

# TRIM Sector Update

## CPO: Getting Closer to Re Enter

Andrian Tanuwijaya  
 Equity Analyst  
 andrian.tanuwijaya@trimegah.com  
 (021) 2924-9097

### Lower Malaysian Production in Aug'11...

The 2nd largest palm oil producers produced 1.67mn of CPO in Aug'11, down 4.8% MoM, with FFB yield stood at 1.69 ton/ha vs. 1.80 ton/ha in Jul'11. Lower production was mainly driven by Ramadhan season followed by led celebration, which usually become the weak month in every year. As such, we still believe that the production will recover through the rest of the year. It is worth noting that 3Q is usually the peak production period for palm oil based on its seasonality. Export slightly declined by 2.7% MoM, reaching 1.69mn tons. Lower production coupled by lower export number has dragged inventory to reach 1.88mn tons in Aug'11. It declined 5.6% MoM and become the lowest level since Apr'11.

### USDA Increased World's Soybean Production in 2012

Monthly WASDE report released by USDA on 12th Sep'11 cooled the soybean rally in a week as it forecasted higher world soybean ending stock in 2012 vs. its last forecast in Aug'11. Ending stock predicted to reach 62.5mn tons, 2.6% higher than last month estimation, due to higher production expectation in US, the world's largest soybean producer. However if we compare it on YoY basis, 2012 soybean production is expected to decline by 1.9% YoY while consumption is expected to increase by 3.8% YoY, reasonable for current high soybean price.

### Widening Discount of Palm to Soy Oil

Several supply disruptions on soybean recently (losing acreage to corn and adverse weather that caused delayed planting and lower yield) has driven the price to its highest level since the commodities boom period in 2008. This rally has made the soybean oil premium over palm oil widened into USD161.7/ton or 14.8% pricier. As a close substitute for both fuel and food usage, the wide discount over soy oil provides a great support for CPO price in the middle of flooding supply environment.

### New Indonesian Export Tax, How It Changes the Game Play?

Government has imposed the new export tax for CPO by lowering the maximum tax rate from 25% to 22.5% and raising the lower band to USD750/ton. For refined products such as RBD palm olein, export tax was cut by almost half, pushing more activities on domestic downstream business. We see this as a beneficial for domestic refiners as they can increase their price competitiveness with Malaysia, especially to the price sensitive importer like India. Processed palm oil contributed 43.9% of total palm oil shipped in 2010 and with more active domestic activities, it will result a tighter seaborne CPO.

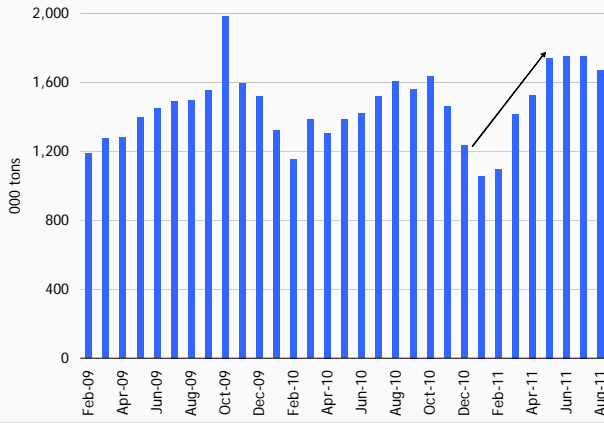
### Maintain NEUTRAL

Our TRIM CPO is currently traded at 12.2x forward PE. It has been traded around its LT historical mean since 1Q11, which provides a strong support in our view. As such, we see the limited downside risk for CPO sector, a suitable entry point for LT investors as we have a positive view on the sector in LT. At the mean time, we maintain our NEUTRAL call, waiting for seasonal peak production in upcoming months and the confirmation data of the re-emerging La Nina possibility (FYI, the Australian Bureau of Meteorology has noted that since 1900, about half of all La Nina events re-emerged in the second year, thus it was important to get an update on upcoming SOI values).

