

Malaysia Palm Oil Trade Fair and Seminar 2016

Palm Oil Price and Demand to Recover?

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13 October 2016

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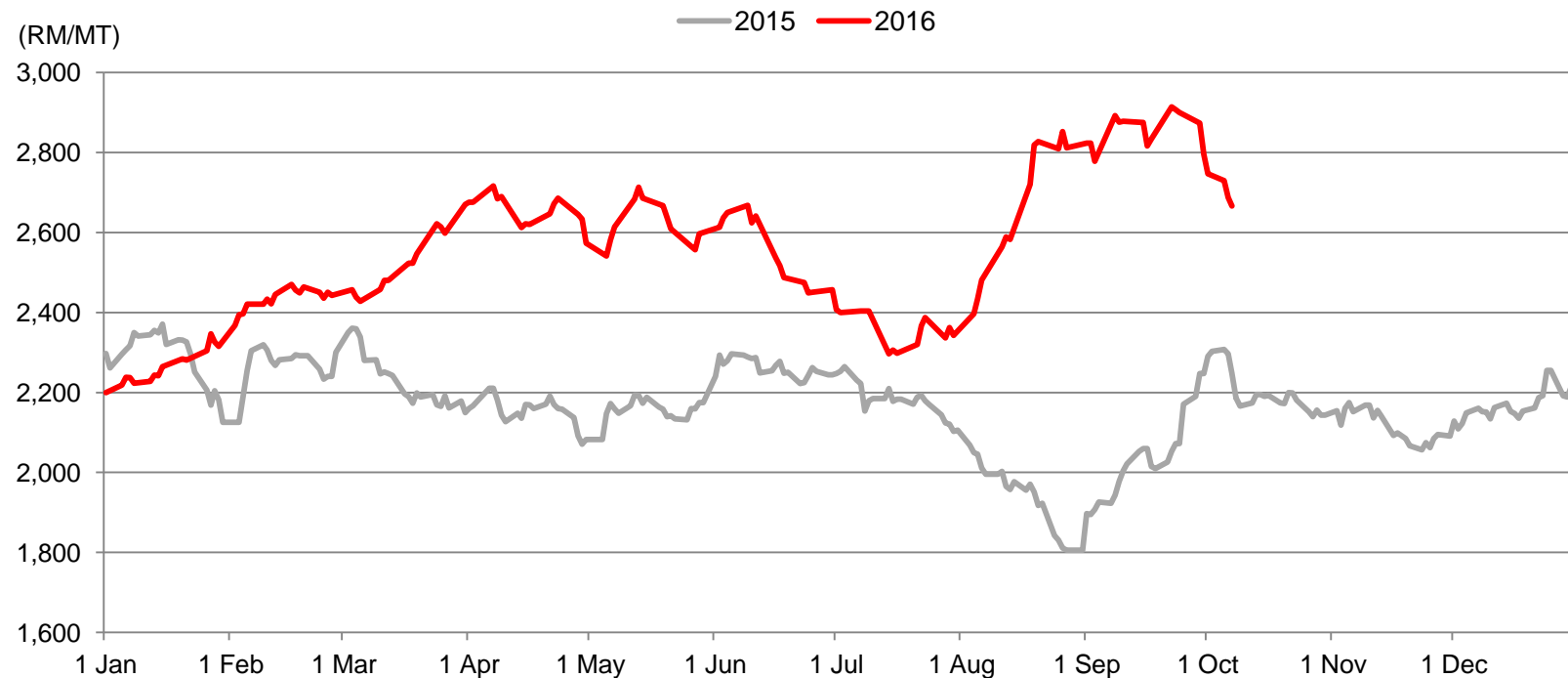
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Comparing CPO price trends in 2016 against 2015

CPO price (spot) rebounded from its lowest price point in 2015 of RM1,806 per tonne and peak at RM2,716/tonne on 2 April 2016.

CPO prices fell to RM2,300/tonne on 14 Jul due to concerns over stronger CPO supplies in 2H16. .. before rallying by to its highest price point this year of RM2,914 per tonne due to slower-than-expected recovery in palm oil supplies.

