPO export from Indonesia accounted for 81.23% of China's export and 78.44% of India's export in FY20. Thus, CPO price will continue to escalate as demand rose on a shortage.
- We estimate that the CPO price will reach RM3,900 to RM 4,000 per metric ton in FY21E, along with the prolonged heavy rain.

Global Turmoil: Boosting up or Dragging down?

- The Blue Sweep brought on a brighter prospect on clean energy within Joe Biden's Presidency. We hope the use of biodiesel will soar and a considerable stimulus will make way to the emerging market.
- On the flip side, the European Union (EU) considers the possibility of restricting palm oil usage due to some violations in Malaysia and Indonesia. Since the EU is the third largest CPO importers, Malaysia and Indonesia will be joining forces to counter negative consumer and tighter regulations in the EU and the western countries.
- We believe a shift from CPO could be slowed down, as CPO still proved to be less costly than other substitute oil.

B30 to be Continued in FY21E

- Biodiesel absorption has reached 8.4 million kiloliters (+31.87% YoY), which equals 87.96% from the FY20 target. Aside from lowering emission and reducing imports, biodiesel has contributed to foreign exchange savings of IDR38.31 trillion in FY20.
- Moreover, the Government will delay the increase in B30 to B40 in FY21E due to a higher CPO price. The biodiesel absorption target in FY21E is at 9.2 million kiloliters.
- The Government also has budgeted an incentive for solar and biodiesel price spread which amounting to ~IDR46 trillion in FY21E. The incentive is higher, in line with the increase in absorption target, and the fund will be derived from the progressive export tax passed on to the CPO companies.
- Meanwhile, the CPO progressive tax has been applied in Jan-21, with every increase of USD25, a USD12.5 tax will be charged. Though it seemed to be an extra burden for the CPO companies, we believe the CPO price increase will benefit them. The Government also estimate the CPO export value to reach USD20 billion in FY21E.

OVERWEIGHT Recommendation with top Picks: AALI and LSIP

We maintain our **OVERWEIGHT** outlook for the plantation sector as the La Nina phenomenon extended. Subsequently, we decide to revise our Target Price for **LSIP from IDR1,250 to IDR1,920** and **AALI from IDR11,800 to IDR14,350** with **BUY** recommendation as both stocks have hit our previous target price and LSIP being most sensitive to commodity price movement. LSIP is currently trading at -0.3STD with 1.06x PBV, while AALI is trading at -0.7STD with 1.17x PBV.

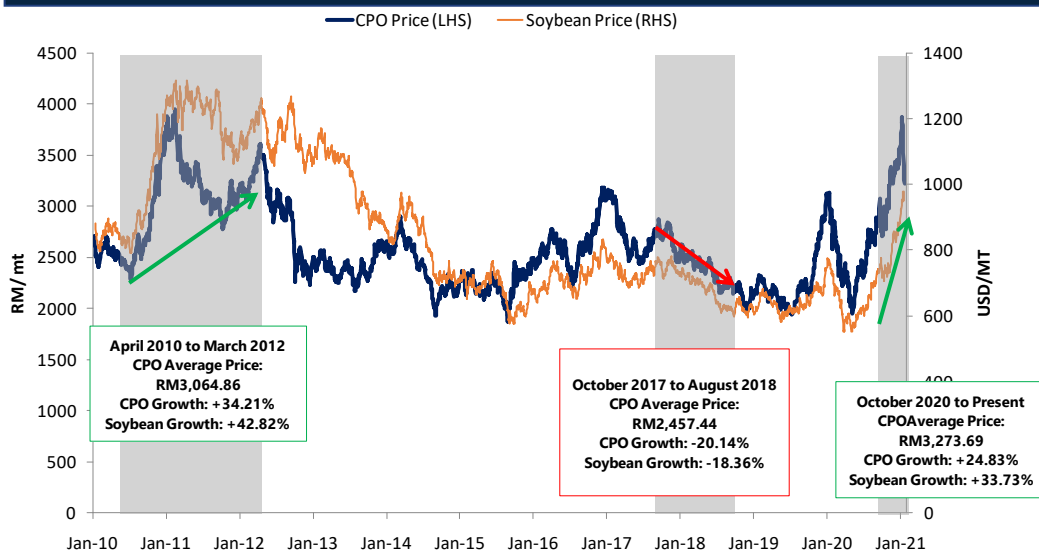
Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
AALI IJ	21,320	19.41	22.74	1.09	1.05	BUY	14,350
LSIP IJ	9,040	12.82	9.47	0.97	0.92	BUY	1,920