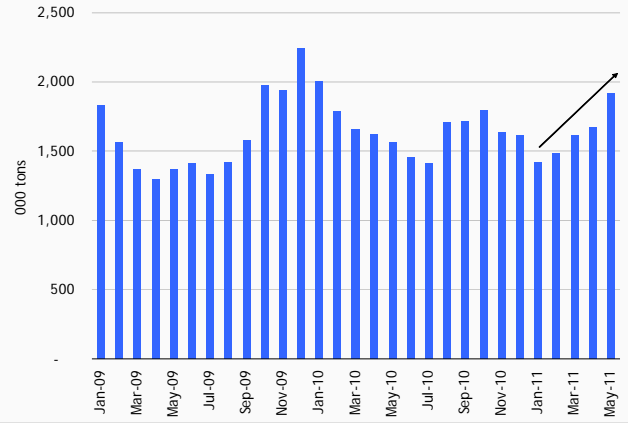
### Sector Comparison

TICKER	Price (Rp.)	Mkt. Cap (Rpbn)	(%) to JCI	(%) Rec	TARGET	P/E (X)		ROE (%)		EPS g (%)	
	13-Sep-11				Price	11	12	11	12	11	12
BWPT	1,190	4,804.1	0.1	Buy	1,550	16.1	11.6	23.7	26.4	22.7	38.8
SGRO	3,375	6,378.8	0.2	Buy	4,400	11.2	10.6	24.4	21.9	26.5	5.3
AALI	21,750	34,250.7	1.0	Hold	25,700	12.7	12.7	34.0	29.8	33.3	0.6
LSIP	2,300	15,692.6	0.5	Buy	2,875	10.9	11.2	28.5	23.4	39.9	(3.2)