Malaysian CPO prices



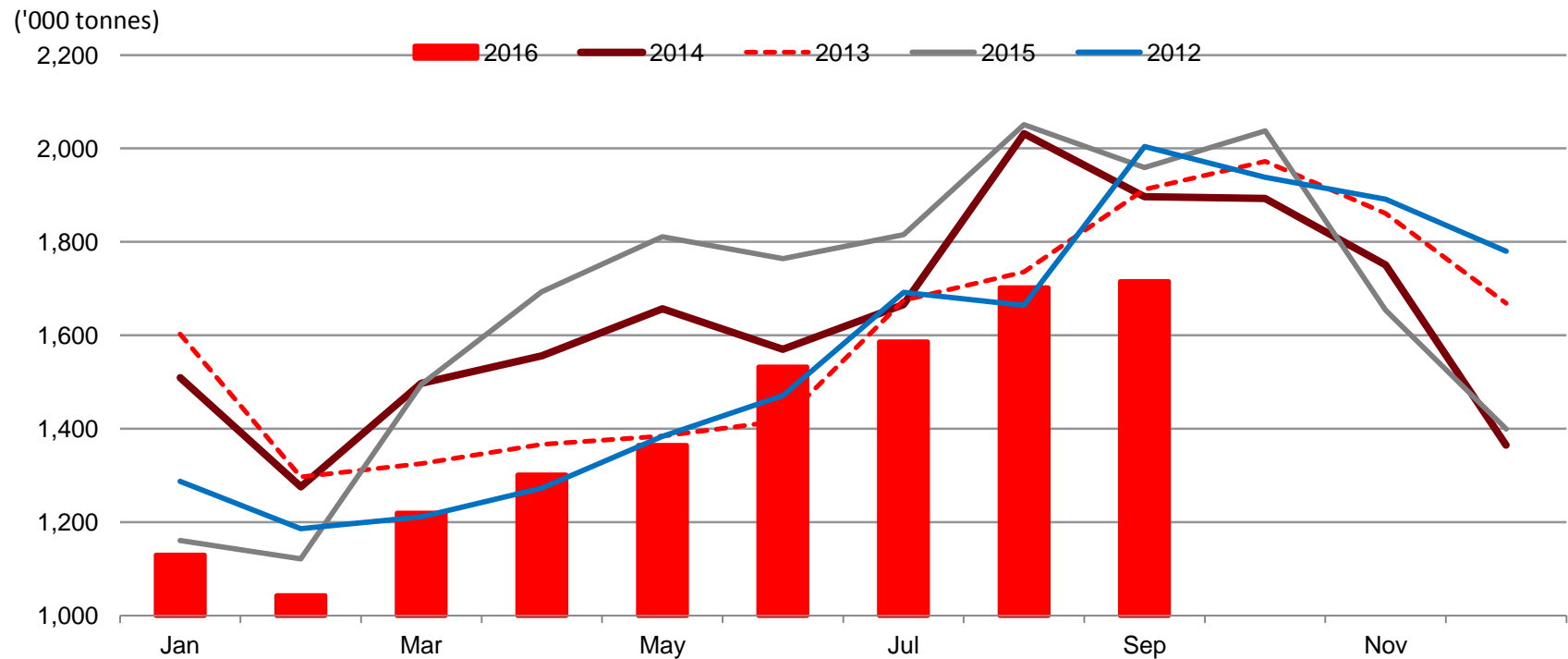
Source: CIMB/MPOB

Impact of El Nino on Malaysia's CPO output

CPO production in Malaysia fell 15% (or 2.3m tonnes) yoy to 12.6m tonnes in 9M16

We project CPO output to fall 10% yoy to a six-year low of 17.9m tonnes in 2016

Malaysia : Monthly CPO production from 2012-YTD2016



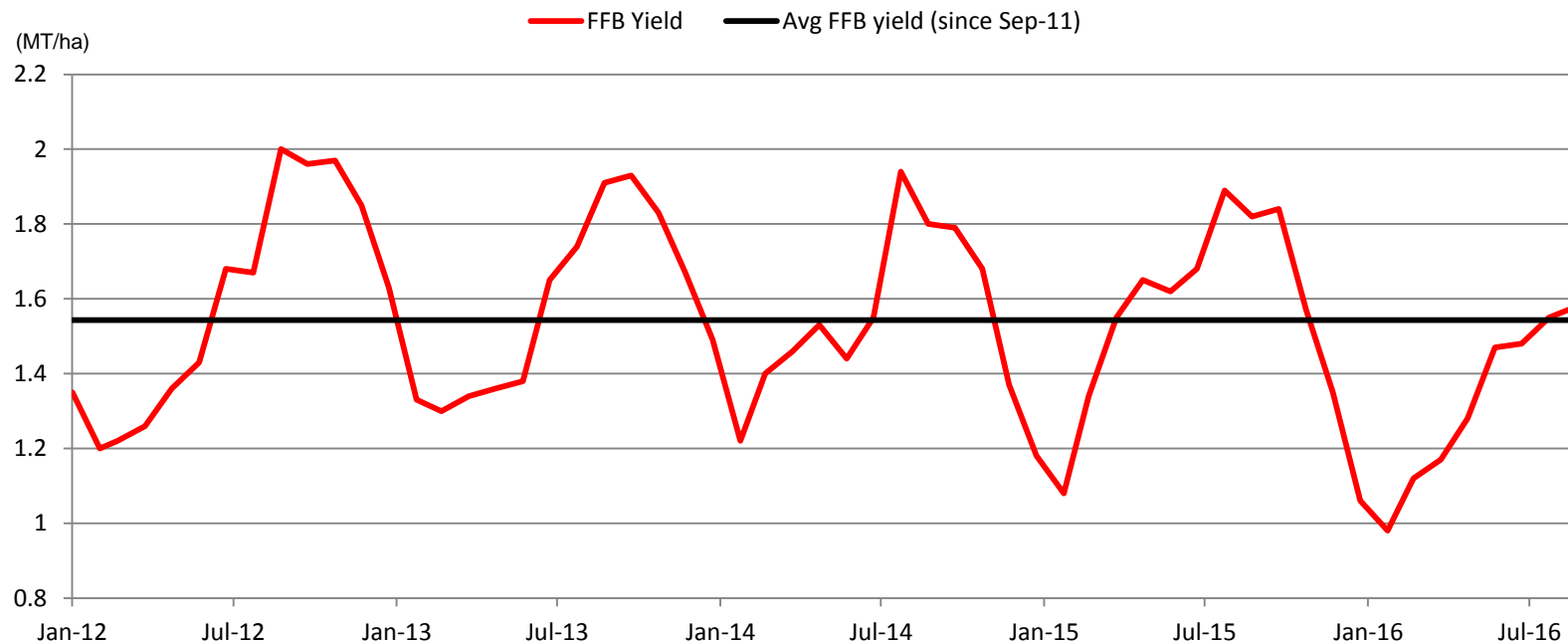
Source: CIMB/MPOB

Impact of El Nino on FFB yields in Malaysia

Monthly FFB yield fell to a low of 0.98 tonnes/ha in Feb 16, the lowest since Jan 99. FFB yields were impacted by lower rainfall experienced in 2014 and 2015 (due to El Nino event).

The recovery in FFB yields has been slower compared to previous years.