Sources: Bloomberg, MNCS



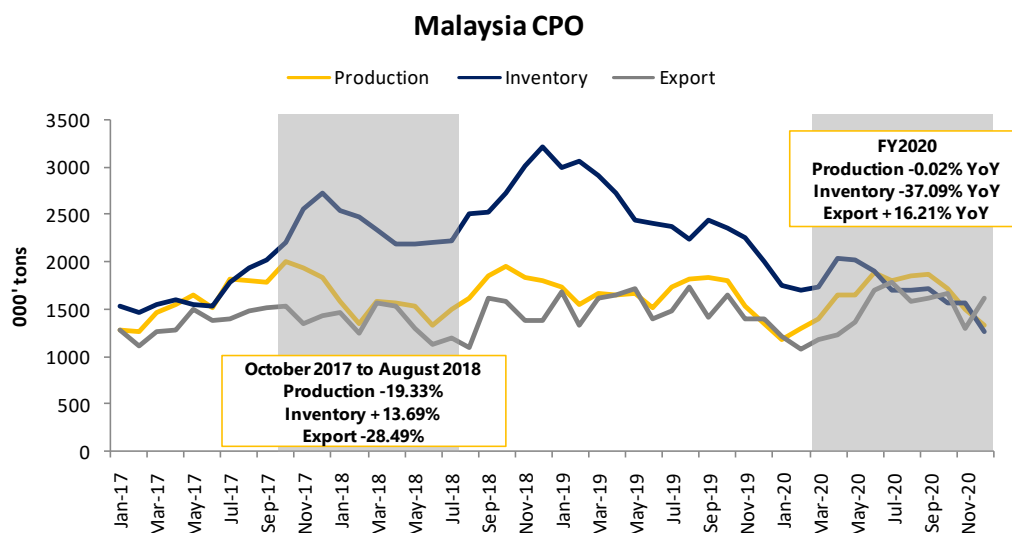
Research Associate
Catherina Vincentia
catherina.vincentia@mncgroup.com

Exhibit 01. CPO Price vs Soybean Price Movement on La Nina Season (grey shades)



Sources : NOAA Climate.gov

Exhibit 02. Malaysia's CPO Inventory and Production declined on Current La Nina Season (grey shades)