Malaysia's CPO Production Down 4.8% MoM

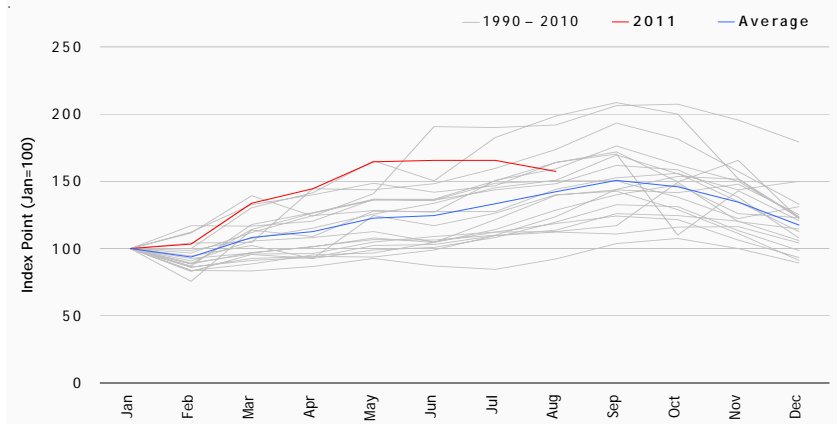


Followed by 5.6% MoM Decline on Inventory



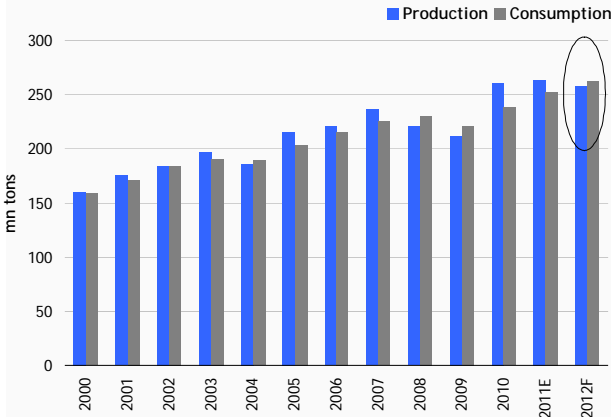
Source: MPOB, Bloomberg, TRIM Research

We Are Closing to Peak Production Period Based on Its Seasonality

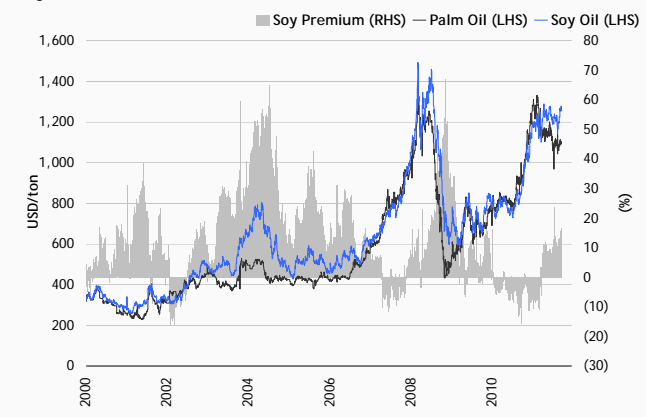


Source: MPOB, Bloomberg, TRIM Research

USDA Forecast on Soybean Supply and Demand

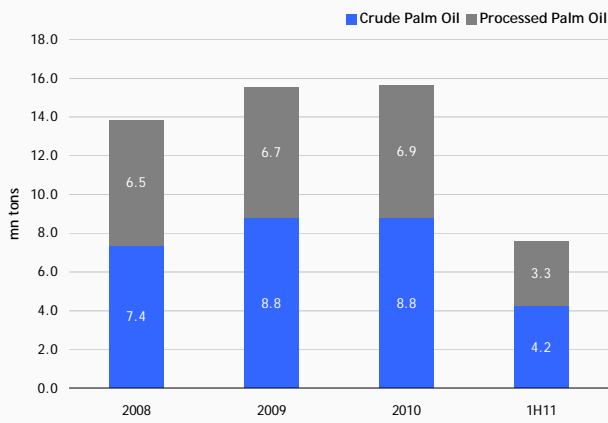


Soy Oil Premium over Palm Oil Has Widened

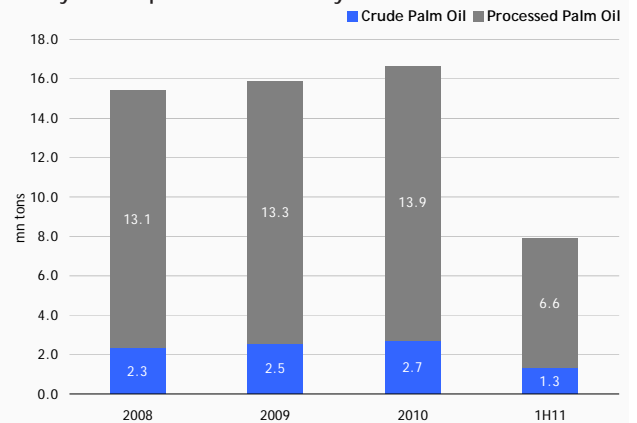


Source: MPOB, Bloomberg, TRIM Research

Indonesia's Export Still Dominated by Crude Palm Oil



Malaysia's Export Dominated by Processed Palm Oil



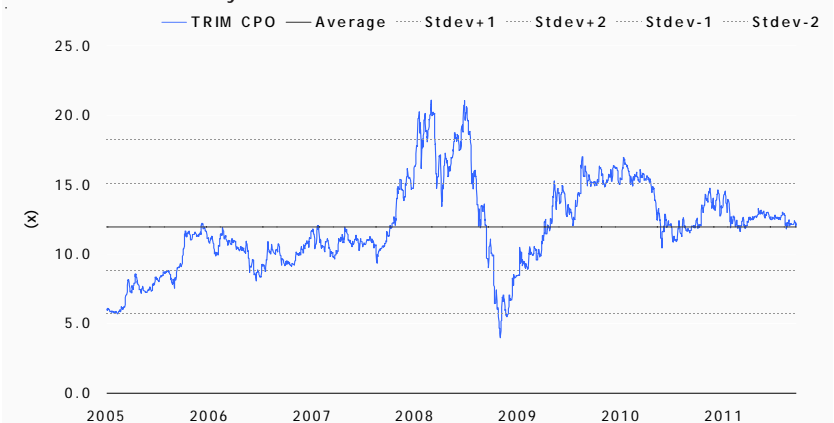
Source: MPOB, Bloomberg, TRIM Research

New Export Tax on Palm Oil Products

Prices	CPO		RBD Palm Oil		RBD Palm Olein	
	New	Old	New	Old	New	Old
>700	0.0	0.0	0.0	0.0	0.0	0.0
701-750	0.0	1.5	0.0	0.0	0.0	1.5
751-800	7.5	3.0	0.0	1.5	2.0	3.0
801-850	9.0	4.5	0.0	3.0	3.0	4.5
851-900	10.5	6.0	2.0	4.5	4.0	6.0
901-950	12.0	7.5	3.0	6.0	5.0	7.5
951-1000	13.5	10.0	4.0	8.5	6.0	10.0
1001-1050	15.0	12.5	5.0	11.0	7.0	12.5
1051-1100	16.5	15.0	6.0	13.5	8.0	15.0
1101-1150	18.0	17.5	7.0	16.0	9.0	17.5
1151-1200	19.5	20.0	8.0	18.5	10.0	20.0
1201-1250	21.0	22.5	9.0	21.0	11.5	22.5
>1250	22.5	25.0	10.0	23.0	13.0	25.0

Source: TRIM Research

TRIM CPO Is Currently Traded at 12.2x Forward PE



Source: Bloomberg, TRIM Research

PT Trimegah Securities Tbk  
18<sup>th</sup>Fl, Artha Graha Building  
Jl. Jend. Sudirman Kav. 52-53  
Jakarta 12190, INDONESIA  
Tel : (6221) 2924-9088 Fax : (6221) 2924-9163

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