Malaysia : Monthly FFB yields vs. 5 year average



Source: CIMB/MPOB

Malaysian states most affected by El Nino

Top five palm oil producing states – Sabah, Sarawak, Johor, Pahang and Perak

States	Output		yoy	Market share	
	9M2015	9M2016	Chge	2015	2016
JOHOR	2,370,000	1,931,479	-19%	16%	15%
KEDAH	255,292	170,252	-33%	2%	1%
KELANTAN	205,918	201,383	-2%	1%	2%
NEGERI SEMBILAN	536,176	393,949	-27%	4%	3%
PAHANG	2,189,207	1,739,950	-21%	15%	14%
PERAK	1,566,925	1,227,587	-22%	11%	10%
SELANGOR	398,627	314,381	-21%	3%	2%
TERENGGANU	348,396	315,648	-9%	2%	3%
OTHER STATES	157,116	132,736	-16%	1%	1%
P. MALAYSIA	8,027,657	6,427,365	-20%	54%	51%
SABAH	4,179,998	3,567,187	-15%	28%	28%
SARAWAK	2,663,131	2,598,358	-2%	18%	21%
SABAH/SARAWAK	6,843,129	6,165,545	-10%	46%	49%
MALAYSIA	14,870,786	12,592,910	-15%	100%	100%

Impact of El Nino on Indonesia's FFB output

FFB output trends of major Indonesian producers (nucleus estates)

FFB Output (m tonnes)	2014				2015				2016				
	1QCY	2QCY	3QCY	4QCY	1QCY	2QCY	3QCY	4QCY	1QCY	2QCY	1HCY15	1HCY16	% yoy
Golden Agri	1.78	1.93	1.97	1.89	1.67	1.86	2.06	2.16	1.47	1.28	3.53	2.75	-22.2
Indofood Agri	0.71	0.78	0.92	0.85	0.65	0.86	0.93	0.97	0.64	0.63	1.51	1.27	-15.8
Wilmar	1.06	1.12	1.06	1.08	0.96	1.16	1.13	1.24	0.90	0.78	2.12	1.69	-20.3
Sime Darby	0.78	0.91	0.90	0.79	0.64	0.72	0.79	0.90	0.60	0.46	1.36	1.06	-21.9
Astra Agro	1.29	1.45	1.44	1.38	1.19	1.48	1.48	1.45	1.00	1.00	2.67	2.00	-24.9
First Resources	0.45	0.48	0.70	0.59	0.52	0.57	0.77	0.67	0.44	0.48	1.09	0.92	-15.9
Total	6.06	6.68	6.98	6.59	5.62	6.65	7.17	7.39	5.05	4.63	12.27	9.68	-21.1

Source: Bursa, SGX and IDX

Impact of El Nino and drought on Indonesia's FFB yields

Indonesia : FFB yields of major Indonesian producers

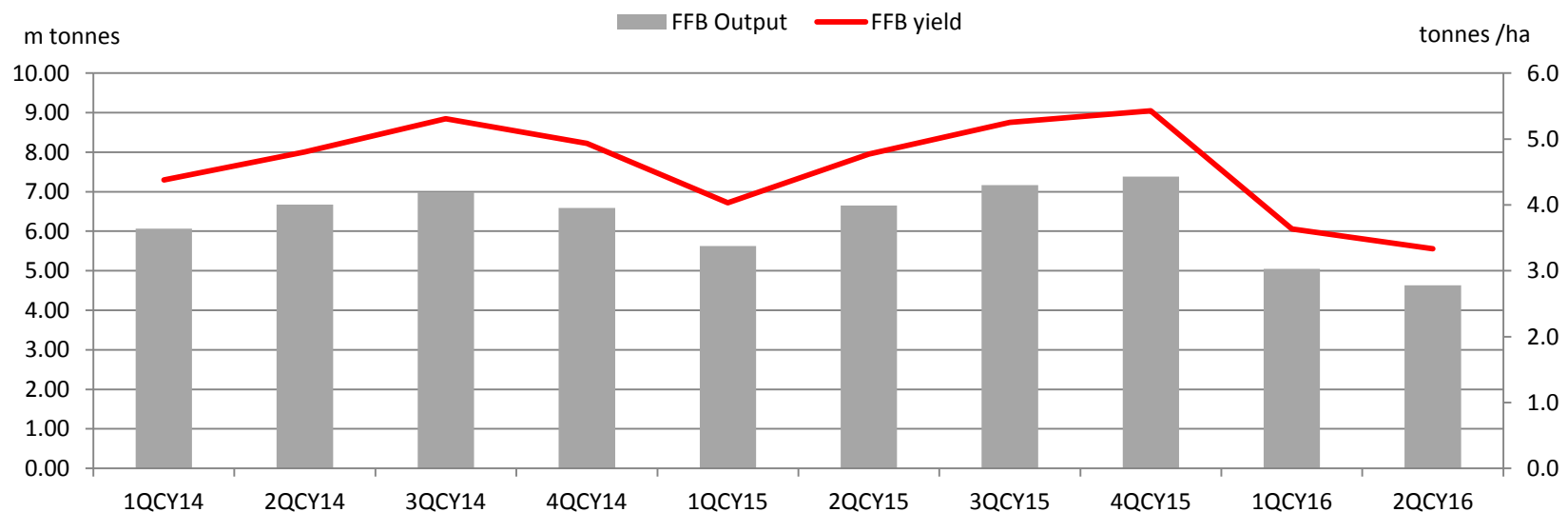
FFB yield (tonnes/ha)	2014				2015				2016				
	1QCY	2QCY	3QCY	4QCY	1QCY	2QCY	3QCY	4QCY	1QCY	2QCY	1HCY15	1HCY16	% yoy
Golden Agri	5.1	5.6	5.9	5.5	4.6	5.3	5.9	6.0	4.0	3.5	9.9	7.5	-24.2
Indofood Agri	3.9	4.2	5.0	4.6	3.5	4.6	5.0	5.2	3.3	3.2	8.0	6.5	-18.8
Wilmar	4.9	5.3	4.9	5.2	4.5	5.5	5.4	5.9	4.3	3.9	10.1	8.2	-18.8
Sime Darby	4.2	4.9	4.8	4.4	3.6	4.1	4.3	5.0	3.5	2.7	7.6	6.2	-19.3
First Resources	3.8	4.0	5.9	5.0	4.0	4.4	5.7	5.0	3.1	3.4	8.4	6.5	-22.6
Avg	4.4	4.8	5.3	4.9	4.0	4.8	5.3	5.4	3.6	3.3	8.8	7.0	-20.8

