



# OIL PALM SECTOR

## BOOK PROFITS & DISCONTINUE COVERAGE

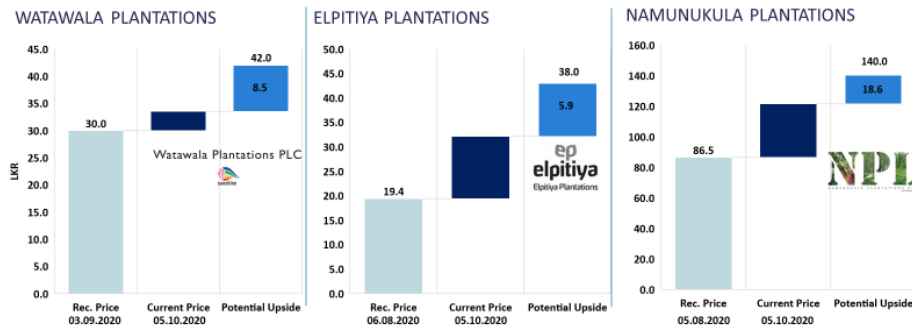
### TIME TO BOOK PROFITS!

#### Previous Report in Oct 2020 – BUY recommendation

We expected the ban on new Palm Oil cultivations and rise in global Oil Palm prices to aid mature Oil Palm cultivators. First Capital Research released an Oil Palm Sector report on 5<sup>th</sup> Oct 2020 with the following TP for FY22E for the below mentioned stocks.

#### The fields that aid the growth

LET'S RECAP



Oct 2020

FIRST CAPITAL RESEARCH

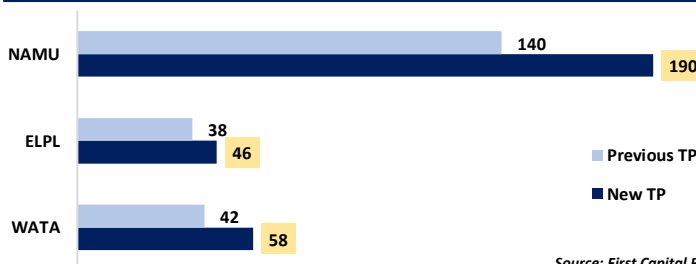
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However, company quarterly results for Sep 2020 showcased a stellar performance well above our expectations supported by the expected realisation of Oil Palm prices.

- ❖ WATA recorded a profitability growth of 49%YoY recording LKR 511.2Mn for 2QFY21 on the back of a top line growth of Palm Oil sector by 25%YoY to LKR 977Mn amidst the increase in net sales price of Oil Palm.
- ❖ ELPL recorded a profitability growth of 262%YoY recording LKR 153Mn for 2QFY21 on the back of a top line growth of 19%YoY to LKR 998Mn where more than 25% of revenue was derived from the sale of Oil Palm.
- ❖ NAMU recorded a profit growth of 122%YoY to LKR 251.5Mn for 2QFY21 on the back of a top line growth of Palm oil sector by 17%YoY to LKR 724Mn in line with the increase in net sales price of Oil Palm.

Therefore, on the back of strong earnings, we upgrade our earnings on all three Oil Palm counters and revise our target prices.

#### Revised Fair Values for Oil Palm counters for FY22E



Source: First Capital Research

### Oil Palm Sector – BOOK PROFITS & DISCONTINUE COVERAGE

Considering the surge in Palm Oil prices globally the stock prices may move further on the back of sentiment. Yet, despite the upgrade in earnings, all three counters have outperformed our revised Fair Values and have peaked at the following prices.

- ❖ WATA reached a peak price of LKR 59.9 on 18<sup>th</sup> Nov 2020 [Capital gain: 100%]
- ❖ ELPL reached a peak price of LKR 48.0 on 10<sup>th</sup> Nov 2020 [Capital gain: 147%]
- ❖ NAMU reached a peak price of LKR 190.0 on 17<sup>th</sup> Nov 2020 [Capital gain: 120%]

Taking into consideration the significant capital gains attained with prices moving beyond our FY22E expectations plus WATA and NAMU trading closer to peak prices we recommend to book profits. Though ELPL is trading marginally below our TP we recommend investors to book profits, however, those who wish may hold ELPL a tad longer as it is currently trading below peak levels and has a possibility of moving back to the same levels. **BOOK PROFITS & DISCONTINUE COVERAGE**

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#### Crude Palm Oil rises by 35% during the period Apr-Oct 2020



Source: indexmundi

#### RISK

With the budget proposal to increase estate sector wage to LKR 1,000 from Jan 2021, it will have an adverse bearing on plantation counters with the increase in administrative expenditure as a result of having a large workforce of estate workers.

#### Disclosure on Shareholding:

First Capital Group do not hold shares in WATA, NAMU and ELPL and will not trade in the above shares for three trading days following the issue of this document.



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