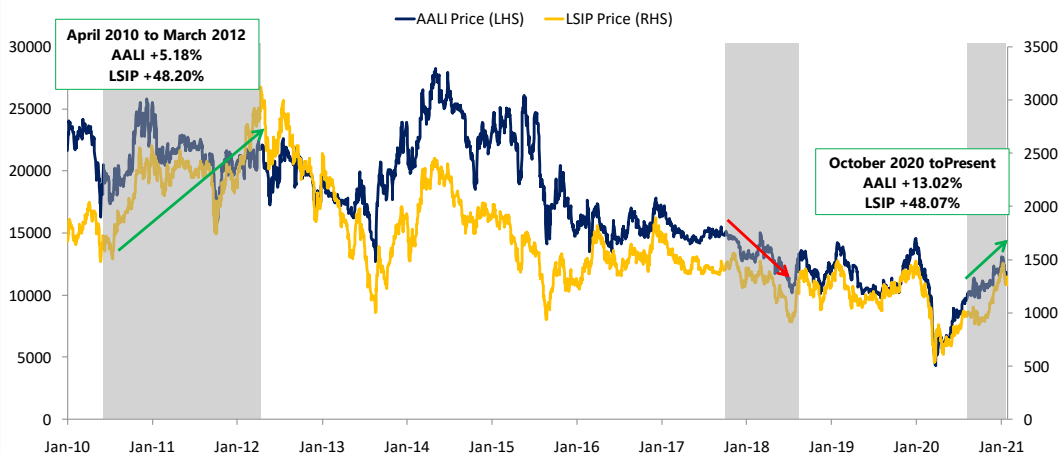
Sources : Bloomberg, MNCS

Exhibit 03. Indonesia's CPO Export, specifically to China Increase



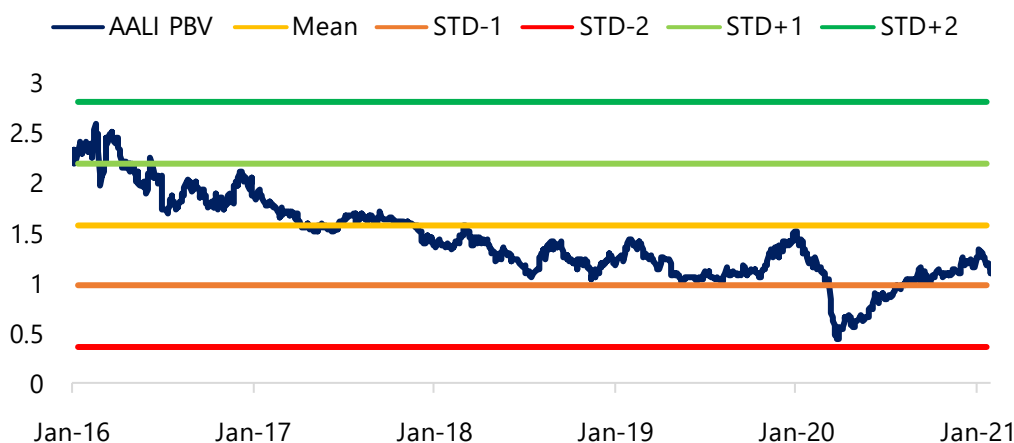
Sources : Bloomberg, MNCS

Exhibit 04. LSIP and AALI Price Movement during La Nina Season (grey shades)



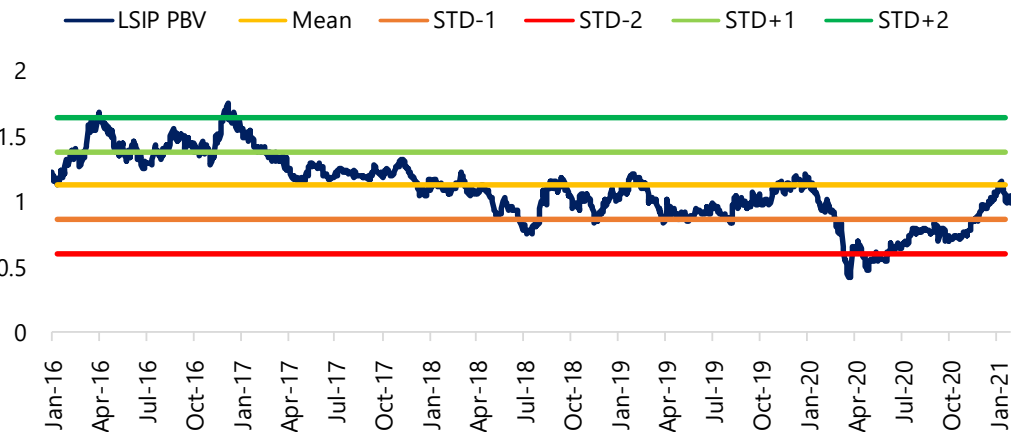
Sources : Bloomberg, MNCS

Exhibit 05. AALI is currently traded at -0.70STD (5-year average) with PBV at 1.17x



Sources : Bloomberg, MNCS

Exhibit 06. LSIP is currently traded at -0.30STD (5-year average) with PBV at 1.06x



Sources : Bloomberg, MNCS

MNC SEKURITAS RESEARCH TEAM

Thendra Crisnanda

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

Victoria Venny

Banking, Small-Mid Cap, Telco
victoria.nawang@mncgroup.com

Muhamad Rudy Setiawan

Construction, Oil & Gas, Property
muhamad.setiawan@mncgroup.com

T. Herditya Wicaksana

Technical Specialist, Cement
herditya.wicaksana@mncgroup.com

Catherina Vincentia

Automotive, Coal Mining, Metal Mining
catherina.vincentia@mncgroup.com

Aqil Triyadi

Research Associate
aqil.triyadi@mncgroup.com
(021) 2980 3111 ext. 52313

MNC SEKURITAS EQUITY SALES TEAM

Andi Abidin

Associate Director Institution & High Network
andi.abidin@mncgroup.com
(021) 2980 3111 ext. 52170

Harun Nurrosyid

Manager Equity Institution
harun.nurrosyid@mncgroup.com
(021) 2980 3111 ext. 52187

Wesly Andri Rajaguguk

Head of Institutional Equity Sales
wesly.rajaguguk@mncgroup.com
(021) 2980 3111 ext. 52341

Ibnu Ramadhan

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

Agus Eko Santoso

Manager Equity Institution
agus.santoso@mncgroup.com
(021) 2980 3111 ext. 52185

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

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899

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