Source: Companies

Impact of El Nino and drought on production and yields

FFB production and yields of major Indonesian producers

	1QCY14	2QCY14	3QCY14	4QCY14	1QCY15	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	1HCY15	1HCY16	%yoy
FFB Output	6.06	6.68	6.98	6.59	5.62	6.65	7.17	7.39	5.05	4.63	12.27	9.68	-21.1
FFB yield	4.4	4.8	5.3	4.9	4.0	4.8	5.3	5.4	3.6	3.3	8.8	7.0	-20.8



Source: Companies

El Nino and Malaysia CPO production

Negative impact on FFB and CPO yields in seven out of 10 events.

The biggest decline in Malaysian CPO output was reported during strong El Nino episode.

CPO output fell 14% in 82/83 El Nino, 8.3% in 97/98 El Nino and 15% in 9M16 from 15/16 El Nino .

Historical impact of El Nino on Malaysia's palm oil yield and production

Type	Period	Intensity	Chge in FFB yield	Chge in CPO yield	CPO output growth
El Nino	May 82-Jun 83	Strong	-10.5%	-10.4%	-14.1%
El Nino	Aug 86-Feb 88	Moderate	-22.8%	-23.1%	-0.2%
El Nino	May 91- Jun92	Moderate	-0.1%	-1.4%	3.8%
El Nino	Sep 94-May 95	Moderate	2.8%	2.0%	8.2%
El Nino	May 97 - Apr 98	Strong	-16.3%	-16.8%	-8.3%
El Nino	May 02-Feb 03	Moderate	5.7%	4.5%	12.1%
El Nino	Jul 04-Jan 05	Weak	1.5%	1.9%	7.1%
El Nino	Sep 06-Jan 07	Weak	-2.9%	-2.5%	-0.4%
El Nino	Jul 09-Apr 10	Moderate	-6.1%	-6.1%	-3.3%
El Nino	Jun 15-Apr 16	Strong	-15% (9M16)	-16% (9M16)	-15% (9M16)

Source: CIMB/MPOB

El Nino and global palm oil output

Negative impact on global CPO output in two out of eight past El Nino events.

Slower than usual CPO output growth in four out of seven events. (19 years CAGR : 7.6%).

We are projecting global CPO supply to decline by 5 to 10% in 2016.

Historical impact of El Nino event on Indonesia and global CPO output

Type	Period	Intensity	Chges in global CPO output	Chges in Indonesia CPO output
El Nino	May 91- Jun92	Moderate	5.2%	na
El Nino	Sep 94-May 95	Moderate	8.5%	na
El Nino	May 97 - Apr 98	Strong	-4.3%	na
El Nino	May 02-Feb 03	Moderate	8.5%	13.1%
El Nino	Jul 04-Jan 05	Weak	8.9%	13.9%
El Nino	Sep 06-Jan 07	Weak	4.2%	8.4%
El Nino	Jul 09-Apr 10	Moderate	1.4%	5.7%
El Nino	June 15 – Apr 16	Strong	-5 to - 10%	- 5% to – 10%

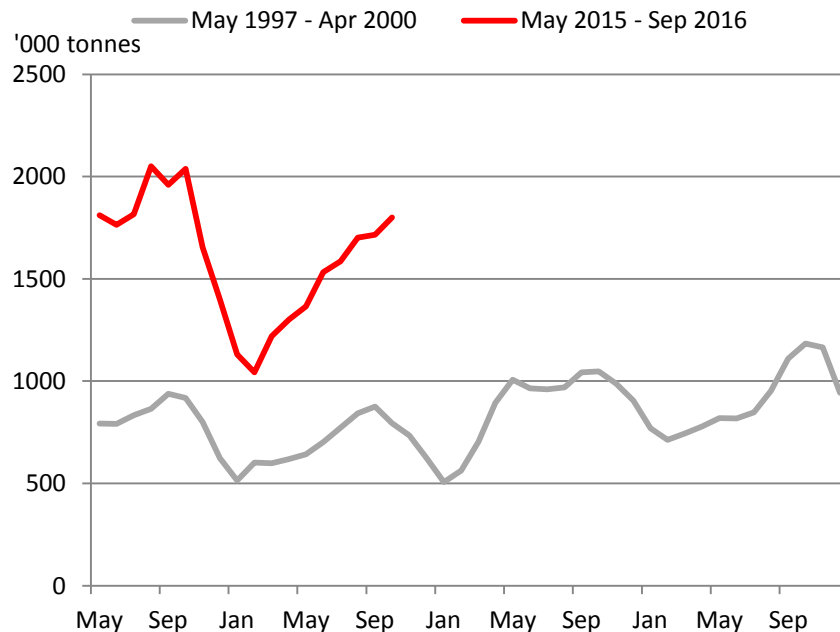
Outlook for palm oil output in 2017

1H2017 palm oil output may be impacted by the (22-24 mths) lagged effect of El Nino induced drought on the trees.

