THE PALM OIL INDUSTRY

Upstream – Produce FFB

Plantation of palm oil trees to produce fresh fruit bunch.

Midstream – Mills to convert FFB to CPO and PKO

The FFB produced are processed at mills to produce crude palm oil ("**CPO**") and Palm Kernel Oil ("**PKO**").

Total annual world supply of CPO in 2016 is approximately 58 million MT. Malaysia supply approximately 30% and Indonesia supply approximately 55% of the world supply of CPO. Malaysia's annual contribution of CPO is approximately 17.3 million MT in 2016.

NEUTRAL view on oil palm plantation sector

From July 2016 to February 2017, the CPO price surged above RM 3,300 per MT. This is partly due to the dry weather, El Nino conditions.

But now, the price is hitting a one year low at RM 2,345 on December 14, 2017
Industry sources expects the price shall trade in the range of RM 2,500 to RM 2,600 per MT. Hence, as compared with the higher pricing in 2016, the overall plantation sector is expected to be neutral.

Major importers of CPO are China, India and EU.

Mixture of factors affecting price of CPO

- **Some positive factors**

(i) Price of competing vegetable oils such as soybean, sunflower and rapeseed oil. Presently price of soybean has been stable and is seen as a positive factor to the CPO industry.

(ii) Price of crude oil. Any increase in crude oil is assumed to increase the use bio-diesel of which CPO shall be beneficial sector.

- **Some negative factors**

(i) Import and tax policies of importing countries and exporting countries. The recent announcement by EU to endorse the ban palm oil biofuels is seen as a negative to the industry. EU accounted for about 13% of our CPO export market. The recent move by Indian government which raised the import duty on Malaysian CPO to 30% from 15%.

(ii) The expected increase in Ringgit Malaysia by general consensus in next year, shall reduce the currency returns for export based industries.

- **Unpredictable factor**

(i) Weather patterns. Severe El Nino (dry weather) hurts production of palm oil whilst weak La Nina (rain fall) assist production. However, extreme La Nina may cause flood and becomes a negative factor.

12 LISTED COMPANIES WITH TOTAL MATURED LAND BANK OF 1.4 MILLION HECTARES PRODUCING 33% OF ANNUAL FFB SUPPLIED BY MALAYSIA

LISTED COMPANIES	Matured Planted Area (thousand hectares)	Immature Planted Area (thousand hectares)	Others (thousand hectares)	Total Land Bank (thousand hectares)	Average Annual Yield of FFB (MT / Ha)	Annual Revenue (RM millions)
Sime Darby Plantation Bhd	502	101	387	989	19.4	-
Felda Global Ventures Holdings Bhd	264	66	111	441	14.5	17,892
Batu Kawan Bhd	180	31	63	274	19.8	21,548
Kuala Lumpur Kepong Bhd	176	30	63	268	19.8	21,004
Genting Plantations Bhd	100	41	119	260	17.5	1,789
IOI Corp Bhd	150	25	44	218	21.7	13,039
Sarawak Oil Palms Bhd	77	11	33	120	16.8	4,727
TSH Resources Bhd	26	16	57	100	22.5	1,048
Boustead Plantations Bhd	57	7	18	83	15.6	739
IJM Plantations Bhd	52	9	16	77	16.6	794
United Plantations Bhd	38	6	15	59	20.7	1,503
Hap Seng Plantations Holdings Bhd	32	4	4	40	20.5	520

Compiled by AER

Sime Darby Plantation Bhd, a demerged entity from Sime Darby Bhd which begins trading on 30 November 2017, has the largest matured palm oil plantation and land bank.

SELECTED TOP ELEVEN LISTED COMPANIES IN UPSTREAM AND DOWNSTREAM PLANTATION PALM OIL IN MALAYSIA – CONTRIBUTES MORE THAN RM 10 BILLION IN ANNUAL REVENUE

LISTED COMPANIES	Closing Price as at 8 Dec 2017 (RM)	TWR from 3 Jan 2017 (%)	Trading P/E	Trading P/B	Market Capitalisation / Total Land Bank (RM '000 / hectare)	Net Margin (%)	Net Cash or (Net Borrowings) (RM millions)	Altman Z-Score	Average Annual Dividend Yield, Past Three Years (%)
IOI Corp Bhd	4.49	4%	29	3.8	129	8%	(6,243)	3.5	1%
United Plantations Bhd	28.36	10%	15	2.4	99	27%	476	17.7	2%
Kuala Lumpur Kepong Bhd	24.46	4%	26	2.3	97	5%	(2,980)	4.4	2%
Genting Plantations Bhd	10.30	-3%	19	1.9	32	24%	(926)	3.1	1%
Hap Seng Plantations Holdings Bhd	2.56	7%	15	1.0	51	26%	24	5.9	4%
TSH Resources Bhd	1.65	-10%	33	1.5	23	7%	(1,306)	1.5	1%
IJM Plantations Bhd	2.83	-14%	35	1.5	33	9%	(575)	2.2	2%
Batu Kawan Bhd	19.88	13%	14	1.2	32	3%	(3,187)	2.5	3%
Boustead Plantations Bhd	1.63	10%	4	1.0	32	92%	103	3.5	7%
Sarawak Oil Palms Bhd	4.05	12%	10	1.1	19	5%	(639)	2.7	1%
Felda Global Ventures Holdings Bhd	1.71	6%	36	1.1	14	1%	(4,079)	1.5	2%

Compiled by AER

The entire sector is expected to be neutral unless there are major changes in external factors that affects supply / demand of palm oil.

TOP COMPANY BY DIVIDEND YIELD – BOUSTEAD PLANTATION BHD

Generally, all the plantation companies generate an annual dividend yield within a 2% range Boustead Plantation Bhd, generates the highest annual dividend yield of 7% a year. This trend is observed since its listing in 2014, with an annual dividend payout exceeds its annual earnings

Boustead Plantation Bhd announced of a proposed acquisition of 11,579 hectares of land at Lagut and Sugut, Sabah, for a total cash consideration of RM 750 million from subsidiaries of DutaLand Bhd. The acquisition shall be financed by internal cash of RM 300 million and borrowings of RM 450 million.

In third quarter of 2017, Boustead also disposes a land in Penang for RM 620 million.

Boustead Plantation Bhd's major shareholder is Boustead Holdings Bhd with a 57.4% equity stake. Lembaga Tabung Angkatan Tentera owns a 12.0% equity stake.

FELDA GLOBAL VENTURE HOLDINGS BHD

FGV derives its revenue from 3 areas. Plantation of palm oil makes up about 45% of its total revenue, sugar about 15% of its revenue and downstream activities of 37% of its revenue and 3% of revenue from rubber plantation.

FGV at the moment also reports the lowest net margin at 1% as compared to the other companies in this article.

FGV records a biological asset and a land lease liability owing to Felda which is measured at every reporting quarter end.

When CPO prices, FFB prices, Average FFB yield are high and Estate Plantation Cost is low which is positive to the operating results, all these factors may translate to a higher Land Lease Liability charges out charge out as expenses in the reporting period, offsetting some of the benefits from higher CPO prices. Hence, an analysis of share price FGV post 2015 shows that FGV share price is more correlated to its reported performance and lesser to the CPO prices.

END