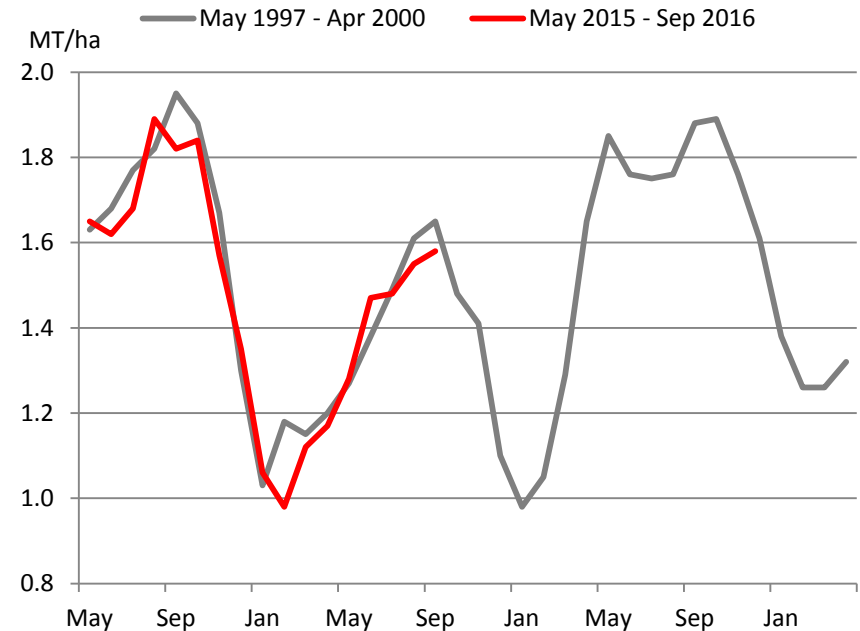
This is due to higher proportion of male vs. female flower ratios.

We project a more meaningful recovery in FFB yields for Malaysian and Indonesian estates from 2Q17 and 3Q17 onwards.

Historical impact of El Nino event on Malaysia's CPO production



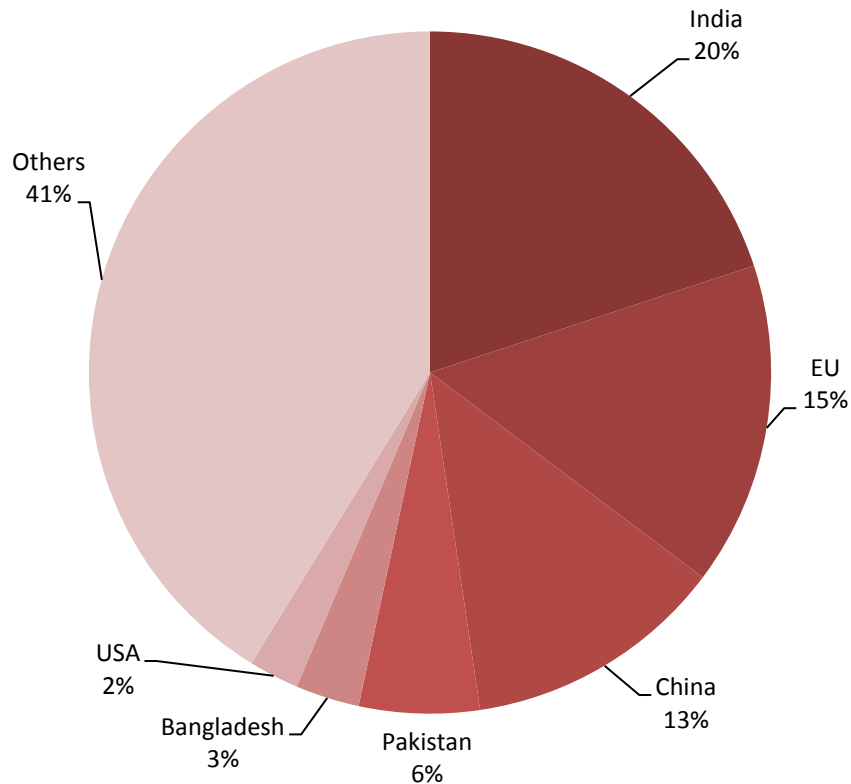
Historical impact of El Nino event on Malaysia's FFB yield



Source: CIMB/MPOB

China demand for palm oil

World major importers of palm oil in 2015



Source: MPOB

China's share of Malaysia palm oil exports

'000 tonnes	Exports of palm oil to China	Market share
2007	3,840	28%
2008	3,794	25%
2009	4,027	25%
2010	3,484	21%
2011	3,982	22%
2012	3,503	20%
2013	3,670	20%
2014	2,839	16%
2015	2,380	14%
9M16	1,318	11%

Source: MPOB

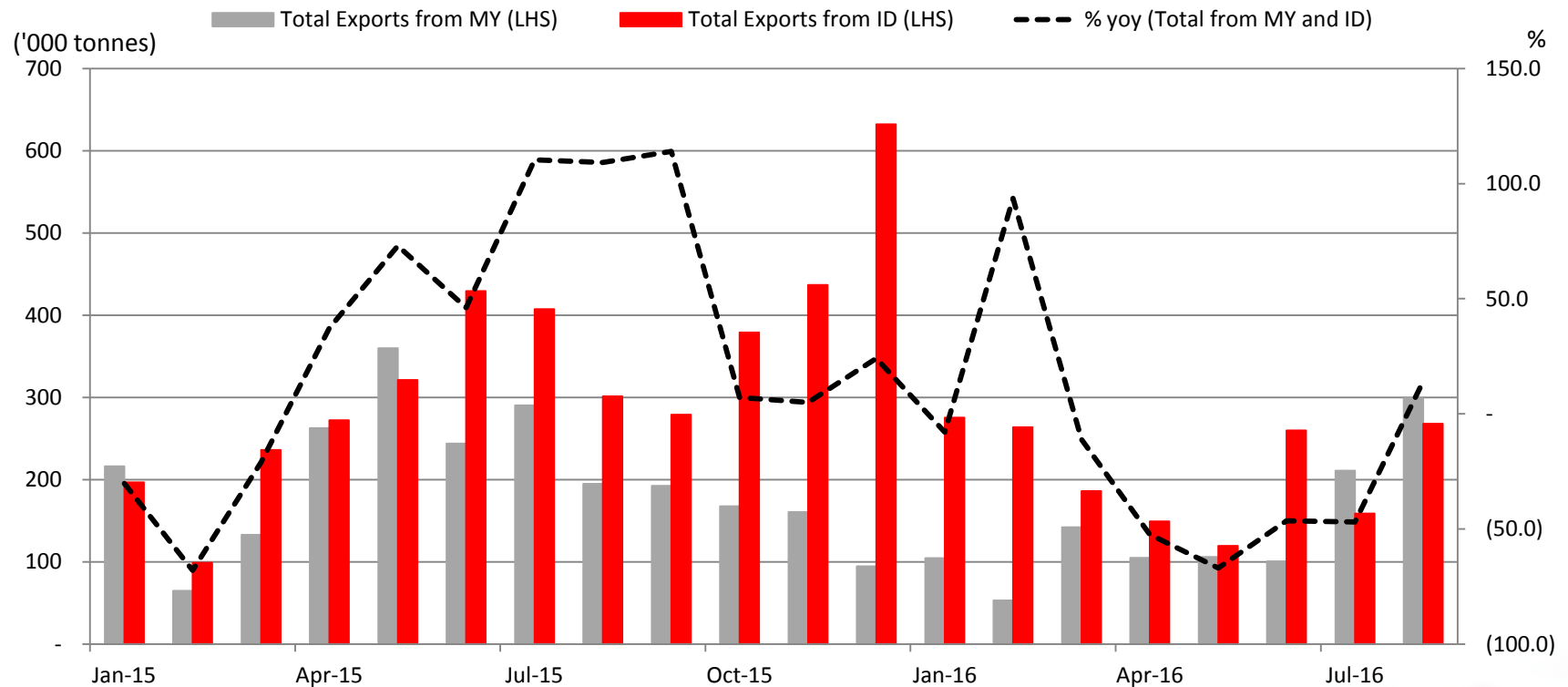
China imported less palm oil in 2016

Malaysian palm oil exports to China fell 33% yoy (or 640k tonnes) in 9M16.

Indonesian palm oil exports to China fell 26% yoy (or 582k tonnes)in 8M16.

Overall, we estimate China imported 1.2m tonnes less palm oil YTD16.

Malaysian and Indonesia palm oil exports to China ('000 tonnes)



Source: MPOB, Oil World, Bloomberg, GAPKI

Prospects

Weak demand due partly to the release of 2.3m tonnes of rapeseed oils reserves

Following the sale, China's state rapeseed oil reserve stands at 3.4m tonnes

Higher soybean imports also affected China demand for palm oil in 2016

We expect China to import more palm oil in 2017, due to restocking activities by traders and expectation that the government will drawdown less rapeseed oils from reserves .

Palm oil stocks at China domestic ports

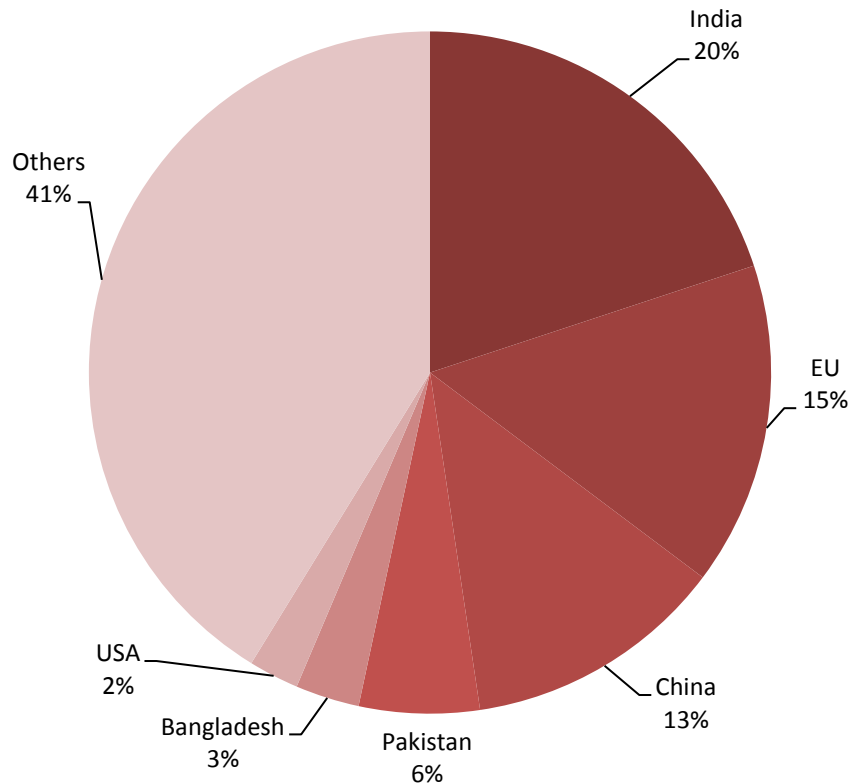
(Palm oil stocks at China domestic ports - '000 tonnes)



Source: Cofeed

India demand for palm oil

World major importers of palm oil in 2015



Source: MPOB

India's share of Malaysia palm oil exports

'000 tonnes	Exports of palm oil to India	Market share
2007	511	4%
2008	971	6%
2009	1,354	9%
2010	1,170	7%
2011	1,668	9%
2012	2,640	15%
2013	2,325	13%
2014	3,242	19%
2015	3,694	21%
9M16	2,320	19%

Source: MPOB

Lower palm oil's share of total Indian edible oil imports

India's overall import of vegetable oils improve 10% in Nov 15-June 16.

However, India imported 4% less palm oil during the period, resulting in palm oil's share of total imports declining to 58% from 67%.

Malaysia's palm oil exports to India fell by 8% yoy (or 210k tonnes) in 9M16.

Import of Palm Oil & Soft Oil (Ratio) Nov.'15 – June'16

(Qty. in 'MT)

Year (Nov-Oct)	Palm Oil		Soft Oil				Total	%	Total
	(RBD CPO+ CPKO)	Palmolein + Crude Olein +	Soybean	Sunflower	Rape	Others			
Nov.,2015	873,592	66%	256,836	177,658	24,850	--	459,344	34%	1,332,936
Dec.,2015	790,368	56%	490,718	102,740	25,609	--	619,067	44%	1,409,435
Jan.,2016	688,393	55%	441,200	118,000	7,461	--	566,661	45%	1,255,054
Feb.,2016	609,939	56%	382,121	87,028	17,336	--	486,485	44%	1,096,424
Mar.,2016	642,562	55%	321,975	184,912	26,863	--	533,750	45%	1,176,312
Apr.,2016	736,036	60%	348,195	100,750	51,087	--	500,032	40%	1,236,068
May, 2016	657,454	65%	178,064	150,449	18,718	--	347,231	35%	1,004,685
June,2016	607,129	52%	386,145	147,350	18,278	--	551,773	48%	1,158,902
(Nov'15-Jun'16)	5,605,473	58%	2,805,254	1,068,887	190,202	--	4,064,343	42%	9,669,816
(Nov'14-Jun 15)	5,850,719	67%	1,504,144	1,136,534	230,877	--	2,871,555	33%	8,722,274
2014-15	9,536,904	66%	2,985,944	1,542,599	355,824	--	4,884,367	34%	14,421,271
2013-14	7,957,960	68%	1,951,233	1,509,250	199,891	--	3,660,374	32%	11,618,334
2012-13	8,292,433	80%	1,091,311	973,126	12,943	14,926	2,092,306	20%	10,384,739

Source: The Solvent Extractors Association

Prospects

It is not profitable for refiners in India to import palm oil due to the narrowing price gap between CPO and RBD olein landed price in India. This may have partly contributed to the weaker demand for palm oil.

India cut import duties by 5% pts to 7.5% for CPO and 15% for refined palm oil on 23 Sep.

This will make palm oil more competitive by 5% in India against other edible oils.

India kept the import duties for other edible oils at 12.5% for crude and 20% for refined palm oil.

Comparing landed edible oil price in India

(Price in US\$/CIF Indian Port/Ton)

Oils	June 2016	May 2016	Apr. 2016	Mar. 2016	Feb. 2016	Jan. 2016	Dec. 2015	Nov. 2015	Oct. 2015	Sept. 2015	Aug 2015	July 2015	June 2015
RBD Palmolein	669	708	739	672	631	572	567	556	599	559	565	648	674
Crude Palm Oil	669	706	738	666	618	547	538	526	562	517	528	618	653
Diff. – RBD & CPO	Nil	2	1	6	13	25	29	30	37	42	37	30	21
Crude Soybean Oil	768	775	790	749	743	717	756	745	741	689	699	725	785
Crude Sunflower Oil	867	878	864	844	860	844	872	886	889	893	902	901	919
FE: 1US\$ = (Average)	67.27	66.89	66.42	66.89	68.24	67.33	66.50	66.10	65.02	66.17	65.10	63.60	63.79

Source: Solvent Extractors Association of India

Indonesia biodiesel mandates supportive of CPO prices

Indonesia consumed 1.95m kls of biodiesel in Jan – Aug 16.

In 2016, Indonesia could end-up consuming 2.93m kls of biodiesel (or 2.5m tonnes).

This is a significant increase from last year’s biodiesel usage of 905,000kls and supportive for CPO price.

However, biodiesel usage remains uneconomical without government support.

Estimated CPO biodiesel breakeven price against crude oil

Brent crude	CPO breakeven		Ex-rate	CPO breakeven	
	w/o subsidy	with subsidy		w/o subsidy	with subsidy
(US\$/barrel)	(US\$/tonne)	(US\$/tonne)	US\$/RM	RM/tonne	RM/tonne
30	196	346	4.26	835	1,474
40	270	420	4.26	1,150	1,789
50	344	494	4.26	1,465	2,104
56	388	538	4.26	1,653	2,292
60	418	568	4.26	1,781	2,420
70	492	642	4.26	2,096	2,735
80	566	716	4.26	2,411	3,050
100	714	864	4.26	3,042	3,681

* Assumes US extends its biodiesel subsidy of US\$1 per gallon (US\$300 per tonne) and biodiesel producers get 50% share of this

US Soybean crop estimates

US produces around 34% of global soybean output and 39% of global soybean exports.

Soybean planted area for 2016 is estimated at 83.7 m acres, up by 1% from last year.

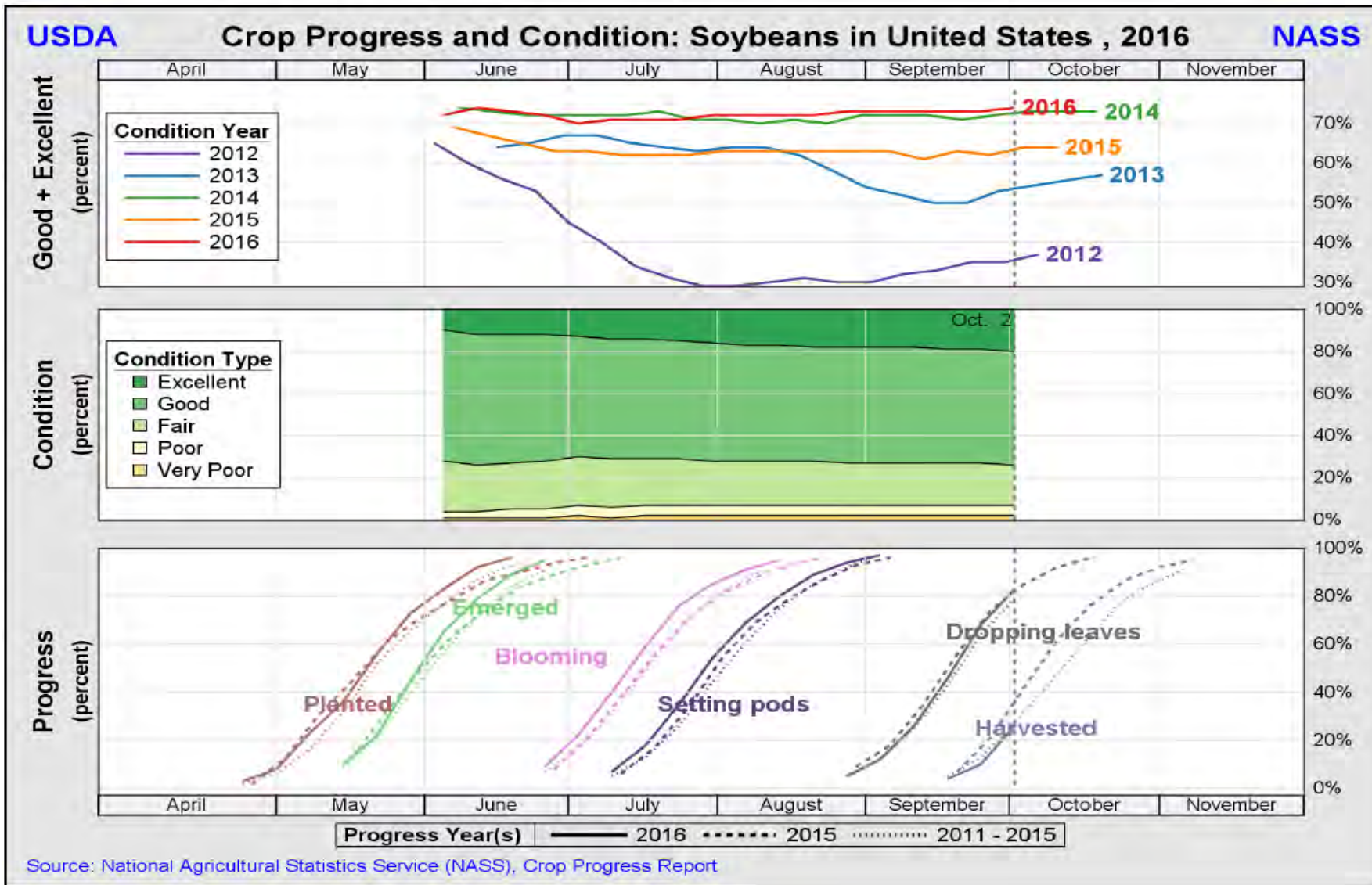
The overall soybean condition is ahead of last year's condition, with 74% of the overall crop in good/excellent condition vs. 64% a year ago.

Only 2% of the overall soybean crop across the major-producing states is in very poor condition.

USDA projecting higher soybean output for 2016/17

SOYBEANS	2014/15	2015/16 Est.	2016/17 Proj. Aug	2016/17 Proj. Sep
		<i>Million Acres</i>		
Area Planted	83.3	82.7	83.7	83.7
Area Harvested	82.6	81.8	83.0	83.0
		<i>Bushels</i>		
Yield per Harvested Acre	47.5	48.0	48.9	50.6
		<i>Million Bushels</i>		
Beginning Stocks	92	191	255	195
Production	3,927	3,929	4,060	4,201
Imports	33	25	30	30
Supply, Total	4,052	4,145	4,346	4,426
Crushings	1,873	1,900	1,940	1,950
Exports	1,842	1,940	1,950	1,985
Seed	96	97	95	95
Residual	50	12	31	31
Use, Total	3,862	3,949	4,016	4,061
Ending Stocks	191	195	330	365
Avg. Farm Price (\$/bu) 2/	10.10	8.95	8.35 - 9.85	8.30 - 9.80
SOYBEAN OIL				
		<i>Million Pounds</i>		
Beginning Stocks	1,165	1,855	1,950	1,810
Production 4/	21,399	22,080	22,405	22,525
Imports	264	275	250	250
Supply, Total	22,828	24,210	24,605	24,585
Domestic Disappearance	18,959	20,000	20,450	20,550
Biodiesel 3/	5,037	5,500	5,950	5,950
Food, Feed & other Industrial	13,922	14,500	14,500	14,600
Exports	2,014	2,400	2,400	2,300
Use, Total	20,973	22,400	22,850	22,850
Ending stocks	1,855	1,810	1,755	1,735
Avg. Price (c/lb) 2/	31.60	29.75	29.50 - 32.50	30.50 - 33.50

US Soybean crop progress



Price outlook for 2016 and 2017

CPO output is expected to recover from Sep 2016 onwards as El Nino effect fades.

However, the yields improvement has been weaker than expected in 2H16, which is supportive of CPO prices in the near-term.

We project CPO prices to trade in the range of RM2,400-2,800/tonne for rest of the year, assuming Ringgit remains at current level.

We expect US crops to meet USDA projections and a more meaningful recovery in palm oil output in 2H17. This is due to the secondary lagged effect of El Nino on FFB yields (normally happens 22-24 months after the drought).

We expect CPO prices to be stronger in 1H17 but could give up all its gains and more in 2H17. We project CPO price to average RM2,600 per tonne in 2017, an improvement from average of RM2,450-2,550 per tonne in 2016.

Key risks : China releases more rapeseed oils reserves, lower crude oil prices, weaker global growth and lower biodiesel usage in Indonesia.

Thank you